

MEMO# 7378

October 30, 1995

DRAFT INSTITUTE COMMENT LETTER CONCERNING PROPOSED SEC RULE AMENDMENTS ON PERSONAL INVESTING

October 30, 1995 TO: CLOSED-END FUND COMMITTEE No. 52-95 SEC RULES COMMITTEE
No. 115-95 UNIT INVESTMENT TRUST COMMITTEE No. 79-95 RE: DRAFT INSTITUTE
COMMENT LETTER CONCERNING PROPOSED SEC RULE AMENDMENTS ON PERSONAL
INVESTING _____

As you may know, 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 comment period on the proposal expires on November 13th. Attached is a draft Institute comment letter. Please provide your comments on the draft letter to the undersigned by Wednesday, November 8th. The Institute's draft comment letter 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. At the same time, the Institute's draft letter recommends that the Commission clarify certain aspects of the proposed provisions requiring board oversight of codes and procedures, including clarification of the fact that these provisions are meant to provide boards with sufficient flexibility to determine whether codes are adequate, without detailing more specific issues for board consideration. The Institute also recommends that the Commission require only "investment personnel" to furnish initial reports of their personal holdings and delete the proposed requirement 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 provide that all bankers acceptances, bank certificates of deposit, and commercial paper, as well as obligations guaranteed by instrumentalities of the United States, are excepted from the definition of "security" under Rule 17j-1 and that any investment company that invests only in excepted securities need not establish a code of ethics. Finally, the Institute recommends that the Commission eliminate the proposed requirement for disclosure concerning whether personnel may invest in "securities that may be purchased or held by" the investment company and require public disclosure concerning codes only in statements of additional information (rather than in prospectuses, as proposed). Thomas M. Selman
Associate Counsel Attachment

abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.