

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

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

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 under the Investment Company Act of 1940 (“Investment Company Act”)<sup>1</sup> 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.<sup>2</sup>

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. 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 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. Money market funds are also required to disclose certain events on Form N-CR.

In addition, money market fund boards must adopt written procedures that provide for periodic testing (and reporting to the board) of the fund’s ability to

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<sup>1</sup> 15 U.S.C. 80a-1 *et seq.*

<sup>2</sup> 17 CFR 270.2a-7.

maintain a stable net asset value per share based on certain hypothetical events. Funds must also post monthly portfolio information on their websites and 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 Investment Company Act and explain the reasons for such purchase.

Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires each federal agency, including the Commission, to “review any regulation issued by such agency that requires the use of an assessment of the creditworthiness of a security or money market instrument and any references to or requirements in such regulations regarding credit ratings.”<sup>3</sup> That section further provides that each such agency shall “modify any such regulations identified by the review ... to remove any reference to or requirement of reliance on credit ratings and to substitute in such regulations such standard of credit-worthiness as each respective agency shall determine as appropriate for such regulations.”<sup>4</sup>

We are removing references to credit ratings in rule 2a-7, which affect five elements of the rule: (i) determination of whether a security is an eligible security; (ii) determination of whether a security is a first-tier security; (iii) credit quality standards for securities with a conditional demand feature; (iv) requirements for monitoring securities for ratings downgrades and other credit events; and (v) stress testing.

## **2. Purpose and Use of the Information Collection**

Certain of the provisions of the proposed rule contain “collection of information” requirements within the meaning on the Paperwork Reduction Act of 1995 (“Paperwork Reduction Act”),<sup>5</sup> and the Commission is submitting the collection of information to the Office of Management and Budget (“OMB”) for review in accordance with 44 U.S.C. 3507(d) and 5 CFR 1320.11. 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

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<sup>3</sup> Pub. Law 111-203, Sec. 939A(a)(1)–(2).

<sup>4</sup> Pub. Law 111-203, Sec. 939A(b).

<sup>5</sup> 44 U.S.C. 3501 *et seq.*

information necessary to make adequate credit reviews of securities in their portfolios. The reporting requirements of rule 2a-7 are intended to assist the Commission in overseeing money market funds, reducing the likelihood that a fund is unable to maintain a stable net asset value (where a fund seeks to maintain a stable net asset value), mitigating funds' susceptibility to heavy redemptions in times of stress, and increasing the transparency of risk in money market funds.

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

The Commission's Electronic Data Gathering, Analysis, and Retrieval System ("EDGAR") automates the filing, processing, and dissemination of full disclosure filings. This automation has increased the speed, accuracy, and availability of information, generating benefits to investors and financial markets. 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. Under rule 2a-7, Form N-CR is required to be filed electronically on EDGAR. In addition to electronic filing or the exhibit to Form N-SAR or on Form N-CR, 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.

### **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 a rule or form. The recordkeeping, reporting, and website posting requirements in rule 2a-7 are 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. The burden of the conditions on smaller funds may be proportionally greater than for larger funds. 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. The Commission believes that imposing different requirements on smaller money market funds would not be consistent with investor protection. The Commission reviews all

rules periodically, as required by the Regulatory Flexibility Act, to identify methods to minimize recordkeeping or reporting requirements affecting small businesses.

With respect to the final amendments, pursuant to 5 U.S.C. section 605(b), the Commission certified that the amendments to rule 2a-7 will not have a significant impact on a substantial number of small entities.

## **6. Consequences of Not Conducting Collection**

Rule 2a-7 requires the fund's board to adopt (i) written procedures designed to stabilize the fund's net asset value (where applicable); (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.

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. 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 more frequently than monthly.

Rule 2a-7 also requires daily website updates for the fund's daily and weekly liquid assets, the fund's net inflows or outflows, and the fund's daily current net asset value per share. The website disclosures provide current and prospective investors with timely information about the fund without excessively burdening money market funds.

