MEMO# 4039

August 24, 1992

ICI MUTUAL INSURANCE COMPANY COVERAGE FOR TELEFACSIMILE TRANSACTIONS

August 24, 1992 TO: OPERATIONS COMMITTEE NO. 27-92 TRANSFER AGENT ADVISORY COMMITTEE NO. 47-92 RE: ICI MUTUAL INSURANCE COMPANY COVERAGE FOR TELEFACSIMILE TRANSACTIONS ____ ICI Mutual Insurance Company ("ICI Mutual"), the investment management industry's captive insurance company, has been studying the issue of coverage under the Investment Company Blanket Bond ("Bond") for losses resulting from forged redemption requests or other instructions transmitted by telefacsimile. The Underwriting/Transfer Agent Ad Hoc Committee ("Ad Hoc Committee"), composed of members of the Underwriting and Risk Prevention Committees of ICI Mutual and the Transfer Agent Advisory Committee of the Investment Company Institute, recommended that ICI Mutual develop coverage specifically addressing such a loss. Attached is a copy of a draft insuring agreement relating to telefacsimile transactions that would be attached to the Bond. ICI Mutual is seeking the input of the Operations Committee and the Transfer Agent Advisory Committee of the Investment Company Institute concerning issues that may arise from an operational standpoint. The insuring agreement would provide coverage for losses caused by a telefacsimile transaction where such telefacsimile transaction is unauthorized or fraudulent and is made with the manifest intent to deceive, provided that the entity that receives such requests generally maintains and follows certain procedures. The insuring agreement includes the following procedures: 1. All telefacsimile transaction requests shall be retained for at least six months. 2. The identity of the sender shall be tested by requiring the sender to include on the request an identification number consisting of at least four characters or another identity test acceptable to the Insured and ICI Mutual. 3. The request must be dated and purported to be signed by the shareholder or any financial or banking institution or stockbroker. 4. A written confirmation must be sent to the shareholder of the account at the address of record at the end of the Insured's next regular processing cycle, but no later than five business days after the transaction. The proposed coverage would be subject to certain exclusions, including any loss resulting from any telefacsimile redemption where the proceeds of such redemption were to be paid to other than the shareholder of record or to a person officially designated to receive redemption proceeds or to a bank account officially designated to receive redemption proceeds, or where the proceeds of such redemption were to be sent to an address other than the record address or to a record address which was designated over the telephone fewer than thirty days prior to the redemption or designated in writing less than one day prior to such redemption. The Ad Hoc Committee has recommended that the limit of liability for the insuring agreement be fifty thousand dollars ($50,000). The coverage would be provided on a coinsurance basis with the Insured bearing twenty percent (20%) of each covered loss and ICI Mutual bearing eighty percent (80%) of each covered loss. ICI Mutual would appreciate the input of the Operations Committee and Transfer Agent Advisory Committee relating to the proposed coverage. In particular, we are interested in comments relating to the procedures and the definition of "Telefacsimile System". Please provide your comments to Natalie Shirley, General Counsel, ICI Mutual Insurance Company, 1600 M Street, NW, Washington, D.C. 20036 by September 18, 1992. Thank you for your assistance. Natalie Shirley General Counsel ICI Mutual Insurance Company Attachment

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