with the MARAD regulations covering the commodity to which such data relate, notice and public procedure thereon are not necessary. Also, because this action relieves a restriction no delay in effective date is necessary.

Accordingly, § 379.4(e) (1) (iii) of the Export Administration Regulations (15 CFR 379.4(e) (1) (iii) is revised to read as follows:

§ 379.4 General license GTDR; technical data under restriction.

* * * * *

(e) * * *

(1) * * *

(iii) Technical data relating to the following materials and equipment:

(*a*) Other artificial graphite, and electrodes, electrical carbons, and other products made thereof, whether or not coated or composited with other materials to improve its performance at elevated temperatures or to reduce its permeability to gases, having an apparent relative density of 1.70 or greater when compared to water at 60° F (15.5° C), and with a particle grain six of less than 0.001 inch (1 mil) (ECC Nos. 59(*11*), 66 (*6*), and 7299(*14*));

(*b*) Electric furnaces specially designed for the production or processing of vapor deposited (pyrolytic) graphite or doped graphites whether as standing bodies, coatings, linings or substrates (ECC No. 7299(*7*));

(*c*) Other gravity meters (gravimeters); and parts and accessories, n.e.c. (ECC No. 8619(*12*));

(*d*) Other transonic, supersonic, hypersonic and hypervelocity wind tunnels and devices; and parts and accessories, n.e.c. (ECC Nos. 71980(*23*), 7295(*46*)), 8618(*1*), and 8619(*10*));

(*e*) Watercraft of 65 feet and over in overall length, designed to include motors or engines of 600 horsepower or over and greater than 45 displacement tons;[1]

(*f*) Methyl methacrylate, cross-linked, hot stretched, clear, film, sheeting, or laminates (ECC No. 581(*11*));

(*g*) Doppler sonar navigation systems (ECC No. 7295(*22*));

(*h*) Aerial camera film, sensitized and unexposed, as follows: (a) having spectral sensitivities at wavelengths greater than 7,200 Angstroms or at wavelengths less than 2,000 Angstroms; or (b) having resolving powers (using a Test Object Contrast of 1,000:1) of 100 line pairs/mm or more or with a base thickness before coating of 0.004 inch or less (ECC Nos. 862(*5*) and (*5a*));

(*i*) Continuous tone aerial duplicating film, sensitized and unexposed, having resolving powers (using a Test-Object Contrast of 1,000:1) of 300 line pairs/mm or more (ECC No. 862 (*5b*));

(*j*) Instrumentation and/or recording film, sensitized and unexposed, having photo-recording sensitivities (as based on the reciprocal of the tungsten exposure in meter-candle-seconds at an exposure time of 0.0001 second) of 125 or more and a resolving power (using a Test-Object Contrast of 1,000:1) of 55 line pairs/mm or more and with a base thickness before coating of 0.004 inch or less and capable of being processed in solutions with alkalinities of pH 10 or above at temperatures greater than 85° F (ECC No. 862 (*5c*));

(*k*) Maraging steels containing all of the following: 12 percent or more nickel, more than 3 percent molybdenum, more than 5 percent cobalt, and less than 0.5 percent carbon (ECC Nos. 67(*3*) and 6(*8*));

(*l*) Transformation Induced Plasticity (TRIP) steels or penta-alloy ausforming stainless steels of the following composition: 8 to 14 percent chromium, 6 to 10 percent nickel, 2 to 5 perecnt molybdenum, 1 to 3 percent silicon, 0.75 to 3 percent manganese, and 0.15 to 0.35 percent carbon (ECC Nos. 67(*3*) and 69 (*8*));

(*m*) Other high speed continuous writing, rotating drum cameras capable of recording at rates in excess of 2,000 frames per second; and parts and accessories, n.e.c. (ECC No. 86140(*8*));

(*n*) Other 16 mm high speed motion picture cameras capable of recording at rates in excess of 2,000 frames per second; and parts and accessories, n.e.c. (ECC No. 86150(*3*)); and

(*o*) Single crystal sapphire substrates (ECC No. 66 (*8a*)).

RAUER H. MEYER,
Director, Office of Export Administration.

