

MEMO# 4429

January 15, 1993

SEC STAFF POSITION ON VARIABLE RATE RESET CAPS UNDER RULE 2A-7

January 15, 1993 TO: SEC RULES MEMBERS NO. 7-93 MONEY MARKET FUNDS AD HOC COMMITTEE NO. 1-93 RE: SEC STAFF POSITION ON VARIABLE RATE RESET CAPS UNDER RULE 2a-7 _____ In a recent telephone conversation, the SEC staff notified the Institute that the staff had informally advised the Student Loan Marketing Association that money market funds could purchase Sallie Mae floating rate notes with a remaining maturity of up to five years that were subject to a reset cap of 24% under Rule 2a- 7(d)(1). As we previously informed you, in a recent no-action letter the staff had indicated that a fund purchasing instruments with floating rates that may not rise above a preset cap could not rely on paragraph (d)(1). This condition arose from the staff's interpretation that Rule 2a-7 requires that instruments covered by paragraph (d)(1) "have a market value that approximates their par value upon the readjustment of the interest rate." (See Memorandum to SEC Rules Members No. 59-92 and Money Market Funds Ad Hoc Committee No. 10-92, dated November 6, 1992.) The staff's advice to Sallie Mae apparently was based upon the fact that (1) the 24% cap was imposed in order to ensure that the notes would not violate New York usury law and (2) given the notes' relatively short remaining maturity and high cap, they could reasonably be expected to have a market value that approximates their par value upon their next rate reset. Craig S. Tyle Vice President - Securities

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