

**MEMO# 23081**

November 21, 2008

# **SEC Adopts Temporary Exemption for Liquidation of Certain Money Market Funds that Participate in Treasury's Guarantee Program**

[23081]

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TO: INST. MONEY MARKET FUNDS ADVISORY COMMITTEE No. 36-08  
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 41-08  
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 45-08  
SEC RULES MEMBERS No. 137-08 RE: SEC ADOPTS TEMPORARY EXEMPTION FOR  
LIQUIDATION OF CERTAIN MONEY MARKET FUNDS THAT PARTICIPATE IN TREASURY'S  
GUARANTEE PROGRAM

The Securities and Exchange Commission has adopted Rule 22e-3T as an interim final temporary rule under the Investment Company Act of 1940 to provide relief from certain provisions of the Act for those money market funds that have elected to participate in the Treasury Department's Temporary Guarantee Program for Money Market Funds (the "Program"). [\[1\]](#) The Commission is soliciting comments on all aspects of the interim final temporary rule. [\[2\]](#) The Release is summarized below.

Under the terms of the Program, the Treasury Department guarantees that, upon the liquidation of a participating money market fund, the fund's shareholders will receive the fund's stable share price for each fund share owned as of September 19 or the amount the shareholder has when the Program is invoked, whichever is less. Pursuant to the agreement executed with the Treasury Department (the "Agreement"), a participating money market fund that breaks the buck, i.e., experiences a Guarantee Event, as defined under the Agreement, is required to commence liquidation within five business days (with an

exception under a curing provision). The Agreement further requires the fund board to promptly suspend the redemption of its outstanding shares “in accordance with applicable Commission rules, orders and no-action letters.” The fund must be liquidated within thirty days after a Guarantee Event unless the Treasury Department, in its discretion, consents in writing to a later date.

Section 22(e) of the Investment Company Act prohibits funds, including money market funds, from suspending the right of redemption, or postponing the date of payment or satisfaction upon redemption of any redeemable security for more than seven days, except for certain periods specified in that section. The Release notes that although Section 22(e) permits funds to postpone the date of payment or satisfaction upon redemption for up to seven days, it does not permit funds to suspend the right of redemption, absent certain specified circumstances or a Commission order. In order for the Program to operate as intended, however, a participating money market fund that experiences a Guarantee Event and must liquidate may need to suspend redemptions and postpone the payment of proceeds beyond the seven-day limit.

The Release notes that the temporary rule provides the necessary exemption to permit participating money market funds to take full advantage of the Program and initiate the steps necessary to protect the interests of all shareholders during liquidations, including those shareholders not covered by the Program. Specifically, the rule is designed to facilitate orderly liquidations and help prevent the sale of fund assets at “fire sale” prices that could lead to substantial losses for the liquidating fund and further depress prices for short-term securities that may be held in the portfolios of other money market funds.

The Release also notes that the Commission adopted the rule on an interim final basis because the Program is already in place and participating money market funds are currently subject to its liquidation provisions. The Release further notes that consideration of individual applications for orders under Section 22(e) from funds that experience Guarantee Events would be impracticable.

The exemption from Section 22(e) provided by Rule 22e-3T is available to any money market fund that has a currently effective Agreement, subject to two other conditions. First, the fund must have delivered to the Treasury Department the required notice indicating that it has experienced a Guarantee Event and will promptly commence liquidation of the fund under the terms of the Agreement. Second, the fund must not have cured the Guarantee Event, as provided under the terms of the Agreement.

The rule also provides that the Commission may rescind or modify the exemptive relief by order, with appropriate notice and opportunity for hearing, if necessary to protect the liquidating money market fund’s security holders. According to the Release, this provision permits the Commission to modify the relief if, among other things, a liquidating fund has not devised, or is not properly executing, a plan of liquidation that protects fund security

holders.

Because the Program cannot extend beyond September 18, 2009, and a money market fund has thirty days to liquidate, Rule 22e-3T will expire on October 18, 2009. The Commission also may announce an earlier expiration date for the rule if the Program terminates before September 18, 2009.

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#### **endnotes**

[1] See Temporary Exemption for Liquidation of Certain Money Market Funds, SEC Release No. IC-28487 (November 20, 2008) (“Release”), which is available on the Commission’s website at <http://sec.gov/rules/final/2008/ic-28487.pdf>.

[2] Comments are due to the Commission no later than 30 days after publication in the Federal Register.

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