

**SUPPORTING STATEMENT  
for the Paperwork Reduction Act  
Information Collection Submission  
“Rule 2a-7”**

**A. JUSTIFICATION**

**1. Information Collection Necessity**

Money market funds are open-end management investment companies that differ from other open-end management investment companies in that they seek to maintain a stable price per share, usually \$1.00. Rule 2a-7 [17 CFR 270.2a-7] under the Investment Company Act of 1940 [15 U.S.C. 80a] (the “Act”) exempts money market funds from the valuation requirements of the Act, and, subject to certain risk-limiting conditions, permits money market funds to use the “amortized cost method” of asset valuation or the “penny-rounding method” of share pricing.

Rule 2a-7 also imposes certain recordkeeping and reporting obligations on money market funds. The board of directors of a money market fund, in supervising the fund's operations, must establish written procedures designed to stabilize the fund's net asset value (“NAV”). The board must also adopt guidelines and procedures relating to certain responsibilities it delegates to the fund's investment adviser. These procedures and guidelines typically address various aspects of the fund's operations. The fund must maintain and preserve for six years a written copy of both these procedures and guidelines. The fund also must maintain and preserve for six years a written record of the board's considerations and actions taken in connection with the discharge of its responsibilities, to be included in the board's minutes. In addition, the fund must maintain and preserve for three years written records of certain credit risk analyses, evaluations with respect to securities subject to demand features or guarantees, and determinations with respect to adjustable rate securities and asset backed securities. If the board takes action with respect to defaulted securities, events of insolvency, or deviations in share price, the fund must file with the

Commission an exhibit to Form N-SAR describing the nature and circumstances of the action. If any portfolio security fails to meet certain eligibility standards under the rule, the fund also must identify those securities in an exhibit to Form N-SAR. After certain events of default or insolvency relating to a portfolio security, the fund must notify the Commission of the event and the actions the fund intends to take in response to the situation.

The 2010 amendments to rule 2a-7 also added new collection of information requirements. First, money market fund boards must adopt written procedures that provide for periodic testing (and reporting to the board) of the fund's ability to maintain a stable NAV per share based on certain hypothetical events. Second, funds must post monthly portfolio information on their websites. Third, funds must maintain records of creditworthiness evaluations on counterparties to repurchase agreements that the fund intends to "look through" for purposes of rule 2a-7's diversification limitations. Finally, money market funds must promptly notify the Commission of the purchase of any money market fund's portfolio security by an affiliated person in reliance on rule 17a-9 under the Act and explain the reasons for such purchase.

## **2. Information Collection Purpose**

The recordkeeping requirements in rule 2a-7 are designed to enable Commission staff in its examinations of money market funds to determine compliance with the rule, as well as to ensure that money market funds have established procedures for collecting the information necessary to make adequate credit reviews of securities in their portfolios. The reporting requirements of rule 2a-7 are intended to assist Commission staff in overseeing money market funds and reduce the likelihood that a fund is unable to maintain a stable NAV.

### **3. Consideration Given to Information Technology**

The Commission's Electronic Data Gathering, Analysis and Retrieval System ("EDGAR") is designed to automate the filing, processing and dissemination of full disclosure filings. The system permits publicly-held companies to transmit their filings to the Commission electronically. EDGAR has increased the speed, accuracy and availability of information, generating benefits to investors and financial markets. All funds have been required to use EDGAR for their disclosure filings since November 6, 1995. The exhibit to Form N-SAR required to be filed with the Commission under rule 2a-7 when a money market fund's board takes action with respect to defaults, insolvencies, or share price deviations or when a portfolio security fails to meet certain standards may be filed electronically through EDGAR. In addition to electronic filing of the exhibit to Form N-SAR, money market funds are required to post monthly portfolio information on their websites, taking advantage of investors' widespread use of the Internet to obtain investment information. Funds are also required to notify the Commission of transactions conducted pursuant to rule 17a-9 by e-mail.

### **4. Duplication**

The Commission periodically evaluates rule-based reporting and recordkeeping requirements for duplication, and reevaluates them whenever it proposes a rule or form, or a change in either. The recordkeeping, reporting, and website posting required by rule 2a-7 is not duplicated elsewhere.

### **5. Effect on Small Entities**

The recordkeeping and reporting requirements of rule 2a-7 are the same for all money market funds, including those that are small entities. A significant portion of the recordkeeping

burden involves organizing information that the funds already collect when initially purchasing securities. In addition, when a money market fund analyzes a security, the analysis need not be presented in any particular format. Money market funds therefore have a choice of methods for maintaining these records that vary in technical sophistication and formality (*e.g.*, handwritten notes, computer disks, etc.).

