

other assets for which there is no established market, there may be a question concerning the ability of the account to make payment within seven days of the date its shares are tendered for redemption. The usual limit on aggregate holdings of illiquid assets by separate accounts is 15 percent of net assets. A money market account is limited to investing less than ten percent of its assets in illiquid securities.⁵ An illiquid asset is any asset which may not be sold or disposed of in the ordinary course of business within seven days at approximately the value at which the mutual fund has valued the instrument.⁶

* * * * *

43. Guide 5 to Form N-3 is amended by adding a footnote at the end of the first sentence to read as follows:

Guide 5. Portfolio Turnover

* * * * *

⁷ Money market accounts are not required to discuss the effects of portfolio turnover in their prospectuses.

44. Guide 8 to Form N-3 is amended by adding a sentence in the second paragraph (unnumbered) following "and standby commitment agreements.", to read as follows, and renumbering sequentially all subsequent footnotes in the guides to Form N-3:

Guide 8. Senior Securities, Reverse Repurchase Agreements, and Standby Commitment Agreements

* * * * *

* * * Money market accounts should discuss their use of these trading practices in the Statement of Additional Information in response to Item 19 (see Instruction 1 to Item 5(c)(ii) and Instruction 3 to Item 19(b)). * * *

45. Guide 21 to Form N-3 is amended to read as follows:

Guide 21. Government Securities

If the registrant is investing in United States Government securities, the prospectus should explain when and to what extent the registrant intends to do so.

If a registrant other than a money market account is investing significantly in United States Government securities on a routine basis, the prospectus should include the following information: (1) The types of Government securities in which the separate account will invest; (2) examples of Government agencies and

instrumentalities in whose securities the separate account will invest; and (3) whether the securities of such agency or instrumentality are (a) supported by the full faith and credit of the United States, (b) supported by the ability to borrow from the Treasury, (c) supported only by the credit of the agency or instrumentality, or (d) supported by the United States in some other way. If the registrant is a money market account, the disclosure described in (1) through (3) above should be placed in the Statement of Additional Information.

If the registrant is a money market account holding itself out as investing in United States Government securities, and the registrant does not invest all of its assets in securities backed by the full faith and credit of the United States Government, the account should not suggest in its prospectus or in its sales material that there is no credit risk associated with the account's investments.

46. Guide 27 to Form N-3 is amended by removing the phrase in the first sentence of the tenth paragraph (unnumbered): "with portfolio securities that mature in one year or less".

* * * * *

Dated: July 19, 1995.

By the Commission.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 95-18243 Filed 7-25-95; 8:45 am]

BILLING CODE 8010-01-P

17 CFR Parts 232, 240, 249 and 270

[Release Nos. 34-35991; IC-21217; S7-22-95]

RIN 3235-AG56

Money Market Fund Quarterly Reporting

AGENCY: Securities and Exchange Commission.

ACTION: Proposed rule and rule amendment.

SUMMARY: The Commission is proposing a new rule under the Investment Company Act of 1940 that would require money market funds to file quarterly reports with the Commission identifying, describing, and providing valuation information for each security in their portfolios. The reports would be filed electronically through the Commission's EDGAR system. This information would enhance the Commission's ability to monitor money market fund compliance with the federal securities laws, particularly rule 2a-7 under the 1940 Act, the rule that

permits money market funds to use special share pricing and portfolio valuation methods.

DATES: Comments on the proposed rule and rule and form amendments must be received on or before September 27, 1995.

ADDRESSES: Comments should be submitted in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. All comment letters should refer to File No. S7-22-95. All comments received will be available for public inspection and copying in the Commission's Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. 20549.

FOR FURTHER INFORMATION CONTACT: Martha H. Platt, Senior Attorney, (202) 942-0725, or Joseph E. Price, Deputy Office Chief, (202) 942-0721, Office of Disclosure and Investment Adviser Regulation, Division of Investment Management, 450 Fifth Street, N.W., Washington, D.C. 20549.

SUPPLEMENTARY INFORMATION: The Commission is proposing for comment:

(1) Rule 30b3-1 under the Investment Company Act of 1940 [15 U.S.C. 80a-1 *et seq.*] ("1940 Act") that would require money market funds to file with the Commission quarterly reports regarding their portfolio holdings; and

(2) Technical amendments to Regulation S-T [17 CFR 232.301], the Commission's general rules for electronic filings, and rule 12b-25 [17 CFR 240.12b-25] and Form 12b-25 [17 CFR 249.322] under the Securities Exchange Act of 1934 [15 U.S.C. 78a *et seq.*], to accommodate notification of late filings of the quarterly reports.

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Executive Summary

The Commission is proposing a new rule under the 1940 Act that would require money market funds ("money funds") to file with the Commission quarterly reports regarding their portfolio holdings (the "Money Market Fund Portfolio Schedule" or "Schedule"). The Schedule would be

⁵ See Investment Company Act Rel. No. 13380 (July 11, 1983), 48 FR 32555 (July 18, 1983). See also Investment Company Institute (pub. avail. Dec. 9, 1992).

