



Money Fund Intelligence

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Schwab & Latest Fund Co. Changes; SEC Answers FAQs

Charles Schwab Investment Management became the latest money market fund complex to issue an update on how it plans to adapt to the SEC reforms. Since the beginning of the year, 10 of the 20 largest money market fund managers have announced changes or updates to their MMF lineups. In this article, we not only review Schwab's plans, but we also recap the changes that have happened so far in 2015. Also, the SEC came out with answers to [Frequently Asked Questions](#) about MF Reforms, though these mainly dealt with very technical and minor issues. We also briefly review these.

The Schwab release, entitled, "[Charles Schwab Investment Management Issues Statement on Money Market Fund Reform](#)," explains, "We are committed to providing capital preservation and liquidity products that will meet the needs of both retail and institutional investors. As a leader in money market fund reform, Charles Schwab Investment Management is committed to providing all investors with as much clarity as possible on the impact and implications of the money market fund reform issued by the Securities and Exchange Commission in July, 2014. We have spent significant time reviewing the amendments and listening to our investors' preferences. We want to assure our retail and institutional shareholders that we will continue to offer a variety of investment options and a robust product lineup that includes Prime, Municipal and Government money market funds."

It explains, "Specifically, retail investors will continue to have access to a lineup of Schwab Prime, Municipal and Government money market funds with

how it plans to adapt to the SEC reforms. Since the beginning of the



MONEY FUND FAMILY RANKINGS BY ASSETS (\$M)						Mkt Share	
Rank	Family	Prmlnst	PrmRet	Gvt&Treas	TaxEx	3/31/15	3/31/15
1	Fidelity	104,941	146,214	80,201	72,072	403,428	15.7%
2	JPMorgan	119,416	10,122	93,997	24,358	247,892	9.6%
3	BlackRock	137,857	11,327	57,883	8,604	215,589	8.4%
4	Federated	56,501	40,749	90,504	17,970	205,724	8.0%
5	Vanguard	29,747	103,343	12,665	27,968	173,723	6.7%
6	Dreyfus	54,510	19,907	88,700	6,726	169,843	6.6%
7	Schwab	3,748	85,012	44,249	27,643	160,652	6.2%
8	Goldman Sachs	44,911	759	99,368	6,696	151,734	5.9%
9	Morgan Stanley	22,878	12,732	66,797	13,522	115,929	4.5%
10	Wells Fargo	52,799	5,898	46,386	5,369	110,452	4.3%
11	Northern	14,163	8,846	50,366	12,447	85,822	3.3%
12	SSgA	44,190	3,938	31,714	239	80,081	3.1%
13	Invesco	30,329	1,636	22,414	838	55,217	2.1%
14	BofA	24,549	588	16,615	5,785	47,536	1.8%
15	Western	14,344	785	27,097	1,811	44,037	1.7%
TOTAL						2,575,973	100.0%

Source: Money Fund Intelligence XLS.

a CNAV. For those no longer eligible for our CNAV Prime and Municipal money market funds under the new money market fund reform amendments, we plan to make floating NAV money funds available. At this time, our Board of Trustees has elected not to implement liquidity fees or redemption gates on Schwab Government money market funds."

Sweeps Sticking w/Prime, Muni

A spokesperson for Schwab commented to Crane Data, "We are committed to providing our clients a wide array of choices in how they manage their portfolios. Clients in Prime or Municipal MMFs who will be eligible for "Retail" funds and who continue to meet Schwab's MMF Sweep Feature criteria will stay in the Cash Feature they have selected. Should a client be interested in changing their Cash Feature, they are welcome to do so subject to any Money Fund or Schwab eligibility requirements. You should expect to see filings designed to ensure all of our existing Prime and Municipal funds remain "Retail," as well as filings for new "Institutional" funds, as appropriate."

Keeping up with the Changes

As you've hopefully seen on www.cranedata.com's daily News, we have reported on all of the announcements that have come to our attention over the past several months. Of the 20 largest money fund complexes, half have issued updates, including the four largest — Fidelity, JP Morgan, BlackRock, and Federated. Note that every statement to date has pledged to offer all types of funds. Here is a look at the changes (and dates) announced so far. (We also list the 15 largest managers with their assets by type above.)

* **Fidelity** (2/2) will shift about \$130B from Prime Retail to Government, including the world's largest MMF, Fidelity Cash Reserves, and will merge MMFs with similar strategies. The company has not yet commented on plans for its Institutional MMFs.

* **JP Morgan** (2/23) said JP Morgan Prime, the largest Prime Institutional fund, will remain as such and will be subject to Floating NAV, while JP Morgan Liquid Assets will shift to Retail. JPM's release is one

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of the few to detail which funds will be retail and which will be institutional among its lineup.