## **6. Consequences of Less Frequent Collection**

As described in section 1, rule 2a-7 requires the fund's board to adopt (i) written procedures designed to stabilize the fund's NAV; (ii) written guidelines regarding the delegation of certain responsibilities; and (iii) written guidelines that provide for periodic stress testing. In addition, rule 2a-7 requires the fund to notify the Commission if the board takes certain actions or if certain events of default or insolvency occur, or there is a purchase of a fund's portfolio security by an affiliated person in reliance on rule 17a-9. None of these is a recurring obligation. They are, however, essential to the Commission's ability to determine compliance with the rule.

The rule also requires money market funds to perform periodic analyses of portfolio securities and reviews of the credit risks associated with those securities, as well as maintain records of creditworthiness determinations specific to counterparties in repurchase agreements. The frequency of these reviews is within a fund's discretion. The reviews are necessary to ensure that securities that remain in a fund's portfolio continue to present minimal credit risks.

Finally, rule 2a-7 requires that money market funds post monthly portfolio information on their websites within five business days after the end of each month. Prior to this amendment, funds were only required to disclosure portfolio holdings quarterly, and even then may disclose information as old as 70 days prior to the filing. We believe that this monthly frequency allows current and prospective investors in the fund to have timely information about the fund without

excessively burdening money market funds. Money market funds voluntarily provide this information on their websites even more frequently than monthly.

#### **7. Inconsistencies with Guidelines in 5 CFR 1320.5(d)(2)**

Rule 2a-7 requires money market funds to retain certain written records for more than three years. The fund must maintain and preserve for six years a written copy of the procedures established by the board of directors designed to stabilize the fund's NAV, records of the reports to the board on stress tests and records of determinations of credit quality of counterparties to repurchase agreements, and a written record of the board's considerations and actions taken in connection with the discharge of its responsibilities. The long-term retention of these records is necessary to allow Commission inspection staff to determine compliance with rule 2a-7. Rule 2a-7 also requires funds to post portfolio information monthly. Given the short-term nature of money market fund portfolio holdings, this increased frequency of information collection is necessary to provide portfolio information that is meaningful to investors.

#### **8. Consultation Outside the Agency**

The Commission requested public comment on the collection requirements in rule 2a-7 before it submitted this request for extension and approval to the Office of Management and Budget. The Commission received no comments in response to its request.

The Commission and the staff of the Division of Investment Management also participate in an ongoing dialogue with representatives of the investment company industry through public conferences, meetings and informal exchanges. These various forums provide the Commission and the staff with a means of ascertaining and acting upon paperwork burdens confronting the industry.

**9. Payment or Gift**

Not applicable.

**10. Confidentiality**

Not applicable.

**11. Sensitive Questions**

Not applicable.

**12. Time Burden Estimate**

Commission staff estimates that there are 664 money market funds (136 fund complexes), all of which are subject to rule 2a-7.<sup>1</sup> Commission staff further estimates that there will be approximately 10 new money market funds established each year. Commission staff estimates that rule 2a-7 contains the following collection of information requirements:

- Record of credit risk analyses, and determinations regarding adjustable rate securities, asset backed securities, securities subject to a demand feature or guarantee, and counterparties to repurchase agreements.

85 responses annually for each fund to document these determinations, with the total annual responses per fund, on average, requiring 680 burden hours of professional (business analyst or portfolio manager) time.<sup>2</sup> Thus, to record credit risk analyses and determinations regarding adjustable rate securities, asset backed securities, securities subject to a demand feature or guarantee, and counterparties to repurchase agreements, the staff estimates a total burden and cost of approximately 451,520 hours and \$118,298,240.<sup>3</sup>

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<sup>1</sup> This estimate is based on Form N-MFP filings with the Commission for the month ended June 30, 2012.

<sup>2</sup> Estimates of the number of responses prepared annually regarding these analyses are based on conversations with individuals in the mutual fund industry. The actual number of responses prepared may vary significantly depending on the type and number of portfolio securities held by individual funds.

<sup>3</sup> This estimate is based on the following calculations: 664 funds x 680 hours = 451,520 hours; 451,520 hours x \$262 per hour = \$118,298,240. The estimated hourly cost was based on the weighted average annual salaries reported for an intermediate business analyst (\$201 per hour)

- Establishment of written procedures designed to stabilize NAV and guidelines and procedures for board delegation of authority.

