

# SEC Money Market Rule Change Implementation Timeline

CLIENT UPDATE

The SEC has released a timeline for investment managers to comply with the recently announced changes for registered money market funds under Rule 2a-7. The revisions address credit quality, liquidity, maturity limits and require the disclosure of registered funds' mark-to-market net asset values on a delayed basis. The rule changes generally take effect on May 5, with a rolling timeline for managers to implement all of the new underlying 2a-7 requirements.

Listed below are some of the major changes and the implementation timeline announced by the SEC.

## PORTFOLIO LIQUIDITY

Registered money market funds will be required to hold highly liquid securities for easier shareholder redemption. An illiquid security is now defined as any asset that cannot be sold at its approximate market value within seven days.

### Compliance date – May 28, 2010

- At least 10% of assets must have immediate, one-day liquidity
- At least 30% of the fund must be liquid within one week
- The maximum holdings of securities defined as illiquid is reduced from 10% to 5%

## PORTFOLIO QUALITY

The rule changes place new limits on what securities are eligible for investment, including second tier assets (which are securities that receive a ratings agency's second highest rating). It also allows funds to purchase unrated asset backed securities (they previously were required to be rated by at least one Nationally Recognized Statistical Rating Organization).

### Compliance date – May 28, 2010

- Registered funds will be restricted from investing more than 3% of their assets in second tier securities (the current limit is 5%)
- Funds will be restricted from investing more than 0.5% of their assets in second tier securities issued by any single issuer (rather than the current limit of the greater of 1% or \$1 million)
- Funds will be restricted from buying second tier securities with a maturity greater than 45 days (versus the current limit of 397 days)
- A fund will be able to invest in unrated ABS, provided the risks and liquidity are appropriate

### Compliance date – December 31, 2010

- A fund board must designate at least four NRSROs for the fund, and determine annually whether the NRSRO ratings are reliable

## PORTFOLIO MATURITY

The new rules will shorten the average maturity limits for registered funds, which limits exposure to sudden short-term interest rate movements.

### Compliance date – June 30, 2010

- Maximum weighted average maturity (WAM), a measure of interest rate sensitivity, is reduced from 90 to 60 days
- Maximum weighted average life (WAL), a measure of sensitivity to credit spread fluctuation, is now 120 days (versus no restriction today)

## DISCLOSURE ENHANCEMENTS

The SEC also now requires registered fund managers to increase reporting of portfolio characteristics, as follows:

### Compliance date – October 7, 2010

- Within five business days of month-end, fund managers will be required to post monthly changes to portfolio holdings on the fund's website, including WAM, WAL and the amortized cost of portfolio securities
- This information must remain available for client review for a minimum of six months

### Compliance date – December 7, 2010

- A fund must make monthly filings with the SEC providing even more detailed information about the fund's portfolio, including the fund's shadow NAV and the market value of each portfolio security. This information will be available to the public 60 days after the filing is made with the SEC.

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