INVESTMENT COMPANY INSTITUTE

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SEC Adopts Money Market Fund Reforms

[35375]

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TO: ICI Members
Investment Company Directors
ICI Global Members
Money Market Funds Advisory Committee SUBJECTS: Money Market Funds RE: SEC Adopts Money Market Fund Reforms

On July 12, 2023, the Securities and Exchange Commission, in a 3-2 party-line vote, adopted amendments to Rule 2a-7 and certain other rules that govern money market funds under the Investment Company Act of 1940.[1] According to the SEC's adopting release (Release), the amendments are "designed to improve the resilience and transparency of money market funds" following the liquidity stresses experienced in March 2020 in connection with the COVID-19 pandemic and the associated stresses in the short-term funding markets. Among other things, the final rule amendments:

- Remove provisions from the current rule that permit a money market fund to temporarily suspend redemptions and remove the regulatory tie between the imposition of liquidity fees and a fund's liquidity level.
- Do not require swing pricing for institutional prime and institutional tax-exempt money funds.
- Amend the portfolio liquidity requirements of Rule 2a-7, increasing the weekly liquid asset requirement to 50% (from the current level of 30%) and the daily liquid asset requirement to 25% (from the current level of 10%) for all money market funds.
- With respect to institutional prime and institutional tax-exempt money market funds, including those that are not publicly offered, require that a mandatory liquidity fee be charged to redeeming investors when the fund has net redemptions above 5% of net assets.
- Provide that an institutional fund's Board is responsible for administering the mandatory liquidity fee, but permit the board to delegate this responsibility to the fund's investment adviser or officers, subject to written guidelines established and reviewed by the board and ongoing board oversight.
- Require any non-government money market fund, including those that are not publicly offered, to impose a discretionary liquidity fee of up to 2% if the board determines that a fee is in the best interest of the fund.
- Allow retail and government money market funds to handle a negative interest rate

environment either by converting from a stable share price to a floating share price or by reducing the number of shares outstanding to maintain a stable net asset value per share, subject to certain board determinations and disclosures to investors.
- Amend certain reporting requirements on Forms N-MFP, N-CR and PF.
- Adopt certain technical amendments to Form N-CSR and Form N-1A.

Each of these amendments and their compliance dates are described below.

Amendments to Remove the Tie Between the Weekly Liquid Asset Threshold and Redemption Gates and Liquidity Fees

Rule 2a-7 currently provides that a money market fund may impose a liquidity fee of up to 2 percent, or temporarily suspend redemptions (i.e., impose a "gate"), if the fund's weekly liquid assets fall below 30 percent of its total assets and the fund's board of directors determines that imposing a fee or gate is in the fund's best interests. The rule also includes a default liquidity fee if a fund's weekly liquid assets fall below 10 percent, unless the board determines that a fee would not be in the best interests of the fund.

The Release acknowledges that in March 2020, even though no money market fund imposed a fee or gate, the possibility of their imposition appears to have contributed to investors' incentives to redeem from prime money market funds and for fund managers to maintain weekly liquid asset levels above the threshold, rather than use those assets to meet redemptions. The Release states that these tools therefore appear to have potentially increased the risks of investor runs without providing benefits to money market funds as intended. The SEC's analysis and external research are consistent with commenters' views (including ICI) on investor behavior and found that prime and tax-exempt money market funds whose weekly liquid assets approached the 30 percent threshold had, on average, larger outflows in percentage terms than other prime and tax-exempt money market funds. As a result, the SEC approved amendments, as proposed, to remove the tie between liquidity thresholds and fee and gate provisions, and moreover, to remove the gate provisions from Rule 2a-7 entirely. Under the final rule amendments, a money market fund would continue to be able to suspend redemptions to facilitate an orderly liquidation of the fund under Rule 22e-3 (consistent with ICI's recommendation).

