

MEMO# 7736

March 22, 1996

PROPOSED AMENDMENTS TO INVESTMENT COMPANY ACT RULE 10F-3; MEETING ON APRIL 16TH

1 See Memorandum to SEC Rules Committee No. 83-95, dated July 20, 1995. As part of a package of proposals to improve investment company regulation, the Institute recommended the adoption of amendments to Rule 10f-3 to permit purchases of foreign and Rule 144A securities and to eliminate the quantity limitations under the rule. 2 SEC Release No. IC-21838 (March 12, 1996). March 22, 1996 TO: SEC RULES COMMITTEE No. 21-96 RE: PROPOSED AMENDMENTS TO INVESTMENT COMPANY ACT RULE 10f-3; MEETING ON APRIL 16TH

The Securities and Exchange Commission has issued a proposal to amend Rule 10f-3 under the Investment Company Act of 1940. Rule 10f-3 provides a conditional exemption from Section 10(f) of the Act, which prohibits an investment company from purchasing securities during the existence of an underwriting or selling syndicate in which an affiliate is acting as a principal underwriter. As the Institute recommended in a July 1995 submission to the Division of Investment Management, the proposed amendments would expand the exemption to permit purchases of foreign securities and in certain other respects.¹ A copy of the proposing release is attached.² Currently, Rule 10f-3 exempts purchases of securities registered under the Securities Act of 1933 and municipal securities, subject to quantity limitations and other conditions. The proposed amendments would expand the scope of the rule to cover securities purchased in an "Eligible Foreign Offering" or a "Foreign Issuer Rule 144A Offering." The amendments also would raise existing limits on aggregate purchases by a fund and all other funds advised by the same investment adviser to the greater of 10% of the principal amount or \$1,000,000 (but in no event greater than 15% of the offering). (Such purchases currently are limited to the greater of 4% of the principal amount of the securities being offered or \$500,000, but in no event greater than 10% of the offering.) In addition, the amendments would eliminate a 3% limit on the amount of assets any one fund may use to purchase the securities being offered. Finally, the amendments (and a proposed new rule -- Rule 17a-10) would allow funds to purchase municipal securities in a "group sale." The Institute will hold a meeting at 10:00 am on Tuesday, April 16th to discuss issues to be addressed in our comment letter on the proposed amendments. Please call Elizabeth Lyons at (202) 326-5823 by April 9th to let her know if you plan to attend the meeting. Comments on the proposed amendments must be filed with the Commission by June 3, 1996. If there are issues you would like the Institute to consider addressing in its comment letter but you are unable to attend the April 16 meeting, please call me at (202) 326-5822, if possible before April 16. Frances M. Stadler Associate Counsel Attachment

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