* **BlackRock** (4/7) said its largest MMF, **TempFund**, will remain a Prime Institutional fund, subject to floating NAV. The \$2.4B **TempCash** will remain Prime Inst, but will be converted to a **7-day maximum maturity fund** while some Muni funds will also be converted to 7-day funds. Also, several Prime Retail funds will be converted to Govt funds.

* **Federated** (2/20) will convert several of its Prime Institutional Funds to **60-day maximum maturity funds**. Details on which funds or amount of assets converted have not been released. *The company also continues to mention private funds and offshore funds as options.*

* **Goldman Sachs** (1/22) said it will start complying with the new definition of Government MMFs early, converting 4 Govt MMFs to the 99.5% requirement. It also said it won't have fees and gates.

* **Dreyfus** (3/11) is considering offering **60-day maximum maturity** Prime Institutional funds. *Will offer all types of money funds and same-day settlement on floating NAV MMFs.*

* **Western** (4/8) will adapt funds to new requirements, but won't have fees and gates on Govt funds. *It has also launched two Short-Term Bond Funds.*

* **Invesco** (4/20) won't implement fees and gates on its Government Funds.

* **First American** (4/1) won't impose fees and gates on Government Funds. *(No fund groups have announced plans to implement optional emergency fees and gates for Government funds to date.)*

Vanguard, Morgan Stanley, Wells Fargo (though see last month's *MFI* "Profile"), **Northern** (watch for a "profile" next month in *MFI*), **SSgA**, and **BofA** have yet to detail plans publicly.

SEC Responds to FAQs on MMF Reforms

The Securities & Exchange Commission posted [answers to Frequently Asked Questions](#) about its money market fund reforms in a document entitled, "**2014 Money Market Fund Reform Frequently Asked Questions**." The 53 questions represent mostly minor technical and legal

issues. The most interesting sections, in our view, appear to be **those addressing the new 60-day maturity funds** (saying they can't say they seek to maintain a stable NAV) and **FDIC insured deposits** (saying these are not "government securities"). But there are also responses to questions about amortized cost guidance, compliance dates, and website disclosure. Below, we excerpt from the release.

The FAQ explains, "The staff of the Division of Investment Management has prepared the following responses to questions related to the money market fund reforms adopted in July 2014 and expects to update this document from time to time to include responses to additional questions."

Regarding "Website Disclosure," one of the two questions says, "7. Q. Is a tax-exempt fund required to calculate and disclose daily liquid assets percentages on the fund's website each day? A. No. Under rule 2a-7(d)(4)(ii), tax-exempt money market funds are not required to maintain daily liquid assets."

Regarding "Funds that Invest only in Securities that Mature in 60 Days or Less," the SEC staff writes, "9. Q. Can a money market fund that is subject to a floating NAV state in its advertising, sales literature or prospectus that it will seek to maintain a stable NAV by limiting its portfolio securities to only those securities with a remaining maturity of 60 days or less and valuing those securities using amortized cost? A. No. The staff believes that a floating NAV money market fund may not state in its advertising, sales literature, or prospectus that it will seek to maintain a stable NAV by limiting its portfolio securities to only those securities with a remaining maturity of 60 days or less and valuing those securities using amortized cost, as such a statement would be misleading to investors. The staff expects that there will be market circumstances that may require a floating NAV money market fund's share price to fluctuate, regardless of how it limits its investment duration or its use of amortized cost for certain portfolio securities...[A]ll floating NAV money market funds must state in



their advertisements, sales materials, and prospectus, that the funds' share price will fluctuate."

It explains, "A floating NAV money fund may use amortized cost to value individual portfolio securities under certain circumstances pursuant to the guidance the Commission has provided ... previously. However, as discussed in question 8 above, if a disparity were to arise between the amortized price of a security that matures in 60 days or less and the fair value of such a security that was large enough that it would affect the fund's NAV, then the staff believes that the use of amortized cost in that situation would not be compatible."

The 16-page document also answers four questions on "Compliance Dates," six questions on "Retail Money Market Funds," three questions on "Insurance Separate Accounts," five questions on "Fees and Gates," one question on "Treasury Money Market Funds," and six questions on "Govt Money Funds."

One interesting response among this last group is: "34. Q. Are bank certificates of deposit, which are insured up to the \$250,000 FDIC insurance limit, "government securities" for purposes of the definition of a government money market fund? A. The staff has previously declined to provide no-action assurance that FDIC-insured bank certificates of deposit are "government securities".... The staff has not altered or rescinded this no-action position. The staff similarly does not view FDIC-insured bank certificates of deposit as "government securities" for purposes of the definition of a government money market fund." ♦

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