

MEMO# 7097

July 7, 1995

MONEY MARKET FUNDS RECEIVE NO-ACTION RELIEF RELATING TO THEIR ORANGE COUNTY NOTE HOLDINGS

July 7, 1995 TO: MONEY MARKET FUNDS AD HOC COMMITTEE No. 7-95 SEC RULES COMMITTEE No. 82-95 RE: MONEY MARKET FUNDS RECEIVE NO-ACTION RELIEF RELATING TO THEIR ORANGE COUNTY NOTE HOLDINGS

Two money market funds, within the same complex, and an affiliated person received no-action assurances from the Division of Investment Management under Sections 17(a) and 17(d) of the Investment Company Act if the parties obtain letters of credit ("LOCs") relating to Orange County tax- exempt notes held by the funds. A copy of the no-action request and the staff's response is attached. The funds hold Tax and Revenue Anticipation Notes, Series A issued by Orange County that mature on July 19, 1995. Shortly after Orange County filed for bankruptcy protection in December 1994, the funds' adviser agreed to take such steps as necessary, including purchasing a portion of the notes held by the funds at their amortized cost to ensure that the mark to market value per share of each fund equaled or exceeded \$0.99550. The funds have been informed that the County is not likely to make the scheduled principal payments due on the notes on July 19, 1995, and that it is contemplating an amendment, substitution or extension of the notes that, among other things, would extend their maturity date to June 30, 1996. As a result of these developments, the funds and their affiliate intend to enter into a letter of credit arrangement with an unaffiliated bank under which LOCs would be issued to provide for payment of 50% of the principal amount of the notes held by each of the funds and all scheduled payments of interest on the entire principal amount of the notes through the date of final maturity. The funds each intend to value 50% of the principal amount of the notes based on the LOCs. The affiliate has reserved the right under the LOC arrangement to purchase the notes from the funds on or before the proposed new maturity date. If the affiliate exercises this right, the LOCs would expire. The funds and their affiliate represented to the staff that the funds' boards have been apprised of the LOC arrangement, and that the amount of the LOCs attributable to interest can reasonably be expected to cover any interest due on the maturity of the entire amount of the notes held by the funds. Amy B.R. Lancellotta Associate Counsel Attachment