



Money Market Regulatory Reform

July 23, 2014

SEC Adopts New Reforms for Money Market Funds

On July 23, 2014, the Securities and Exchange Commission (SEC) voted to approve new rules and amendments to Rule 2a-7 under the Investment Company Act of 1940, which governs money market funds. The SEC stated that these rules will include structural and operational reforms to address risks of investor runs in money market funds, while preserving the benefits of the funds.

Highlights of the proposed changes

■ **Stable NAV for government and retail money market funds**

Government and retail money market funds would be allowed to continue using the amortized cost method and/or penny rounding method of pricing to seek to maintain a stable share price.

- **Retail definition.** A retail money market fund would be defined as a money market fund that has policies and procedures reasonably designed to limit all beneficial owners of the money market fund to natural persons.

■ **Floating NAV for institutional prime and institutional municipal money market funds**

Require institutional prime money market funds and institutional municipal money market funds to maintain a floating net asset value (FNAV) for sales and redemptions based on the current market value of the securities in their portfolios rounded to the fourth decimal place (e.g., \$1.0000). The requirement would result in the daily share prices of these money market funds fluctuating along with changes in the market-based value of the funds' investments.

■ **Liquidity fees and redemption gates**

Provide new tools to money market fund boards of directors to directly address a run on a fund. The new tools – fees and gates – would give fund boards the ability to impose liquidity fees or to suspend redemptions temporarily, also known as “gate,” if a fund's level of weekly liquid assets falls below a certain threshold. This rule would apply to all prime and municipal money market funds.

- Government money market funds would not be subject to the new fees and gates provisions.

■ **Tax and accounting relief**

The SEC stated that the U.S. Department of the Treasury and the Internal Revenue Service will release two types of tax guidance that will allow FNAV money market fund investors to use a simplified tax accounting method to track gains and losses. Additionally, they will release a new revenue procedure that provides relief from the “wash sale” rules for any losses on shares of a FNAV money market fund.

■ **Portfolio diversification, disclosure and stress testing**

Enhance diversification, disclosure and stress testing requirements as well as provide updated reporting by money market funds and private funds that operate like money market funds.

■ **Removal of references to credit ratings and amendment to issuer diversification provision**

More information can be found on the SEC press release at

<http://www.sec.gov/News/PressRelease/Detail/PressRelease/1370542347679>

What's next?

These rules will become effective 60 days after the SEC formally files the rules in the Federal Register. The compliance dates would be as follows:

Requirements	Compliance Dates
FNAV amendments, and fees and gates amendments	two years
New Form N-CR	nine months
Amendments to diversification, stress testing, disclosure, Form PF, Form N-MFP and clarifying of amendments	18 months

Implication for Investors

It is important to note that there will be no immediate changes to money market funds due to the extensive implementation schedule which extends up to two years, depending on the specific rule. At Invesco we have spent the past several months preparing for the possibility of a rule change and we are dedicated to helping our clients understand the implications of these new rules for money market funds. Invesco is committed to providing you with timely updates on this matter and we plan to release further commentary once the SEC releases the final rules for money market funds.

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An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in such a Fund.

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