⁶ See Investment Company Act Release No. 14983 (Mar. 12, 1986) [51 FR 9773 (Mar. 20, 1986)].

filed electronically through the Commission's EDGAR system.

Rule 30b3-1 would require a money fund to report electronically, for each security in its portfolio: (i) The name of the security and its issuer and any guarantor of the security; (ii) the security's credit quality; (iii) whether it is illiquid; (iv) its value; (v) the percentage of the portfolio represented by the security and the percentage of the portfolio invested in securities issued by the issuer; (vi) its maturity date; and, in the case of an adjustable rate instrument, (vii) the formula used for adjusting its interest rate. A money fund would also be required to report its yield, average weighted maturity, total assets, percentage of net assets invested in illiquid securities, certain transactions between the fund and affiliated persons, and any difference between the stabilized share price of the fund (which is usually \$1.00) and the per share net asset value of the fund based on the market value of its portfolio as of the end of the period. The information contained in the proposed reports would enhance the Commission's ability to monitor money fund compliance with the federal securities laws, target its limited on-site examination resources, and respond in the event of a significant market event affecting money funds and their shareholders.

I. Background

Money funds are permitted to use methods of asset valuation and share pricing that depart from the daily pricing requirements of the 1940 Act¹ and hold themselves out as offering high levels of liquidity and safety of principal.² As a result, money funds are

subject to substantially greater Commission regulation and monitoring of their investment activities than other types of investment companies.

Money funds are subject to rule 2a-7 under the 1940 Act, which limits their investments to high quality, short-term, U.S. dollar-denominated debt instruments.³ Under rule 2a-7, a money fund is permitted to use the amortized cost method for valuing its portfolio securities and the penny-rounding method of pricing its shares, which facilitate the maintenance of a stable share price.⁴ As a condition of using these methods, rule 2a-7 requires, among other things, that a money fund's board of directors take certain steps to make sure that the fund's use of these pricing methods does not result in its shares being unfairly priced.⁵ These steps include periodically determining the extent of deviation, if any, between the fund's current net asset value per share calculated using available market quotations, and the fund's amortized cost per share, and considering what action, if any, should be taken if the deviation is greater than one-half of one percent.⁶ A board of directors of a fund using the penny-rounding method is required to assure that the net asset value per share, after rounding, does not deviate from the share price established for the fund.⁷

Pursuant to authority provided in the 1940 Act, the Commission periodically inspects money funds to determine compliance with the federal securities laws, including rule 2a-7. The Commission annually inspected each money fund between 1991 and 1993 in response to a series of events that threatened some money funds' ability to maintain a stable net asset value.⁸ The

Commission believes that, while not preventing money funds from being affected by subsequent market events, the frequency of inspections during this period contributed substantially to the level of compliance and safety of money funds.

More recently, the Commission has found it necessary to allocate its inspection resources among a wider range of investment companies. To allow the Commission to provide greater oversight of money funds than its on-site examination resources would otherwise permit, the Commission is proposing to require money funds to file quarterly reports detailing their portfolio holdings, yield, dollar-weighted average maturity, illiquid holdings, transactions with affiliated persons, and securities valuation practices with the Commission. These reports should improve the efficiency and effectiveness of the Commission's money fund examination program in several respects. First, because the reports would elicit much of the same information regarding portfolio securities that would be obtained during an on-site examination, the Commission will be able to use the reports to review compliance with many of rule 2a-7's requirements without making on-site visits. Second, the reports will enable the Commission to target funds with investment practices or portfolio holdings that suggest the need for on-site examination. Third, information in the reports will permit Commission examiners to conduct a significant portion of each on-site money market fund examination at Commission offices, reducing Commission examination costs and the disruption to funds and their advisers. Fourth, information in the reports will enable the Commission to respond when a significant market event occurs that could affect money funds and their

Inc., and MNC Financial Corporation defaulted or was downgraded, resulting in significant declines in the securities' market prices, and threatening the stable net asset values of the money market funds holding them. In 1991, New Jersey insurance regulators seized Mutual Benefit Life Insurance Company ("MBLI"), a provider of demand features and other credit enhancements to securities owned by several money market funds. When MBLI could not honor its put obligations, the value of MBLI-backed securities declined substantially. Shareholders of funds that held these securities were not adversely affected because each fund's investment adviser voluntarily purchased the paper from the funds at amortized cost or principal amount, otherwise agreed to indemnify the fund, or obtained a replacement guarantor in order to prevent shareholder losses. See Investment Company Act Rel. No. 19959 (Dec. 17, 1993) [58 FR 68585 (Dec. 28, 1993)] [hereinafter "Release 19959"] (proposing further amendments to tighten the risk-limiting conditions of rule 2a-7) at nn.12 and 28 and accompanying text.