[FR Doc.77-16057 Filed 6-6-77;8:45 am]

Title 17—Commodity and Securities Exchanges

CHAPTER II—SECURITIES AND EXCHANGE COMMISSION

[Release No. IC-9786, AS-219; File No. S7-568A]

PART 211—INTERPRETATIVE RELEASES RELATING TO ACCOUNTING MATTERS (ACCOUNTING SERIES RELEASES)

PART 271—INTERPRETATIVE RELEASES RELATING TO THE INVESTMENT COMPANY ACT OF 1940 AND GENERAL RULES AND REGULATIONS THEREUNDER

Valuation of Debt Instruments by Money Market Funds and Certain Other Open-End Investment Companies

AGENCY: Securities and Exchange Commission.

ACTION: Rule interpretation.

SUMMARY: The Commission has issued an interpretation of a rule adopted under the Investment Company Act of 1940 (the "Act") indicating, generally, that it shall be considered inappropriate under the provisions of the rule for "money market" funds and certain other open-end investment companies to determine the fair value of debt portfolio securities on an amortized cost basis, except in the case of securities with remaining maturities of 60 days or less. There has been considerable confusion and uncertainty as to the appropriate methods to be utilized by "money market" funding in valuing their portfolio securities. This interpretation should help insure that shares of such companies are sold and redeemed at prices reflecting the fair value of the underlying portfolio securities.

EFFECTIVE DATE: Immediately.

FOR FURTHER INFORMATION CONTACT:

Kenneth S. Gerstein, Esq., Division of Investment Management, Securities and Exchange Commission, Washington, D.C. 20549, 202-755-0233.

SUPPLEMENTARY INFORMATION: On April 28, 1975, there was published for public comment notice of a position the Commission proposed to take regarding the standardization of procedures utilized by registered investment companies, including "money market" funds, for the valuation of short-term debt instruments in their portfolios (40 FR 18467).[1] The proposed valuation position would have suggested "marking to market" as the most appropriate method for valuing any short-term debt securities held by registered investment companies and would have expressed the belief that it would be desirable for such companies to discontinue the "amortized cost" method of valuation.[2]

Among the public comments received with respect to the proposed position on valuation of short-term debt instruments were those suggesting that: (1) the benefits of "marking to market" valuation were small compared to the attendant costs of such valuation method; (2) many "money market" fund shareholders desire a valuation method that would achieve a constant asset value; and (3) the Commission lacks the authority to preclude the use of amortized cost valuation. Other commentators suggested that only "money market" funds be required to "mark to market."

Nevertheless, after consideration and analysis of the comments received with respect to the proposal, the Commission, for the reasons discussed below, has issued this interpretation setting forth its views as to the appropriateness of certain methods utilized by "money market" funds and certain other registered open-end management investment companies to determine the fair value of debt securities in their portfolios. The interpre-

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[1] This commodity is not listed on the Commodity Control List since it is under the export control jurisdiction of the U.S. Maritime Administration. However, technical data relating to this commodity is under the export control jurisdiction of the Office of Export Administration.

[1] Investment Company Act of 1940 Release No. 8757, April 15, 1975.

[2] Id. The release also indicated the Commission's tentative view that money market funds might be permitted to portray return by means of a quotation such as "yield to average life." In Investment Company Act Release No. 8816 (June 12, 1975) (40 FR 27492) notice was given of proposed guidelines with respect to standardizing money market fund yield quotations. Such guidelines would have permitted the use of "yield to average life" quotations. The Commission is still considering these matters.

tation that the Commission has issued differs in some respects from the proposed position and is discussed in detail below. The Commission expects companies to comply with this interpretation at the earliest possible date consistent with their obligations to avoid disruption of their operations, but in any event not later than November 30, 1977.

The Commission recognizes that, in the absence of the interpretation it has determined today to issue, there has been considerable confusion and uncertainty as to the appropriate methods to be utilized by "money market" funds in valuing their portfolio securities. This interpretation should help remove the uncertainty and further the objectives of enabling investors in such funds to: (1) Purchase and redeem their shares at prices appropriately reflecting the current value of fund portfolio securities; (2) be properly credited for any unrealized appreciation or depreciation in such portfolio securities; and (3) be provided with meaningful and comparable information with which to appraise investment returns and the current earning ability of "money market" funds.

