

MEMO# 5859

May 9, 1994

ISSUANCE OF REPORT OF THE ADVISORY GROUP ON PERSONAL INVESTING

May 9, 1994 TO: CLOSED-END FUND MEMBERS NO. 13-94 COMPLIANCE COMMITTEE NO. 9-94 INVESTMENT ADVISER MEMBERS NO. 21-94 SEC RULES MEMBERS NO. 32-94 UNIT INVESTMENT TRUST MEMBERS NO. 16-94 RE: ISSUANCE OF REPORT OF THE ADVISORY GROUP ON PERSONAL INVESTING

I am pleased to forward the Report of the industry's Advisory Group on Personal Investing, which was released earlier today, Monday, May 9th. As you know, the Advisory Group was formed in February and charged with reviewing current standards and practices governing personal investing activities within the investment company industry. The Advisory Group's Report documents the substantial success that the Securities and Exchange Commission and the industry have achieved to date in preventing potential conflicts of interest in personal investing activities. This success has been achieved for a number of reasons -- including the high priority that the industry has accorded to developing effective codes of ethics, in accordance with the longstanding mandate of the Investment Company Act and the Commission's regulations. The Report's recommendations (summarized below) incorporate the best practices of the industry and recommend that various substantive restrictions and compliance procedures be adopted throughout the industry. The recommendations do not envision the need for changes in federal statute or the Commission's regulations. The Advisory Group's Recommendations A. Statement of General Principles; Applicability The Report recommends that all codes of ethics contain a statement of general fiduciary principles that govern personal investment activities. The Report also recommends that investment companies, in promulgating their codes of ethics, consider how the code may be applied in light of the investment company's ethical obligations, the nature of the investment company's operations, and the issues potentially raised by transactions in different kinds of securities and by the personal investment activities of different categories of personnel. B. Substantive Recommendations The Report endorses substantive restrictions as well. In particular, the Report recommends that all codes: - flatly prohibit investment personnel from acquiring any securities in an initial public offering; - restrict the ability of investment personnel to purchase privately-offered securities; - prohibit any access person from executing a securities transaction on a day during which any investment company in the complex has a pending "buy" or "sell" order in that same security until that order is executed or withdrawn, and prohibit any portfolio manager from buying or selling a security with at least 7 calendar days before and after an investment company that he or she manages trades in that security; - prohibit all investment personnel from profiting in the purchase and sale, or sale and purchase, of the same (or equivalent) securities within 60 calendar days; - prohibit investment personnel from receiving any gift or other thing of more than de minimis value from any person or entity that does business with or on behalf of the investment company; and - restrict the

ability of investment personnel to serve on the boards of directors of publicly traded companies. C. Compliance Procedures The Report also recommends certain compliance procedures to implement these restrictions. The Report generally recommends that: - codes of ethics require all access persons to "preclear" personal securities transactions; - codes of ethics require all access persons to direct their brokers to supply to a designated compliance official duplicate copies of confirmations of all personal securities transactions and copies of periodic statements from all securities accounts; - investment companies implement appropriate procedures to monitor personal investment activity by access persons after preclearance has been granted; - codes of ethics require all investment personnel to disclose all personal securities holdings upon commencement of employment and thereafter on an annual basis; - codes of ethics require all access persons to certify annually as to their compliance with the code; and - investment company management prepare annual reports to the fund boards concerning the operation of the code and related procedures. D. Disclosure Finally, the Report recommends that investment companies include in their Prospectuses or, at a minimum, their Statements of Additional Information, disclosure concerning whether access persons are permitted to engage in personal securities transactions, and if so, subject to what general restrictions and procedures. * * * During its deliberations the Advisory Group solicited the views of all Institute members and surveyed the codes of ethics of Institute members in order to verify current industry practices and standards. As during this entire process, we would be interested in receiving your views on personal investing activities and, in particular, the Advisory Group's recommendations. In this regard, we ask that you please submit your views in writing to me or Tom Selman, Assistant Counsel. The Advisory Group is urging early action on its recommendations by the Board of Governors and the industry. Therefore, the Institute's Board of Governors will confer early this summer to consider the Advisory Group's recommendations. We continue to appreciate your guidance as the industry moves to address this important issue. Paul Schott Stevens General Counsel Attachment