SEC Money Market Reform Frequently Asked Questions

What are the reforms being enacted?

The SEC has enacted several structural and operational changes to money market mutual funds.

These changes include requiring a floating net asset value for prime institutional (and tax-exempt) money market funds, possible fees and suspension of redemption provisions for both retail and institutional funds under certain scenarios, and additional disclosure and stress testing requirements for all money market funds.

The approved changes have no immediate impact to either the accounting treatment or liquidity provisions of money market funds.

The compliance date for floating net asset value (NAV) and redemption fees and gates for affected funds is two years after the final rule release is published in the Federal Register.

A summary of the 2014 changes, including a brief review of the 2010 reforms, can be found in our 2014 Money Market Fund Reform – What You Need to Know commentary.

The associated SEC Fact Sheet on the reform is available on the SEC website at SEC.gov | SEC Adopts Money Market Fund Reform Rules.

Why has the SEC adopted amendments to the rules governing money market funds?

Based upon commentary provided by the SEC, there are two primary objectives: managing inordinately large institutional investor redemption requests i.e., "investor run" risk and providing greater transparency to investors. The Fact Sheet issued by the SEC provides the background and supporting rationale to its final rules.

Why single out institutional money market funds?

The SEC perceives "investor run" risk as being largely, if not exclusively, an institutional concern. The SEC has conducted in-depth industry level research on historical run situations and cited the results of their institutional redemption analyses as a primary factor in proposing its amendments.

What does this mean for institutional investors in prime and tax-exempt funds?

As a result of the accounting and tax treatment complexities triggered by a floating NAV money market fund, the U.S. Treasury Department and IRS propose to simplify the tax accounting for gains/losses as well as the "wash" rules associated with the short term sale of securities. The SEC realizes this is a "sea change" event for the industry and has provided a two-year horizon for complying with the floating NAV requirement. We will be considering the appropriate spectrum of money market fund offerings for our shareholders as the conformance period evolves.

How do these new regulations impact the PNC money market fund complex?

The extended conformance period gives us time to review the new rules in depth with the goal of providing all of the funds' shareholders with optimally designed offerings for their cash management investment needs.

Will PNC Funds institute liquidity fees and redemption gates on money market funds?

Given the multi-faceted nature of the rules, it is too early to determine how the PNC money market fund policies will be impacted by this change. For more details regarding the specific provisions to the approved rules, please read our 2014 Money Market Fund Reform – What You Need to Know commentary.

Is there any impact to Government or Treasury money market funds?

Yes. 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. 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.

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When do the changes take place?

The SEC realizes this is a historic event for the industry and has provided a two-year horizon for implementation of the floating NAV and liquidity fee/redemption gate reforms. Funds must comply with the new material event disclosures rule within nine months and the amendments to diversification, stress testing, and portfolio disclosures within 18 months of the final rule release publication date in the Federal Register.

Should I consider exiting an institutional prime or tax-exempt fund?

We believe there is no need for immediate action as a result of these recently adopted changes. Enactment of floating NAV accounting is two years into the future and dollar NAV treatment will continue during this period. As mentioned earlier, institutional investors will need to consider the U.S. Treasury Department and IRS proposals which simplify the tax accounting for gains/losses as well as the "wash" rules associated with the short term sale of securities that will accompany floating NAV status.

What is the impact of the new disclosure requirements?

Transparency is a central tenet to the final rules issued by the SEC. In addition to an increase in frequency and type of disclosure on a fund's website (i.e., daily market-based NAVs, daily and weekly levels of liquid assets and net shareholder inflows/outflows), a fund will be required to disclose certain events (e.g., liquidity fees and/or gates imposed, portfolio security defaults, affiliate sponsor support received) on a new Form N-CR.

What is the impact of the new diversification requirements?

Our existing internal standards regarding aggregation of affiliates, diversification limits for guarantors and demand feature providers, and treatment of asset-backed securities either meet or exceed these standards. Please refer to the 2014 Money Market Fund Reform – What You Need to Know commentary for additional details on these standards.

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[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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