2014 Money Market Fund Reform: What You Need to Know

This week, the SEC came out with its long-awaited reforms for the money market fund industry. Before going over the 2014 reforms, it is worthwhile to recap the round of reforms passed in 2010

2010 REFORMS

Among other things, the 2010 reforms reduced the maximum weighted average maturity (WAM) of funds from 90 days to 60 days. The 2010 reforms also formally mandated for the first time the requirement for money market funds to hold minimum liquidity amounts of 10% overnight and 30% in seven days, with favorable liquidity treatment assigned for holding U.S. Treasury and Agency securities. Additionally, the 2010 reforms mandated enhanced reporting, as well as periodic stress testing of money market funds. These reforms went a long way towards making money market funds more conservatively managed in general, and thus more resilient to shocks. The reforms also made money market funds more transparent.

Despite the 2010 reforms, the SEC remains concerned with the potential risk of "investor runs" on money market funds during times of severe market stress. The new rules passed by the SEC this week are designed to address this concern. All money market funds are in some way affected by these new rules.

2014 RULE AMENDMENTS

FLOATING NET ASSET VALUE (NAV)

Institutional Prime Money Market Funds and Institutional Tax-Exempt Money Market Funds:
Institutional prime and institutional tax-exempt money market funds will be required for the first time to "float" their NAV. Currently, all money market funds which meet certain requirements are permitted to utilize amortized cost to value portfolio securities and round their NAV to the nearest penny for a NAV of $1.00 per share. The SEC will require institutional prime and tax-exempt funds to operate with a floating NAV reported out to four decimal places, e.g. $1.0000. In response to this new requirement, the U.S. Department of the Treasury and the IRS propose to simplify the tax accounting for gains/losses as well as the wash rules associated with the short-term sale of securities. ***Institutional prime and institutional tax-exempt money market funds will have two years after the date of the final rule release in the Federal Register to comply with the floating NAV requirement.***

Retail Money Market Funds:
All retail money market funds, including prime and tax-exempt funds, are exempt from the floating NAV requirement and may continue to transact at a stable NAV. The new rules define retail funds as those funds which limit investors to "natural persons," or individuals rather than institutions, as evidenced by a social security number on an investor's account registration.

Government and Treasury Money Market Funds:
Government[1] and Treasury[2] money market funds are also exempt from the floating NAV requirements and may continue to transact at a stable NAV.

LIQUIDITY FEES AND REDEMPTION GATES

Prime and Tax-Exempt Money Market Funds:
All prime and tax-exempt money market funds, irrespective of investor type (i.e. institutional or retail), will be **allowed** to charge a liquidity fee of up to 2% on all redemptions if the seven-day liquidity buffer falls below 30% of total assets. The

[1]Those funds which invest a minimum of 99.5% (currently 80%) of their total assetss in cash, government securities and/or repurchase agreements that are collateralized solely by government securities or cash.

[2]A type of government money market fund

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fee will only be imposed if the fund's board of directors determines that it is in the best interest of the fund's shareholders. A fund is **required** to charge up to a 1% fee on all redemptions if weekly liquidity falls below 10%. However, a fund's board of directors may waive the fee entirely or impose a lower or higher fee (up to 2%) if it concludes that doing so is in the best interest of the fund. Additionally, once the fund crosses below the 30% threshold, the fund's board of directors **will be permitted** to temporarily suspend redemptions and "gate" the fund if it determines that doing so is in the fund's best interest. Any fee or gate imposed would be automatically lifted once the fund's weekly liquid assets has risen back to or above 30% of its total assets, although the board of directors could lift it sooner if the board determines that doing so is in the fund's best interest. Any money market fund that imposes a gate would need to lift that gate within 10 business days and could not impose a gate for more than 10 business days in any 90-day period. ***All prime and tax-exempt money market funds will have two years after the date of publication of the final rule release in the Federal Register to comply with the liquidity fees and redemption gates requirements.***

Government and Treasury Money Market Funds:
Government and Treasury money market funds are not subject to liquidity fees or redemption gates, but they could voluntarily adopt liquidity fee and redemption gate provisions if previously disclosed to investors.

