

MEMO# 5836

April 28, 1994

REVISED DRAFT LETTER ON PROPOSED AMENDMENTS TO RULE 2A-7

April 28, 1994 TO: MONEY MARKET FUNDS AD HOC COMMITTEE NO. 11-94 RE: REVISED DRAFT LETTER ON PROPOSED AMENDMENTS TO RULE 2a-7

Attached is a revised draft comment letter on the proposed amendments to Rule 2a-7. The most significant change in this version of letter pertains to the proposed credit quality standards for tax-exempt funds. Instead of recommending that the Commission adopt the Institute's 1991 recommendation (i.e., that tax-exempt funds be subject to the five percent limit on second tier securities applicable to taxable funds, so long as the treatment of split-rated securities is modified), as we did in our earlier draft, the letter recommends that the Commission adopt the quality requirements proposed for national funds and that they be extended to single state funds. This would allow funds to invest without limitation in second tier securities, except that investments in second tier "conduit securities" would be subject to a five percent limit. In connection with this proposal, we recommend that single state funds also be subject to a five percent per issuer limitation with respect to investments in second tier traditional securities. In connection with our recommendation, we would like input on whether we should: (a) offer as a fall back position a twenty-five percent limit on investments in second tier securities (up to five percent of which could be invested in second tier conduit securities), as set forth in brackets on pp. __ in the draft letter; (b) include such a twenty-five percent limit as part of our proposal, instead of as a fall back position; or (c) not propose any limit on investments in second tier traditional municipal securities, either as a fall back or as part of our proposal. Comments on the proposed amendments are due to the SEC by May 6, 1994. Therefore, please provide me with your comments on the draft letter by close of business on Tuesday, May 3, 1994. My direct number is 202/326-5824 and the fax number is 202/326-5828 . Amy B.R. Lancellotta Associate Counsel Attachment