

MEMO# 28305

August 8, 2014

ICI Draft Letter Regarding SEC's Proposed Exemptive Order Relating to Confirmation Requirements for Floating NAV Money Market Funds; Comments Due August 14

[28305]

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TO: MONEY MARKET FUNDS ADVISORY COMMITTEE No. 19-14
OPERATIONS COMMITTEE No. 37-14 RE: ICI DRAFT LETTER REGARDING SEC'S PROPOSED EXEMPTIVE ORDER RELATING TO CONFIRMATION REQUIREMENTS FOR FLOATING NAV MONEY MARKET FUNDS; COMMENTS DUE AUGUST 14

In connection with the SEC's recent amendments to the rules that govern money market funds, [\[1\]](#) the SEC issued a related notice proposing exemptions from certain confirmation requirements for transactions effected in shares of floating NAV money market funds. [\[2\]](#)

ICI has prepared the attached draft comment letter. Please provide comments to the draft to Jane Heinrichs at jheinrichs@ici.org or to Jeff Naylor at jeff.naylor@ici.org by Thursday, August 14.

Rule 10b-10 under the Securities Exchange Act of 1934 generally requires broker-dealers to provide customers with information relating to their investment decisions at or before the completion of a securities transaction, but exempts money market funds that seek to maintain a stable NAV, provided that no sales load is deducted upon the purchase or redemption of shares in the fund. Specifically, for stable NAV money market funds, the rule permits a broker-dealer to provide transaction information to shareholders on a monthly basis in lieu of providing an individual, immediate confirmation for each purchase or redemption.

Among other things, the amendments to the rules governing money market funds require institutional prime and institutional tax exempt money market funds to sell and redeem shares based on the current market-based NAV. Because shares prices of these funds may fluctuate, absent exemptive relief, broker-dealers will not be able to continue to rely on the current stable NAV exception under Rule 10b-10 for transactions in floating NAV money

market funds. Instead, broker-dealers will be required to provide immediate confirmations for all such transactions.

In the SEC's 2013 money market fund proposing release, the SEC requested comment on whether, if the SEC adopted the floating NAV requirement, broker-dealers should be required to provide immediate confirmations to all floating NAV money market fund investors. [3] In response, ICI argued that the potential cost of providing investors with immediate confirmations would be significant and an expense that is ultimately borne by investors. Given that the price fluctuations in floating NAV money market funds are likely to be insignificant, the need for investors to receive immediate confirmations did not appear to outweigh the costs to broker-dealers to provide confirmations on a transaction-by-transaction basis. Thus, we urged the SEC to permit broker-dealers to provide confirmations for floating NAV money market fund transactions on a monthly basis.

After consideration of the likely costs associated with requiring immediate confirmations for such transactions, the SEC has proposed to grant exemptive relief from the immediate confirmation delivery requirements, provided that the broker-dealer has notified the customer of its ability to request delivery of an immediate confirmation and the broker-dealer has not received any such request from the customer. [4]

The Release does not, however, specify whether the notification requirement to floating NAV money market fund customers can be made on a one-time basis—such as in a new account application or in a notification to existing shareholders prior to the compliance date. The draft letter argues that one-time notification (as opposed to notification on a transaction-by-transaction basis) minimizes operational impacts for both customers and broker-dealers and sufficiently informs customers by ensuring the notification is delivered prior to the first transaction.

Based on informal conversations with SEC staff, it is our understanding that the staff anticipates that the customer notification requirement would need to be provided only once per customer, not on a transaction-by-transaction basis. Nevertheless, our draft letter requests that the SEC clarify in the adopting release that broker-dealers can comply with the proposed notification requirement for each floating NAV money market fund customer on a one-time basis.

Jane G. Heinrichs
Senior Associate Counsel

Jeff Naylor
Director - Operations and Distribution

[Attachment](#)

endnotes

[1] Money Market Fund Reform; Amendments to Form PF, SEC Release No. IC-31166 (July 23, 2014), available at <http://www.sec.gov/rules/final/2014/33-9616.pdf>.

[2] SEC Release No. 34-72658 (July 23, 2014), available at <http://www.sec.gov/rules/exorders/2014/34-72658.pdf> ("Release").

[3] See SEC Release No. IC-30551 (June 5, 2013), available at <http://www.sec.gov/rules/proposed/2013/33-9408.pdf>, at 352-353.

[4] The new condition is in addition to the existing requirements listed under the exemption for stable NAV money market funds under Rule 10b-10(b)(2) and (3).

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