The Money Market Fund Reform Landscape

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 (MMF) reforms in 2010. Subsequently, in the U.S., the Securities and Exchange Commission (SEC, or Commission) published a proposed rule for Money Market Fund Reform; and Amendments to Form PF on June 5, 2013; final rules following a public comment period were published July 23, 2014.1

In Europe, the European Commission published a Proposal for a Regulation on Money Market Funds on September 4, 2013, currently pending finalization.2

International policy recommendations with respect to the estimated US$4.4 trillion3 global 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.4
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; 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.

On July 23, 2014, the SEC approved by a majority vote a Final Rule on Money Market Fund Reform; Amendments to Form PF. While these proposed and finalized regulations and policy recommendations 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

This paper reviews finalized 2014 MMF reforms in the U.S. and briefly at proposed reforms and policy recommendations in Europe and for the international regulatory landscape.

THE CURRENT LANDSCAPE

UNITED STATES

Background. In January, 2010, the U.S. Securities and Exchange Commission (SEC) adopted MMF 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, or the Council), in its role and authority pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), proposed its own MMF reforms, in the absence of additional reforms promulgated by the SEC. The SEC took the Council’s recommendations into account when drafting the June, 2013 set of proposed reforms for the estimated U.S. MMF market of US$2.6 trillion.

June 2013 Proposed Reforms. On June 5, 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 MMFs (Proposed Reforms). The Proposed Reforms consisted of two options designed to reduce the incentive to redeem MMF shares during times of stress and to prevent systemically destabilizing “runs” on money market funds. The reform options were: (i) a “floating NAV” for institutional prime MMFs; and (ii) “liquidity fees” and “redemption gates” for non-government funds.

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 included additional disclosure requirements and other measures.

July 2014 Final Rule. On July 23, 2014, the SEC approved by a majority vote a Final Rule on Money Market Fund Reform; Amendments to Form PF. The SEC adopted amendments to the rules that govern MMFs under the Investment Company Act of 1940 (Investment Company Act or 1940 Act). The SEC stated that the amendments are designed to address MMFs’ susceptibility to heavy redemptions in times of stress, 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, their benefits.
REFORM OBJECTIVES
In its July 23, 2014 Press Release announcing the final rule reforms, the SEC stated that the “rules build upon the reforms adopted by the SEC in March 2010 that were designed to reduce the interest rate, credit and liquidity risks of money market fund portfolios. When the Commission adopted the 2010 amendments, it recognized that the 2008 financial crisis raised questions of whether more fundamental changes to money market funds might be warranted. The new rules require a floating net asset value (NAV) for institutional prime money market funds, which allows the daily share prices of these funds to fluctuate along with changes in the market-based value of fund assets and provide non-government money market fund boards new tools – liquidity fees and redemption gates – to address runs.”

REFORM COMPONENTS – AN OVERVIEW
Net Asset Value. The SEC removed the valuation exemption that permitted institutional non-government MMFs (whose investors historically have made the heaviest redemptions in times of stress) to maintain a stable net asset value per share (NAV), and is requiring those 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 (assuming shares are priced at $1.00), i.e., transact at a “floating” NAV.

Liquidity Fees and Redemption Gates. The SEC also adopted amendments that provide the boards of directors of MMFs new tools to stem heavy redemptions by giving them discretion to impose a liquidity fee if a fund’s weekly liquidity level falls below the required regulatory threshold, and giving them discretion to suspend redemptions temporarily, i.e., to “gate” funds, under the same circumstances. In addition, these amendments will require all non-government MMFs to impose a liquidity fee if the fund’s weekly liquidity level falls below a designated threshold, unless the fund’s board determines that imposing such a fee is not in the best interests of the fund.

Portfolio Diversification, Stress Testing and Additional Reporting. In addition, the SEC adopted amendments designed to make MMFs more resilient by increasing the diversification of their portfolios, enhancing their stress testing, and improving transparency by requiring MMFs to report additional information to the SEC and to investors.

Enhanced Reporting for Unregistered Liquidity Funds. Finally, the amendments require investment advisers to certain large unregistered liquidity funds, which can have many of the same economic features as MMFs, to provide additional information about those funds to the SEC.