¹ Section 2(a)(41) of the 1940 Act [15 U.S.C. 80a-2(a)(41)] and rules 2a-4 and 22c-1 under the 1940 Act [17 CFR 270.2a-4, 270.22c-1] require funds to calculate net asset value per share by valuing portfolio securities for which market quotations are readily available at market value, and other securities and assets at fair value as determined in good faith by the board of directors. Money funds that seek to maintain a stable share price generally use either the amortized cost method of valuation or the penny-rounding method of share pricing. Under the amortized cost method, portfolio securities are valued by reference to their acquisition cost as adjusted for amortization of premium or accretion of discount. Paragraph (a)(1) of rule 2a-7 [17 CFR 270.2a-7(a)(1)]. Share price is determined under the penny-rounding method by valuing securities at market value, fair value, or amortized cost and rounding the per share net asset value to the nearest cent. Paragraph (a)(11) of rule 2a-7. All references to rule 2a-7 or any paragraph of the rule will be to 17 CFR 270.2a-7.

² Because of these characteristics, investors often use money funds as a substitute for demand deposits, even though money funds are not protected by federal deposit insurance, and there is no guarantee that the funds will be able to maintain stable share prices.

³ Money funds are subject to portfolio quality, maturity, and diversification requirements under paragraphs (b), (c)(2), (c)(3), and (c)(4) of rule 2a-7. These conditions limit a fund's exposure to credit, interest rate, and currency risk. For a discussion of the effect of rule 2a-7 on the types of investments made by money market funds, see Investment Company Act Rel. No. 21216 (July 19, 1995) at n.6 and § I.A.2., a companion release being issued today in which the Commission proposes to shorten and simplify money fund prospectuses to reflect their unique characteristics and in light of the regulatory limitations on those funds.

⁴ Paragraphs (a) (1) and (11) of rule 2a-7.

⁵ If a fund's shares are sold or redeemed based on a net asset value that either understates or overstates the amount for which portfolio instruments could have been sold, the interests of either existing shareholders or new investors will be diluted. See Investment Trusts and Investment Companies: Hearings on S. 3580 Before a Subcomm. of the Sen. Comm. on Banking and Currency, 76th Cong., 3d Sess. 136-138, 288 (1940).

⁶ Paragraphs (c)(6)(ii) (A) and (B) of rule 2a-7.

⁷ Paragraph (c)(7) of rule 2a-7.

⁸ In 1989 and 1990, commercial paper issued by Mortgage and Realty Trust, Integrated Resources,

shareholders.⁹ The availability of a list of portfolio securities for each money fund will permit the Commission to identify those funds that are holding distressed securities to determine whether they are appropriately pricing their securities¹⁰ and taking other steps that may be required under rule 2a-7.¹¹ Finally, because the reports would be publicly available, they would permit public scrutiny of money fund investment practices through the financial press and private information services.¹² The Commission believes that this disclosure may have a salutary effect on money fund investment practices, reducing the possibility that a money fund will engage in practices that pose risks to its ability to maintain a stable net asset value.

II. Discussion

To address the concerns discussed above, the Commission is proposing new rule 30b3-1 under the 1940 Act that would require every open-end management investment company

⁹ *Supra* note 8. In addition, in 1994 a number of money market funds that had invested in adjustable rate securities experienced losses when these securities' interest rates failed to follow short-term market rates. See Wayne, "For Money Market Investors, New Cautions," N.Y. Times, Sept. 29, 1994 at D1, D8. In one case, a money market fund holding these adjustable rate securities was forced to liquidate and redeem its shareholders at a price of less than \$1.00. See de Senerpont Domis and Talley, "Collapse of Money Fund Seen Heightening Derivatives Scrutiny," American Banker, Sept. 29, 1994 at 1, 3. Most recently, a major municipal issuer—Orange County—filed for bankruptcy. To maintain their funds' net asset values, several money market funds' advisers took steps to prevent the net asset value of their funds from falling below \$1.00. See "Orange County, Mired in Investment Mess, Files for Bankruptcy," Wall St. J., p.A1 (Dec. 7, 1994).

¹⁰ See paragraphs (c)(6)(ii) (B) and (C) of rule 2a-7 (if the market value per share for a fund using amortized cost method deviates more than one-half of one percent from the fund's share price, the board of directors must promptly consider what action, if any, should be taken and, to the extent the deviation has dilutive or unfair results, take appropriate action to eliminate or reduce deviation, including changing the share price). Similarly, because the penny-rounding method permits rounding to the nearest one percent, if the share price of a fund using the penny-rounding method deviates by more than one-half of one percent, the share price for the fund could not be maintained. See paragraphs (a)(11) and (c)(7) of rule 2a-7.

¹¹ See, e.g., paragraph (c)(5)(i)(A) of rule 2a-7 (requirement to reassess promptly whether downgraded security continues to present minimal credit risks); paragraph (c)(5)(ii) of rule 2a-7 (fund must dispose of security that has become ineligible or has been determined no longer to present minimal credit risks as soon as practicable unless the board of directors finds that disposal of the portfolio security would not be in the best interests of the fund).

