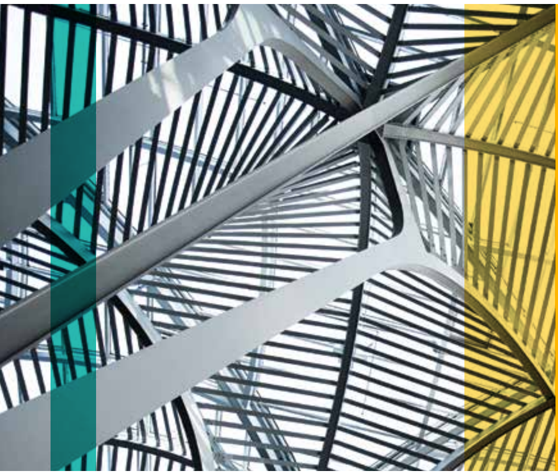

# THE MONEY MARKET FUND REFORM LANDSCAPE

DECEMBER 2013

CONTENTS



## OVERVIEW

Money market funds have historically offered investors liquidity, preservation of capital, and yield (rate of return). Regulatory reforms for money market funds have been central to the activities of regulators in the U.S. and Europe for several years, following the 2008 financial crisis; an important backdrop in the events of the 2008 financial crisis included the bankruptcy of Lehman Brothers and the $62.5 Billion Reserve Primary Fund breaking the buck, triggering impacts on global credit markets. The reform efforts of regulators have been chiefly focused on systemic risk mitigation in the form of enhanced prudential oversight and control for systemic risks in the financial marketplace.

Regulators in the U.S. and Europe responded to the events of the 2008 financial crisis with additional Money Market Fund reforms in 2010; following those reforms, additional reforms have recently been proposed in the United States and Europe. In the U.S., the U.S. Securities and Exchange Commission (SEC) published a proposed rule for Money Market Fund Reform; and Amendments to Form PF on 5 June, 2013.[1] In Europe, the European Commission published a Proposal for a Regulation on Money Market Funds on 4 September, 2013.[2]

International policy recommendations with respect to the estimated US$4.494 trillion[3] global money market fund (MMF) marketplace have also been published by the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO), reviewing MMFs within the broad themes of prudential oversight for systemic risk purposes, as well as focusing on MMFs as potential shadow banking entities in the financial markets.

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Regulatory reforms for money market funds have been central to the activities of regulators in the U.S. and Europe for several years, following the 2008 financial crisis; these reform efforts have been chiefly focused on systemic risk mitigation in the form of enhanced prudential oversight and control for systemic risks in the financial marketplace.

While the regulatory proposals and policy recommendation contain differences, they focus on several key objectives:

- Enhanced prudential oversight and control of potential systemic risks in the financial markets
- Adequate prudential regulation and oversight of MMF activity
- More stringent portfolio management requirements and investment guidelines and restrictions, aimed at better control of credit risks, interest rate risks
- Additional disclosure of MMF portfolio management and corporate governance activities to the regulators;
- Additional disclosures about MMFs as investment products to investors, so that investors may adequately assess risks and returns of such investments and
- Additional portfolio risk management policies and processes.

This paper takes a closer look at the proposed MMF reforms in the U.S. and Europe, as well as the broader international regulatory landscape.

## THE CURRENT LANDSCAPE

**United States.** In January, 2010, the U.S. Securities and Exchange Commission (SEC) adopted money market reforms focused on portfolio risk diversification, and enhanced information disclosures both to the SEC and to investors. In November, 2012, the Financial Stability Oversight Council ("FSOC"), in its role and authority pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, proposed its own money market fund reforms, in the absence of additional reforms promulgated by the SEC. The SEC took FSOC's recommendations into account when drafting the current set of proposed reforms[4] for the estimated U.S. MMF market of $2.669 trillion.[5]

On 5 June, 2013, the SEC unanimously voted to propose reforms consisting of two options designed to reduce the incentive to redeem money market fund shares during times of stress and to prevent systemically destabilizing "runs" on money market funds.

On 5 June, 2013, the SEC unanimously voted to propose amendments to Rule 2a-7 under the Investment Company Act of 1940 ("Rule 2a-7") and other rules and forms affecting the operation of money market funds ("Proposed Reforms"). The Proposed Reforms consist of two options designed to reduce the incentive to redeem money market fund shares during times of stress and to prevent systemically destabilizing "runs" on money market funds. The reform options are: (i) a "floating NAV" for institutional prime money market funds; and (ii) "liquidity fees" and "redemption gates" for non-government funds. The SEC has sought public comment on the two options, which could be adopted alone or jointly.

