



**United States
General Accounting Office
Washington, D.C. 20548**

Office of the General Counsel

B-278811

December 18, 1997

The Honorable Alfonse M. D'Amato
Chairman
The Honorable Paul S. Sarbanes
Ranking Minority Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Thomas J. Bliley, Jr.
Chairman
The Honorable John D. Dingell
Ranking Minority Member
Committee on Commerce
House of Representatives

Subject: Securities and Exchange Commission: Technical Revisions to the Rules and Forms Regulating Money Market Funds

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Securities and Exchange Commission (SEC), entitled "Technical Revisions to the Rules and Forms Regulating Money Market Funds" (RIN: 3235-AE17). We received the rule on December 3, 1997. It was published in the Federal Register as a final rule on December 9, 1997. 62 Fed. Reg. 64968.

The final rule amends the rules and forms governing money market funds. The rule revises terminology used in rule 2a-7 under the Investment Company Act of 1940 to reflect common market usage and resolve certain interpretative issues.

Enclosed is our assessment of the SEC's compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review indicates that the SEC complied with the applicable requirements.

If you have any questions about this report, please contact James Vickers, Assistant General Counsel, at (202) 512-8210. The official responsible for GAO evaluation work relating to the Securities and Exchange Commission is Thomas McCool,

Director, Financial Institutions and Markets Issues. Mr. McCool can be reached at (202) 512-8678.

Robert P. Murphy
General Counsel

Enclosure

cc: The Honorable Jonathan G. Katz
Secretary, Securities and Exchange
Commission

ANALYSIS UNDER 5 U.S.C. § 801(a)(1)(B)(i)-(iv) OF A MAJOR RULE
ISSUED BY
THE SECURITIES AND EXCHANGE COMMISSION
ENTITLED
"TECHNICAL REVISIONS TO THE RULES AND FORMS
REGULATING MONEY MARKET FUNDS"
(RIN: 3235-AE17)

(i) Cost-benefit analysis

The SEC performed a cost-benefit analysis on the effects of the final rule.

According to the SEC, the costs of the amendments are likely to be minimal because no additional procedural or reporting burdens are placed on the funds by the rule.

One benefit of the rule is the additional flexibility that will promote market efficiency by allowing funds to invest in a wider variety of instruments that present risks consistent with maintaining a stable net asset value. The SEC states that the benefits cannot be quantified because it is not possible to predict with certainty how funds will structure their portfolio holdings in response to the amendments.

(ii) Agency actions relevant to the Regulatory Flexibility Act, 5 U.S.C. §§ 603-605, 607, and 609

The SEC prepared an Initial Regulatory Flexibility Analysis in connection with the proposed rule, which was summarized in the notice of proposed rulemaking and was available to the public in its entirety. No comments were received in response to the analysis.

The preamble to the final rule contains a summary of the Final Regulatory Flexibility Analysis, a complete copy of which was submitted to our Office and was made available to the public. The analysis describes the reason for the rule and the legal basis for it; descriptions and estimates of the number of small entities affected by the rule; a discussion of the recordkeeping, reporting, and other compliance requirements; and the steps taken to minimize the burdens on small entities.

The SEC estimates that of the approximately 650 investment companies registered with the SEC that have one or more money market funds, 130 would be considered small entities.

Regarding the steps taken to minimize the burden, the SEC concludes that different requirements for small entities were not necessary and would be inconsistent with investor protection. The SEC also states that the final rule uses performance standards to the extent practicable rather than design standards.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532-1535

As an independent regulatory agency, the SEC is not subject to title II of the Unfunded Mandates Reform Act of 1995.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 *et seq.*

The final rule was issued using the notice and comment procedures contained at 5 U.S.C. § 553.

On December 18, 1996, the SEC published a Notice of Proposed Rulemaking in the Federal Register. 61 Fed. Reg. 66621. The SEC received responses from 17 commenters, including 9 mutual fund complexes. The SEC discusses the comments received and any changes it made to the proposed rule based on those comments in the preamble to the final rule.

Paperwork Reduction Act, 44 U.S.C. §§ 3501-3520

The final rule contains information collections which are subject to review by the Office of Management and Budget (OMB) under the Paperwork Reduction Act.

Following a review by OMB of the SEC's submission required by the act, OMB has approved the collections as complying with the requirements of the act and has issued control numbers for the documents.

Statutory authorization for the rule

The final rule is issued pursuant to sections 6(c), 8(b), 22(c), 34(b), 35(d), and 38(a) of the Investment Company Act of 1940. 15 U.S.C. §§ 80a-6(c), 80a-8(b), 80a-22(c), 80a-33(b), 80a-34(d), and 80a-37(a).

Executive Order No. 12866

The rule, promulgated by an independent regulatory agency, is not subject to the review requirements of Executive Order No. 12866.