¹² While the reports will be available to individual investors, the Commission anticipates that, more typically, interested investors will learn about information contained in the reports in the specialized financial press that reports on money funds and other types of investment companies.

holding itself out as a money fund¹³ to file a Money Market Fund Portfolio Schedule with the Commission not more than thirty days following the last day of each calendar quarter.¹⁴ The Schedule, which is described in paragraph (d) of proposed rule 30b3-1, would be filed electronically with the Commission through the EDGAR system, pursuant to a new appendix to the EDGAR Filer Manual, and would be made publicly available.¹⁵

A. Money Market Fund Portfolio Schedule

The Schedule would require fund portfolio information on a security-by-security basis in the following areas:

- **Identifying information:** the CUSIP number assigned to the security,¹⁶ the name of the issuer, the name of the issue (Items 12 (a)–(c)), the names of any providers of puts, demand features, bond insurance, or other guarantees for the security (Item 12 (d)),¹⁷ and whether the security is pre-refunded (Item 12(g)) or a repurchase agreement (Item 12(i));
- **Maturity information:** The security's final maturity date and maturity date currently used for purposes of determining compliance with rule 2a-7's maturity limitations (Items 12 (j) and (k));¹⁸

¹³ Paragraph (b) of rule 2a-7 enumerates the types of activities that constitute "holding out" and that require compliance with rule 2a-7.

¹⁴ Rule 12b-25 under the Securities Exchange Act of 1934 [17 CFR 240.12b-25], the general rule regarding notification to the Commission of the inability to file timely, and Form 12b-25 [17 CFR 249.322], the form for notification of late filing, would be amended to include reports pursuant to proposed rule 30b3-1 that are filed late. A money market fund filing notification of its inability to file timely would be required to file its Schedule within five days of the due date in accordance with paragraph (b)(2)(ii) of rule 12b-25.

¹⁵ The Commission has adopted a series of rules to mandate and accommodate electronic filing through EDGAR. See Securities Act Rel. No. 6977 (Feb. 23, 1993) [58 FR 14628 (Mar. 18, 1993)] (adopting rules applying to electronic submissions generally); Investment Company Act Rel. No. 19284 (Feb. 23, 1993) [58 FR 14848 (Mar. 18, 1993)] (adopting rules specific to electronic filings by investment companies).

¹⁶ A CUSIP number is an identification number assigned to many United States Government, municipal, and corporate securities issues through a system administered by Standard & Poor's Corporation under the authority of the American Bankers Association Committee on Uniform Security Identification Procedure ("CUSIP").

¹⁷ The terms "put" and "demand feature" would be defined by reference to paragraphs (a)(4) and (a)(12) of rule 2a-7.

¹⁸ Money funds are required to maintain a dollar-weighted average portfolio maturity of not more than ninety days, and generally may not purchase any instrument with a remaining maturity of more than 397 days. See paragraph (c)(2) of rule 2a-7. A money fund may treat certain adjustable rate securities as having maturities equal to the period remaining until the securities' next interest rate readjustment date. See paragraph (d) of rule 2a-7.

- **Interest rate information:** The rate of interest the security was paying on the last day of the reporting period (Item 12(p)); whether the security is subject to any special interest rate features, such as a future change in rate structure from variable to fixed (Item 12(s)),¹⁹ or an interest rate cap (Item 12(t));²⁰ and, for an adjustable rate security, the interest rate reset formula and the frequency of the interest rate reset (e.g., weekly, monthly, or quarterly) (Items 12(q) and (r));

- **Credit quality information:** Whether the security is treated as "unrated" and/or "second tier" for purposes of rule 2a-7 (Items 12 (e) and (f));²¹

- **Liquidity:** Whether the security is illiquid (Item 12(h));²²

- **Valuation information:** For all funds, the market value of the security, based on quotations obtained not more than ten business days prior to the end of the quarter (Item 12(l)); and, for funds using the amortized cost method, the amortized cost of the security and any deviation between the amortized cost and market values (Item 12(m)); and

- **Diversification information:** The percentage of the fund's "total assets" represented by the position, and the percentage of the fund's "total assets" represented by all securities issued by the issuer of this security (Items 12 (n) and (o)).

The Schedule would also require a fund to categorize itself by fund type (Item 3)²³ and to provide other

¹⁹ Such features would be required to be disclosed whether or not the triggering conditions have occurred.

²⁰ While the staff has interpreted rule 2a-7 as not permitting money market funds to use the maturity shortening provisions of the rule when determining the maturity of capped floaters that do not have demand features, this position has not been applied if the cap is set to comply with state usury laws and is in excess of twenty percent. See Investment Company Institute (pub. avail. June 16, 1993). For a discussion regarding determining the maturity of capped floaters under rule 2a-7, see Release 19959, *supra* note 8 at n.161.

²¹ See paragraphs (a) (14) and (20) of rule 2a-7. The particular ratings assigned to a security would not be required in the report.

