SFA BILL ANALYSIS

Senate Fiscal Agency • Lansing, Michigan 48909 • (517) 373-5383

Senate Bill 859 (as reported with amendment)
Sponsor: Senator Norman D. Shinkle
Committee: Finance

Date Completed: 6-13-88

RATIONALE

While the Trust Fund Investments Act allows trusts to invest directly in notes and bonds, including U.S. government obligations, it is not clear that trusts may invest in mutual funds, even if the mutual funds in turn invest in U.S. government obligations. Some have pointed out that being able to invest in mutual funds would provide trustees with greater liquidity and less risk of capital loss than direct investment in government securities. They note, for example, that a trust can avoid a capital loss on a direct investment in a U.S. government obligation only if the obligation is held to maturity. Since, however, investment in a mutual fund is actually an investment in a portfolio of government securities of varying maturities and types of obligations, trusts reportedly could minimize the risk of capital loss and take advantage of favorable market conditions more quickly and easily and with fewer penalties by investing in mutual funds than if the trust funds were directly invested in the securities. Further, some claim, investment in a mutual fund could be a boon to smaller trusts that otherwise would not have the funds necessary to make the $5,000 or $10,000 minimum investment that some securities demand. It has been suggested, therefore, that the Act be amended to allow trusts specifically to invest in mutual funds.

CONTENT

The bill would amend Public Act 177 of 1937 to allow a trustee of funds held in trust to invest the funds in U.S. government obligations either directly or in the form of securities of "a no load open-end or closed-end management type investment company or investment trust" registered under the Federal Investment Company Act, if the document creating or defining the trust required or authorized such an investment, and if both of the following were true:

- The portfolio of the investment company or trust was limited to U.S. government obligations and repurchase agreements fully collateralized by U.S. government obligations.
- The investment company or trust took delivery of the collateral for any repurchase agreement either directly or through an authorized custodian.

The Act governs the investment of funds held in trust and contains a list of allowable investments.

(Note: A "no-load" investment fund typically does not charge a commission fee for shares or stocks bought and sold but does charge an annual fund management fee.)

MCL 555.201

FISCAL IMPACT

The passage of Senate Bill 859 would have no fiscal impact on State or local government.

ARGUMENTS

Supporting Argument

By making it clear that trusts could invest in mutual funds that invest in U.S. government obligations, the bill would provide the trusts with greater opportunity to take advantage of favorable market conditions while minimizing the risk of capital loss than they have if they invest directly in U.S. government securities.

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S.B. 859 (6-13-88)