The SEC sought comment on the details of each option, including whether a single option should be adopted in its entirety or whether both options should be combined into a single reform package. The Proposed Reforms also include additional disclosure requirements and other measures. Generally, the SEC has proposed, following the effective date of the rule, a compliance period of two years for the proposed floating NAV alternative, one year for the liquidity fees and gates alternative, and nine months for the other proposed amendments that are not specifically related to the implementation of either alternative.

**Europe.** In May, 2010, the Committee of European Securities Regulators (CESR) officially became the European Securities and Markets Authority (ESMA) and adopted Guidelines for Money Market Funds, focused on how funds are marketed to retail investors.[6] The call for change from regulators in Europe has been driven by fears over investor runs, a perceived first mover advantage with constant NAV ("CNAV") MMFs which utilize amortized cost accounting, as well as wider concerns that MMFs pose systemic risk as large providers of short term funding.

On 4 September, 2013, the European Commission ("EC" or Commission) published a proposal for the regulation of the European money market funds market of approximately $1 trillion[7] ("EU Proposal"). The proposed regulation differs significantly from provisions that have been proposed by others like the SEC for the regulation of MMFs.

On 4 September, 2013, the European Commission issued a 'Roadmap" within a Communication for initiatives regarding shadow banking reforms. In the Communication, the Commission disclosed the new rules for Money Market Funds, and also summarized reforms already undertaken in order to reduce shadow banking risks, as well as describing five priority areas for possible further reform activities.

**European Commission "Roadmap."** On 4 September, 2013, the European Commission issued a 'Roadmap" within a Communication for initiatives regarding shadow banking reforms.[8] In the Communication, the Commission disclosed the new rules for Money Market Funds, and also summarized reforms already undertaken in order to reduce shadow banking risks, as well as describing five priority areas for possible further reform activities, relating to transparency; enhancing the regulatory framework for certain investment funds; reducing the risks associated with securities financing transactions; strengthening the prudential banking framework; and greater supervision of the shadow banking sector.

## INTERNATIONAL POLICY RECOMMENDATIONS

### MONEY MARKET FUNDS AND SYSTEMIC RISK

The International Organization of Securities Commissions (IOSCO) published its *Policy Recommendations for Money Market Funds" (Final Report)* in October, 2012.[9] The Report outlined 15 recommendations to be the basis for common standards for the regulation and management of money market funds across jurisdictions. These are articulated around key principles for valuation, liquidity management, use of ratings, disclosure to investors, and repurchase agreements. IOSCO recommended that, in jurisdictions where money funds are offered at a stable net asset value (NAV) per share, such as in the United States, regulators either: (i) require that, where workable, money funds issue and redeem their shares at a floating NAV per share; or (ii) impose additional safeguards to reinforce stable NAV money funds' resilience and ability to withstand significant redemptions (Recommendation 10). On 5 November, 2012, IOSCO discussed the final report at a meeting of the G20 Finance Ministers; subsequently, on 19 November, 2012, the Financial Stability Board (FSB) endorsed IOSCO's recommendations, and published its final report, *Strengthening Oversight and Regulation of Shadow Banking.*[10]

IOSCO published its *Policy Recommendations for Money Market Funds" (Final Report)* in October, 2012, outlining 15 recommendations to be the basis for common standards for the regulation and management of money market funds across jurisdictions, around key principles for valuation, liquidity management, use of ratings, disclosure to investors, and repurchase agreements.

The Financial Stability Board (FSB) issued its final Policy Recommendations to Strengthen Oversight and Regulation of Shadow Banking in August 2013.

### SHADOW BANKING

The Financial Stability Board (FSB) issued its final Policy Recommendations to Strengthen Oversight and Regulation of Shadow Banking on 29 August 2013.[11] The documents published by the FSB included:

- A report entitled *An Overview of Policy Recommendations* that sets out the FSB's overall approach to addressing financial stability concerns associated with shadow banking, actions taken to date, and next steps.
- A report entitled *Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos* that sets out recommendations for addressing financial stability risks in this area, including enhanced transparency, regulation of securities financing, and improvements to market structure (ref. (iv) above). It also includes consultative proposals on minimum standards for methodologies to calculate haircuts on non-centrally cleared securities financing transactions and a framework of numerical haircut floors.
- A report entitled *Policy Framework for Strengthening Oversight and Regulation of Shadow Banking Entities* that sets out the high-level policy framework to assess and address risks posed by shadow banking entities other than Money Market Funds.