ENHANCED TRANSPARENCY

All money market funds will be required to disclose daily, in a prominent place on their website: overnight liquidity buffer, seven-day liquidity buffer, net shareholder flows, market based NAVs, imposition of fees and gates, and the receipt of affiliate sponsor support. In addition, funds will be required to disclose certain material events, such as liquidity fees and/or gates imposed/removed, portfolio security defaults, and affiliate sponsor support received on a new Form N-CR. ***All money market funds will have 18 months after the date of publication of the final rule release in the Federal Register to comply with website disclosure requirements, and nine months for the new Form N-CR.***

ENHANCED DIVERSIFICATION

All money market funds will be required to:

1) Treat certain affiliated entities as single issuers for diversification purposes, subject to the existing 5% issuer limit.
2) Treat sponsors of asset-backed securities as guarantors, subject to a 10% limit.
3) Remove the "twenty-five percent basket," under which as much as 25% of the value of securities held in a fund's portfolio may be subject to guarantees or demand features from a single institution. Instead, guarantors or demand features from a single institution would be limited to 10%. An exception is that tax-exempt money market funds would be permitted a 15% basket going forward

All money market funds will have 18 months after the date of publication of the final rule release in the Federal Register to comply with these diversification requirements.

ENHANCED STRESS TESTING

To further enhance the stress testing requirements adopted by the SEC in 2010, money market funds will be required to test their ability to maintain weekly liquid assets of at least 10%, and to minimize principal volatility in response to certain specified hypothetical scenarios. The SEC is also modifying the current reporting requirements to boards of directors to improve the quality of reports that they receive on stress testing. ***All money market funds will have 18 months after the date of publication of the final rule release in the Federal Register to comply with enhanced stress testing requirements.***

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SUMMARY

The 2014 reforms are intended to further strengthen money market mutual funds and enhance their transparency. The rules themselves have no deliberate immediate impact on how money market funds operate as the compliance date for the most significant changes is not for another two years. PNC Capital Advisors and PNC Funds are evaluating the impact of the new rules on our current money market fund offering. As we approach the compliance deadlines mentioned above, we will provide additional updates. In the meantime, we will continue to manage the funds using our cash management philosophy that places the utmost importance on capital preservation, liquidity, and transparency for our clients.

Under each fund's current structure, the new SEC reform requirements would be applicable as shown below. As we continue our evaluation of the new rules, this may change.

MANAGEMENT TEAM

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	SEC REQUIREMENTS				
	Floating NAV	Liquidity Fees and Redemption Gates	Enhanced Transparency	Enhanced Diversification	Enhanced Stress Testing
PNC Money Market Funds					
PNC Government Money Market Fund		5	√	√	√
PNC Money Market Fund	√3	√	√	√	√
PNC Ohio Municipal Money Market Fund	√4	√	√	√	√
PNC Pennsylvania Tax Exempt Money Market Fund	√4	√	√	√	√
PNC Tax Exempt Money Market Fund	√4	√	√	√	√
PNC Treasury Money Market Fund		5	√	√	√
PNC Advantage Institutional Money Market Funds					
PNC Advantage Institutional Government Money Market Fund		5	√	√	√
PNC Advantage Institutional Money Market Fund	√3	√	√	√	√
PNC Advantage Institutional Treasury Money Market Fund		5	√	√	√

[3] Prime Fund which currently includes both institutional and retail shareholders as defined by the rule; floating NAV requirement to be determined.

[4] Municipal Fund which currently includes both institutional and retail shareholders as defined by the rule; floating NAV requirement to be determined.

[5] Government/Treasury Fund which are not subject to these provisions but could voluntarily opt into them.

Thank you for your business and your continued confidence in us. For more information on PNC Money Market Funds, please visit our website at pncfunds.com or call 800-622-FUND (3863).

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