Removal of Proposed Swing Pricing Requirement

The SEC had proposed a swing pricing requirement specifically for institutional prime and institutional tax-exempt money market funds that would apply when the fund experiences net redemptions (not net subscriptions). The Release noted that "[m]any commenters … expressed concern about the consequences of the proposed swing pricing requirement, suggesting, among other reasons, that it would be operationally difficult and may not effectively prevent destabilizing runs during periods of stress." The SEC declined to adopt the proposed swing pricing requirement. Rather, the final amendments modify the current liquidity fee framework to require institutional prime and institutional tax-exempt money market funds to impose a liquidity fee when the fund experiences net redemptions that exceed 5% of net assets, while also allowing any non-government money market fund to impose a discretionary liquidity fee if the board determines a fee is in the best interest of the fund (discussed in greater detail below). The Release noted that "swing pricing and liquidity fees can be economically equivalent in terms of charging redeeming investors for the liquidity costs they impose on a fund," and that "[b]oth approaches allow funds to recapture the liquidity costs of redemptions to make non-redeeming investors whole."

The Release discusses at length commenters' views on the proposed swing pricing requirement, and following consideration of these comments, the Commission determined to adopt "a liquidity fee framework to better allocate liquidity costs to redeeming investors." According to the Release, the proposed swing pricing requirement was "designed to address potential shareholder dilution and the potential for a first-mover advantage for institutional funds." The Release stated that while the Commission continues "to believe these goals are important, [it is] persuaded by commenters that these same goals are better achieved through a liquidity fee mechanism, particularly given that current rule 2a-7 includes a liquidity fee framework that funds are accustomed to and can build upon."

Mandatory Liquidity Fee Requirement

The final rule amendments adopt a mandatory liquidity fee framework for institutional prime and institutional tax-exempt funds instead of the proposed swing pricing requirement, "to better allocate liquidity costs to redeeming investors." Additionally, the final rule amendments adopt a discretionary liquidity fee for all non-government money market funds "so that liquidity fees are an available tool for such funds to manage redemption pressures when the mandatory fee does not apply."

Pursuant to the final rule amendments, institutional prime and institutional tax-exempt money market funds will be required to impose a mandatory liquidity fee on redeeming investors when daily net redemptions exceed 5% of net assets. Funds will not be required to impose this fee, however, when liquidity costs are less than one basis point, which the Commission anticipates "will often be the case under normal market conditions."

The mandatory liquidity fee approach will "require redeeming investors to pay the cost of depleting a fund's liquidity, particularly under stressed market conditions and when net redemptions are sizeable." The Release notes that there can be "significant, unfair adverse consequences to remaining investors in a fund in [times of market stress], including material dilution of remaining investors' interests in the fund," and "the mandatory liquidity fee mechanism is designed to reduce the potential for such dilution." The Commission states its view that "redeeming investors should bear liquidity costs associated with sizeable redemption activity" and describes the liquidity fee requirement as being "designed to protect remaining shareholders from dilution under these circumstances and to more fairly allocate costs so that redeeming shareholders bear the costs of removing liquidity from the fund when liquidity in underlying short-term funding markets is costly." The Release asserts that "to the extent that investors currently are incentivized to redeem quickly during periods of market stress to avoid potential costs from a fund's future sale of less liquid securities, the amendments will reduce those first-mover incentives and the associated run risk." In support of the 5% threshold for net redemptions, the Release states that "the 5% net redemption threshold is designed to help mitigate the risk that a significant amount of redemptions could occur under stressed market conditions before a fee is triggered, thus incentivizing investors to redeem ahead of others."

Overview of the Mandatory Liquidity Fee

- Scope of affected funds – Institutional prime and institutional tax-exempt money market funds are subject to the mandatory liquidity fee.
- Description of mechanism – A mandatory fee is charged to redeeming investors when the fund has net redemptions above 5% of net assets.
- Scope of affected investors – Redeeming investors are charged a liquidity fee. The liquidity fee does not affect subscribing investors.
- Threshold for applying a charge – Fees are triggered when the fund has total daily net