At the time the policy recommendations were released, the FSB stated that, in coordination with the relevant standard-setting bodies, it will monitor the implementation of the finalised policy recommendations on shadow banking. The FSB will also continue to review the progress of the remaining work to develop policy recommendations and report on progress to the G20 in November 2014.

## THE UNITED STATES & EUROPE: A CLOSER LOOK AT THE DETAILS

### UNITED STATES

The U.S. Securities and Exchange Commission (SEC) published a proposed rule for Money Market Fund Reform; and Amendments to Form PF on 5 June, 2013. The SEC proposed two alternatives for amending rules that govern money market mutual funds (or "money market funds") under the Investment Company Act of 1940. The SEC stated that "the two alternatives are designed to address money market funds' susceptibility to heavy redemptions, improve their ability to manage and mitigate potential contagion from such redemptions, and increase the transparency of their risks, while preserving, as much as possible, the benefits of money market funds."

**Option One.** The first alternative proposal would require money market funds to sell and redeem shares based on the current market-based value of the securities in their underlying portfolios, rounded to the fourth decimal place (e.g., $1.0000), i.e., transact at a "floating" net asset value per share ("NAV").

Under the first reform option, non-government money market funds would no longer be able to use amortized cost accounting and penny rounding to maintain a stable (typically $1.00) net asset value ("NAV") price per share. Instead, option one would require such funds to adopt a "floating NAV" involving a mark-to-market valuation of their assets and basis point rounding. Government and retail money market funds would be exempt from a floating NAV requirement. Government money market funds would be defined as those funds with at least 80% of their assets invested in cash, government securities and/or fully collateralized repurchase agreements. Retail money market funds would be defined as those funds which limit each shareholder of record to $1 million in redemptions per day. Under option one, government and retail money market funds could maintain a stable NAV using the penny rounding method but would be required to value portfolio securities using market-based factors rather than amortized cost. The SEC noted that while most money market funds currently use both amortized cost valuation and penny rounding, either method by itself is sufficient to maintain a stable NAV.

In making the determination to target only non-government money market funds, the SEC noted two primary factors: (i) the importance of stable NAV money market funds to retail investors and government issuers; and (ii) the SEC's analysis that the runs on money market funds in 2008 were driven by institutional investor withdrawals from prime money market funds. The SEC also stated that the $1 million exemption level seemed to best distinguish between funds targeted toward retail investors and those funds intended for institutional investors.

The SEC proposes to exempt government money market funds from further structural reform because, among other things, government money market funds are not susceptible to the risks of mass investor redemptions as other money market funds; their securities have low default risk and are highly liquid in even the most stressful market scenarios; and interest rate risk is generally mitigated because government funds typically hold assets that have short maturities and hold those assets to maturity. The Release did not exclude tax-exempt funds, from both the floating NAV proposal and the liquidity fee/temporary gate proposal.

**Option Two.** The second alternative proposal would require non-government money market funds to impose a liquidity fee (unless the fund's board determines that it is not in the best interest of the fund) if a fund's weekly liquid asset level fell below a specified threshold and would permit the funds to suspend redemptions temporarily, i.e., to "gate" the fund under the same circumstances.

The second reform option would impose "liquidity fees" and "redemption gates" on money market funds in times of stress. All non-government money market funds would be required to impose a 2% liquidity fee on redemptions if a fund's weekly liquid assets, as defined in Rule 2a-7, fall below 15% of the fund's total assets. The fee would be paid to the fund for the benefit of shareholders. A fund would be able to avoid imposing the 2% liquidity fee only if its board of directors determines that it is in the best interest of shareholders not to impose such a fee or instead to impose a reduced fee. Such a determination would be subject to the board's fiduciary duty and oversight.

