SEC Money Market Fund Reform Recap

On July 12, 2023, the Securities and Exchange Commission (SEC) voted to amend the rules governing money market funds (MMFs) under the Investment Company Act of 1940 (the Amendments). The implementation dates of the amended rules are staggered throughout the upcoming year, with the earliest changes effective as of October 2, 2023. For investors looking to learn more about these amendment changes, we provide a brief summary below.

The most immediate change is the removal of liquidity and redemption gates and/or liquidity fees:

As part of the 2016 money fund reforms, money market funds were given the ability to set a redemption gate or liquidity fee if it was deemed to be in the best interest of shareholders when fund liquidity fell to certain levels. Many government and treasury funds – including First American – elected not to adopt fees and gates as part of the 2016 reforms and are therefore not affected by this Amendment.

- **What is the change:** Money market funds will no longer be required to implement liquidity fees or redemption gates if their daily or weekly liquid assets fall below 10% and 30%, respectively. After October 2, 2023, funds may continue to suspend redemptions only under certain conditions, such as a mechanism to facilitate a fund's orderly liquidation.
- **Why is it changing:** The SEC acknowledged that reversing the 2016 rule change and removing the tie between weekly liquid asset thresholds and the imposition of fees or gates should discourage preemptive runs by shareholders.
- **What shareholders will see:** MMFs will revise their prospectus filings and disclosures to remove language about possible liquidity fees or redemption gates.

Stable net asset value (NAV) funds will be allowed to declare how they will operate in a negative rate environment:

Historically, money market funds have implemented fund fee waivers to maintain non-negative investor yields in response to near zero short-term interest rates. To date, the Federal Reserve has not set a negative interest rate policy, but other central banks have. This rule amendment aims to address a "what if" scenario should the Fed set a negative interest rate in the future.

- **What is the change:** In a negative interest rate environment, government and retail funds will be permitted to either float their NAV or use a share cancellation mechanism, also known as a reverse distribution mechanism (RDM), as a method to maintain a fund's stable NAV with appropriate advance disclosure to shareholders.
- **Why is it changing:** The SEC had been asked to further clarify how stable NAV funds could operate in a negative gross yield environment and has added flexibility to current rules for stable NAV funds to designate which method they would employ if interest rates become negative.
- **What shareholders will see:** Funds will be required to provide timely, concise, and plain-English disclosures in advance of using an RDM or floating NAV in stable NAV funds. Those disclosures will be in the form of revised prospectus filings and other communications to inform shareholders of the changes. We anticipate these disclosures will be forthcoming from fund families after more is known about accounting and tax implications. There is no immediate impact to shareholders.

First American Funds intends to continue providing investors with the opportunity to pursue their investment solutions with the least possible impact from MMF reform. We are committed to keeping you informed and expect to provide further updates over the ensuing months as the MMF Amendments are implemented.

Sources

SEC Fact Sheet 33-11211
SEC Final Rule 33-11211
SEC MMF Reform Proposal ic-34441
SEC Press Release, July 12, 2023

Definitions

Basis Point (bps) is one one-hundredths of a percentage point. This term is often used in describing changes in interest rates. For example, if a bond yield increases from 7.50% to 7.88%, it has moved up 38 basis points.
Floating Net Asset Value (NAV) is the dollar value of a single mutual fund share, based on the value of the underlying assets of the fund minus its liabilities, divided by the number of shares outstanding. Calculated at the end of each business day.
Liquidity is a characteristic of a security or commodity with enough units outstanding to allow large transactions without a substantial drop in price.
Net Asset Value (NAV) is a mutual funds' price per share, calculated by dividing the total market value of all the securities in its portfolio, less any liabilities, by the number of fund shares outstanding.
Swing pricing is a process of adjusting a fund's current net asset value ("NAV") such that the transaction price effectively passes on costs stemming from shareholder redemptions to redeeming shareholders.
Treasury is negotiable debt obligation of the U.S. government, secured by its Full Faith and Credit and issued at various schedules and maturities. The income from Treasury securities is exempt from state and local, but not federal, taxes.

Disclosures