1 response annually for each of 10 new money market funds<sup>4</sup> to formulate and establish written procedures and guidelines, with each response, on average, requiring:

15.5 burden hours:     0.5 hour of the board of directors' time;  
                                      7.2 hours professional legal time;  
                                      7.8 hours support staff time.

Thus the staff estimates a total burden and cost of approximately 155 hours and \$63,288 to adopt procedures designed to stabilize the fund's NAV and guidelines regarding the delegation of certain responsibilities to the fund's adviser.<sup>5</sup>

- Board review of procedures and guidelines of any investment adviser or officers to whom the fund's board has delegated responsibility under rule 2a-7 and amendment of such procedures and guidelines.

1 response annually for each of 166 money market funds to review and amend written procedures and guidelines, with each response, on average, requiring:

5 burden hours:            1 hour of the board of directors' time;  
                                      4 hours compliance and professional legal time.<sup>6</sup>

Thus, the staff estimates a total burden and cost of approximately 830 hours and \$989,360 to review and amend written procedures and guidelines.<sup>7</sup>

and senior portfolio manager (\$322 per hour) in SIFMA's Management & Professional Earnings in the Securities Industry 2011 (Oct. 2011), modified by Commission staff to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead.

<sup>4</sup> This estimate is based on historical data provided in Lipper Inc.'s LANA database and projections about the growth of the money market mutual fund industry going forward. The actual number of new money market funds launched may vary significantly from our estimates depending upon developments in market interest rates and the regulatory environment.

<sup>5</sup> This estimate is based on the following calculations: 10 funds x 15.5 hours = 155 hours; 10 funds x ((0.5 hours x \$4500 per hour for board time) + (7.2 hours x \$378 per hour for an attorney) + (7.8 hours x \$174 per hour for support staff)) = \$63,288. In calculating costs for complying with the information collection requirements of rule 2a-7, Commission staff estimates that a fund board's hourly rate is \$4500 per hour (on average, a board has 9 directors and the fund pays each director \$500 per hour).

<sup>6</sup> For purposes of this PRA we assumed that on average 25% (664 funds x .25 = 166 funds) of money market funds would review and update their procedures on an annual basis.

- Written record of board determinations and actions related to failure of a security to meet certain eligibility standards or an event of default or insolvency.<sup>8</sup>

2 responses annually for 20 funds to record the board of directors' determinations and actions in the board meeting minutes, with each response on average requiring 0.5 burden hours of professional legal time.

- Notice to Commission of an event of default or insolvency.

1 response annually for 20 funds to provide notice to the Commission of an event of default or insolvency, with each response on average requiring 0.5 burden hours of professional legal time. Thus, the staff estimates that each of the 20 money market funds that experience a change in certain eligibility standards for portfolio securities or an event of default or insolvency relating to portfolio securities spends a total of 1.5 hours of professional legal time documenting board determinations (1 hour for 2 responses annually) and notifying the Commission regarding the event (.5 hours for 1 response annually) for a total of 30 hours and \$11,340.<sup>9</sup>

- Establishment of written procedures to test periodically the ability of the fund to maintain a stable NAV per share based on certain hypothetical events ("stress testing").

1 response annually for each of 10 new money market funds to formulate and establish written procedures and guidelines, with each response, on average, requiring:

<sup>7</sup> This estimate is based on the following calculations: 166 funds x 5 hours = 830 hours; 166 funds x ((1 hour x \$4500 per hour) + (4 hours x \$365 per hour)) = \$989,360.

<sup>8</sup> A fund's board of directors makes these determinations and takes action when a portfolio security no longer meets eligibility requirements under the rule, or there has been an event of default or insolvency. These events occur infrequently. Although we have assumed, based on N-SAR filings through June 30, 2012, an average of approximately 2 occurrences for 20 funds each year, this number may vary significantly in any particular year. A fund also must provide information regarding these events in an exhibit to Form N-SAR. The burden hours and responses required for filing these exhibits are included in the PRA submission for Form N-SAR. In the event of a default or insolvency with respect to an issuer of a portfolio security, the fund also must notify the Commission.

<sup>9</sup> This estimate is based on the following calculations: 20 funds x ((2 responses x 0.5 hours) + (1 response x 0.5 hours)) = 30 hours; 20 funds x (1.5 hours x \$378 for an attorney)) = \$11,340.

22 burden hours: 3 hours of the board of directors' time;  
8 hours professional legal time;  
11 hours risk management specialist time.

Thus the staff estimates a total burden and cost of approximately 220 hours and \$193,730 to adopt procedures to test periodically the ability of the fund to maintain a stable NAV per share based on certain hypothetical events.<sup>10</sup>

- Review, revise, and approve written procedures to stress test a fund's portfolio.