Interpretation With Respect to Valuation of Debt Instruments By Money Market Funds and Certain Other Open-End Investment Companies. The Commission is aware that many investment companies, including some "money market" funds, value short-term debt instruments in their portfolios on an amortized cost basis. Under this method of valuation, investment companies initially value such instruments at their cost on the date of purchase and, if the instrument was purchased at a discount, thereafter assume a constant proportional increase in value until maturity.[3]

However, during the period a debt security is held, changes in the market rate of interest and other factors may affect the price at which that security could be sold. As a general principle, the longer the remaining maturity of an outstanding debt security, the more that price will be affected by such interest rate changes.

The Commission is concerned that the use of the amortized cost method in valuing portfolio securities of registered investment companies may result in overvaluation or undervaluation of the portfolios of such companies, relative to the value of the portfolios determined with reference to current market factors. In the case of registered open-end management investment companies ("mutual funds" or "funds"), this would mean investors purchasing or redeeming shares could pay or receive more or less than the actual value of their proportionate shares of the funds' current net assets. The effect of such sales or redemptions may therefore result in inappropriate dilution of the assets and returns of existing shareholders.[4]

Although inappropriate valuation of securities could cause these effects in various types of funds, the position taken herein is addressed specifically to the case of: (1) "Money market" funds, and (2) other open-end investment companies that hold a significant amount of debt securities, such that the use of the amortized cost method in valuing any portion or type of these debt securities could have a material impact on such funds' net asset values per share. Generally, the Commission would consider the use of a particular valuation method to have a material impact if the use of that method, as opposed to another method, might cause a change of at least one cent in a net asset value per share of $10.00.[5] The interpretation explained below will be applicable to both "money market" funds and these other open-end investment companies.[6]

Generally, "money market" funds are open-end investment companies which invest primarily in short-term debt instruments. They provide a vehicle to permit investors to take advantage of what at times may be the higher short-term interest rates earned on large investments. Through a pooling of money these funds enable the purchase of larger denomination instruments than could normally be bought by the individual small investor. These funds have also attracted investments from corporations, bank trust departments, and other institutional investors. Another characteristic of money market funds is the short-term investment perspective of many shareholders. Although the portfolio composition of "money market" funds is variable both in terms of the types of securities purchased and their maturities, the portfolios of such funds typically include U.S. government and government agency issues, certificates of deposit, banker's acceptances, and commercial paper.

Section 22(c) (15 U.S.C. 80a-22(c)) of the Act (15 U.S.C. 80a-1 et seq.); by reference to section 22(a) (15 U.S.C. 80a-22(a)) of the Act, authorizes the Commission to adopt rules prescribing, inter alia, methods for computing the minimum purchase price and maximum redemption price of redeemable securities issued by a registered investment company:

> * * * for the purpose of eliminating or reducing so far as reasonably practicable any dilution of the value of other outstanding securities of such company or any other result of * * * purchase, redemption, or sale which is unfair to holders of such other outstanding securities. * * *

Section 2(a)(41) (15 U.S.C. 80a-2(a)(41)) of the Act defines "value", as here relevant, to mean:

> (B) * * * (i) with respect to securities for which market quotations are readily available, the market value of such securities; and (ii) with respect to other securities and assets, fair value as determined in good faith by the [registered investment company's] board of directors * * *.

Rule 2a-4 (17 CFR 270.2a-4) promulgated under the Act provides, in part, that the "current net asset value" of a redeemable security issued by a registered investment company used in computing its price, for the purposes of distribution and redemption, means:

> * * * an amount which reflects calculations * * * made substantially in accordance with the following, with estimates used where necessary or appropriate:
>
> (1) Portfolio securities with respect to which market quotations are readily available shall be valued at current market value, and other securities * * * shall be valued at fair value as determined in good faith by the board of directors * * *.

Now that both the Commission and the money market fund industry have had the benefit of experience with this relatively new investment product, and to help insure that shares of such funds are sold and redeemed at prices reflecting the current market or fair value of such funds' portfolio securities, the Commission has concluded that it shall prospectively consider it inconsistent with the provisions of Rule 2a-4 for a money market fund to determine the fair value of debt securities which mature at a date more than 60 days subsequent to the valuation date on an amortized cost basis.