redemptions that exceed 5% of net assets based on flow information available within a reasonable period after the last computation of the fund's net asset value on that day, or such smaller amount of net redemptions as the board determines.
- Duration and application of the charge – The fund must apply a liquidity fee to all shares that are redeemed at a price computed on the day the fund has total daily net redemptions that exceed 5% of net assets.
- Size of the charge – The size of the fee generally is determined by making a good faith estimate of the spread, other transaction, and market impact costs the fund would incur if it were to sell a pro rata amount of each security in its portfolio to satisfy the amount of net redemptions.
    - Affected money market funds can estimate costs and market impacts for each type of security with the same or substantially similar characteristics and apply those estimates to all securities of that type in the fund's portfolio, rather than analyze each security separately.
    - If the estimated liquidity costs are less than one basis point (0.01%) of the value of the shares redeemed, a fund is not required to apply a fee under the de minimis exception.
    - If the fund cannot estimate the costs of selling a pro rata amount of each portfolio security in good faith and supported by data, a default liquidity fee of 1% of the value of shares redeemed applies.
- Maximum charge – The fee has no upper limit.
- Party who administers the provision – The fund's board is responsible for administering the liquidity fee requirement, but the board can delegate this responsibility to the fund's investment adviser or officers, subject to written guidelines established and reviewed by the board and ongoing board oversight.

Overview of the Discretionary Liquidity Fee

- Scope of affected funds – Prime and tax-exempt money market funds are subject to the discretionary liquidity fee. Government money market funds may opt in.
- Description of mechanism – Irrespective of liquidity or redemption levels, a discretionary fee is charged to redeeming investors when the board determines that the fee is in the best interests of the fund.
- Scope of affected investors – Redeeming investors are charged a liquidity fee. The liquidity fee does not affect subscribing investors.
- Threshold for applying a charge – If the board determines that doing so is in the best interests of the fund, the board must impose a liquidity fee.
- Duration and application of the charge – Once imposed, the discretionary fee must be applied to all shares redeemed and remain in effect until the fund's board determines that imposing such fee is no longer in the best interests of the fund.
- Size of the charge – The rule does not prescribe the manner or amount of the fee calculation. The fee, however, must be in the best interests of the fund.
- Maximum charge – The fee cannot exceed 2% of the value of the shares redeemed.
- Party who administers the provision – The fund's board is responsible for administering the liquidity fee requirement, but the board can delegate this responsibility to the fund's investment adviser or officers, subject to written guidelines established and reviewed by the board and ongoing board oversight.

Terms of the Mandatory Liquidity Fee Requirement. The fee amount would reflect the fund's good faith estimate of liquidity costs, supported by data, of the costs the fund would incur if it sold a pro rata amount of each security in its portfolio (i.e., vertical slice) to satisfy the amount of net redemptions, including: (1) spread costs and any other charges, fees, and taxes associated with portfolio security sales; and (2) market impacts for each security.

The new mandatory liquidity fee has some key differences as compared to the current rule. For example, the mandatory liquidity fee is triggered by net redemptions as opposed to weekly liquid assets. In addition, unlike the current rule, the amended framework does not provide discretion to the board with respect to its application. The new mandatory liquidity fee only applies to institutional prime and institutional tax-exempt funds. This is in contrast to the current rule's default liquidity fees, which apply to retail funds. The final rule amendments do not require retail or government money market funds to implement mandatory liquidity fees due to "differences in investor behavior and, in the case of government funds, liquidity costs." The mandatory liquidity fee applies to all institutional funds, irrespective of whether they are offered publicly. The Commission declined to provide an exception for these funds from the mandatory liquidity fee requirement because it does "not believe that such funds are immune to the risks of dilution and potential first-mover advantages that mandatory liquidity fees are designed to address."

Threshold for Mandatory Liquidity Fees. An institutional prime or institutional tax-exempt money market fund must apply a liquidity fee if its total daily net redemptions exceed 5% of the fund's net asset value based on flow information available within a reasonable period after the last computation of the fund's net asset value on that day. If this threshold is crossed, the fund must apply a liquidity fee to all shares that are redeemed at a price computed on that day. The final rule also permits a fund to use a lower net redemption threshold than is required. When the 5% net redemption threshold is crossed, the fee must be applied to all shares redeemed that day, including redemptions that are eligible to receive a NAV computed on that day even if received by the fund after the last pricing period of the day. According to the Release, this "approach will require redeeming investors who cause the fund to exceed the threshold to bear the costs of their redemption activity, irrespective of when they redeem during the day." With respect to the application of a fee to an investor who has both redeemed and purchased the fund's shares on the relevant day, the final rule would permit funds to apply liquidity fees based on an investor's net transaction activity for that day.