²² A money market fund may hold up to ten percent of its net assets in illiquid securities. See Investment Company Institute (pub. avail. Dec. 9, 1992). The staff intends to revise Guide 4 to Form N-1A, as discussed in the companion release being proposed today, *supra* note 3 at § III, to clarify the Commission's policy that money market funds may not invest more than ten percent of their assets in illiquid securities.

²³ The fund would describe itself as primarily distributing income that is taxable or tax-exempt and, if tax-exempt, whether the fund is a Single State Fund (as defined in paragraph (a)(22) of rule 2a-7, as proposed to be amended; see Release 19959, *supra* note 8). The fund would also indicate whether it sells shares to retail investors or only to institutions.

information regarding the portfolio as a whole:

- For funds using the amortized cost method, the per share net asset value based on the market value of the portfolio; for funds using the penny-rounding method, the per share net asset value prior to rounding; for funds using both methods, both figures (Item 6);
- The fund's seven-day yield (Item 7);²⁴
- The dollar-weighted average maturity (Item 8);²⁵
- Total assets (Item 9);²⁶
- The percentage of net assets invested in illiquid assets (Item 10); and
- Certain transactions between the fund and affiliated parties that occurred during the quarter that are intended to stabilize the fund's per share net asset value, including any sale of a portfolio security for a price greater than its current market value (Item 11).²⁷

The Commission will consider including a requirement that information regarding the fund's compliance with the put diversification requirements of rule 2a-7 be provided in the Schedule. The Commission requests comment whether holdings of Treasury bills and repurchase agreements with the same counterparty that are collateralized fully, as well as other types of securities that commenters may suggest, should be grouped and not reported individually.²⁸ The Commission also

²⁴The yield quoted would be based on the seven days ending on the last day of the reporting period and would be calculated in accordance with Item 22(a)(i) of Form N-1A.

²⁵See *supra*, note 18.

²⁶"Total Assets" is defined in paragraph (a)(18) of rule 2a-7 as meaning, for a money fund using the amortized cost method, the total amortized cost of its assets and, for any other fund, the total market-based value of its assets.

²⁷Examples of these transactions include the sale of portfolio securities to an affiliated person of the fund, a contribution to the fund's net assets by an affiliated person, or the purchase of a credit enhancement for a portfolio security by an affiliate on the fund's behalf. Certain of these types of transactions are prohibited by section 17(a)(2) of the 1940 Act. The staff has taken the position regarding some of these transactions, based on the particular facts and circumstances involved, that an enforcement action would not be recommended to the Commission so long as certain conditions were met. The Commission proposed rule 17a-9 under the 1940 Act in 1993 to exempt these transactions from section 17(a) if certain conditions were met. See Release 19959, *supra* note 8, at §IV.

Related party transactions are required to be identified in fund financial statements. See 17 CFR 210.4-08(k); Statement of Financial Accounting Standards No. 57 (Related Party Disclosures), Financial Accounting Standards Board (Mar. 1982). See also Letters to Chief Financial Officers from Lawrence A. Friend, Chief Accountant, Division of Investment Management (Nov. 1, 1994 and Feb. 3, 1995).

²⁸The term "Collateralized Fully" would be defined by reference to paragraph (a)(4) of rule 2a-

requests comment on whether, instead of requiring that money funds indicate whether a security is illiquid, the rule should require funds to indicate whether the value of the security is being determined in good faith by the fund's board of directors.

B. Reporting Period

The proposed report would contain information as of the end of each calendar quarter, rather than fund fiscal quarters, so that the Commission may compare fund portfolio data and aggregate certain of the information to obtain industry-wide data. The Commission requests comment whether the reporting burden would be significantly reduced if reporting was required as of the end of the fund's fiscal quarter.

C. Appendix J to the EDGAR Filer Manual

All money funds would be required to file their Schedules through the EDGAR system.²⁹ Detailed instructions regarding the manner in which responses to the information items of rule 30b3-1 would be provided would be set forth in a new Appendix J to the EDGAR Filer Manual: Guide for Electronic Filing with the U.S. Securities and Exchange Commission.³⁰ Appendix J provides instructions regarding important technical topics, such as how the information required by an item in the Schedule should be "tagged," how to describe certain types of securities, what types of errors in the reports will result in the suspension or rejection of a filing, and sections of rule 2a-7 to which the fund should refer when responding to particular items.³¹ The Commission expects that if the proposals are adopted, funds will use an automated process to construct their Schedules from their existing computer systems, so that Schedules can be prepared and transmitted without extensive additional data entry. Appendix J is designed to facilitate this

7, as proposed to be amended in Release 19959, *supra* note 8 at §I.D.3.

²⁹The final phase-in of investment companies to the EDGAR system is scheduled for November 1995. As proposed, the Schedule would only be filed electronically, and rule 30b3-1(c)(4) would waive the filing requirement for the period of any temporary hardship or continuing hardship exemption under Regulation S-T [17 CFR 232.201 and .202].