Under this option, fund boards would also be permitted to implement a redemption gate which would suspend all fund redemptions for a period of up to 30 days if a fund's weekly liquid assets fall below 15% of the fund's total assets. Any liquidity fee or redemption gate imposed on a fund would terminate upon the fund's weekly liquid assets rising to 30% or greater, or upon the determination of the fund's board of directors that such termination was in the best interest of shareholders. Option two would prohibit use of the amortized cost method of valuation; however, funds could maintain a stable NAV through the use of the penny rounding method. Any money market fund that imposes a gate would need to lift that gate within 30 days and a money market fund could not impose a gate for more than 30 days in any 90-day period.

Under this proposal, the Commission notes that it could adopt either alternative by itself or a combination of the two alternatives.

**Additional Reforms.** The SEC also proposed additional amendments that are designed to make money market funds more resilient by increasing the diversification of their portfolios, enhancing their stress testing, and increasing transparency by requiring money market funds to provide additional information to the SEC and to investors. Specifically, the SEC voted to propose additional measures applicable to all money market funds including, but not limited to, the following: (i) tightened diversification standards; (ii) enhanced stress testing; and (iii) more robust disclosure. Money market funds would be required to disclose significant material events, such as weekly liquid assets falling below 15% of total assets or a fund obtaining sponsor support, on a new Form N-CR. The Proposed Reforms would make money market fund portfolio holdings publicly available immediately upon a fund's filing of Form N-MFP rather than on a delayed basis. Money market funds would also be required to disclose on a daily basis on their websites the percentage of the fund's total assets that are invested in daily and weekly liquid assets, as well as the fund's net inflows or outflows, as of the end of the previous business day.

The proposal also includes amendments requiring investment advisers to certain unregistered liquidity funds, which can resemble money market funds, to provide additional information about those funds to the SEC. Form PF, the reporting form for investment advisers to certain private funds, would be revised to require advisers who manage private funds that operate in a manner similar to registered money market funds, to disclose the same portfolio information required by Form N-MFP.

**Timing.** The SEC invited comment on its proposed rule for Money Market Fund reform, which closed 17 September, 2013. The current proposal envisions a compliance period of two years for the proposed floating NAV alternative, one year for the liquidity fees and gates alternative, and nine months for the other proposed amendments that are not specifically related to the implementation of either alternative.

**EUROPE**

The European Commission has proposed new rules for Money Market Funds (MMFs), which are perceived by the Commission (and the FSB) as a major source of shadow banking risk. The European Commission proposal, published on 4 September 2013, has two general objectives: 1) enhance stability in the internal market; and 2) increase protection of MMF investors. Specific objectives also include preventing the risk of contagion to the real economy, MMF shareholders and a reduction in the disadvantage for late redeemers, especially in stressed market conditions.

The proposed regulation is divided into nine chapters, each specifying different types of requirements for MMFs. The proposed MMF Regulation requires:

– Set levels of daily/weekly liquidity in order for the MMF to be able to satisfy investor redemptions (MMFs are obliged to hold at least 10% of their assets in instruments that mature on a daily basis and an additional 20% of assets that mature within a week)

– Clear labelling on whether the fund is a short-term MMF or a standard one (short term MMFs hold assets with a residual maturity not exceeding 397 days while the corresponding maturity limit for standard MMFs is 2 years)

– A capital buffer of 3% of a fund's assets for constant NAV funds that can be activated to support stable redemptions in times of decreasing value of the MMFs' investment assets

– Customer profiling policies to help anticipate large redemptions

– Internal credit risk assessment by the MMF manager to avoid overreliance on external ratings

The EU Proposal applies to both constant NAV ("CNAV") and variable NAV ("VNAV") MMFs. The EU Proposal also maintains the defined standards under the CESR/ESMA 2010 guidelines but with different labels: (1) "short-term money market funds"[12] which may be CNAV or VNAV and (2) "standard money market funds"[13] which, along with some other differences, can hold longer maturity instruments and must be VNAV.

The EU Proposal sets forth certain requirements for being a CNAV MMF; for example, a 3% capital buffer must be in operation at all times that can absorb fluctuations between a mark-to-market NAV and a CNAV. Failure to comply with this buffer regulation requires conversion to a VNAV structure. Additional conditions with respect to the capital buffer provision include:

– The buffer must be held in cash in a protected reserve account with a bank, in the name, and on behalf of, the MMF.

– Whenever the amount of the buffer falls below 3% it must be replenished. If the buffer is not replenished within one month and is below 3% by 10 basis points, the MMF must cease being a CNAV MMF.