Effective and Compliance Dates. The Effective Date of the Final Rule is October 14, 2014. Compliance dates were stated as July 14, 2015 for New Form N-CR; April 14, 2016 for Diversification, Stress Testing, Disclosure, Form PF, Form N-MFP and Clarifying Amendments; and October 14, 2016 for Floating NAV and Fees/Gates components.

Additional Proposals and Guidance. The SEC issued a related notice proposing exemptions from certain confirmation requirements for transactions effected in shares of floating NAV MMFs. In this regard, the SEC proposed an amendment to Rule 10b-10(a) under the Securities Exchange Act of 1934 to grant exemptive relief from the immediate confirmation delivery requirement. The proposal would broaden the 10b-10 exemption to encompass floating NAV MMFs. Stable value funds with no sales load or redemption fee are currently exempt from this requirement, for all MMFs operating in accordance with Rule 2a-7, subject to certain conditions.8

Additionally, the SEC re-proposal contained certain changes to the SEC’s MMF rules to address provisions that reference credit ratings. The re-proposed amendments implement section 939A of the Dodd-Frank Act, which requires the SEC to review its rules that use credit ratings as an assessment of credit-worthiness, and replace those credit-rating references with other appropriate standards.9

In connection with the SEC’s adoption of the Amendments, the Internal Revenue Service (IRS) and the U.S. Department of the Treasury (Treasury) released guidance and proposed regulations to address tax compliance issues for investors in floating NAV MMFs. The guidance and proposed regulations will: (i) allow investors in floating NAV MMFs to track gains and losses through a simplified accounting method; and (ii) establish a new revenue procedure to provide floating NAV MMF investors relief from the “wash sale” rules.10

EUROPE AND INTERNATIONAL

EUROPE

Background. 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,11 focused on how funds are marketed to retail investors. 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 September 4, 2013, the European Commission (EC or Commission) published a Proposal for a Regulation of the European Parliament and of the Council on Money Market Funds (“Commission Proposal”) for the approximately €500 billion13 European money market funds market, which is pending finalization. The Commission Proposal stated that only MMFs that establish and at all times maintain a capital buffer of 3% of NAV may be constituted as constant value (CNAV) MMFs; if this requirement cannot be met, the MMF would be required to be constituted as a variable NAV MMF.

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

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, 2012.15 The Report outlined 15 recommendations to be the basis for common standards for the regulation and management of MMFs 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 such 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, 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 November 5, 2012, IOSCO discussed the final report at a meeting of the G20 Finance Ministers; subsequently, on November 19, 2012, the Financial Stability Board (FSB) endorsed IOSCO’s recommendations, and published its final report, Strengthening Oversight and Regulation of Shadow Banking.16

Shadow Banking. The Financial Stability Board (FSB) issued its final Policy Recommendations to Strengthen Oversight and Regulation of Shadow Banking on August 29, 2013.17 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. 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 MMFs.

In September 2013, the G20 Leaders called for IOSCO to launch a peer review and to report on progress regarding MMF regulatory reforms in late 2014.18

Pursuant to the G20 Leaders’ request and consistent with the FSB’s Coordination Framework for Monitoring the Implementation of Agreed G20/FSB Financial Reforms, IOSCO published a Peer Review of Regulation of Money Market Funds: Report of Key Preliminary Findings to the G20 Leaders’ Summit (Review) in November, 2014.20 The Review sets out findings with respect to the progress in adopting legislation, regulation, and other policies in relation to MMFs, in the areas of: scope of regulatory reform; limitations to the types of assets of, and risks taken by, MMFs; valuation practices of MMFs; liquidity management of MMFs; risks and issues which may affect the stability of MMFs that offer a stable NAV; the use of ratings by the MMF industry; disclosure to investors; and MMF practices with respect to repurchase agreement transactions.
THE UNITED STATES - A CLOSER LOOK AT THE DETAILS OF THE FINAL RULE

FLOATING NET ASSET VALUE (NAV)

Institutional Prime Money Market Funds. Under the SEC's reform, institutional prime MMFs will value their portfolio securities using market-based factors and will sell and redeem shares based on a floating NAV. In the context of this paper, prime MMFs will be defined as non-government MMFs, including tax-exempt MMFs.