Administration of Mandatory Liquidity Fees. Under the final rule, an institutional fund's board will be responsible for administering the mandatory liquidity fee, but the board can delegate this responsibility to the fund's investment adviser or officers, subject to written guidelines established and reviewed by the board and ongoing board oversight. Under the final rule's delegation provision, a board will need to adopt and periodically review written guidelines (including guidelines for determining the application and size of liquidity fees) and procedures under which a delegate makes liquidity fee determinations. Such written guidelines generally should specify the manner in which the delegate is to act with respect to any discretionary aspect of the liquidity fee mechanism (e.g., whether the fund will apply a fee to a shareholder based on the shareholder's gross or net redemption activity for the relevant day, the fund's approach to determining the reasonable period after the last pricing period of the day when the delegate will measure the fund's flows for purposes of the 5% net redemption threshold). The board will also need to periodically review the delegate's liquidity fee determinations.

Calculation and Size of Mandatory Liquidity Fees. The mandatory liquidity fee provision generally will require an institutional fund to determine the amount to charge redeeming investors by making a good faith estimate, supported by data, of the costs the fund would incur if it sold a pro rata amount of each security in its portfolio (i.e., "vertical slice") to satisfy the amount of net redemptions, including spread costs, such that the fund is valuing each security at its bid price and any other charges, fees, and taxes associated with portfolio security sales ("transaction costs") and market impacts. The final rule provides that if an institutional fund makes a good faith estimate that liquidity costs are de minimis, then the fund is not required to charge a liquidity fee. In addition, if a fund cannot estimate in good faith the costs of selling a pro rata amount of each portfolio security, then the fund will apply a default fee of 1% of the value of the shares redeemed.

The fee has two components: (1) transaction costs; and (2) market impact costs. The transaction costs category includes spread costs, such that the fund is valuing each security at its bid price, and any other charges, fees, and taxes associated with portfolio security sales. The Release recognizes that "most funds will not have to include spread costs in their charged liquidity fee because they already use bid pricing." However, funds that do not currently use bid pricing will need to include spread costs in the fee. According to the Release, the required market impact calculation is designed to provide a good faith estimate of the full liquidity costs of selling a vertical slice of a money market fund's portfolio because, for a money market fund's less liquid investments, market impacts may impose significant costs on a fund that should be borne by redeeming investors as opposed to remaining investors. Mechanically, a fund would first establish a market impact factor for each security, which is a good faith estimate of the percentage change in the value of the security if it were sold, per dollar of the amount of the security that would be sold, if the fund sold a pro rata amount of each security in its portfolio to satisfy the amount of net redemptions, under current market conditions. A fund would then multiply the market impact factor by the dollar amount of the security that would be sold.

The Commission recognizes that "the calculated liquidity fee will be based on good faith estimates and thus will not precisely reflect the liquidity costs of redemptions" while noting that "this result is preferable to an overly low liquidity fee that does not attempt to include market impact costs, which can be a significant source of liquidity costs." The Release suggest that, in order to "develop good faith estimates of market impact costs supported by data, funds may consider using historical data to model the reasonably expected price concessions a fund may need to make to sell different amounts of a security under different market conditions." Specifically, among other potential methods for establishing a good faith estimate of the market impact of selling a vertical slice of the fund's portfolio to meet net redemptions, the Commission suggested that "a fund could estimate and document in pricing grids the effect of selling different amounts of the security on a security's price for each group of securities in its portfolio with the same or substantially similar characteristics under different market conditions, and that "[u]nder a grid-based approach, a fund would develop separate grids for different market conditions, such as normal market conditions or periods with credit stress, liquidity stress, or interest rate stress (or a combination of such stresses)."