³⁰The September 1994 edition of the EDGAR Filer Manual (Release 4.10) has been incorporated into the Code of Federal Regulations by reference. See 17 CFR 232.301. The amendments to the manual being proposed in this release would also be incorporated by reference into the Code of Federal Regulations following their adoption.

³¹A "tag" is used to identify information required in an EDGAR filing. 17 CFR 232.11(u).

process. Comment is requested on ways to further facilitate preparation of Schedules in this manner. Comment is also requested whether funds would be substantially assisted if the quarterly report could be transmitted not only in ASCII format, but in a format generated by widely-used or easily translated commercial software. The Commission is also considering alternative methods for receiving the data through EDGAR, including tag-less submissions.

III. Cost/Benefit Analysis

The rule and rule amendments proposed today are intended to provide information to the Commission and to the public that can be used to improve the money fund inspection capability of the Commission, money fund compliance with the federal securities laws, and investor protection. The proposals would enable the Commission to better target its on-site examinations of money funds and to respond in the event of market events that affect money funds and their shareholders.

The information required in the Schedule for each security is (or should be) maintained by money funds to ensure compliance with rule 2a-7 under the 1940 Act. The Commission has designed the Schedule and the EDGAR filing instructions in Appendix J to facilitate direct transfer of information from fund computer systems. As a result, the Commission anticipates that the majority of the costs experienced by funds will result from initial efforts to revise data capture systems. In addition, because the Schedules would need to be prepared and delivered electronically only, there would be no burdens associated with printing and mailing. Finally, quarterly reporting should result in fewer on-site money fund inspections and related costs for funds that appear to be in compliance with the federal securities laws, based on information provided in the quarterly reports.

While adoption of the proposed rule and form would impose some additional costs on money funds, the Commission has attempted to strike a balance between the Commission's need for additional information from money funds about their portfolio securities and the costs of funds providing that information. The Commission requests comment regarding these costs and benefits, and reasonable alternatives for achieving the benefits of the proposed rule.

IV. Transition Period

If proposed rule 30b3-1 is adopted, the Commission would conduct a series of test filings to test both the filing

process and to enable funds to develop the capability to transfer the information required in the Schedules from existing computer files. The Commission asks that funds that wish to participate in the test filing process so indicate in their comment letters.³² The Commission anticipates that temporary rules would be adopted during this period. The Commission will consider comments for purposes of adopting both temporary and permanent rules. For other filers, the Commission plans to make the proposed amendments effective sixty days following the completion of the test filing period. All money funds would be required to file Money Market Fund Portfolio Schedules under rule 30b3-1 beginning with the first complete calendar quarter following conclusion of the sixty day period.

V. General Request for Comments

All interested persons who wish to submit written comments on the proposed rule and form discussed in this release, or to comment on related matters that might have a significant effect upon the proposals discussed in this release, are requested to do so. Commenters suggesting alternative approaches are encouraged to submit proposed text.

VI. Summary of Initial Regulatory Flexibility Analysis

The Commission has prepared an Initial Regulatory Flexibility Analysis in accordance with 5 U.S.C. 603 regarding the proposed amendments. The Analysis notes that the proposed amendments are intended to elicit from money funds information that would improve the Commission's ability to monitor the funds' compliance with the federal securities laws. Pertinent information reflected in the Cost Benefit Analysis section of this Release is also reflected in the analysis. A copy of the Initial Regulatory Flexibility Analysis may be obtained by contacting Martha H. Platt, Mail Stop 10-6, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549.

VII. Statutory Authority

The Commission is proposing rule 30b3-1 pursuant to sections 13 [15 U.S.C. 78m], 15(d) [15 U.S.C. 78o(d)] and 23(a) [15 U.S.C. 78w(a)] of the Securities Exchange Act of 1934 and sections 8 [15 U.S.C. 80a-8], 30 [15 U.S.C. 80a-29], 31 [15 U.S.C. 80a-30], 38 [15 U.S.C. 80a-37], and 45 [15 U.S.C. 80a-44] of the 1940 Act. The authority

for the proposals precede the text of the rule and appendix.

Text of Proposed Rule and Form Amendments

List of Subjects in 17 CFR Parts 232, 240 and 270

Investment companies, Reporting and recordkeeping requirements, Securities.

For the reasons set out in the preamble, the Commission is proposing to amend Chapter II, Title 17 of the Code of Federal Regulations as follows:

PART 232—GENERAL RULES AND REGULATIONS FOR ELECTRONIC FILINGS

1. The authority citation for Part 232 continues to read as follows:

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s(a), 77sss(a), 78c(b), 78l, 78m, 78n, 78o(d), 78w(a), 78ll(d), 79t(a), 80a-8, 80a-29, 80a-30 and 80a-37.

2. Section 232.101 is amended by removing the word "and" at the end of paragraph (a)(1)(iv), removing the period at the end of paragraph (a)(1)(v) and in its place adding "; and" and adding paragraph (a)(1)(vi) to read as follows:

§ 232.101 Mandated electronic submissions and exceptions.