Under the final rules, and as the SEC proposed, institutional prime funds will round prices and transact in fund shares to four decimal places in the case of a fund with a $1.00 target share price (i.e., $1.0000) or an equivalent or more precise level of accuracy for money market funds with a different share price (e.g., a MMF with a $10 target share price could price its shares at $10.000).

Institutional prime MMFs will still be subject to the risk-limiting conditions of Rule 2a-7 of the Investment Company Act of 1940. Accordingly, they will continue to be limited to investing in short-term, high-quality, dollar-denominated instruments, but will not be able to use the amortized cost or penny rounding methods to maintain a stable value. Finally, funds subject to the floating NAV reform will be subject to the other reforms discussed in the Adopting Release.

Institutional prime MMFs will need to comply with the floating NAV reform by October 14, 2016.

Guidance Regarding Amortized Cost Method of Valuation and Other Valuation Concerns. The SEC's final rules permit stable NAV MMFs (i.e., government and retail MMFs) to maintain a stable NAV by using amortized cost valuation and/or the penny rounding method of pricing. In addition, the SEC's Adopting Release states that all other registered investment companies and business development companies (including floating NAV MMFs under the SEC's amendments) may, in accordance with SEC guidance, continue to use amortized cost to value debt securities with remaining maturities of 60 days or less if the fund's directors can reasonably conclude, each time it makes a valuation determination, that the amortized cost value of the security is approximately the same as the fair value of the security, subject to certain conditions.

EFFECT ON CERTAIN TYPES OF MONEY MARKET FUNDS AND OTHER ENTITIES

Government Money Market Funds. The fees and gates and floating NAV reforms included in the SEC's Release will not generally apply to government MMFs, which are defined as a MMF that invests at least 99.5% of its total assets in cash, government securities, and/or repurchase agreements that are “collateralized fully” (i.e., collateralized by cash or government securities). However, government money market funds can elect to include fees and gates provisions, provided that the funds make appropriate disclosures. In addition, under the amendments, government MMFs may invest a de minimis amount (up to 0.5%) in non-government assets.

Retail Money Market Funds. As was proposed, the fees and gates reform will apply to retail MMFs, but the floating NAV reform will not. However, the SEC revised the definition of a retail MMF from that proposed in 2013; as amended. The new definition of a retail MMF is one that has policies and procedures reasonably designed to limit all beneficial owners of the fund to natural persons (“natural person test”).

Municipal Money Market Funds. Both the fees and gates reform and floating NAV reform will apply to municipal MMFs (or tax-exempt MMFs), provided that they are also are institutional funds.
Master/Feeder Funds – Fees and Gates Requirements. The SEC adopted a provision specifying the treatment of feeder funds in a master/feeder fund structure under the fees and gates requirements. This provision will not allow a feeder fund to independently impose a fee or gate in reliance on the amendments. However, under the amended rule, a feeder fund will be required to pass through to its investors a fee or gate imposed by the master fund in which it invests.

The SEC states in the Adopting Release that because the feeder fund’s investments consist of the master fund’s securities, its liquidity is determined by the master fund’s liquidity. Accordingly, because a feeder fund’s liquidity is dictated by the liquidity of the master fund, the SEC stated that it believes that the master fund and its board are best suited, in consultation with the master fund’s adviser, to determine whether liquidity is under stress and a fee or gate should be imposed.

LIQUIDITY FEES AND GATES
As stated in the SEC’s Adopting Release, the fees and gates requirements will not affect a MMF on a day-to-day basis; its effect will be felt only if the fund’s weekly liquid assets fall below 30% of its total assets—and even then, only if the board determines that a fee and/or gate is in the best interests of the fund.

Further, non-government MMFs may impose a fee or gate to manage any related heavy redemptions when the weekly liquid assets fall below 30% and doing so is in the fund’s best interests. The SEC is requiring a non-government MMF to impose a liquidity fee when weekly liquid assets fall below 10%, unless the board determines otherwise based on the fund’s best interests.