After estimating the transaction costs and market impact costs of selling a vertical slice of the fund's portfolio to meet net redemptions, the fund will need to determine the liquidity fee amount, as a percentage of the value of the shares redeemed, to fairly allocate these costs across all redemptions. To do so, a fund will need information about gross redemptions from each intermediary for that day. After acknowledging that "some intermediaries may currently provide only net flow information to funds," the Commission observes that "funds may need to update their arrangements with intermediaries to obtain the gross amount of redemptions in a timely manner."

In response to commenters' concerns about the ability of funds to make good faith estimates of the market impact of selling a vertical slice of the fund's portfolio in periods of market stress, particularly when the markets for portfolio securities are frozen, the final rule provides that a fund must impose a default liquidity fee of 1% if the fund is not able to make a good faith estimate of its liquidity costs. The Release notes that "funds will use the default fee when they cannot estimate transaction and market impact costs in good faith, and supported by data." The Commission has also amended its "recordkeeping rules to require funds to retain records that document how they determine the amount of any liquidity fee." If a fund establishes good faith estimates of its liquidity costs by using pricing grids or otherwise, it must preserve records supporting each fee computation. If the fund applies a 1% default liquidity fee, the fund must preserve records supporting its determination that it cannot establish a good faith estimate of its liquidity costs. If a fund determines that its liquidity costs are less than 0.01% of the value of the shares redeemed and therefore the fund is not required to apply a liquidity fee under the rule, the fund must preserve records supporting how it determined that the costs would be less than 0.01%.

The mandatory liquidity fee will not be capped since it is reflective of a fund's estimated liquidity costs. This is a change as compared to the current rule, which does not allow a fee to exceed 2% of the value of the shares redeemed.

The Continued Availability of Discretionary Liquidity Fees. The final rule amendments largely retain the discretionary liquidity fee provisions in current rule 2a-7, but without the tie between liquidity fees and weekly liquid assets, as the Commission "recognize[s] that a discretionary liquidity fee provides money market fund boards with an additional tool to manage liquidity, particularly in times of stress." Under the amended rule, irrespective of weekly liquid asset levels (or redemption levels), a non-government money market fund will apply a discretionary fee if the board (or its delegate) determines that such fee is in the best interests of the fund. The final rule amendments provide for a "2% upper limit" which "will provide fund boards (or their delegates) with greater flexibility to impose a fee that is based on liquidity costs in times of stress than a lower limit."

Amendments to the Portfolio Liquidity Requirements

The final rule amendments adopt, as proposed, the requirements that a money market fund, immediately after acquisition of an asset, hold at least 25% of its total assets in daily liquid assets and at least 50% of its total assets in weekly liquid assets. Despite noting that "[c]ommenters expressed that a more modest increase to the liquidity requirements would be more appropriate given that the amendments to the current liquidity fee and redemption gate framework would allow money market funds to use existing liquid assets more freely to meet redemptions," the Commission's "analysis suggests that 25% daily liquid assets and 50% weekly liquid assets paired with [the] other amendments would be sufficient to allow most money market funds to manage their liquidity risk in a market crisis, while lower minimum levels of liquidity may not provide an adequate buffer during a market crisis."

With the exception of tax-exempt money market funds, which will continue to be exempt from the daily liquid asset requirements, the amendments do not establish different liquidity thresholds by type of fund.

Compliance with the minimum liquidity requirements will continue to be determined at security acquisition. As proposed, the amendments to rule 2a-7 maintain the current approach and require that a fund that falls below 25% daily liquid assets or 50% weekly liquid assets may not acquire any assets other than daily liquid assets or weekly liquid assets, respectively, until it meets these minimum thresholds. As proposed, the amendments, however, will require a fund to notify its board of directors when the fund's liquidity falls to less than half of the required levels, that is, when the fund has invested less than 25% of its total assets in weekly liquid assets or less than 12.5% of its total assets in daily liquid assets (a "liquidity threshold event"). A fund must notify the board within one business day of the liquidity threshold event and must provide the board with a brief description of the facts and circumstances that led to the liquidity threshold event within four business days after its occurrence.

