

EMBARGOED UNTIL 10:00 A.M., E.T., JANUARY 27, 2010

Money Market Fund Reform U.S. SECURITIES AND EXCHANGE COMMISSION OPEN MEETING FACT SHEET JANUARY 27, 2010

The Securities and Exchange Commission today will consider adopting new rules designed to significantly strengthen the regulatory requirements governing money market funds. The rules will, if adopted, increase the resilience of these funds to economic stresses and reduce the risks of runs on the funds.

The rules would improve liquidity, increase credit quality and shorten maturity limits. They also would enhance disclosures by, among other things, requiring the posting on a delayed basis of a fund's "shadow" net asset value or NAV, rather than the stable \$1.00 NAV at which shareholder transactions occur. This information would enable the SEC and fund investors to better assess the risk profile of a money market fund and acclimate investors to the idea that money market funds may not always maintain a stable \$1.00 share value.

• Further Restrict Risks by Money Market Funds

Improved Liquidity: The rules would require that money market funds have a minimum percentage of their assets in highly liquid securities so that those assets can be readily converted to cash to pay redeeming shareholders (currently there are no minimum liquidity mandates):

- **Daily Requirement:** For all taxable money market funds, at least 10% of assets must be in cash, U.S. Treasury securities, or securities that convert into cash (e.g., mature) within one day.
- **Weekly Requirement:** For all money market funds, at least 30% of assets must be in cash, U.S. Treasury securities, certain other government securities with remaining maturities of 60 days or less, or securities that convert into cash within one week.

The rules would further restrict the ability of money market funds to purchase illiquid securities by:

- Restricting money market funds from purchasing illiquid securities if, after the purchase, more than 5% of the fund's portfolio will be illiquid securities (rather than the current limit of 10%).
- Redefining as "illiquid" any security that cannot be sold or disposed of within 7 days at carrying value.

Higher Credit Quality: The rules would place new limits on a money market fund's ability to acquire lower quality ("Second Tier") securities. They would do this by:

- Restricting a fund from investing more than 3% of its assets in Second Tier securities (rather than the current limit of 5%).

- Restricting a fund from investing more than ½ of 1% of its assets in Second Tier securities issued by any single issuer (rather than the current limit of the greater of 1% or \$1 million).
- Restricting a fund from buying Second Tier securities that mature in more than 45 days (rather than the current limit of 397 days).

Shorter Maturity Limits: The rules would shorten the average maturity limits for money market funds, which would help to limit the exposure of funds to certain risks such as sudden interest rate movements. They would do this by:

- Restricting the maximum “weighted average life” maturity of a fund’s portfolio to 120 days (currently there is no such limit). The effect of the restriction is to limit the ability of the fund to invest in long-term floating rate securities.
- Restricting the maximum weighted average maturity of a fund’s portfolio to 60 days (currently the limit is 90 days).

“Know Your Investor” Procedures: The rules would require funds to hold sufficiently liquid securities to meet foreseeable redemptions (currently there are no such requirements). In order to meet this requirement, funds would need to develop procedures to identify investors whose redemption requests may pose risks for funds. As part of these procedures, funds would need to anticipate the likelihood of large redemptions.

Periodic Stress Tests: The rules would require fund managers to examine the fund’s ability to maintain a stable net asset value per share in the event of shocks – such as interest rate changes, higher redemptions, and changes in credit quality of the portfolio (currently there are no stress test requirements).

Nationally Recognized Statistical Rating Organizations (NRSROs): The rules would continue to limit a money market fund’s investment in rated securities to those securities rated in the top two rating categories (or unrated securities of comparable quality). At the same time, the rules also would continue to require money market funds to perform an independent credit analysis of every security purchased. As such, the credit rating serves as a screen on credit quality, but can never be the sole factor in determining whether a security is appropriate for a money market fund.

In addition, the rules would improve the way that funds evaluate securities ratings provided by NRSROs. They would do this by:

- Requiring funds to designate each year at least four NRSROs whose ratings the fund’s board considers to be reliable. This will permit a fund to disregard ratings by NRSROs that the fund has not designated, for purposes of satisfying the minimum rating requirements, while promoting competition among NRSROs.
- Eliminating the current requirement that funds invest *only* in those asset backed securities that have been rated by an NRSRO.

Repurchase Agreements: The rules would strengthen the requirements for allowing a money market fund to “look through” the repurchase issuer to the underlying collateral securities for diversification purposes:

- Collateral must be cash items or government securities (as opposed to the current requirement of highly rated securities).
- The fund must evaluate the creditworthiness of the repurchase counterparty.

- **Enhance Disclosure of Portfolio Securities**

Monthly Web Site Posting: The rules would require money market funds each month to post on their Web sites their portfolio holdings (currently there is no website posting requirement). Portfolio information must be maintained on the fund's website for no less than six months after posting.

Monthly Reporting: The rules would also require money market funds each month to report to the Commission detailed portfolio schedules in a format that can be used to create an interactive database through which the Commission can better oversee the activities of money market funds (currently the Commission has no such database of money market fund information). Information reported to the Commission would be available to the public on a 60-day delay. This information would include a money market fund's "shadow" NAV, or the mark-to-market value of the fund's net assets, rather than the stable \$1.00 NAV at which shareholder transactions occur (currently a money market fund's "shadow" NAV is reported twice a year, with a 60-day delay).

- **Improve Money Market Fund Operations**

Processing of Transactions: The rules would require that all money market funds and their administrators be able to process purchases and redemptions electronically at a price other than \$1.00 per share (currently there is no such explicit requirement). This requirement would facilitate share redemptions if a fund were to "break the buck." A money market fund "breaks the buck" when its net asset value falls below \$1.00 per share, meaning investors in that fund will lose money.

Suspension of Redemptions: The rules would permit a money market fund's board of directors to suspend redemptions if the fund is about to break the buck and decides to liquidate the fund (currently the board must request an order from the SEC to suspend redemptions). In the event of a threatened run on the fund, this would allow for an orderly liquidation of the portfolio. The fund would be required to notify the Commission prior to relying on this rule.

Purchases by Affiliates: The rules would expand the ability of affiliates of money market funds to purchase distressed assets from funds in order to protect a fund from losses. Currently, an affiliate cannot purchase securities from the fund *before* a ratings downgrade or a default of the securities – unless it receives individual approval. The change would permit such purchases without the need for approval under conditions that protect the fund from transactions that disadvantage the fund. The fund would have to notify the Commission when it relies on this rule.