

MEMO# 7054

June 26, 1995

NO-ACTION RELIEF ISSUED TO MONEY MARKET FUNDS REGARDING THEIR ORANGE COUNTY NOTE HOLDINGS AND LOC ARRANGEMENT

June 26, 1995 TO: MONEY MARKET FUNDS AD HOC COMMITTEE No. 6-95 SEC RULES COMMITTEE No. 75-95 RE: NO-ACTION RELIEF ISSUED TO MONEY MARKET FUNDS REGARDING THEIR ORANGE COUNTY NOTE HOLDINGS AND LOC ARRANGEMENT

The Division of Investment Management stated that it would not recommend enforcement action under Sections 17(a), 17(d) and 12(d)(3) of the Investment Company Act if five money market funds (within the same complex) and certain affiliated parties entered in an amended letter of credit arrangement relating to taxable Orange County notes held by the funds. Similar relief had been granted earlier this year, but because of changed circumstances, subsequent relief was requested. A copy of the no-action letter is attached. The money market funds hold taxable notes issued by Orange County, California, which mature on July 10, 1995. Shortly after the County filed for bankruptcy in December 1994, the funds and their advisers entered into a put and call agreement in order to avoid potential loss by fund shareholders. This agreement was subsequently replaced with a letter of credit arrangement under which a letter of credit ("LOC") was issued by an unaffiliated bank guaranteeing the payment of principal and interest when due on the notes. The LOC expires on July 10, 1995, the date the notes are scheduled to mature. According to the letter, the funds have been informed that Orange County, in all likelihood, will not make the scheduled principal payment due on July 10. The County is contemplating an amendment, substitution or extension of the notes that would, among other things, extend their maturity date to June 30, 1996 and contain other terms to be negotiated. The interest rate on the amended notes would be 0.95% higher than the original notes. As a result of these developments, the funds and affiliated entities have proposed to amend the letter of credit arrangement (referred to in the letter as the "Amended Restated Transfer Agreement"). Among other things, the amount guaranteed by the LOC would be increased to cover the additional interest that would accrue on the amended notes and the funds would be provided with an unconditional right to draw on the LOC if scheduled interest and principal were not paid under any circumstances, including a repudiation by Orange County of its obligations under the amended notes. As under the original LOC, the bank would be reimbursed for any payments made to the funds under the amended LOC by an affiliate of the funds. The staff's response was based on certain representations, including that the boards of the funds, including a majority of the independent directors, have determined that it is in the best interests of the funds and their shareholders not to draw under the

current LOC, but instead to accept the Amended Restated Transfer Agreement and the amended LOC. The letter notes that this determination was based, in part, on an evaluation of the credit quality of the LOC bank and the interest rate provided by the Amended Restated Transfer Agreement (which is described in the letter). It was also represented that the boards of the funds have determined that the amended notes, together with the Amended Restated Transfer Agreement and amended LOC, are “Eligible Securities” as defined in paragraph (a)(5) of Rule 2a-7 and present minimal credit risks as required by paragraph (c)(3) of that rule. Finally, the letter notes that the parties requesting the relief concluded that the amount of the amended LOC attributable to interest can reasonably be expected to cover any interest due on the maturity of the amended notes. Amy B.R. Lancellotta Associate Counsel Attachment

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