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August 28, 2014

The Honorable Tim Johnson
Chairman
The Honorable Michael D. Crapo
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Jeb Hensarling
Chairman
The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
House of Representatives

Subject: *Securities and Exchange Commission: Money Market Fund Reform; Amendments to Form PF*

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Securities and Exchange Commission (Commission) entitled “Money Market Fund Reform; Amendments to Form PF” (RIN: 3235-AK61). We received the rule on July 23, 2014. It was published in the *Federal Register* as a final rule on August 14, 2014, with a stated effective date of October 14, 2014. 79 Fed. Reg. 47,736.

This final rule amends the rules that govern money market mutual funds (or money market funds) under the Investment Company Act of 1940. The Commission designed the rule to address money market funds’ susceptibility to heavy redemptions in times of stress; improve their ability to manage and mitigate potential contagion from such redemptions; and increase the transparency of their risks, while preserving, as much as possible, their benefits. The rule removes the valuation exemption that permitted institutional non-government money market funds (whose investors historically have made the heaviest redemptions in times of stress) to maintain a stable net asset value per share (NAV) and is requiring those funds to sell and redeem shares based on the current market-based value of the securities in their underlying portfolios rounded to the fourth decimal place (e.g., \$1.0000), i.e., transact at a floating NAV. The rule also gives the boards of directors of money market funds new tools to stem heavy redemptions by giving them discretion to impose a liquidity fee if a fund’s weekly liquidity level falls below the required regulatory threshold and giving them discretion to suspend redemptions temporarily, i.e., to “gate” funds, under the same circumstances. These amendments will require all non-government money market funds to impose a liquidity fee if the fund’s weekly liquidity level falls below a designated threshold, unless the fund’s board determines that imposing such a fee is not in the best interests of the fund.

In addition, the rule imposes requirements designed to make money market funds more resilient by increasing the diversification of their portfolios, enhancing their stress testing, and improving transparency by requiring money market funds to report additional information to the Commission and to investors.

Finally, the rule requires investment advisers to certain large unregistered liquidity funds, which can have many of the same economic features as money market funds, to provide additional information about those funds to the Commission.

Enclosed is our assessment of the Commission's compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review of the procedural steps taken indicates that the Commission complied with the applicable requirements.

If you have any questions about this report or wish to contact GAO officials responsible for the evaluation work relating to the subject matter of the rule, please contact Shirley A. Jones, Assistant General Counsel, at (202) 512-8156.

signed

Robert J. Cramer
Managing Associate General Counsel

Enclosure

cc: Kevin M. O'Neill
Deputy Secretary of the
Securities and Exchange Commission

REPORT UNDER 5 U.S.C. § 801(a)(2)(A) ON A MAJOR RULE
ISSUED BY THE
SECURITIES AND EXCHANGE COMMISSION
ENTITLED
"MONEY MARKET FUND REFORM; AMENDMENTS TO FORM PF"
(RIN: 3235-AK61)

(i) Cost-benefit analysis

The Commission discussed costs and benefits associated with provisions of this final rule in the rule and in its submission to GAO. The Commission determined that this final rule is likely to result in an annual effect on the economy of \$100 million or more. Although the Commission quantified certain direct operational costs, the Commission also concluded that the final rule will affect the economy in a number of ways, many of which are difficult, if not impossible, to quantify. As discussed below, the Commission estimates the aggregate annual monetized time costs and external costs of the information collection requirements under the Paperwork Reduction Act of this final rule to be at least \$57,991,613. In addition, the Commission estimates there to be various other direct costs and offered the example of the implementation of the liquidity fees and gates requirement, which the Commission estimates will have a one-time cost of at least \$700 million. Regarding benefits, the Commission stated that it designed this rule to address money market funds' susceptibility to heavy redemptions in times of stress, improve their ability to manage and mitigate potential contagion from such redemptions, and increase the transparency of their risks.

(ii) Agency actions relevant to the Regulatory Flexibility Act (RFA), 5 U.S.C. §§ 603-605, 607, and 609

The Commission determined that this final rule will not have a significant economic impact on a substantial number of small entities.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532-1535

As an independent regulatory agency, the Commission is not subject to the Act.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 et seq.

On June 16, 2013, the Commission published a proposed rule. 78 Fed. Reg. 36,834. The Commission received over 1,400 comments on the proposal from a variety of interested parties including money market funds, investors, banks, investment advisers, government representatives, academics, and others. Of these, more than 230 were individualized letters and the rest were one of several types of form letters. The Commission responded to the comments in the final rule.

Paperwork Reduction Act (PRA), 44 U.S.C. §§ 3501-3520

The Commission determined that this final rule contains information collection requirements under the Act. The titles for the existing collections of information affected by this rule are:

- Rule 2a–7 under the Investment Company Act of 1940, money market funds (Office of Management and Budget (OMB) Control Number 3235–0268);
- Rule 22e–3 under the Investment Company Act of 1940, Exemption for liquidation of money market funds (OMB Control Number 3235–0658);
- Rule 30b1–7 under the Investment Company Act of 1940, Monthly report for money market funds (OMB Control Number 3235–0657);
- Rule 34b–1(a) under the Investment Company Act of 1940, Sales Literature Deemed to be Misleading (OMB Control Number 3235–0346);
- Rule 204(b)–1 under the Investment Advisers Act of 1940, Reporting by investment advisers to private funds (OMB Control Number 3235–0679);
- Rule 482 under the Securities Act of 1933, Advertising by an Investment Company as Satisfying Requirements of Section 10 (OMB Control Number 3235–0565);
- Form N–1A under the Securities Act of 1933 and under the Investment Company Act of 1940, Registration statement of open-end management investment companies (OMB Control Number 3235–0307);
- Form N–MFP, Monthly schedule of portfolio holdings of money market funds (OMB Control Number 3235–0657); and
- Form PF, Reporting Form for Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisers (OMB Control Number 3235–0679).

This final rule also contains new information collection requirements for Rule 30b1–8 and the new Form N–CR under the Investment Company Act of 1940. The Commission submitted these collections of information to OMB for review. The Commission estimates the aggregate annual monetized time costs and external costs of these information collection requirements to be at least \$57,991,613.

Statutory authorization for the rule

The Commission promulgated this final rule under the authority of sections 3, 4, 5, 6, 7, 10, 19, and 28 of the Securities Act, sections 6(c), 8, 22(c), 22(e), 24(a), 24(g), 30, 31(a), 35(d), and 38 of the Investment Company Act, and sections 204(b) and 211(e) of the Advisers Act. 15 U.S.C. §§ 77c, 77d, 77e, 77g, 77j, 77s, 77z-3, 80a–6(c), 80a–8, 80a–22(c), 80a–22(e), 80a–24(a), 80a–24(g), 80a–29(b), 80a–30, 80a–34(d), 80a–37, 80b–4(b), 80b–11(e).

Executive Order No. 12,866 (Regulatory Planning and Review)

As an independent regulatory agency, the Commission is not subject to the review requirements of this Order.

Executive Order No. 13,132 (Federalism)

As an independent regulatory agency, the Commission is not subject to the review requirements of this Order.