1 response annually for each of 136 money market fund complexes to review, revise, and amend written procedures and guidelines, with each response, on average, requiring:

12 burden hours: 1 hour of the board of directors' time;  
5 hours portfolio manager time;  
3 hours risk management specialist time;  
3 hours professional legal time.

Thus, the staff estimates a total burden and cost of approximately 1,632 hours and \$1,090,856 to review, revise, and amend written procedures and guidelines.<sup>11</sup>

- Reports to fund boards on the results of stress testing.

5 responses annually (including 1 response as a result of unanticipated changes in market conditions or other events) for each of 136 fund complexes to report to fund boards on the results of stress testing, with each response, on average, requiring:

10 burden hours: 5 hours portfolio manager time;  
2 hours compliance time;  
2 hours professional legal time;  
1 hour support staff time.

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<sup>10</sup> This estimate is based on the following calculations: 10 funds x 22 hours = 220 hours; 10 funds x ((3 hours x \$4500 per hour for board time) + (8 hours x \$378 per hour for an attorney) + (11 hours x \$259 per hour for a risk management specialist)) = \$193,730.

<sup>11</sup> This estimate is based on the following calculations: 136 fund complexes x 12 hours = 1,632 hours; 136 fund complexes x ((1 hour x \$4500 per hour) + (5 hours x \$322 per hour for a portfolio manager) + (3 hours x \$259 per hour for a risk management specialist) + (3 hours x \$378 per hour for an attorney)) = \$1,090,856.

Thus, the staff estimates a total burden and cost of approximately 6,800 hours and \$2,106,640 to report to fund boards on the results of stress testing.<sup>12</sup>

- Monthly posting of money market fund portfolio information on a fund's website.

12 responses annually for each of 664 money market funds to maintain and update the relevant webpage with required portfolio holdings information on a monthly basis, with each response requiring on average 7 hours of webmaster time. In addition, we estimate 1 response annually for each of 10 new money market funds to initially develop a webpage, with each response requiring 24 hours of webmaster time.

Thus, the staff estimates a total burden and cost of approximately 56,016 hours and \$11,539,296 for all money market funds to initially develop and maintain and update its website to post portfolio holdings information on a monthly basis.<sup>13</sup>

- Notice to the Commission of the purchase of a money market fund's portfolio security by certain affiliated persons in reliance on rule 17a-9.

1 response annually for each of 25 fund complexes to provide notice to the Commission of a rule 17a-9 transaction, with each response on average requiring 1 burden hour of an in-house attorney's time. Thus, the staff estimates that the

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<sup>12</sup> This estimate is based on the following calculations: 136 fund complexes x (5 responses x 10 hours) = 6,800 hours; 136 fund complexes x ((5 responses x 5 hours x \$322 per hour for a portfolio manager) + (5 responses x 2 hours x \$279 per hour for a compliance manager) + (5 responses x 2 hours x \$378 per hour for an attorney) + (5 responses x 1 hour x \$174 per hour for support staff)) = \$2,106,640.

<sup>13</sup> This estimate is based on the following calculations: (664 funds x (12 responses x 7 hours) + (10 new money market funds x (1 response x 24 hours)) = 56,016 hours; (664 funds x (12 responses x 7 hours x \$206 per hour for a webmaster)) + (10 new money market funds x (1 response x 24 hours x \$206 per hour for a webmaster)) = \$11,539,296.

total annual burden for funds required to notify the Commission of certain affiliated transactions made in reliance on rule 17a-9 is approximately 25 hours and \$9,450.<sup>14</sup>

Thus, the Commission estimates the total annual burden of the rule's information collection requirements are 65,505 responses<sup>15</sup> and 517,228 hours<sup>16</sup> at an annual cost of \$134,302,200.<sup>17</sup>

These estimates are made solely for the purposes of the Paperwork Reduction Act ("PRA") and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules.

### **13. Total Annual Cost Burden**

Commission staff estimates that in addition to the costs described in section 12, money market funds will incur costs to preserve records, as required under rule 2a-7.<sup>18</sup> These costs will vary significantly for individual funds, depending on the amount of assets under fund

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<sup>14</sup> This estimate is based on the following calculations: 25 fund complexes x 1 hour = 25 hours; 25 hours x \$378 (hourly rate for an attorney) = \$9,450.

