



## SEC Approves Money Market Fund Reforms to Better Protect Investors

### FOR IMMEDIATE RELEASE 2010-14

Washington, D.C., Jan. 27, 2010 - The Securities and Exchange Commission today adopted new rules designed to significantly strengthen the regulatory requirements governing money market funds and better protect investors.

The financial crisis and the weaknesses revealed by the Reserve Primary Fund's "breaking the buck" in September 2008 precipitated a full-scale review of the money market fund regulatory regime by the SEC. A money market fund "breaks the buck" when its net asset value (NAV) falls below \$1.00 per share, meaning investors in that fund will lose money. The SEC's new rules are intended to increase the resilience of money market funds to economic stresses and reduce the risks of runs on the funds by tightening the maturity and credit quality standards and imposing new liquidity requirements.

"These new rules will have substantial benefits for investors and are an important first step in our efforts to strengthen the money market regime," said SEC Chairman Mary L. Schapiro. "These rules will help reduce risks associated with money market funds, so that investor assets are better protected and money market funds can better withstand market crises. The rules also will create a substantial new disclosure regime so that everyone from investors to the SEC itself can better monitor a money market fund's investments and risk characteristics."

### Further Restricting Risks by Money Market Funds

**Improved Liquidity:** The new rules require money market funds to 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 percent 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 percent 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 percent of the fund's portfolio will be illiquid securities (rather than the current limit of 10 percent).

Redefining as "illiquid" any security that cannot be sold or disposed of within seven days at carrying value.

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

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

Restricting a fund from investing more than ½ of 1 percent of its assets in Second Tier securities issued by any single issuer (rather than the current limit of the greater of 1 percent 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 new rules shorten the average maturity limits for money market funds, which helps to limit the exposure of funds to certain risks such as sudden interest rate movements. They 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. The current limit is 90 days.

**"Know Your Investor" Procedures:** The new rules require funds to hold sufficiently liquid securities to meet foreseeable redemptions. Currently, there are no such requirements. In order to meet this new 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 new rules 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. Previously, there were no stress test requirements.

**Nationally Recognized Statistical Rating Organizations (NRSROs):** The new rules 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 new rules also 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 new rules improve the way that funds evaluate securities ratings provided by NRSROs:

Require funds to designate each year at least four NRSROs whose ratings the fund's board considers to be reliable. This permits 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.

Eliminate the current requirement that funds invest only in those asset backed securities that have been rated by an NRSRO.

**Repurchase Agreements:** The new rules 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.

## Enhancing Disclosure of Portfolio Securities

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

**Monthly Reporting:** The new rules 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. The information reported to the Commission would be available to the public 60 days later. 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 lag.

## Improving Money Market Fund Operations

**Processing of Transactions:** The new rules require money market funds and their administrators to be able to process purchases and redemptions electronically at a price other than \$1.00 per share. This requirement facilitates share redemptions if a fund were to break the buck.

**Suspension of Redemptions:** The new rules 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 allows for an orderly liquidation of the portfolio. The fund is now required to notify the Commission prior to relying on this rule.

**Purchases by Affiliates:** The new rules 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 rule change permits such purchases without the need for approval under conditions that protect the fund from transactions that disadvantage the fund. The fund must notify the Commission when it relies on this rule.

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The new rules adopted today are effective 60 days after their publication in the Federal Register. Mandatory compliance with some of the rules will be phased in during the year. The final rules, including compliance dates, will be posted on the SEC Web site as soon as possible.

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<http://www.sec.gov/news/press/2010/2010-14.htm>