Amendments to Liquidity Metrics in Stress Testing

As proposed, the Commission adopted amendments to the liquidity metrics in the rule's stress testing requirements to reflect amendments to the liquidity fee framework and the increase of regulatory liquidity minimums. Each fund will be required to determine the minimum level of liquidity it seeks to maintain during stress periods, identify that liquidity level in its written stress testing procedures, periodically test its ability to maintain such liquidity, and provide the fund's board with a report on the results of the testing.

Amendments Related to Potential Negative Interest Rates

Rule 2a-7, in its current form, does not explicitly address how money market funds must operate when interest rates are negative. The Commission noted its continued belief that "a scenario in which a fund has negative gross yield as a result of negative interest rates could lead a fund to convert to a floating share price, as the current rule already permits." However, in a change from the proposal, the final rule will also permit a stable NAV fund to reduce the number of its shares outstanding to maintain a stable NAV per share in the event of negative interest rates, subject to certain board determinations and disclosures to investors. Under the final rule, a stable NAV fund will be permitted to either convert to a floating NAV or to engage in share cancellation in this scenario. Should a negative interest rate scenario ever occur in future periods and cause a stable NAV fund to have negative gross yield, a stable NAV fund will have the flexibility under the final rule to use a floating NAV, as already permitted, or to use a reverse distribution mechanism (RDM) if the board determines that cancelling shares is in the best interests of the fund and its shareholders and the fund provides appropriate disclosure to mitigate the possibility of investor confusion. In addressing the tax treatment of such a scenario, the Release cautioned that "[t]here is no certainty either that the Treasury Department and the IRS will issue guidance to remove any tax challenges to the use of RDM share cancellation or that Congress will enact legislation to do so."

The Commission had proposed to require stable NAV funds to determine that each financial intermediary in the fund's distribution network has the capacity to redeem and sell the fund's shares at non-stable prices or, if this determination cannot be made, to prohibit the relevant intermediary from purchasing the fund's shares in nominee name. The Release noted that "[a]fter considering comments, and given that [the Commission is] permitting a stable NAV fund to use RDM under specified conditions in the final rule, [the Commission is] not adopting this aspect of the proposal." The Release indicated the Commission's belief that "stable NAV money market funds generally should engage with their distribution network in considering how they would handle a negative interest rate environment, as intermediaries' abilities to move to a four-digit NAV and apply a floating NAV or to process share cancellations is an important consideration in determining an approach that is in the best interests of the fund and its shareholders," and that "it is important for a stable NAV money market fund to understand the capabilities of its distribution network in the event the fund breaks the buck."

Amendments to Specify the Calculation of Weighted Average Maturity and Weighted Average Life

The final rule adopts amendments, as proposed, to rule 2a-7 to specify the calculations of dollar-weighted average portfolio maturity (WAM) and dollar-weighted average life maturity (WAL). Under the amended definitions of WAM and WAL, funds will be required to calculate WAM and WAL based on the percentage of each security's market value in the portfolio.

Amendments to Reporting Requirements

Amendments to Form N-CR

- Reporting of Liquidity Threshold Events. Adopted as proposed, the final amendments require money market funds to report publicly on Form N-CR when their daily or weekly liquid assets declined by more than 50% below the regulatory minimums. A fund experiencing a liquidity threshold event is required to report: (1) the initial date on which the fund fell below either the 25% weekly liquid assets or the 12.5% daily liquid assets threshold; (2) the percentage of the fund's total assets invested in both weekly liquid assets and daily liquid assets on the initial date of a liquidity threshold event; and (3) a brief description of the facts and circumstances leading to the liquidity threshold event.
- Structured Data Requirement. Adopted as proposed, the final amendments require money market funds to file reports on Form N-CR in a custom eXtensible Markup Language (XML)-based structured data language created specifically for reports on Form N-CR.
- Other Amendments. Adopted as proposed, the final amendments (1) requires the registrant name, series name, and legal entity identifiers (LEIs) for the registrant and the series; (2) adds definitions of LEI, registrant, and series; (3) removes the reporting events that relate to liquidity fees and redemption gates; and (4) amends Part C of Form N-CR, which relates to the provision of financial support to the fund (when such support involves the purchase of a security from the fund, the final rule, as proposed, will require reporting of the date the fund acquired the security).

