

**MEMO# 22991**

October 10, 2008

# **ICI Receives No-Action Letter Allowing Money Market Funds to Shadow Price Certain Securities Using Amortized Cost**

[22991]

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TO: ACCOUNTING/TREASURERS MEMBERS No. 27-08  
BOARD OF GOVERNORS No. 11-08  
COMPLIANCE MEMBERS No. 54-08  
END OF DAY PRICING FORUM No. 4-08  
EQUITY MARKETS ADVISORY COMMITTEE No. 54-08  
FIXED-INCOME ADVISORY COMMITTEE No. 30-08  
INST. MONEY MARKET FUNDS ADVISORY COMMITTEE No. 29-08  
INVESTMENT COMPANY DIRECTORS No. 21-08  
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 35-08  
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 39-08  
PRIMARY CONTACTS - MEMBER COMPLEX No. 12-08  
PRIMARY CONTACTS - MONEY MARKET FUNDS No. 3-08  
SEC RULES MEMBERS No. 121-08 SMALL FUNDS MEMBERS No. 63-08  
VARIABLE INSURANCE PRODUCTS ADVISORY COMMITTEE No. 29-08 RE: ICI RECEIVES NO-ACTION LETTER ALLOWING MONEY MARKET FUNDS TO SHADOW PRICE CERTAIN SECURITIES USING AMORTIZED COST

The staff of the Securities and Exchange Commission's Division of Investment Management today issued a no-action letter to the Institute stating that it would not recommend enforcement action to the Commission under Section 2(a)(41) of the Investment Company Act of 1940 and Rules 2a-4 and 22c-1 thereunder, if a money market fund complies with Rule 2a-7 by "shadow pricing" certain of its portfolio securities by reference to their amortized cost value rather than using available market quotations. The staff's no-action letter is attached and briefly summarized below.

Rule 2a-7 requires money market funds to adopt written procedures (“monitoring procedures”) requiring the fund to periodically calculate “the extent of deviation, if any, of the current net asset value per share calculated using available market quotations . . . from the money market fund’s amortized cost price per share.” This process is referred to in the rule as “shadow pricing.” The monitoring procedures also must provide that the fund’s board of directors periodically “review[s] . . . the amount of the deviation as well as the methods used to calculate the deviation.” If the fund’s board believes that the extent of any deviation from the fund’s amortized cost price per share may result in material dilution or other unfair results to investors or existing shareholders, the board must “cause the fund to take such action as it deems appropriate to eliminate or reduce to the extent reasonably practicable such dilution or unfair results.”

In its letter, the staff noted the Institute’s belief that under current market conditions, the shadow pricing provisions of Rule 2a-7 are not working as intended and that the markets for short-term securities, including commercial paper, may not necessarily result in discovery of prices that reflect the fair value of securities the issuers of which are reasonably likely to be in a position to pay upon maturity. The letter also acknowledges the Institute’s assertions that pricing vendors customarily used by money market funds are at times not able to provide meaningful prices because inputs used to derive those prices have become less reliable indicators of price.

Based on these representations and in light of the current conditions in the market for short-term securities, the staff granted the requested relief until January 12, 2009 to allow money market funds for purposes of shadow pricing under their monitoring procedures to comply with Rule 2a-7 by using the amortized cost method of valuing certain of their portfolio securities unless the particular circumstances, i.e., the impairment of the creditworthiness of the issuer, suggest that amortized cost is no longer appropriate. The staff’s position is limited to portfolio securities that:

- have a remaining maturity of 60 days or less,
- are First Tier Securities as that term is defined in paragraph (a)(12) of Rule 2a-7, and
- the fund reasonably expects to hold to maturity.

Jane G. Heinrichs  
Associate Counsel

[Attachment](#)