

MEMO# 3258

November 8, 1991

SUMMARY OF NOVEMBER 6 MEETING ON INVERSE FLOATERS AND DRAFT LETTER ON TECHNICAL ISSUES UNDER RULE 2A-7

November 8, 1991 TO: MONEY MARKET FUNDS AD HOC COMMITTEE NO. 28-91 RE:
SUMMARY OF NOVEMBER 6 MEETING ON INVERSE FLOATERS AND DRAFT LETTER ON
TECHNICAL ISSUES UNDER RULE 2a-7

_____ As you know, the ad hoc committee met on Wednesday (November 6) to discuss the purchase of inverse floaters by money market funds and the draft letter to the SEC staff on technical issues under Rule 2a-7. (See Memorandum to Money Market Funds Ad Hoc Committee No. 26-91, dated October 31, 1991). Set forth below is a brief summary of the meeting and the recommendations by the committee with respect to these items.

Inverse Floaters The committee discussed several concerns about the appropriateness of inverse floaters for funds that seek to maintain a stable net asset value. The most significant concern raised at the meeting was that because these instruments typically have a greater duration (i.e., the sensitivity of an instrument's price to changes in market interest rates) than their stated maturity, it might not be adequate to look to their stated maturities for purposes of the maturity limitations under Rule 2a-7. In addition, concerns about liquidity, pricing and disclosure of these instruments were discussed. At the meeting, the committee decided that the Institute should discuss with the SEC staff the concerns that were expressed about these instruments, particularly with respect to their duration, but not make any specific recommendations regarding the treatment of these instruments under Rule 2a-7 until the committee has had an opportunity to consider further whether these instruments should be permissible investments for money market funds and, if so, how they should be treated under the Rule.

Draft Letter on Technical Issues The committee determined that the Institute should not, at this time, submit to the staff a letter on technical issues under Rule 2a-7, partly out of concern that it would be detrimental to get an unfavorable response to several of the issues included in the draft letter. In addition, the committee felt that several of these issues were already adequately addressed under the Rule. Instead, it was suggested that the committee should meet to discuss these and other technical issues under the Rule, which would provide a forum for members to exchange their views on the interpretation of these issues. Therefore, the Institute will schedule a meeting of the ad hoc committee for early next year and will circulate a list of interpretive issues under Rule 2a-7 prior to the meeting. If there are issues discussed at that meeting that the committee would like the Institute to submit to the staff, we will do so at that time. We will keep you informed of developments.

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