Amendments to Form N-MFP

- New Information Requirements
    - Shareholder Concentration. In a change from the proposal, money market funds will not be required to disclose the name of each person who is known by the fund to own beneficially or of record 5% or more of the shares outstanding in the relevant class. Rather, the final rule requires money market funds to report only the type of beneficial or record owner who owns 5% or more of the shares outstanding in the relevant class (retail investor; non-financial corporation; pension plan; non-profit; state or municipal government entity (excluding governmental pension plans); registered investment company; private fund; depository institution or other banking institution; sovereign wealth fund; broker-dealer; insurance company; and other).
    - Shareholder Information. Adopted as proposed, the final amendments require funds to identify the percentage of investors within the following categories: non-financial corporation; pension plan; non-profit; state or municipal government entity (excluding governmental pension plans); registered investment company; private fund; depository institution and other banking institution; sovereign wealth fund; broker-dealer; insurance company; and other.
    - Prime Money Market Funds' Selling Activity. Adopted as proposed, the final

    amendments require information about the gross market value of portfolio securities a prime money market fund sold or disposed of during the reporting period. A prime fund will be required to disclose the aggregate amount it sold or disposed of for each category of investment. The categories of investments mirror the categories funds already use on Form N-MFP for identifying their month-end holdings (e.g., certificate of deposit, non-negotiable time deposit, financial or non-financial company commercial paper, or U.S. Treasury debt).
    - Liquidity Fees. The final rule requires money market funds to report the date on which the liquidity fee was applied, the type of liquidity fee, and the amount of the liquidity fee applied by the fund.
    - Share Cancellation. The final amendments will require a stable NAV fund to report information about its use of share cancellation on Form N-MFP. Specifically, the amendments require a fund to report if it used share cancellation during the reporting period and, if so, the dollar value of shares cancelled, the number of shares cancelled, and the dates on which it used share cancellation.

- Changes to Improve the Accuracy and Consistency of Currently Reported Information. The final rule adopts amendments that will require additional information about repurchase agreement transactions and standardize how filers report certain information. Specifically, the final amendments will require, as proposed, that filers identify: (1) the name of the counterparty in a repurchase agreement; (2) whether a repurchase agreement is centrally cleared and the name of the central clearing counterparty, if applicable; (3) if a repurchase agreement was settled on a triparty platform; and (4) the CUSIP of the securities involved in the repurchase agreement.
- More Frequent Data Points. The final amendments require a fund to report its percentage of total assets invested in daily liquid assets and in weekly liquid assets, net asset value per share (including for each class of shares), and shareholder flow data for each business day of the month. Currently, in monthly reports on Form N-MFP, a money market fund must provide the same general information on a weekly basis. Adopted as proposed, the amendments increase the frequency with which funds report certain yield information. Currently, funds must report 7-day gross yields (at the series level) and 7-day net yields (at the share class level) as of the end of the reporting period. Form N-MFP, as amended, requires funds to report this information for each business day.
- Other Amendments. Adopted as proposed, the final rule amends how advisers report the identity of fund registrants and series. The amended form will require funds to identify the name and LEI for both the fund registrant and the series. The Commission also adopted as proposed amendments to specify that funds should respond to an item request with "N/A" if the information is not applicable (e.g., a company does not have an LEI).

Amendments to Form PF. Form PF amendments apply only to large liquidity fund advisers, which generally are SEC-registered investment advisers that advise at least one liquidity fund and manage, collectively with their related persons, at least $1 billion in combined liquidity fund and money market fund assets.

- Operational Information. The final amendments require advisers to report whether the liquidity fund seeks to maintain a stable price per share and, if so, to provide the price it seeks to maintain.
- Assets and portfolio information. The final amendments require advisers to report cash separately from other categories when reporting assets and portfolio information

concerning repo collateral, and adopt an amended definition of the term "weekly liquid assets" to specify that the term includes "daily liquid assets." The final amendments also require advisers to report additional identifying information about each portfolio security, including the name of the counterparty of a repo. Under the final amendments, if an adviser reports an "other unique identifier" in identifying a portfolio security, the adviser will be required to describe that identifier. The amended form will require advisers to distinguish between U.S. government agency debt categorized as (1) a coupon-paying note and (2) a no-coupon discount note.