– Existing MMFs have a 3 year phase-in for establishing the buffer (accumulating 1% in the first year, 2% in the second year, and 3% in the third year).

– Only CNAV funds may use amortized cost valuation (provided that the buffer is maintained) and all other MMFs must use mark-to-market valuation as defined in the EU proposal.

**Additional Reforms.** The EU proposal contains other detailed provisions that would apply to CNAV and VNAV MMFs.

– The EU Proposal includes requirements on diversification, concentration, liquidity (the same for both types of MMFs), eligibility of assets including limitations on collateral for reverse repurchase agreements and limitations on the eligibility of securitizations.

– The EU Proposal only permits investment in a narrowly defined type of securitization related to high-quality, short-term corporate debt.

– With respect to reverse repurchase agreement collateral, the EU Proposal permits the receipt of certain high quality government issued or guaranteed debt.

– The European Commission has been granted the authority to adopt delegated acts further specifying the definitions and details of the rating grades.

– Money market funds and their managers are prohibited from obtaining a rating for the MMF itself.

– Stress testing, "know your customer" provisions and requirements for reporting portfolio and other information to authorities are included.

– While there are provisions related to improving transparency to investors, such as clearer disclosure in fund documents, details on MMF portfolios are required only to be reported to competent authorities (at least quarterly), not the public.

– Sponsor support is prohibited except competent authorities, for VNAV MMFs, may permit support in exceptional circumstances justified by systemic implications or adverse market conditions.

The European Commission proposed new rules for Money Market Funds (MMFs), which are perceived by the Commission (and the FSB) as a major source of shadow banking risk. The proposal has an objective of enhancing stability in the internal market and increasing protections for money market fund investors.

**Timing.** The EU Proposal must go through the European Union's legislative process for approval, and may change before any adoption. The timeline for this process is uncertain due to several factors, including the influence of upcoming Parliament elections in May 2014 and the priority of other legislative matters. Additionally, there is no formal public comment process on the proposal like that being followed for the SEC's June 2013 proposal. Currently, the draft regulation is scheduled for deliberation by the Parliament on 15 April 2014.

Upon implementation of the final regulation, existing MMFs must submit an application to a competent authority of their Member State to indicate compliance with either a VNAV structure or creating a buffer for a CNAV structure within six months following enactment of the regulation. These authorities have two months to assess a MMF's application and issue their decision. The timeline for the implementation of the change is currently forecast to be late 2014 through to 2015.

**A BRIEF COMPARISON OF THE EUROPEAN AND U.S. PROPOSALS**

Some of the provisions of the EU September, 2013 Proposal (applicable to CNAV and VNAV MMFs unless otherwise indicated) that are distinguishable from the SEC's June 2013 proposals include:

- A 3% NAV buffer in effect at all times to operate a CNAV MMF
- No distinction between government and prime MMFs (although the buffer for Member State government CNAV MMFs will be reviewed in three years by the EC) or between retail and institutional funds
- A prohibition on MMFs obtaining Nationally Recognized Statistical Rating Organizations (NRSRO) ratings
- An internal assessment and rating system proposal for MMF portfolio holdings (eliminates references to ratings in the rule)
- A prohibition on investing in securitizations other than the corporate debt type specified by the EC
- A complete ban on the use of amortized cost except for CNAV MMFs that maintain a 3% buffer
- A ban on sponsor support (except as noted above for VNAV MMFs)
- Valuation provisions for mark-to-market that appear to require bid pricing or swing pricing unless the fund "can close out at mid-market" and other mark-to-market valuation provisions do not conform to IFRS or GAAP
- Narrower definitions of daily and weekly liquid assets (e.g., at least 10 percent in "daily maturing assets" and at least 20 percent in "weekly maturing assets.")
- The manager must ensure that the value of shares held by a single investor (no mention of an omnibus exclusion) cannot exceed the value of daily maturing assets
- No required portfolio holdings reporting to the public and
- A compliance period of only 6 months to convert to VNAV.

# END NOTE

Regulatory change as put forth by the European Commission and the U.S. Securities and Exchange Commission, as well as broader policy recommendations as put forth by IOSCO and the FSB, may have a significant impact on money market funds (MMFs), causing fund managers, service providers and investors to rethink what future MMFs will have in an evolving regulatory environment.

