

MEMO# 1369

August 23, 1989

SEC ORDER CONCERNING CREF PROCEEDING

- 1 - August 23, 1989 TO: BOARD OF GOVERNORS NO. 52-89 SEC RULES MEMBERS NO. 46-89 PENSION MEMBERS NO. 43-89 RE: SEC ORDER CONCERNING CREF PROCEEDING

As we previously advised, the Securities and Exchange Commission ordered a full evidentiary hearing on the request of the College Retirement Equities Fund (CREF) for permanent exemptions from a number of core provisions of the Investment Company Act of 1940, including corporate governance, payment of distribution expenses and redeemability of assets. (See Institute Memorandum to Board of Governors No. 7-88, SEC Rules Members No. 4-88 and Pension Members No. 6-88, dated January 22, 1988.) The Institute, a group of four mutual fund complexes, educational institutions and a number of others that were participants in this proceeding reached a settlement resolving the outstanding issues, which was formally submitted to the Commission in January. (See Institute Memorandum to Board of Governors No. 81-88, SEC Rules Members No. 62-88 and Pension Members No. 51-88, dated December 21, 1988.) We are pleased to announce that the SEC has issued the attached final order accepting and incorporating the terms of the settlement agreement. As a result of this order, employees of colleges and universities and certain other tax-exempt organizations will be able to transfer their retirement accumulations in CREF to mutual funds and other funding vehicles outside of TIAA-CREF, if transferability is expressly permitted by the terms of the employer's retirement plan. In addition, an employer's plan will be deemed to permit transferability if (1) the plan is silent concerning transfers and the employer offers or makes available non-TIAA-CREF funding vehicles; or (2) the employer consents to a particular transfer. Employers may also allow lump-sum distributions of CREF accumulations upon an employee's separation from service. Thus, terminating employees may be able to roll their CREF retirement accumulations into individual retirement accounts (IRAs).

- 2 - Special rules are provided for those employees who have been employed by and have retirement accumulations attributable to more than one academic institution. In order to reduce restrictions on transferability, certain presumptions are set forth relating to the transferability of prior employer accumulations. Thus, a participant may transfer CREF accumulations attributable to a prior employer to any funding vehicle permitted under that employer's plan. In addition, if the prior employer's plan permits either transferability or lump-sum distributions, the participant may transfer such accumulations to any funding vehicle permitted under his or her current employer's plan. Under the order and settlement agreement, CREF generally must make the transferability and lump-sum distribution options available by February 22, 1990. In any event, CREF must implement transferability to non-TIAA-CREF funding vehicles no later than the date that transfers of existing accumulations to any new CREF portfolios are permitted. The settlement documentation also includes a separate agreement between the Institute, TIAA-CREF and certain of the

other participants concerning transfers of accumulations in TIAA. Under this separate agreement, employees will be able to transfer TIAA accumulations to alternate investments over a ten-year period if their employer's plan permits transferability. This option generally must be implemented by August 22, 1991. We will keep you informed of further developments. Kathy D. Ireland Assistant General Counsel Attachment

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