(a) * * *

(1) * * *

(vi) Quarterly reports filed by money market funds pursuant to rule 30b3-1 (§ 270.30b3-1 of this chapter).

* * * * *

PART 240—GENERAL RULES AND REGULATIONS, SECURITIES EXCHANGE ACT OF 1934

3. The authority citation for Part 240 continues to read in part as follows:

Authority: 15 U.S.C. 77c, 77d, 77g, 77j, 77s, 77eee, 77ggg, 77nnn, 77sss, 77ttt, 78c, 78d, 78i, 78j, 78l, 78m, 78n, 78o, 78p, 78q, 78s, 78w, 78x, 78ll(d), 79q, 79t, 80a-20, 80a-23, 80a-29, 80a-37, 80b-3, 80b-4 and 80b-11, unless otherwise noted.

* * * * *

§ 240.12b-25 [Amended]

4. By amending § 240.12b-25 by revising the section heading to read as follows:

§ 240.12b-25 Notification of inability to timely file all or any required portion of a Form 10-K, 10-KSB, 20-F, 11-K, N-SAR, 10-Q, 10-QSB or report filed pursuant to rule 30b3-1.

5. By amending § 240.12b-25, paragraph (a), by adding the following phrase after the first "thereunder":

" , or all or any required portion of a quarterly report filed by a money market

fund pursuant to rule 30b3-1 under the Investment Company Act of 1940 (17 CFR 270.30b3-1);"

6. By amending § 240.12b-25, paragraph (b)(2)(ii), by adding the following phrase after "10-QSB,":

"or report filed pursuant to rule 30b3-1 under the Investment Company Act of 1940 (17 CFR 270.30b3-1)."

* * * * *

7. By amending § 240.12b-25, paragraph (g), by removing the period at the end of the paragraph and adding in its place "or, for a quarterly report filed by a money market fund, comply with Rule 30b3-1(c)(3) under the Investment Company Act (17 CFR 270.30b3-1(c)(3))."

PART 249—FORMS, SECURITIES EXCHANGE ACT OF 1934

8. The authority citation for Part 249 continues to read in part as follows:

Authority: 15 U.S.C. 78a, *et seq.*, unless otherwise noted;

* * * * *

§ 249.322 [Amended]

9. By amending § 249.322, paragraph (a), by adding the following phrase after "section 13 or 15(d) of the Act":

"or quarterly report filed by a money market fund pursuant to rule 30b3-1 under the Investment Company Act of 1940,".

* * * * *

Note: Form 12b-25 does not and the amendments will not appear in the Code of Federal Regulations.

10. Form 12b-25 (referenced in § 249.322) is amended by adding the following after "[] Form N-SAR" to read: "[] Money Market Fund Rule 30b3-1 Filing".

11. Form 12b-25 (referenced in § 249.322) is amended by adding the following after "Form 10-Q" in paragraph (b) of Part II, to read: "or filing made by a money market fund pursuant to rule 30b3-1".

12. Form 12b-25 (referenced in § 249.322) is amended by adding the following after "Form 10-Q," in Part III: "or filing made by a money market fund pursuant to rule 30b3-1".

PART 270—RULES AND REGULATIONS, INVESTMENT COMPANY ACT OF 1940

13. The authority citation for Part 270 continues to read in part as follows:

Authority: 15 U.S.C. 80a-1 *et seq.*, unless otherwise noted.

14. By adding § 270.30b3-1 to read as follows:

³² Information submitted in test filings by volunteering funds during the test period would be treated by the Commission as non-public.

§ 270.30b3-1 Quarterly report for money market funds.

(a) *General.* Every open-end management investment company registered under the 1940 Act that holds itself out as a money market fund ("money market fund") shall file a Money Market Fund Portfolio Schedule ("Schedule") containing the information set forth in paragraph (d) of this section with the Commission not more than thirty days after the last day of each calendar quarter.

(b) *Format and filing of schedule.* The Schedule shall be filed through the EDGAR system and prepared in the format prescribed in Appendix J to the EDGAR Filer Manual. Money market funds also shall refer to Regulation S-T [17 CFR 232.10 through 232.903] regarding the general rules for electronic filings on the EDGAR system.

(c) *Special rules.* (1) *Master/feeder arrangements.* A money market fund that is a "feeder fund," as that term is defined in General Instruction I to Form N-1A [17 CFR 239.15A and 274.11A], is not required to file a Schedule.

(2) *Series funds.* Each series of a series fund shall be considered to be a separate investment company for purposes of this section.

(3)(i) *Temporary hardship exemptions.* If a money market fund experiences unanticipated technical difficulties preventing the timely preparation and submission of its Schedule, the money market fund shall submit a written statement to the Commission no later than one business day after the date on which the Schedule was to be filed stating that the fund requires a temporary hardship exemption. A money market fund that has taken advantage of a temporary hardship exemption with regard to the filing of the Schedule shall electronically file its Schedule within six days of filing its written notification to the Commission. (ii) *Continuing hardship exemptions.* A money market fund may apply in writing for a continuing hardship exemption in accordance with paragraphs (a), (b), and (d) of § 232.202 of this chapter.

