

MEMO# 7143

July 28, 1995

INSTITUTE TESTIFIES ON MUNICIPAL MARKET AND ORANGE COUNTY

July 28, 1995 TO: BOARD OF GOVERNORS No. 59-95 FEDERAL LEGISLATION COMMITTEE No. 21-95 INSTITUTIONAL FUNDS COMMITTEE No. 10-95 SEC RULES COMMITTEE No. 85-95 MUNICIPAL BANKRUPTCY TASK FORCE RE: INSTITUTE TESTIFIES ON MUNICIPAL MARKET AND ORANGE COUNTY

On July 27, ICI President Matt Fink testified before the House of Representatives Capital Markets, Securities, and Government Sponsored Enterprise Subcommittee. The purpose of the hearing was to explore issues surrounding municipal bankruptcy, municipal debt insurance, and municipal investment policies, and in particular, Orange County. In its testimony, the Institute stated that the municipal securities market is vitally important to state and local governments. The Institute also noted that "mutual funds have been the largest purchasers of municipal securities, providing millions of individual investors and institutions with the ability to invest in a broad array of municipal securities, while allowing them to obtain the significant tax advantages offered by those securities." In light of what is known about actions that led to the Orange County bankruptcy filing, the Institute made two suggestions for consideration for reform at the state and local levels to enhance protection of their investment and maintain investor confidence. The first is to use the regulatory structure that governs mutual funds as a guide to the operation and structure of local government investment funds and pools. The second suggestion was that local governments should encourage, rather than discourage, their investment pools to invest in mutual funds, as the strict regulations that govern them have withstood the test of time and protected fund investors. We will keep you informed as this matter develops. For additional information, please contact the Legislative Affairs Department at (202) 326-5890. This memo can be found on FUNDS, the Institutes Fund User Network and Delivery System, under "Legislative Affairs; Washington Update." Copies of the oral and written statement are enclosed. Julie Domenick Senior Vice President Legislative Affairs Attachments

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