

MEMORANDUM

January 25, 1982

TO: Commissioner Evans

FROM: Dianne E. O'Donnell, Special Counsel to the Director
Division of Investment Management

SUBJECT: New Products

Cash Management Accounts. In addition to that operated by Merrill Lynch, Dean Witter has established a CMA account (which is not yet nationally marketed) and both E. F. Hutton and Shearson/America Express have mutual funds tied to a cash management account in registration. Basically, a CMA account permits customers to write checks and to borrow against the value of securities in an account in a brokerage firm and to have proceeds from the sales of securities and dividends and interest payments on securities, as well as cash deposits, automatically deposited in a money-market fund. Debits against the account are taken first against idle cash (which has not yet been deposited in the money market fund), and then against shareholdings in the money market fund; if the debit exceeds this amount, a margin loan is automatically taken against the value of the securities portfolio.

VISA and MasterCard Money Market Funds. Three registration statements have been filed for money market funds whose shares will be offered primarily to customers of banks in connection with VISA and MasterCard accounts. The Division is considering the issues presented by the proposed linkage of banking services and sales of investment company shares, among them the propriety of investments by funds in the obligations of banks that, as VISA or MasterCard member banks, will be marketing the funds to the public. This issue is also raised in the registration statements of two money market funds that will invest exclusively in the obligations of a particular bank and will be offered to that bank's customers.

Sweeping Arrangements. At least one mutual fund organization (Dreyfus) has entered into arrangements with banks and savings and loan associations whereby a bank deposit account (usually a NOW account) is linked to a money market fund and customers are guaranteed access to automatic investment into a money market fund. Under such a "sweeping" arrangement, any amount over a stipulated minimum in the deposit account is automatically invested in shares of a money market fund on a periodic basis (usually daily or weekly). Conversely, if the deposit account falls below the minimum, fund shares are automatically redeemed and deposited in the bank account. There are currently about a half-dozen of these arrangements, with more in the discussion stage.