(d) *Contents of money market fund portfolio schedule.* The Schedule shall set forth the information specified in this paragraph that is applicable to the money market fund. Where the context requires, capitalized terms are used as defined in § 270.2a-7.

Item 1.

- Item 1(a) Name of registrant.
- Item 1(b) CIK number of registrant.

Item 1(c) Investment Company Act File Number of registrant.

Item 2.

Item 2(a) Name of money market fund.
Item 2(b) Name of person that should be contacted regarding the information contained in this report.

Item 2(c) Telephone number of person named in response to Item 2(b).

Item 2(d) Securities Act File Number for money market fund.

Item 2(e) If the Schedule pertains to a separate series of a series company, or to a sub-account of an insurance company separate account, assign a number to the series that the series will be identified by in all future filings. If a number has previously been assigned to the series in a report on Form N-SAR, use that number.

Item 3. Indicate whether the fund is a Tax Exempt Fund and, if so, whether it is a Single State Fund and the state in which the securities in which it invests are exempt from taxation. For a taxable fund, indicate whether the fund invests only in Government Securities and repurchase agreements, or in other securities as well.

Item 4. Indicate whether the fund sells shares to institutional investors only.

Item 5. State the last day of the quarter for which this information is filed.

Item 6. If the fund uses the Penny-Rounding Method of pricing, state the per share net asset value of the fund before rounding. If the fund uses the Amortized Cost Method of valuation, state the per share net asset value of the fund based on the available market quotations obtained most recently by the fund but not more than ten business days prior to the end of the quarter (or an appropriate substitute that reflects current market conditions) for the securities in the portfolio. If the fund uses both methods, provide both figures.

Item 7. State the fund's yield for the seven days ended on the last day of the quarter for which this Schedule is filed, computed in accordance with Item 22(a)(i) of Form N-1A, 17 CFR 239.15A and 274.11A.

Item 8. State the dollar-weighted average portfolio maturity calculated for purposes of determining compliance with paragraph (c)(2) of § 270.2a-7 on the last day of the quarter.

Item 9. State the Total Assets of the fund on the last day of the quarter.

Item 10. State the percentage of net assets of the fund invested in illiquid assets on the last day of the quarter.

Item 11. State whether, at any time during the quarter, an affiliated person of the fund, or any affiliated person of such person:

- (a) purchased a security from the fund at a price in excess of the security's market value;
- (b) obtained or provided liquidity or credit support for a security in the fund's portfolio; or

(c) contributed cash or other assets to the fund to offset a realized or unrealized loss on an investment made by the fund.

Item 12. Provide the following information for each security owned by the fund as of the last day of the quarter for which this information is filed, where applicable:

Item 12(a) CUSIP number.

Item 12(b) Name of issuer of security.

Item 12(c) Name of issue.

Item 12(d) (1)-(4) Names of issuers of Puts, Demand Features, bond insurance, and other guarantees.

Item 12(e) Whether the security is an Unrated Security.

Item 12(f) Whether the security is a Second Tier Security.

Item 12(g) Whether the security is a Refunded Security.

Item 12(h) Whether the security is an illiquid security.

Item 12(i) Whether the security is a repurchase agreement that is Collateralized Fully.

Item 12(j) Stated maturity date.

Item 12(k) Maturity date for purposes of § 270.2a-7.

Item 12(l) Market value, based on the quotations obtained most recently by the fund but not more than ten business days prior to the end of the quarter.

Item 12(m) In the case of a fund using the Amortized Cost Method of valuation:

Item 12(m)(i) the amortized cost of the security; and

Item 12(m)(ii) the ratio of Item 12(l) to Item 12(m)(i).

Item 12(n) The percentage of the fund's Total Assets represented by this security.

Item 12(o) The percentage of the fund's Total Assets comprised by all securities currently held by the fund that have been issued by this issuer.

Item 12(p) Rate of interest the security was paying on the last day of the period for which this information is being filed.

Item 12(q) For a Floating Rate Instrument or a Variable Rate Instrument, the formula for determining the interest rate the security will pay.

Item 12(r) For a Floating Rate Instrument or a Variable Rate Instrument, the frequency with which the security's interest rate will be reset.

Item 12(s) Indicate whether the security's characterization as fixed rate, Floating Rate, or Variable Rate is subject to change as the result of one or more triggering events. Briefly describe the triggering events in the form of a formula.

Item 12(t) Indicate whether the security is subject to an interest rate cap. Describe the cap in the form of a formula.

Dated: July 19, 1995.

By the Commission.

Margaret H. MacFarland,

Deputy Secretary.

[FR Doc. 95-18244 Filed 7-25-95; 8:45 am]

BILLING CODE 8010-01-P