PORTFOLIO DIVERSIFICATION
Overview. The SEC amended Rule 2a-7’s diversification provisions to provide that MMFs limit their exposure to affiliated groups, rather than to discrete issuers. The Amendments include changes to the diversification provisions of Rule 2a-7, which require that MMF portfolios be diversified as to the issuers of securities, as well as any guarantors and demand feature providers related to those securities. The Amendments require the grouping of affiliates of issuers in calculating the 5% issuer diversification limitation; require each fund to treat the sponsors of asset-backed securities (ABS) as guarantors unless the board of the fund (or its delegate) makes certain determinations; and generally removes the exception that allows 25% of a fund’s portfolio to be subject to guarantees or demand features from a single institution.

Treatment of Certain Affiliates for Purposes of Rule 2a-7’s Five Percent Issuer Diversification Requirement. The SEC notes in the Adopting Release that financial distress at an issuer can quickly spread to affiliates and the valuations and creditworthiness of the issuer may depend, in large part, on the financial well-being of other firms within the same corporate family. By requiring diversification of exposure to entities that are affiliated with each other, the rule mitigates credit risk to a MMF by limiting the fund from assuming a concentrated amount of risk in a single economic enterprise.

- Definition of control. The SEC adopted, as proposed, a provision that for purposes of applying the amended rule, entities are affiliated with one another if one controls the other entity or is controlled by it or is under common control with it. For this purpose only, control is defined to mean ownership of more than 50% of an entity’s voting securities. By using a more than 50% test (i.e., majority ownership), the SEC stated that it continues to believe the alignment of economic interests and risks of the affiliated entities is sufficient to justify aggregating their exposures for purposes of Rule 2a-7’s 5% issuer diversification limit.
The SEC amended a number of disclosure requirements related to the liquidity fees and gates and floating NAV requirements, as well as other disclosure enhancements. The SEC’s stated objective for these disclosure amendments was to improve transparency related to money market funds’ operations, as well as their overall risk profile and any use of affiliate financial support.

**The Twenty-Five Percent Basket.** The final amendments (i) remove the twenty-five percent basket for MMFs other than tax-exempt MMFs, and (ii) reduce to 15%, rather than eliminate, the twenty-five percent basket for tax-exempt MMFs, including single state MMFs.

**ABS – Sponsors Treated as Guarantors.** The SEC amended Rule 2a-7 to require that MMFs treat the sponsors of ABS as guarantors subject to Rule 2a-7’s 10% diversification limit applicable to guarantees and demand features, unless the MMF’s board of directors (or its delegate) determines that the fund is not relying on the sponsor’s financial strength or its ability or willingness to provide liquidity, credit or other support to determine the ABS’s quality or liquidity.

**AMENDMENTS TO DISCLOSURE REQUIREMENTS**

**Prospectus/SAI and Advertisement Disclosure.** The SEC amended a number of disclosure requirements related to the liquidity fees and gates and floating NAV requirements, as well as other disclosure enhancements. The SEC’s stated objective for these disclosure amendments was to improve transparency related to MMFs’ operations, as well as their overall risk profile and any use of affiliate financial support. The amendments to rule and form provisions are applicable to various disclosure documents, including advertisements, the summary section of the prospectus, and the statement of additional information (SAI). The SEC will require the following: new registration statement disclosures to provide information about investing in MMFs with floating NAVs; liquidity fees or redemption gates, including historical information on the imposition of fees or gates; and information regarding the receipt of financial assistance from a sponsor or an affiliate of the MMF, if applicable.

**Website Disclosure.** The SEC adopted disclosure requirements applicable to MMF websites, including information about MMF’s liquidity levels, shareholder flows, market-based NAV per share (rounded to four decimal places), imposition of liquidity fees and gates, and any use of affiliate sponsor support. Specifically, the SEC included requirements relating to: daily disclosure of daily and weekly liquid assets; daily disclosure of net shareholder flows; daily disclosure of current NAV; daily calculation of current NAV per share for stable value MMFs; and harmonization of Rule 2a-7 and Form N-MFP portfolio holdings disclosure requirements; disclosure of the imposition of liquidity fees and gates, and disclosure of sponsor support; these requirements are discussed below.

