The Asset Management Industry
SERVING INDIVIDUAL INVESTORS
INVESTMENT COMPANY INSTITUTE

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SEC Staff Clarifies Use of Repurchase Agreements in Joint Accounts in Light of Amendments to Rule 2a-7

[24218]

April 7, 2010

TO: MONEY MARKET FUNDS ADVISORY COMMITTEE No. 10-10
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 9-10
SEC RULES MEMBERS No. 30-10 RE: SEC STAFF CLARIFIES USE OF REPURCHASE AGREEMENTS IN JOINT ACCOUNTS IN LIGHT OF AMENDMENTS TO RULE 2a-7

In a letter to the Institute, [1] the Securities and Exchange Commission has clarified the application of the SEC's recent amendments to Rule 2a-7 under the Investment Company Act of 1940 to a previous no-action letter issued to The Chase Manhattan Bank ("Chase") addressing the use of joint accounts through which registered funds would invest, among other things, their cash collateral from a securities lending program administered by Chase. [2]

The letter to Chase generally addressed the use of Joint Accounts (as defined in that letter) through which registered funds would invest, among other things, their cash collateral from a securities lending program that was administered by Chase. In that letter, Chase represented that it would invest the Cash Collateral (as defined in the Chase letter) deposited into the Joint Accounts in, among other things, repurchase agreements that are "collateralized fully" as defined in Rule 2a-7.

On February 23, 2010, the SEC issued a release adopting certain amendments to Rule 2a-7. [3] Prior to the amendments, "collateralized fully" as defined in Rule 2a-7(a)(5) referred to

that term as defined in Rule 5b-3(c)(1) under the Investment Company Act. In its recent amendments, the SEC revised Rule 2a-7(a)(5) to state that this term has the same meaning as that in Rule 5b-3(c)(1), except that Rule 5b-3(c)(1)(iv)(C) and (D) does not apply. The SEC thus limited money market funds to investing in repurchase agreements collateralized by cash items or Government securities in order to obtain special treatment of those investments under the diversification provisions of Rule 2a-7.

This letter clarifies that, for any party seeking to rely on the letter to Chase, the term "collateralized fully" will be understood to have the same constructive meaning as it did prior to the SEC's recent amendments to Rule 2a-7; however, the letter also clarifies that any money market fund that is registered under the Investment Company Act and regulated under Rule 2a-7 that seeks to rely on the Chase letter in connection with the use of a Joint Account must comply with all of the relevant requirements of Rule 2a-7, as amended. Thus, if a money market fund that participates in a Joint Account in reliance on the Chase letter also wishes to obtain special treatment of its investments in repurchase agreements under the diversification provisions of Rule 2a-7, such fund may invest only in repurchase agreements collateralized by cash items or Government securities upon the amendments to Rule 2a-7 becoming effective.

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endnotes

[1] Investment Company Institute, SEC No-Action Letter (April 2, 2010), available on the SEC's website at http://sec.gov/divisions/investment/noaction/2010/ici040210.htm.

[2] The Chase Manhattan Bank, SEC No-Action Letter (July 24, 2001).

[3] Money Market Fund Reform, SEC Release No. IC-29132 (February 23, 2010).