- Additional Repo Reporting. The final amendments require advisers to provide clearing information for repos to inform the Commission and FSOC about liquidity fund activity in various segments of the market. In a change from the proposal, amended Form PF will continue to permit advisers to aggregate certain information if multiple securities of an issuer are subject to a repo.
- Subscriptions/Redemptions. Under the final amendments, advisers must report the total gross subscriptions (including dividend reinvestments) and total gross redemptions for each month of the reporting period.
- Financing information. The final rule amendments revise how advisers report financing information to indicate whether a creditor is based in the United States and whether it is a "U.S. depository institution," rather than a "U.S. financial institution." Advisers will also be required to indicate whether a creditor is based outside the U.S., but will not have to indicate whether that non-U.S. creditor is a depository institution.
- Investor information. The final rule amendments require advisers to provide the following information for each investor that beneficially owns five percent or more of the reporting fund's equity: (1) the type of investor; and (2) the percent of the reporting fund's equity owned by the investor.
- Disposition of portfolio securities. Under the amendments, advisers will report information about the portfolio securities the liquidity fund sold or disposed of during the reporting period (not including portfolio securities that the fund held until maturity). Advisers will report the gross market value sold or disposed of for each category of investment.
- Weighted average maturity and weighted average life. The amendments include, as proposed, revisions to the definitions of "WAM" and "WAL" to include an instruction to calculate these figures with the dollar-weighted average based on the percentage of each security's market value in the portfolio.

Technical Amendments to Form N-CSR and Form N-1A

Form N-CSR. The final rule contains an amendment to Form N-CSR to retain an exception addressing money market funds' financial statements that was "inadvertently omitted as a result of amendments adopted in the Tailored Shareholder Reports Adopting Release."

Form N-1A. The final rule contains amendments to Item 27A(i) of Form N-1A and the corresponding instructions to "correct an error resulting from the Commission's 2022 rulemaking on enhanced reporting of proxy votes by registered management investment companies."

Effective and Compliance Dates

- The effective date for the final amendments to rule 2a-7, rule 31a-2, and Form N-1A is 60 days after publication in the Federal Register.
- The effective date for the technical amendments to Form N-CSR and Form N-1A is 60 days after publication in the Federal Register.
- The effective and compliance date for the final amendments to Forms N-MFP, N-CR,

and PF is June 11, 2024.
- The compliance date for the mandatory liquidity fee framework is twelve months after the effective date of the final amendments to rule 2a-7.
- The Commission adopted a six-month compliance date for non-government money market funds to comply with the amended discretionary liquidity fee framework.
- The Commission adopted a compliance date that is six months after the effective date of the amendments to rule 2a-7 for the following amendments: amendments to rule 2a-7's portfolio liquidity requirements; and amendments to specify the calculation of WAM and WAL.
- The amendments to rule 2a-7 and Form N-1A that are not subject to additional compliance periods above, which includes removal of redemption gates, removal of the tie between liquidity fees and liquidity thresholds, and the new provision allowing share cancellation under certain circumstances, will go into full effect 60 days after publication in the Federal Register with no separate compliance date.
    - As a result, funds will no longer be permitted to impose redemption gates under rule 2a-7 as of this date.
    - Similarly, the connection between liquidity fees and weekly liquid asset thresholds will be removed at that time.

Joshua Weinberg
Associate General Counsel, Securities Regulation

Notes

[1] See Money Market Fund Reforms; Form PF Reporting Requirements for Large Liquidity Fund Advisers; Technical Amendments to Form N-CSR and Form N-1A, Release Nos. 33-11211; 34-97876; IA-6344; IC-34959 (July 12, 2023), available at https://www.sec.gov/rules/final/2023/33-11211.pdf.

ICI's summary memo of the SEC's Money Market Fund Reform Proposal can be found at https://www.ici.org/memo33971.