- **Daily Disclosure of Daily and Weekly Liquid Assets.** The SEC adopted amendments to Rule 2a-7 that require MMFs to disclose prominently on their websites the percentage of the fund’s total assets that are invested in daily and weekly liquid assets, as of the end of each business day during the preceding six months. The amendments require a fund to maintain a schedule, chart, graph, or other depiction on its website showing historical information about its investments in daily liquid assets and weekly liquid assets for the previous six months, and would require the fund to update this historical information each business day, as of the end of the preceding business day.

- **Daily Disclosure of Net Shareholder Flows.** The SEC also adopted amendments to Rule 2a-7 that require MMFs to disclose prominently on their websites the fund’s daily net inflows or outflows, as of the end of the previous business day, during the preceding six months.

- **Daily Disclosure of Current NAV.** The SEC adopted amendments to Rule 2a-7 that would require each MMF to disclose daily, prominently on its website, the fund’s current NAV per share (calculated based on current market factors), rounded to the fourth decimal place in the case of a fund with a $1.0000 share price or an equivalent level of accuracy for funds with a different share price (the fund’s “current NAV”) as of the end of the previous business day during the preceding
The amendments require a fund to maintain a schedule, chart, graph, or other depiction on its website showing historical information about its daily current NAV per share for the previous six months, and would require the fund to update this historical information each business day as of the end of the preceding business day. In the Adopting Release, the SEC stated that these amendments complement the current requirement for a MMF to disclose its shadow price monthly on Form N-MFP (broken out weekly). Disclosing the NAV per share to the fourth decimal would conform to the precision of NAV reporting that funds will be required to report on Form N-MFP and to what many funds are currently voluntarily disclosing.

- **Daily Calculation of Current NAV per Share for Stable Value Money Market Funds.** The SEC adopted amendments to Rule 2a-7 that require stable value MMFs to calculate the fund’s current NAV per share (which the fund must calculate based on current market factors before applying the amortized cost or penny-rounding method, if used), rounded to the fourth decimal place in the case of funds with a $1.0000 share price or an equivalent level of accuracy for funds with a different share price (e.g., $10.000 per share), as of the end of each business day. Rule 2a-7 currently requires MMFs to calculate the fund’s NAV per share, using available market quotations (or an appropriate substitute that reflects current market conditions), at such intervals as the board of directors determines appropriate and reasonable in light of current market conditions.

- **Disclosure of the Imposition of Liquidity Fees and Gates.** The SEC adopted, largely as proposed, an amendment to Rule 2a-7 that requires a MMF to post prominently on its website certain information that the fund is required to report to the SEC on Form N-CR regarding the imposition of liquidity fees, temporary suspension of fund redemptions, and the removal of liquidity fees and/or resumption of fund redemptions. The amendment requires a fund to include this website disclosure on the same business day as the fund files an initial report with the SEC in response to any of the events specified in Parts E, F, and G of Form N-CR, and, with respect to any such event, to maintain this disclosure on its website for a period of not less than one year following the date on which the fund filed Form N-CR concerning the event. This amendment requires a fund only to present certain summary information about the imposition of fees and gates on its website, whereas the fund will be required to present more detailed discussion solely on Form N-CR.

- **Disclosure of Sponsor Support.** The SEC also amended rule 2a-7 to require that a MMF post prominently on its website substantially the same information that the fund is required to report to the SEC on Form N-CR regarding the provision of financial support to the fund.

**Form N-CR.** The SEC adopted, largely as proposed, a new requirement that MMFs file a current report, Form N-CR, with the SEC when certain significant events occur. Generally, a MMF will be required to file Form N-CR if a portfolio security defaults, an affiliate provides financial support to the fund, the fund experiences a significant decline in its shadow price, or when liquidity fees or redemption gates are imposed and when they are lifted. In most cases, a MMF will be required to submit a brief summary filing on Form N-CR within one business day of the occurrence of the event, and a follow-up filing within four business days that includes a more complete description and information.

The SEC stated in its Adopting Release that the information provided on Form N-CR will enable the SEC to enhance its oversight of MMFs and its ability to respond to market events. The SEC will be able to use the information provided on Form N-CR in its regulatory, disclosure review, inspection, and policymaking roles. The SEC stated that requiring funds to report these events on Form N-CR will provide transparency to fund shareholders, and also will provide information more uniformly
The SEC adopted, largely as proposed, a new requirement that MMFs file a current report, Form N-CR, with the SEC when certain significant events occur. Generally, a money market fund will be required to file Form N-CR if a portfolio security defaults, an affiliate provides financial support to the fund, the fund experiences a significant decline in its shadow price, or when liquidity fees or redemption gates are imposed and when they are lifted.

