

**MEMO# 7424**

November 15, 1995

# **INSTITUTE COMMENT LETTER ON PROPOSED AMENDMENTS TO RULE 17J-1 UNDER THE INVESTMENT COMPANY ACT**

November 15, 1995 TO: CLOSED-END FUND COMMITTEE No. 55-95 INVESTMENT ADVISERS  
COMMITTEE No. 45-95 SEC RULES COMMITTEE No. 121-95 UNIT INVESTMENT TRUST  
COMMITTEE No. 81-95 RE: INSTITUTE COMMENT LETTER ON PROPOSED AMENDMENTS TO  
RULE 17j-1 UNDER THE INVESTMENT COMPANY ACT

In  
September, the Securities and Exchange Commission recently proposed amendments to Rule 17j-1 under the Investment Company Act of 1940, which imposes requirements to address potential conflicts of interest arising from personal securities investing by investment company personnel. The Institute recently submitted the attached comment letter concerning the Commission's proposal. The Institute's letter states that the Commission and the investment company industry have long recognized that investment company personnel who wish to engage in personal investing must do so in a manner consistent with their rigorous fiduciary duty to investment company shareholders. The most recent review of this issue has once again confirmed that the current regulatory framework serves investors well. In general, the Institute strongly supports the Commission's proposal because it would enhance the effectiveness of the current regulatory framework, while continuing to give each firm the necessary latitude to craft codes and procedures that are most effective in light of its particular business structure and operations. The Institute has several specific comments on the proposed amendments. In particular, the Institute recommends that the Commission clarify certain aspects of a board's oversight responsibilities under the amendments. The Institute also recommends that the Commission require only "investment personnel" to furnish initial reports of their personal holdings and not require that these reports contain the CUSIP numbers and number of shares and principal amounts of the reported securities. The Institute further recommends that the Commission specifically except from the definition of "security" under Rule 17j-1 all bankers' acceptances, bank certificates of deposit, commercial paper, obligations guaranteed by instrumentalities of the United States or any foreign government and index options and futures, and that the Commission clarify that an investment company investing only in excepted securities need not establish a code of ethics. Finally, the Institute recommends that the Commission not specifically require disclosure concerning whether personnel may invest in securities that may be purchased or held by the investment company, as proposed by the Commission. Thomas M. Selman Associate Counsel  
Attachment

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