The question remains open with respect to how the present regulatory reform objectives, chiefly focused on further risk mitigation in the financial marketplace in the context of systemic risks and shadow banking concerns, will impact both money market funds as an investment product which has traditionally met the needs of investors seeking liquidity, preservation of capital and yield (rate of return), as well as broader market demands for cash management products.

A related question is how operational implications and related costs will be incorporated by fund managers and service providers, and how the money market fund industry will evolve in the course of these changes, as the full extent of those impacts become realized in the coming months.

The question remains open with respect to how the present regulatory reform objectives, chiefly focused on further risk mitigation in the financial marketplace in the context of systemic risks and shadow banking concerns, will impact Money Market Funds as an investment product, which has traditionally met the needs of investors seeking liquidity, preservation of capital and yield (rate of return).

[1] U.S. Securities and Exchange Commission (SEC), Proposed rule, *Money Market Fund Reform; Amendments to Form PF (June 5, 2013)*

[2] European Commission, *Proposal for a Regulation of the European Parliament and of the Council on Money Market Funds (4 September 2014)*

[3] *Source: Investment Company Institute (ICI)*

[4] Financial Stability Oversight Council (FSOC), Proposed Recommendations Regarding Money Market Mutual Fund Reform, 77 Fed. Reg. 69455 *(November 19, 2012)*

[5] *Source: Investment Company Institute (ICI)*

[6] Committee of European Securities Regulators (CESR), *Guidelines on a common definition of European money market funds (19 May 2010)*

[7] *Sources: European Fund and Asset Management Association (EFAMA), Institutional Money Market Funds Association; (IMMFA)*

[8] European Commission, Communication from the Commission to the Council and the European Parliament, *Shadow Banking – Addressing New Sources of Risk in the Financial Sector (4 September 2013)*

[9] The Board of the International Organization of Securities Commissions (IOSCO), *Policy Recommendations for Money Market Funds, Final Report (October 2012)*

[10] Financial Stability Board (FSB), *Strengthening Oversight and Regulation of Shadow Banking (November 18, 2012)*

[11] Financial Stability Board (FSB), *Policy Recommendations to Strengthen Regulation and Oversight of Shadow Banking (29 August 2013)*

[12] Money market Funds with residual maturity of individual holdings not more than 397 days

[13] Money Market Funds with residual maturity of individual holdings not more than 2 years