<sup>15</sup> This estimate is based on the following calculation: (85 responses x 664 funds) + (1 response x 10 funds) + (1 response x 166 funds) + (2 responses x 20 funds) + (1 response x 20 funds) + (1 response x 10 funds) + (1 response x 136 funds) + (5 responses x 136 funds) + (12 responses x 664 funds) + (1 response x 10 funds) + (1 response x 25 funds) = 65,505 responses.

<sup>16</sup> This estimate is based on the following calculation: 451,520 hours + 155 hours + 830 hours + 30 hours + 220 hours + 1,632 hours + 6,800 hours + 56,016 hours + 25 hours = 517,228 hours.

<sup>17</sup> This estimate is based on the following calculation: \$118,298,240 + \$63,288 + \$989,360 + \$11,340 + \$193,730 + \$1,090,856 + \$2,106,640 + \$11,539,236 + \$9,450 = \$134,302,200.

<sup>18</sup> A significant portion of the recordkeeping burden involves organizing information that the funds already collect when initially purchasing securities. In addition, when a money market fund analyzes a security, the analysis need not be presented in any particular format. Money market funds therefore have a choice of methods for maintaining these records that vary in technical sophistication and formality (*e.g.* handwritten notes, computer disks, etc.). Accordingly, the cost of preparing these documents may vary significantly among individual funds. The burden hours associated with filing reports to the Commission as an exhibit to Form N-SAR are included in the PRA burden estimate for that form.

management and whether the fund preserves its records in a storage facility in hard copy or has developed and maintains a computer system to create and preserve compliance records.<sup>19</sup>

Commission staff estimates that the amount an individual fund may spend ranges from \$100 per year to \$300,000. Based on a cost of \$0.0051295 per dollar of assets under management for small funds, \$0.0005041 per dollar assets under management for medium funds, and \$0.0000009 per dollar of assets under management for large funds, the staff estimates compliance with the record storage requirements of rule 2a-7 costs the fund industry approximately \$57.3 million per year.<sup>20</sup>

Based on responses from individuals in the money market fund industry, the staff estimates that some of the largest fund complexes have created computer programs for maintaining and preserving compliance records for rule 2a-7. Based on a cost of \$0.0000132 per dollar of assets under management for large funds, the staff estimates that total annualized capital/startup costs range from \$0 for small funds to \$35.6 million for all large funds.<sup>21</sup>

Commission staff further estimates that, even absent the requirements of rule 2a-7, money market funds would spend at least half of the amount for capital costs (\$17.8 million) and for

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<sup>19</sup> The vast majority of assets under management in individual money market funds ranges from approximately \$6.1 million to approximately \$1 billion.

<sup>20</sup> The staff estimated the annual cost of preserving the required books and records by identifying the annual costs incurred by several funds and then relating this total cost to the average net assets of these funds during the year. With a total of \$563.9 million under management in small funds, \$103.1 billion under management in medium funds and \$2.7 trillion under management in large funds, the costs of preservation were estimated as follows:  $((0.0051295 \times \$563.9 \text{ million}) + (0.0005041 \times \$103.1 \text{ billion}) + (0.0000009 \times \$2.7 \text{ trillion})) = \$57.30 \text{ million}$ . For purposes of this PRA submission, Commission staff used the following categories for fund sizes: (i) small–money market funds with \$50 million or less in assets under management; (ii) medium–money market funds with more than \$50 million up to and including \$1 billion in assets under management; and (iii) large–money market funds with more than \$1 billion in assets under management.

<sup>21</sup> This estimate is based on the following calculation:  $\$0.0000132 \times \$2.7 \text{ trillion in assets under management for large funds} = \$35.64 \text{ million}$ .

record preservation (\$28.65 million) to establish and maintain these records and the systems for preserving them as a part of sound business practices to ensure diversification and minimal credit risk in a portfolio for a fund that seeks to maintain a stable price per share.

**14. Federal Government Cost**

Rule 2a-7 does not impose any costs on the federal government.

**15. Changes in Burden**

The estimated total annual burden is being increased from 395,779 hours to 517,228 hours. This net increase is attributable to a combination of factors, including a decrease in the number of money market funds and fund complexes, and updated information from money market funds regarding hourly burdens, including revised staff estimates of the burden hours required to comply with rule 2a-7 as a result of new information received from surveyed fund representatives. The estimated total annual cost is being decreased from \$121.2 million to \$92.9 million. This decrease is attributable to updated information from money market funds regarding assets under management.

**16. Information Collection Planned for Statistical Purposes**

Not applicable.

**17. Approval to Omit OMB Expiration Date**

Not applicable. We are not requesting to omit the expiration date.

**18. Exceptions to Certification Statement**

Not applicable.

**B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS**

Not applicable.