6/15/15

Money Market Fund Reform Implementation: Communication Considerations

Retail Versus Institutional Categorizations

The new money market fund rules adopted by the Securities and Exchange Commission (SEC) in July 2014 define a retail money market fund as a money market fund that has policies and procedures reasonably designed to limit all beneficial owners of the fund to natural persons.[1] The SEC expects a fund that intends to qualify as a retail money market fund to disclose in its prospectus that it limits investments to accounts beneficially owned by natural persons. It also notes that funds will have flexibility in how they choose to comply with the natural person test, including how the fund will reasonably conclude that underlying beneficial owners of an omnibus account are natural persons.

The SEC's adopting release notes that there are many ways for a fund to effectively manage its relationships with its intermediaries, including contractual arrangements or periodic certifications. Regardless of the specific fund policies and procedures followed in reasonably concluding that the underlying beneficial owners of an omnibus account are natural persons, the SEC expects that a fund will periodically review the adequacy of such policies and procedures and the effectiveness of their implementation.

An Investment Company Institute (ICI) industry working group developed this document to outline common communications protocols related to the retail definition and its application by retail money market funds to their intermediary partners.

* * *

[1] The SEC's 2014 money market fund reform adopting release and Question 15 of the SEC staff's April 22, 2015, *Money Market Fund Reform Frequently Asked Questions* provide that beneficial ownership by a natural person is determined based on investment power and/or voting power as defined in Rule 13d-3 under the Securities Exchange Act of 1934.

Fund's Communications with Intermediaries

Account Classification Process

- Timing of communication
  - Communications among fund complexes and their intermediary partners regarding the new money market fund regulations should already be underway.
- What to communicate
  - *Definitions*. Fund complexes and their intermediary partners should reach an agreement on account classification (retail and institutional accounts/shareholders) using the Rule 2a-7 definition of a retail money market fund as well as Commission and SEC staff guidance on the definition of beneficiary ownership.
  - *Account classification process*. Using ICI's **Money Market Fund Social Code Categorization Matrix** as a basis to begin the conversation, fund complexes together with their intermediary partners should clearly outline accounts (or registration) types that may be invested in a retail money market fund as defined under Rule 2a-7, as well as those accounts not meeting that definition (institutional/non-retail).
  - *Compliance obligations*. Fund complexes and their intermediary partners should determine intermediaries' compliance obligations with respect to applicable regulations and prospectus provisions, including any new controls, policies and procedures, and ongoing monitoring relating to the account classification process.[2]
- Setting expectations
  - What is the fund complex's expectation of its intermediary partners? Fund complexes and intermediaries should agree on their initial and ongoing roles and responsibilities in the process.
  - Does the fund complex expect the intermediary to undertake an internal mapping exercise for those accounts that may not have a social code on the intermediary's internal systems or do not tie directly to a social code on ICI's **Money Market Fund Social Code Categorization Matrix**?
- Determining the account classification timeline
  - Fund complexes should clearly communicate expectations as to when the intermediary should begin the account review/classification process and when the process should be completed. Account classification processes should be completed before any official product designation and corresponding amendment to the fund prospectus as well as any conversions or forced redemptions.

[2] Refer to Ongoing Monitoring on page 5 for additional considerations related to oversight of an intermediary's compliance with the categorization of retail and institutional accounts.

- Reporting
  - *Status of account classification process*. Fund complexes and intermediaries should maintain an open line of communication during the account review/classification phase. Agreement should be reached regarding status reporting as appropriate including:
    1. Method
    2. Frequency
    3. Interested parties
  - *Assets*. As intermediaries complete their account review/classification, they should provide a report to the fund complex outlining the amount of assets that fall into the retail or institutional categories and any assets that may be affected by any product decision made by the fund complex. Fund complexes and intermediaries should discuss:
    1. The method of such reporting
    2. Necessary data points
    3. Timing of any reporting

Product Decisions

As soon as practicable, fund complexes should communicate all product decisions (e.g., a fund will be deemed a retail fund, a fund deemed as institutional, etc.) as appropriate, including:

- CUSIP
- Fund name
- Share classes
- Ticker symbol
- Internal fund number (for sweep vehicles only)
- Fund classification (e.g., retail, institutional prime, institutional tax-exempt, government)
- The effective date of the fund classification (corresponding with the appropriate amendments to the prospectus)

Conversion or Forced Redemption Process

» As soon as practicable following the announcement of a product decision, fund complexes should communicate all actions required to recategorize any account type/shareholder within a designated fund. This includes any anticipated conversion of accounts to another product or the forced redemption of certain categories of account types/shareholders. When developing their communication plan, fund complexes should consider any required regulatory notice periods (e.g., 60 days in advance of the event). The following should be included in the initial communication:

- CUSIP
- Fund name
- Ticker symbol
- Share class
- Internal fund number (for sweep vehicles only)
- Event (e.g., conversion or forced redemption)
- Required shareholder/participant notice period, if applicable
- Categories of accounts/shareholders affected by the event
- For conversion events, the product that accounts will be converted into
- Timeline of event, including specific dates

» Following the initial communication, it is expected that a series of additional discussions will occur between the fund complex and its intermediary partners covering multiple topics, including but not limited to:

- The processing date of the event
- The total assets and accounts moving out of the fund
- Required shareholder/participant notice period, if applicable
- Tax consequences if any (in particular in relation to retirement plans)

Ongoing Monitoring

» Funds and intermediaries should include any oversight practices related to money market fund reform in their existing intermediary oversight programs. Therefore, any oversight activities related to money market fund reform should be an extension of or incorporated into a fund's or an intermediary's existing processes and procedures. Oversight considerations may include:

- Contractual amendments covering money market fund reform regulations
- Processes relating to controls testing included as part of third-party assurance reports (e.g., FICCA,[3] SSAE 16[4])
- Existing certification or questionnaire processes
- Oversight activities relating to funds' use of DTCC Omni/SERV[5] or stand-alone DSA/DSP file feeds

3 A Financial Intermediary Controls and Compliance Assessment (FICCA) engagement—performed under American Institute of Certified Public Accountants (AICPA) attestation standards—requires an omnibus recordkeeper to engage an independent accounting firm to assess its internal controls relating to specific activities that the intermediary performs for its shareholder accounts. The auditor's report expresses an opinion on its evaluation of an intermediary's assertion that it has established specified control objectives and related controls that were suitably designed and operating effectively.

4 SSAE 16 reports—prepared by an independent public accountant in accordance with the AICPA's Auditing Standards Board's Statement on Standards for Attestation Engagements No. 16, *Reporting on Controls at a Service Organization*—specifically are intended to meet the needs of the management and auditors of user entities, as they evaluate the effect of the controls at the service provider on the user entities' financial statement assertions.

5 The DTCC Omni/SERV solution leverages DTCC connectivity to allow efficient transmission of related intermediary subaccounting activity and subaccounting position information to mutual fund companies. Omni/SERV files are based on layouts originally created by an industry subaccounting provider and are often referred to by their acronyms: DSA (Subaccounting Activity) and DSP (Subaccounting Position).