

MEMO# 7301

September 28, 1995

INSTITUTE COMMENT LETTERS ON SEC'S SIMPLIFIED MONEY MARKET FUND PROSPECTUS AND QUARTERLY REPORTING PROPOSALS

1 See Memorandum to Accounting/Treasurers Committee No. 29-95, Money Market Funds Ad Hoc Committee No. 9-95 and SEC Rules Committee No. 84-95, dated July 25, 1995.

September 28, 1995 TO: ACCOUNTING/TREASURERS COMMITTEE No. 38-95 MONEY MARKET FUNDS AD HOC COMMITTEE No. 13-95 SEC RULES COMMITTEE No. 105-95 RE: INSTITUTE COMMENT LETTERS ON SEC'S SIMPLIFIED MONEY MARKET FUND PROSPECTUS AND QUARTERLY REPORTING PROPOSALS

As we previously informed you, the Securities and Exchange Commission has issued for public comment (1) proposed amendments to the disclosure requirements for money market funds to permit such funds to issue simplified prospectuses, as well as several other proposed changes to Form N-1A that would apply to all funds, and (2) proposed new Rule 30b3-1 under the Investment Company Act of 1940 to require money funds to file with the SEC quarterly reports regarding their portfolio holdings.¹ Copies of the Institutes comment letters on these proposals, which are briefly summarized below, are attached. Money Fund Prospectus Simplification The Institutes letter generally expresses support for the proposed amendments to Form N-1A to permit a simplified money fund prospectus and recommends that the amendments be extended to all mutual funds. The most significant changes proposed include replacing the financial highlights table with a bar graph showing the funds total returns over a 10-year period and permitting funds to describe themselves in their prospectuses with general statements about their investment objectives and portfolio composition, rather than a detailed discussion of the particular securities in which they may invest. The letter recommends some specific modifications to the proposals, particularly the total return bar graph, which include (1) deleting the requirement that the bar graph reflect capital gains distributions by shading or other distinctive marking, (2) accompanying the bar graph with the funds 1, 5 and 10-year average annual returns and (3) basing the bar graph on a calendar year rather than on a funds fiscal year. Finally, the letter expresses general support for most of the other proposed amendments to Form N-1A, but suggests slight revisions to several of them. Money Fund Quarterly Reporting Requirement The Institutes letter expresses strong opposition to the Commissions proposal to require money funds to report detailed information regarding their portfolio securities on a quarterly basis. The letter asserts that the proposal is neither a necessary nor appropriate means for achieving the Commissions stated goals -- to enhance its ability to monitor money fund compliance with Rule 2a-7, to improve the efficiency of its money fund inspection program

and to enable it to respond to significant market events affecting money funds and their shareholders. In lieu of the proposed quarterly reporting requirement, the Institute recommends that money funds be required to report certain "fund-level" information (such as gross yield, total assets, dollar-weighted average maturity, percentages of net assets invested in specific categories of securities, percentage of net assets invested in Second Tier Securities, and certain affiliated transactions) on a monthly basis. We also recommend that the Commission adopt a standard format for money funds subject to an inspection to report information about their portfolio holdings. Finally, the letter recommends that the Commission establish a communications system to obtain information about particular securities that may be affected by significant market events or about which the Commission has some concerns regarding their appropriateness for money funds. These recommendations would allow the Commission to achieve its stated goals, without imposing the unnecessary costs and burdens on funds that would be associated with having to file excessive information on a quarterly basis. Amy B.R. Lancellotta Associate Counsel Attachments

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