The SEC noted in the Adopting Release that it believes that requiring disclosure of financial support from a fund sponsor or affiliate will provide important, near real-time transparency to shareholders and the SEC, and will therefore help shareholders better understand the ongoing risks associated with an investment in the fund. The information provided in the required disclosure is necessary for investors to understand the nature and extent of the sponsor’s discretionary support of the fund and will also assist SEC Staff in analyzing the economic effects of such financial support.

Amendments to Form N-MFP Reporting Requirements. The SEC adopted amendments to Form N-MFP, the form that MMFs use to report their portfolio holdings and other key information to the SEC each month. MMFs began reporting this information to the SEC in November 2010.

In the Adopting Release, the SEC stated that it used the information to monitor MMFs and support its examination and regulatory programs. Each fund must file the required information on Form N-MFP electronically within five business days after the end of each month. Currently, the SEC makes the information public 60 days after the end of the month; the amended Form N-MFP eliminates the 60-day delay on public availability of the data.

The amended Form N-MFP will require the reporting of certain new information that the SEC states will be useful for its oversight of MMFs. As proposed, the SEC did not change the requirement that funds continue to file reports on Form N-MFP once each month (as they do today), but adopted a requirement that certain limited information (such as the NAV per share, liquidity levels, and shareholder flow) be reported on a weekly basis within the monthly filing.

Amendments to Form PF Reporting Requirements. Amendments to Form PF require large liquidity fund advisers—registered advisers with $1 billion or more in combined MMF and liquidity fund assets—to file quarterly (broken down by month) virtually the same information with respect to their liquidity funds’ portfolio holdings on Form PF as MMFs are required to file on Form N-MFP.
Consistent with current practice, the SEC stated that it does not intend to make Form PF information identifiable to any particular adviser or private fund. The compliance date for Form PF is April 14, 2016.

**Amendments to Stress Testing Requirements.** The new rules require funds periodically to test their ability to maintain weekly liquid assets of at least 10 percent and to minimize principal volatility (and, for stable NAV money market funds, the fund’s ability to maintain a stable price per share) in response to specified hypothetical events that include:

- Increases in the level of short term interest rates
- The downgrade or default of particular portfolio security positions, each representing various exposures in a fund’s portfolio, and
- The widening of spreads in various sectors to which the fund’s portfolio is exposed, each in combination with various increases in shareholder redemptions

The fund’s adviser must report the results of the stress testing to the board. The compliance date is April 14, 2016.

**END NOTE**

Regulatory change as put forth by the SEC and the European 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, and potentially emerging product development opportunities to meet those demands.

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.
1 U.S. Securities and Exchange Commission (SEC), Proposed rule, Money Market Fund Reform; Amendments to Form PF (June 5, 2013); U.S. Securities and Exchange Commission (SEC), Final Rule, Money Market Fund Reform; Amendments to Form PF (July 23, 2014)


3 Source: Investment Company Institute (ICI)


6 Source: Investment Company Institute (ICI)

7 U.S. Securities and Exchange Commission (SEC), SEC Adopts Money Market Fund Reform Rules, Rules Provide Structural and Operational Reform to Address Run Risks in Money Market Funds (July 23, 2014), 2014-143


9 U.S. Securities and Exchange Commission, Re-proposed rule; proposed rule; Removal of Certain References to Credit Ratings and Amendment to the Issuer Diversification Requirement in the Money Market Fund Rule (July 23, 2014)

10 U.S. Department of the Treasury/Internal Revenue Service (IRS) Notice of Proposed Rulemaking and Notice of Public Hearing, Method of Accounting for Gains and Losses on Shares in Certain Money Market Funds: Broker Returns with Respect to Sales of Shares in Money Market Funds (July 23, 2014); and U.S. Department of the Treasury/Internal Revenue Service (IRS), Revenue Procedure 2014-45, Examination of Returns and Claims for Refund, Credit or Abatement; Determination of Correct Tax Liability (July 23, 2014)

