

Money Market Fund Reform Compliance Dates

The Securities and Exchange Commission (SEC) recently published the text of amendments to Rule 2a-7 and related rules and of certain new rules that it adopted regarding money market fund reforms. Below is a summary of specific requirements and the dates by which money market funds must comply with those requirements. The SEC also specified in the adopting release that:

- > In those circumstances where a money market fund's existing fundamental policy or investment restriction is less restrictive than a new requirement, the fund would not need to hold a shareholder vote to comply with the requirement.
- > The SEC staff would not object if a money market fund amended its registration statement to reflect compliance with the new requirements pursuant to Rule 485(b) under the Securities Act of 1933.
- > Money market funds are not required to dispose of securities owned, or terminate repurchase agreements entered into, as of the time of adoption of the requirements to comply with the requirements.

May 5, 2010

This is the effective date for the new requirements and the compliance date if no other compliance date is specified for a requirement.

Suspension of redemptions. Money market funds will be permitted to suspend redemptions and payment of redemption proceeds if (i) the fund's board, including a majority of disinterested directors, determines that the deviation between the fund's amortized cost price per share and the market-based net asset value per share may result in material dilution or other unfair results, (ii) the board, including a majority of disinterested directors, irrevocably has approved the liquidation of the fund, and (iii) the fund, prior to suspending redemptions, notifies the SEC of its decision to liquidate and suspend redemptions.

Purchases by affiliates of portfolio securities. An affiliate of a money market fund will be permitted to purchase securities from the fund, for any reason, without first obtaining permission from the SEC staff. The purchase price must be in cash and equal to the greater of the security's amortized cost or its market value, and the affiliated person must promptly remit to the fund any profit it realizes from the later sale of the security. The fund also must notify the SEC by email about the purchase.

May 28, 2010

Second Tier Securities. After this date, a money market fund may not acquire a second tier security if, immediately after the acquisition, it would have invested more than 3 percent of its investments in second tier securities or more than one-half of 1 percent of its total assets in second tier securities of a single issuer. Also, a money market fund may not acquire any second tier security with a remaining maturity of greater than 45 calendar days.

General liquidity. A money market fund is required to hold securities that are sufficiently liquid to meet reasonably foreseeable shareholder redemptions. Depending upon the fund's cash flow, this provision may require the fund to maintain greater liquidity than would be required by the daily and weekly minimum requirements (see below). As a result, the SEC expects money market funds to adopt policies and procedures designed to assure that appropriate efforts are undertaken to identify risk characteristics of shareholders as part of the funds' compliance programs.

Daily liquidity. No taxable money market fund will be able to acquire any security other than a "daily liquid asset" if immediately after the acquisition, the fund would have invested less than 10 percent of its total assets in daily liquid assets. Daily liquid assets are cash (including time deposits), direct obligations of the U.S. Government and securities (including repurchase agreements) that will mature or are subject to a demand feature that is exercisable and payable within one business day.

Weekly liquidity. No money market fund will be able to acquire any security other than a "weekly liquid asset" if, immediately after the acquisition, the fund would have invested less than 30 percent of its total assets in weekly liquid assets. Weekly liquid assets are cash (including time deposits), direct obligations of the U.S. Government, Agency discount notes with remaining maturities of 60 days or less and securities (including repurchase agreements) that will mature or are subject to a demand feature that is exercisable and payable within five business days.

Illiquid securities. Money market funds would also be restricted from purchasing illiquid securities if, after the purchase, more than 5 percent of a fund's portfolio would consist of illiquid securities. An illiquid security is any security that cannot be sold or disposed of within seven days at approximately the value ascribed to it by the money market fund (not amortized cost as proposed).

Stress testing. The board of directors of each money market fund must adopt procedures providing for the periodic testing of the fund's ability to maintain a stable net asset value per share based upon certain specified hypothetical events.

Repurchase agreements. Money market funds will be limited to investing repurchase agreements collateralized by cash items or Government securities, and a fund's board (or its delegate, such as the investment adviser) will be required to evaluate the creditworthiness of the counterparty to a repurchase agreement to obtain special treatment of those investments for diversification purposes.

June 30, 2010

Weighted average maturity. Money market funds will be limited to a weighted average maturity of no greater than 60 days, which is shortened from the current 90 days.

Weighted average life. Money market funds will be limited to an average weighted life of 120 days. The concept of average weighted life is new and is measured without refer-

ence to any provision of Rule 2a-7 that would otherwise permit a fund to shorten the maturity of an adjustable rate security by reference to its interest rate reset dates. This would limit the portion of a money market fund's portfolio that could be held in longer term adjustable-rate securities.

Oct. 7, 2010

Website disclosure of portfolio information. Money market funds will be required to disclose certain specified information about their portfolio holdings each month on their websites, current as of the last business day of the preceding month, by no later than the fifth business day of the month. Such information must be maintained on the website for no less than six months after posting.

Dec. 7, 2010

Form N-MFP. Money market funds will be required to electronically file monthly on EDGAR Form N-MFP more detailed portfolio information within five business days of the end of the month. A money market fund will also be required to report the market-based values of each portfolio security and the fund's market-based net asset value per share (*i.e.*, shadow pricing). The information contained in these reports will be available to the public 60 days after the end of the month to which the information pertains.

Dec. 31, 2010

Designation of NRSROs. By this date, a money market fund must disclose in its statement of additional information the four nationally recognized statistical rating organizations (NRSROs) designated by the fund's board, which the fund will use to determine those securities that are eligible securities for the fund.

Oct. 31, 2011

Processing transactions at a variable price. By this date, money market funds and their transfer agents must have the ability to process transactions at a price other than \$1.

A copy of the SEC's adopting release is available at <http://www.sec.gov/rules/final/2010/ic-29132.pdf>

Investment Management Group

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