Although debt securities with remaining maturities in excess of 60 days should not be valued at amortized cost, the Commission will not object if the board of directors of a money market fund, in good faith, determines that the fair value of debt securities originally purchased with remaining maturities of 60 days or less shall be their amortized

[3] In simplified terms, for instruments purchased at a discount, the difference between the cost of such an instrument at purchase and its maturity value is divided by the number of days to maturity and that amount is accrued daily as an increase in the value of the instrument each day. More precisely, amortized cost valuation may be described as cost, adjusted for amortization of premium, or for accretion of discount.

[4] For example, redemptions of shares in a fund which has overvalued its portfolio or sales of shares in a fund which has undervalued its portfolio could result in the dilution of the assets and returns of other investors in the fund. The extent of such dilutive effects would be dependent upon several factors, including the extent of the overvaluation or undervaluation, and the proportion of fund shares sold or redeemed at such times.

[5] Although one cent differences in net asset values per share of $10.00 might appear to be insignificant, the effects of such differences can be material to the decisions of investors when translated into differences in rates of return. Moreover, the inequitable effects of amortized cost valuation can occur in the case of any open-end investment company where a significant proportion of a company's portfolio consists of debt securities valued at amortized cost. The extent of such inequitable effects will, of course, depend upon changes in interest rates and the level of a company's sales and redemptions of shares.

[6] See, generally, Accounting Series Release No. 118 (December 23, 1970) (35 FR 19986), "Accounting for Investment Securities by Registered Investment Companies," and Investment Company Act of 1940 Release No. 7221 (June 29, 1972) (37 FR 12790), "Guidelines for the Preparation of Form N-8B-1," as they relate to the valuation of portfolio securities by open-end investment companies.

cost value, unless the particular circumstances dictate otherwise.[7] Nor will the Commission object if, under similar circumstances, the fair value of debt securities originally purchased with maturities of in excess of 60 days, but which currently have maturities of 60 days or less, is determined by using amortized cost valuation for the 60 days prior to maturity, such amortization being based upon the market or fair value of the securities on the 61st day prior to maturity.[8]

The Commission believes that money market funds and those other companies to which this interpretation is applicable should value debt securities with greater than 60 days remaining to maturity based upon current market quotations if readily available or, if such quotations are not readily available, in such a manner as to take into account any unrealized appreciation or depreciation due to changes in interest rates and other factors which would influence the current fair values of such securities.[9] These methods are sometimes referred to as "marking to market." In determining "fair value" by reference to current interest rates and other factors, the board of directors of a money market fund may, of course, utilize whatever method it determines in good faith to be most appropriate.[10] The method utilized could be based in part, for example, upon quotations by dealers or issuers for securities of similar type, quality and maturity.

Except in the circumstances delineated above, the Commission believes that, in view of the experience which has now been gained with respect to the characteristics of money market funds, the use of the amortized cost method of valuation by a money market fund cannot in the future represent a "good faith" effort to determine the "fair value" of portfolio securities for purposes of Rule 2a-4; such valuation fails to consider the impact of market factors subsequent to the date a debt security is purchased on the value of such security. Moreover, the probability that amortized cost valuation will not approximate "fair value" is progressively greater for securities of increasingly longer maturities. The Commission believes that the use of amortized cost valuation by money market funds in valuing securities with remaining maturities in excess of 60 days is not an appropriate estimate of market value or "fair value" and further that, because alternative valuation procedures which consider market factors are available, use of amortized cost valuation under such circumstances as an estimate is not necessary. This standard should help insure that fund shares are sold and redeemed at prices reflecting the appropriate proportionate share of funds' current net assets, and minimize the potential for dilution of the assets and returns of existing shareholders.

