



Securities Industry Association

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February 15, 2001

Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street N.W.
Washington, D.C. 20549

**Re: Proposed Amendments to Rule 10f-3 under the Investment Company Act with
Respect to Government Securities Offerings (Release No. IC-24775, File No.
S7-20-00)**

Dear Mr. Katz:

The Investment Company Committee of the Securities Industry Association (“SIA”)¹ is pleased to submit this comment letter regarding the Securities and Exchange Commission’s (“SEC” or “Commission”) proposal to amend Rule 10f-3 under the Investment Company Act of 1940 (“1940 Act”) to cover government securities offerings in which an affiliate of a fund adviser participates.

We are pleased that the Commission recognizes the need to exempt government securities from the proscription in Section 10(f) of the 1940 Act; it has now become common for such securities to be offered through selling syndicates in which an affiliate of a fund adviser may be a participant. Thus, absent an exemption, affiliated funds would be precluded from purchasing high quality marketable government securities which are suitable and desirable for fund shareholders.

¹ The SIA brings together the shared interests of more than 740 securities firms to accomplish common goals. SIA member-firms (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. The U.S. securities industry manages the accounts of more than 50-million investors directly and tens of millions of investors indirectly through corporate, thrift and pension plans. The industry generates more than \$300 billion of revenues yearly in the U.S. economy and employs more than 700,000 individuals.

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While we applaud the proposed exemption for government securities, we do want to express concern about the portion of the proposal which would make the 25 percent limit in the rule more restrictive by including purchases by both fund and non-fund accounts advised or controlled by the adviser. As financial services firms consolidate and become more global in nature, this type of limitation would become increasingly problematic. We are not aware of any particular instances of abuse or other problems that have arisen under the rule's current application of the percentage threshold. Expanding it in the manner proposed by the SEC might impair an adviser's ability to provide a broad array of fund and non-fund clients with access to relatively high quality issues. Aside from the substantially increased complexity of monitoring purchases by all types of accounts across a large financial services organization, the proposed application of the 25 percent threshold may result in any particular account or fund receiving such a small portion of the offering as to render it insignificant. Therefore, we would urge the Commission not to adopt the proposal which would require non-fund accounts advised or controlled by the adviser to be included in the 25 percent limitation.

On a separate, but related note, we would respectfully suggest that the percentage limitation be increased to 50 percent. Given the many other protections incorporated into the rule already (e.g., 3-year existence for registered offerings, timing and price requirements, etc.), a percentage limitation of this nature is not essential. In any event, a percentage limitation set at or near 50 percent would likely achieve any protective purposes the SEC deems important, while not unduly restricting the ability of funds to participate in certain offerings. In the event that the SEC adopts the proposal to apply the percentage limit to both funds and non-funds, the justification for raising the percentage limit to 50 percent becomes even more compelling.

We trust you will find these comments helpful. If you have any questions regarding this letter, or we can otherwise be of assistance, please contact Michael Udoff of SIA at 212-618-0509.

Sincerely,

Gerald T. Lins, Chair,
SIA Investment Company Committee

cc: Paul Royce, Esq.
Cynthia Fornelli, Esq.
Curtis A. Young, Esq.
C. Hunter Jones

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