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


13 Sources: European Fund and Asset Management Association (EFAMA), Institutional Money Market Funds Association; (IMMFA); Investment Company Institute (ICI)

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

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

16 Financial Stability Board (FSB), Strengthening Oversight and Regulation of Shadow Banking (November 18, 2012)

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

18 G20 Roadmap towards Strengthened Oversight and Regulation of Shadow Banking (September 2013)

19 Financial Stability Board (FSB), A Coordination Framework for Monitoring the Implementation of Agreed G20/FSB Financial Reforms (October 18, 2011)

20 IOSCO Peer Review of Regulation of Money Market Funds: Report of Key Preliminary Findings to the G20 Leaders’ Summit (PR03/2014) (November 2014)
NET ASSET VALUE (NAV) CALCULATION  Compliance Date: October 14, 2016

**Institutional Prime Money Market Funds** - Under the final rules, institutional prime MMFs will value their portfolio securities using market-based factors and will sell and redeem shares based on a floating NAV. Institutional prime funds will round prices and transact in fund shares carried out to four decimal places in the case of a fund with a $1.00 target share price (i.e., $1.0000) or an equivalent or more precise level of accuracy for MMFs with a different share price (e.g., a money market fund with a $10 target share price could price its shares at $10.000).

**Government Money Market Funds** - The floating NAV reforms included in the SEC's Release will not apply to government MMFs, which are defined as a money market fund that invests at least 99.5% of its total assets in cash, government securities, and/or repurchase agreements that are "collateralized fully" (i.e., collateralized by cash or government securities).

**Retail Money Market Funds** - The SEC revised the definition of a retail MMF from the definition it proposed in 2013; as amended, a retail MMF means a money market fund that has policies and procedures reasonably designed to limit all beneficial owners of the fund to natural persons ("natural person test"). A MMF that has policies and procedures reasonably designed to limit beneficial owners to natural persons will not be subject to the floating NAV reform.

**Municipal Money Market Funds** - Both the liquidity fees and redemption gates reform and floating NAV reform will apply to municipal MMFs, if the municipal money market fund is also an institutional fund.

LIQUIDITY FEES AND REDEMPTION GATES  Compliance Date: October 14, 2016

Fees and gates requirements apply to both retail and institutional MMFs. The fees and gates requirements will not affect a MMF on a day-to-day basis; its effect will be felt only if the fund's weekly liquid assets fall below 30% of its total assets--i.e., unless it comes under potential stress--and even then, only if the board determines that a fee and/or gate is in the best interests of the fund.

The Amendments permit, and under certain circumstances require, the imposition of "liquidity fees" and "redemption gates" during periods of stress. MMF boards will be allowed to enact a liquidity fee of up to 2% on redemptions if a MMF’s “weekly liquid assets” fall below 30% of the MMF’s total assets. The fee would be paid to the fund to offset potential liquidity costs to the remaining shareholders. Under the Amendments, MMF boards are also permitted to implement a redemption gate which would suspend all fund redemptions for a period of up to 10 business days within any 90-calendar day period if a MMF’s weekly liquid assets fall below 30% of the MMF’s total assets. Additionally, the Amendments require the imposition of an automatic minimum liquidity fee of 1% on non-government MMFs in the event that a fund's weekly liquid assets fall below 10% of the MMF’s total assets. A non-government MMF may avoid imposing this default liquidity fee only if its board of directors determines that not imposing the fee is in the best interest of the fund. All liquidity fees and redemption gates must be removed when a MMF's weekly liquid assets return to or exceed 30% of total assets.

**Government Money Market Funds** - The liquidity fees and redemption gates reforms included in the SEC's Release will not apply to government MMFs, which are defined as a MMF that invests at least 99.5% of its total assets in cash, government securities, and/or repurchase agreements that are "collateralized fully" (i.e., collateralized by cash or government securities), although such funds may impose liquidity fees and gates.

DISCLOSURE

Prospectus/SAI and Advertisement Disclosure

The SEC amended a number of disclosure requirements related to the liquidity fees and gates and floating NAV requirements, as well as other disclosure enhancements. The SEC's stated objective for these disclosure amendments was to improve transparency related to money market funds' operations, as well as their overall risk profile and any use of affiliate financial support. The amendments include rule and form provisions applicable to various disclosure documents, including disclosures in MMFs' advertisements, the summary section of the prospectus, and the statement of additional information (SAI).

