

Summary of Money Market Fund Regulatory Proposals

The SEC proposed amendments to certain rules that govern money market funds in order to make money market funds more resilient to short-term market risks and to provide greater protection for money market fund investors.

The SEC release notes the growth of money market funds and as a result of their growth, the increased significance of money market funds in the capital markets.

Until recently, money market funds have been very stable. The SEC attributes the stability to three principal factors. First, the short-term debt markets were generally relatively stable. Second, many fund advisers correctly analyzed the risks of portfolio securities. Third, fund managers and their affiliated persons have had significant sources of private capital that they were willing to make available to support the stable net asset value of a money market fund when it experienced losses in one or more of its portfolio securities.

The amendments would:

- Tighten risk limiting conditions of Rule 2a-7 by, among other things, requiring money market funds to maintain a portion of their portfolios in instruments readily convertible to cash.
- Limit funds to investing in the highest quality portfolio securities--that is to securities rated in the highest NRSRO ratings category (also referred to as first-tier securities)
- Require money market funds to report portfolio holdings monthly to the SEC in order to enhance oversight
- Permit a money market fund that has "broken the buck" to suspend redemptions to allow orderly liquidation of assets (proposed Rule 22e-3(a))
- Add a weighted average life maturity test to Rule 2a-7
- Require that the boards of directors of money markets funds to conduct periodic stress tests of their portfolios

The SEC seeks comments on other potential changes, such as:

Whether money market funds should be prohibited from investing in second tier securities

Whether the references to NRSRO ratings should be eliminated and other more independent or discretionary ratings analysis should be introduced into the rule

Whether, and how, rule 2a-7 should be amended to address risks presented by SIVs or similar ABS

Whether money market funds should be permitted to satisfy redemption requests (in excess of certain specified limits) through in-kind redemptions

Whether money market funds should effect shareholder transactions at floating rather than stabilized net asset values