# APPENDIX A

## U.S. SECURITIES AND EXCHANGE COMMISSION (SEC) MONEY MARKET FUND REFORM – SUMMARY OF PROPOSAL

| | |
|---|---|
| **Alternative One – Floating NAV** | The proposal would require all institutional non-government money market funds to sell and redeem shares based on the current market value of the fund's portfolio securities, rounded to the fourth decimal place ($1.0000), rather than at a $1.00 stable share price.<br><br>Retail and government money market funds would be exempt from the floating net asset value requirement and would be allowed to continue using the penny-rounding method of pricing to maintain a stable share price.<br><br>All money market funds would be prohibited from using amortized cost to value their securities, except as permitted for all mutual funds in the case of securities maturing within 60 days. |
| **Alternative One – Floating NAV** | **Stable NAV**<br>All money market funds would continue to transact at a stable, penny-rounded price (i.e., $1.00) but would be prohibited from using an amortized price for securities maturing in more than 60 days.<br><br>**Liquidity Fees**<br>If a money market fund's level of weekly liquid assets falls below 15% of its total assets (half the required amount), the money market fund would have to impose a 2% liquidity fee on all redemptions. However, such a fee would not be imposed if the fund's board of directors determines that the fee would not in the best interest of the fund or that a lesser liquidity fee is in the best interest of the fund. Weekly liquid assets generally include cash, U.S. Treasury securities, certain other government securities with remaining maturities of 60 days or less, and securities that convert into cash within one week.<br><br>**Redemption Gates**<br>If a money market fund's level of weekly liquid assets falls below 15% of its total assets (half the required amount), its board of directors also would be able to impose a temporary suspension of redemptions (or gate). A money market fund that imposes a gate would need to lift that gate within 30 days, although the board of directors could determine to lift the gate earlier. Money market funds would not be able to impose a gate for more than 30 days in any 90-day period. |
| **Regulatory Reporting – New Material Event Disclosure** | Money market funds would be required to promptly disclose (within one business day) certain events on a new form (Form N-CR). These events would include the imposition or lifting of fees or gates, portfolio security defaults, sponsor support, and a fall in the fund's market based NAV per share below $0.9975. |
| **Regulatory Reporting – Revised Form N-MFP** | The proposal would amend Form N-MFP to require the reporting of additional information relevant to assessing money market fund risk, and would make the information filed on Form N-MFP publicly available immediately upon filing. Currently, the information filed on Form N-MFP is made available to the public on a 60-day delay. |
| **Disclosure of Historical Sponsor Support** | The proposal would require money market funds to disclose historic instances of sponsor support for money market funds in a fund's statement of additional information. |
| **Website Disclosure** | The proposal would require money market funds to disclose on their website, on a daily basis, their levels of daily and weekly liquid assets and market-based NAVs. Although not currently required, many money market funds have recently started to disclose their daily market-based NAVs on their websites. Money market funds would also be required to disclose any events reported on Form N-CR (new form discussed above). |
| **Diversification** | The diversification requirements in Rule 2a-7 would be tightened by requiring, among other things, consolidation of affiliates for purposes of the 5% issuer diversification requirement and removing the 25% basket that permits funds to only comply with the 10% guarantee concentration limit with respect to 75% of the fund's assets. Additionally, in many cases, funds would be required to aggregate all of the asset-backed securities vehicles sponsored by the same entity for purposes of the 10% guarantor diversification limit. |
| **Stress Testing** | The stress testing requirements adopted by the SEC in 2010 would be further enhanced. In particular, a money market fund would be required to stress test against the fund's level of weekly liquid assets falling below 15% of total assets. In addition, the SEC is proposing to strengthen how money market funds stress test their portfolios and report the result of their stress tests to their boards of directors. |
| **Form PF** | The proposed changes would require a "large liquidity fund adviser" (a liquidity fund adviser managing at least $1 billion in combined money market fund and liquidity fund (e.g., unregistered money funds) assets) to report quarterly (with the information broken out monthly) substantially the same portfolio information on Form PF as registered money market funds would report on Form N MFP. |

# APPENDIX B

## EUROPEAN COMMISSION PROPOSAL FOR A REGULATION ON MONEY MARKET FUNDS – SUMMARY OF ARTICLES

| | |
|---|---|
| **Authorisation** | Art. 3-6 All MMFs must be authorized in accordance with the regulation |
| **Investment Policies** | Art. 7-13 Eligible Assets – MMFs can only invest in money market instruments, deposits, derivatives and repurchase agreements ("repos")<br>Art. 14 Diversification – Limits on investments and collateral placed with specific bodies and counterparties<br>Art. 15 Concentration – A MMF may not hold more than 10% of money market instruments issued by a single body<br>Art. 16 Credit Quality – MMFs shall establish an assessment procedure for determining credit quality of money market instruments |
| **Risk Management** | Art. 21-22 Portfolio Rules - Rules for investments for short term and standard MMFs. A standard MMF cannot be a CNAV fund<br>Art. 23 The MMF or manager of the MMF shall not solicit or finance a credit rating agency rating the MMF<br>Art. 24 Know Your Customer – Procedures for understanding your client, their needs, behaviours and anticipating redemptions<br>Art. 25 Stress Testing – An annual written report with action plans will be submitted to the fund's board, competent authority and ESMA |
| **Valuation** | Art. 26 Valuation of Assets – Assets shall be valued by using marking to markets whenever possible<br>Art. 27 Calculation of Net Asset Value (NAV) per unit – The NAV per unit shall be calculated at least daily |
| **CNAV MMFs** | Art. 29 Additional Requirements – A number of additional requirements for CNAV MMFs<br>Art. 30 & 34 NAV Buffer – The MMF will maintain a NAV buffer of 3% to equalize the differences between the CNAV and NAV<br>Art. 35 & 36 External Support – A MMF may not receive external support other than under defined conditions |
| **Transparency** | Art. 37 Transparency for Investors – Mandatory disclosures to be made in documents for investors<br>Art. 38 Regulatory Reporting – Quarterly reporting to regulators |
| **Supervision** | Art. 39 – 42 Supervision – Competent authorities shall supervise compliance with these regulations, and shall cooperate with each other in the exchange of information and with ESMA |

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