Website Disclosure  Compliance Date: April 14, 2016

The SEC adopted disclosure requirements applicable to MMF websites, including information about MMFs' liquidity levels, shareholder flows, market-based NAV per share (rounded to four decimal places), imposition of liquidity fees and gates, and any use of affiliate sponsor support. Specifically, the requirements include Daily Disclosure of Daily and Weekly Liquid Assets; Daily Disclosure of Net Shareholder Flows; Daily Disclosure of Current NAV; Daily Calculation of Current NAV per Share for Stable Value MMFs; Harmonization of Rule 2a-7 and Form N-MFP Portfolio Holdings Disclosure Requirements; Disclosure of the Imposition of Liquidity Fees and Gates, and Disclosure of Sponsor Support.
## APPENDIX (continued)

U.S. SECURITIES AND EXCHANGE COMMISSION (SEC) MONEY MARKET FUND REFORM SUMMARY OF FINAL RULE

<table>
<thead>
<tr>
<th>REGULATORY REPORTING - NEW FORM N-CR, CURRENT REPORT, MONEY MARKET FUND MATERIAL EVENTS</th>
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<tbody>
<tr>
<td>Compliance Date: July 14, 2015</td>
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<tr>
<td>New Form N-CR will require disclosure of certain specified events. Generally, a MMF will be required to file Form N-CR if a portfolio security defaults (if the security equals at least half of 1% of the fund's total assets); an affiliate provides financial support to the fund; the fund with a stable NAV experiences a significant decline in its shadow price; or when liquidity fees or redemption gates are imposed, and when they are lifted. In most cases, a MMF will be required to submit a brief summary filing on Form N-CR within one business day of the occurrence of the event, and a follow-up filing within four business days that includes a more complete description and information.</td>
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<tr>
<th>REGULATORY REPORTING - REVISED FORM N-MFP</th>
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<tbody>
<tr>
<td>Compliance Date: April 14, 2016</td>
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<tr>
<td>The SEC adopted amendments to Form N-MFP, the form that MMFs use to report their portfolio holdings and other key information to the SEC each month. MMFs began reporting this information to the SEC in November 2010.</td>
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<th>PORTFOLIO DIVERSIFICATION</th>
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<tr>
<td>Compliance Date: April 14, 2016</td>
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<tr>
<td>The SEC amended Rule 2a-7’s diversification provisions to provide that MMFs limit their exposure to affiliated groups, rather than to discrete issuers. The Amendments include changes to the diversification provisions of Rule 2a-7, which require that MMF portfolios be diversified as to the issuers of securities, as well as any guarantors and demand feature providers related to those securities. The Amendments require the grouping of affiliates of issuers in calculating the 5% issuer diversification limitation; require each money fund to treat the sponsors of asset-backed securities (ABS) as guarantors unless the board of the MMF (or its delegate) makes certain determinations; and remove the exception that allows 25% of a MMF's portfolio to be subject to guarantees or demand features from a single institution.</td>
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<th>STRESS TESTING</th>
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<tr>
<td>Compliance Date: April 14, 2016</td>
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<td>The new rules require funds periodically to test their ability to maintain weekly liquid assets of at least 10 percent and to minimize principal volatility (and, for stable NAV MMFs, the fund's ability to maintain a stable price per share) in response to specified hypothetical events that include: increases in the level of short term interest rates; the downgrade or default of particular portfolio security positions, each representing various exposures in a fund’s portfolio; and the widening of spreads in various sectors to which the fund’s portfolio is exposed, each in combination with various increases in shareholder redemptions. The fund's adviser must report the results of the stress testing to the fund's board of directors.</td>
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<th>FORM PF</th>
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<tr>
<td>Compliance Date: April 14, 2016</td>
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<tr>
<td>Amendments to Form PF require large liquidity fund advisers—registered advisers with $1 billion or more in combined MMF and liquidity fund assets—to file quarterly (broken down by month) virtually the same information with respect to their liquidity funds' portfolio holdings on Form PF as MMFs are required to file on Form N-MFP.</td>
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