The Commission is also of the view that money market fund shareholders should be accurately credited with the effects of any unrealized appreciation or depreciation that may occur when the value of a fund's portfolio fluctuates. If such effects are not reflected in either a fund's net asset value or its distributions to shareholders, as a practical matter the result would be a situation analogous to that which would exist if amortized cost valuation were used, and similar dilutive effects could occur. Such may be the case, for example, where a money market fund "marks to market," but declares a daily dividend of accrued interest income and reflects any remaining unrealized appreciation or depreciation in a "floating" net asset value of $1.00 nominal value per share, rounded to the nearest cent. Under these circumstances, unrealized capital changes, which could materially affect the value of such fund's portfolio, would ordinarily not be of sufficient magnitude to cause the net asset value to change by one cent. The effects of unrealized appreciation and depreciation, in the case of a fund with a "floating" $1.00 net asset value per share, would generally appear in the third and fourth decimal places, and when rounded to the third decimal place (i.e., tenths of one cent) would still not have a one cent impact on the net asset value. Moreover, if such a one cent change should occur, dilution may also result, since a relatively small change in net asset value would cause a larger change in the computed net asset value per share due to rounding. For example, if in the type of fund described above the net asset value was calculated accurately to three decimal places, were a change in net asset value from $1.004 to $1.006 to occur, such change of $.002 would cause the net asset value, when rounded to the nearest cent, to change by one full cent.

To alleviate these results and insure that shareholders are more properly credited for capital appreciation or depreciation, the Commission believes that any money market fund which reflects capital changes in its net asset value per share should calculate, and utilize for purposes of sales and redemptions, a current net asset value per share with an accuracy of one-tenth of one percent (equivalent to the nearest one cent on a net asset value of $10.00).[11] Any less precise calculation by such a fund might have the effect of masking the impact of changing values of portfolio securities and therefore might not "reflect" the fund's calculations pertaining to its portfolio valuation as required by Rule 2a-4.[12]

Boards of directors of money market funds and those other funds referred to above should consider and re-evaluate current fund pricing practices in light of the positions expressed herein. In this regard, the Commission recognizes that such considerations may result in decisions by some funds to make various modifications of their valuation and distribution practices. To avoid any sudden changes in net asset values some funds might wish to effect a gradual transition to new valuation methods. Moreover, some time may be necessary to take the action necessary to adopt new dividend policies or other measures designed to implement the views expressed herein. Therefore, to allow adequate time for planning and effecting orderly transitions, the Commission, as noted above, expects companies to comply with this interpretation by no later than November 30, 1977.

By the Commission.

GEORGE A. FITZSIMMONS,
Secretary.

MAY 31, 1977.

[FR Doc.77-15972 Filed 6-6-77;8:45 am]

[7] The fair value of securities with remaining maturities of 60 days or less may not always be accurately reflected through the use of amortized cost valuation, due to an impairment of the creditworthiness of an issuer, or other factors. In such situations, it would appear to be incumbent upon the directors of a fund to recognize such factors and take them into account in determining "fair value."

[8] A fund also may use amortized cost valuation for a period less than 60 days prior to maturity, in which case the principles indicated above would also be applicable.

[9] In Accounting Series Release No. 118, note 6, supra, the Commission stated that: As a general principle, the current "fair value" of an issue of securities being valued by the Board of Directors would appear to be the amount which the owner might reasonably expect to receive for them upon their current sale.

In that release, the Commission noted various factors that might be considered in arriving at "fair value", which factors included: Yield to maturity with respect to debt issues * * * an evaluation of the forces which influence the market in which these securities are purchased and sold * * * (and the) price and extent of public trading in similar securities of the issuer or comparable companies, and other relevant matters.

[10] See note 6 supra.

[11] Such calculation is applicable only with respect to these money market funds which do not include in their distributions to shareholders all capital changes. If such a fund had a net asset value of $10.00 per share, it would be appropriate to calculate its current net asset value accurately to one tenth of a cent, rounded to the nearest one cent. If such a fund had a net asset value per share of $1.00 it would be appropriate to calculate its current net asset value accurately to the nearest one hundredth of one cent, rounded to the nearest one tenth of one cent.

[12] See note 5, supra.

Title 18—Conservation of Power and Water Resources

CHAPTER I—FEDERAL POWER COMMISSION

SUBCHAPTER E—REGULATIONS UNDER THE NATURAL GAS ACT

[Docket No. RM77-8; Order No. 565]

PART 157—APPLICATIONS FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY AND FOR ORDERS PERMITTING AND APPROVING ABANDONMENT UNDER SECTION 7 OF THE NATURAL GAS ACT

Order Deleting Requirements for Physical Removal of Emergency Facilities

AGENCY: Federal Power Commission.

ACTION: Final rule.

SUMMARY: The Commission is amending two sections of its Regulations under