MEMO# 26042

April 16, 2012

OCC Proposes to Revise Requirements on Short-Term Investment Funds

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TO: MONEY MARKET FUNDS ADVISORY COMMITTEE No. 22-12
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 13-12
SEC RULES COMMITTEE No. 22-12 RE: OCC PROPOSES TO REVISE REQUIREMENTS ON SHORT-TERM INVESTMENT FUNDS

The Office of the Comptroller of the Currency, Treasury ("OCC") has released a notice of proposed rulemaking that would revise the requirements imposed on banks pursuant to 12 CFR 9.18(b)(4)(ii)(B), the short-term investment fund ("STIF") rule ("STIF Rule"), by adding safeguards designed to address the risk of loss to a STIF's principal. [1] Comments are due to the OCC on or before June 8, 2012.

Overview

According to the OCC, its proposed changes to the STIF Rule are "informed by" the SEC's 2010 revisions to Rule 2a-7, but differ in certain respects in light of the differences between money market funds and STIFs such as "a bank's fiduciary responsibility to a STIF and requirements limiting STIF participation to eligible accounts under the OCC's fiduciary account regulation." Specifically the proposal would require STIFs that are valued on a cost basis, rather than market-to-market value to:

- Maintain a stable net asset value of $1.00 using amortized cost as a primary fund objective.
- Maintain a dollar-weighted average portfolio maturity of 60 days or less and a dollar-weighted average portfolio life maturity of 120 days in accordance with Rule 2a-7.
- Hold the STIF assets until maturity under usual circumstances.
- Adopt portfolio and issuer qualitative standards and concentration restrictions.
- Adopt liquidity standards that include provisions to address contingency funding needs.
- Adopt shadow pricing procedures that require the bank to compare the amortized cost net asset value of the STIF's portfolio with the mark-to-market net asset value of the portfolio on a weekly basis and more frequently as determined by the bank when market conditions warrant; and require the bank, if there is a difference that exceeds

$0.005 per participating interest, to take action to reduce dilution of participating interests or other unfair results to participating accounts in the STIF.

- Adopt procedures that require stress testing the STIF's ability to maintain a stable net asset value for participating interests on at least a monthly basis (or more frequently in light of current market conditions) based on various hypothetical events that mirror those in Rule 2a-7(c)(10)(v)(A); a report of the results of such testing be provided to the independent risk manager or the committee responsible for the STIF's oversight; and report any adverse stress testing results to the bank's senior risk management that is independent from the STIF's investment management.
- Disclose information at both the fund level and security level to STIF participants and to the OCC within five business days after each calendar month-end.
- Adopt procedures that require notification to the OCC prior to or within one business day [2] after the following events:
    - Any difference exceeding $0.0025 between the net asset value and the mark-to-market value of a STIF participating interest;
    - When a STIF has re-priced its net asset value below $0.995 per participating interest;
    - Any withdrawal distribution-in-kind of the STIF's participating interests or segregation of portfolio participants;
    - Any delays or suspensions in honoring STIF participating interest withdrawal requests;
    - Any decision to formally approve the liquidation, segregation of assets or portfolios, or some other liquidation of the STIF; or
    - In those situations when an affiliate or any other entity provides a STIF financial support.
- Adopt procedures that in the event a STIF has re-priced its net asset value below $$0.995 per participating interest, the bank administering the STIF calculates, redeems, and sells the STIF's participating interests at a price based on mark-to-market net asset value.
- Adopt procedures that, in the event a bank suspends or limits withdrawals and initiates liquidation of the STIF as a result of redemptions, require the bank to, among other things, formally approve the liquidation of the STIF.

Jane G. Heinrichs
Senior Associate Counsel

endnotes

[1] See Short-Term Investment Funds, Department of the Treasury, Office of the Comptroller of the Currency, 77 FR 21057 (April 9, 2012) ("Release"), available at http://www.gpo.gov/fdsys/pkg/FR-2012-04-09/pdf/2012-8467.pdf. The OCC's STIF Rule governs STIF's managed by national banks and federal savings associations.

[2] The Release notes that to comply with this requirement, a bank would have to calculate the mark-to-market value of a STIF participating interest on a daily basis.