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

Rule 2a-7 requires money market funds to retain certain 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 net asset value (where applicable), 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 the Commission inspection staff to determine compliance with rule 2a-7. Rule 2a-7 also requires funds to post portfolio information monthly and requires funds to post certain portfolio information daily. 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 and the staff of the Division of Investment Management participate in an ongoing dialogue with representatives of the investment company industry through public conferences, meetings, and information exchanges. These various forums provide the Commission and staff with a means of ascertaining and acting upon the paperwork burdens confronting the industry. The Commission requested public comment on the information collection requirements in rule 2a-7 before it submitted this request for revision and approval to OMB. The Commission received no comments in response to its request.

#### **9. Payment or Gift**

No payment or gift to respondents was provided.

#### **10. Assurance of Confidentiality**

Information received pursuant to this collection of information will be kept private to the extent permitted by law.

#### **11. Sensitive Questions**

No questions of a sensitive nature are involved. The information collection does not include personally identifiable information.

#### **12. Burden of Information Collection**

The following estimates of average burden hours and costs are made solely for purposes of the Paperwork Reduction Act and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules and forms. A fund must comply with the requirements of rule 2a-7 in order to hold itself out to investors as a money market fund or the equivalent of a money market fund in reliance on the rule. The collection of information is mandatory for money market

funds that rely on rule 2a-7, and responses to the information collections will not be kept confidential.

**a. Eligible Security Determinations for Money Market Fund Portfolio Securities, Including Securities That Are Subject to a Conditional Demand Feature**

Rule 2a-7 limits a money market fund's portfolio investments to "eligible securities," which are currently defined as securities that have received credit ratings from a requisite nationally recognized statistical rating organization ("NRSRO") in one of the two highest short-term rating categories, or comparable unrated securities. The rule also restricts money market fund investments to securities that the fund's board, or its delegate, determines present minimal credit risks, and requires a fund to adopt policies and procedures regarding minimal credit risk determinations.<sup>6</sup> The amendments to rule 2a-7 remove any reference to, or requirement of reliance on, credit ratings in rule 2a-7 and modify the credit quality standard to be used in determining the eligibility of a money market fund's portfolio securities, including securities that are subject to a conditional demand feature. Specifically, the amendments eliminate the previous requirement that an eligible security be rated in one of the two highest short-term rating categories by an NRSRO or be of comparable quality, and combine the current "first tier" and "second tier" credit risk categories into a single standard, which will be included as part of rule 2a-7's definition of eligible security. A security will be an eligible security only if the money market fund's board of directors (or its delegate) determines that it presents minimal credit risks, which determination will involve consideration of specified credit analysis factors that are listed in the rule.<sup>7</sup> The amendments also require that, with respect to a security (or its guarantee) subject to a conditional demand feature, the underlying security (or its guarantee) must meet the same minimal credit risks standard.<sup>8</sup>

Money market funds are required to have written policies and procedures regarding minimal credit risk determinations.<sup>9</sup> Thus, each money market fund complex will incur one-time costs to comply with these amendments. Specifically,

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<sup>6</sup> See rules 2a-7(d)(2)(i); 2a-7(j)(1); 38a-1.

<sup>7</sup> Rule 2a-7(a)(11); *see also* Investment Company Act Release No. 31828 (Sept. 16, 2015) ("Adopting Release"), at section II.A.

<sup>8</sup> Rule 2a-7(d)(2)(iii)(C); *see also* Adopting Release, *supra* note 7, at section II.B.

<sup>9</sup> See rule 2a-7(j)(1).

each fund complex will incur costs to review the amended provisions of rule 2a-7 and, as it determines appropriate in light of the amendments, revise its policies and procedures to incorporate the amended credit quality standards to be used in determining the eligibility of a money market fund's portfolio securities. We anticipate that many funds are likely to retain their investment policies as currently required under rule 2a-7, which incorporate NRSRO ratings and which will be permitted under the rule amendments.<sup>10</sup> Some funds, on the other hand, may choose to revise their investment policies to remove references to NRSRO ratings and to incorporate the standards provided in the rule. Even if funds choose to eliminate references to ratings in their investment policies, funds' investment policies may not change substantially, as funds have already been required to assess credit quality apart from ratings as part of their minimal credit risk determinations. Based on staff observations in examinations and prior staff guidance, we believe that most money market fund managers currently take the codified credit analysis factors into account, as appropriate, when they determine that a portfolio security presents minimal credit risks.

While we cannot predict with precision the extent to which funds may revise their policies and procedures for determining minimal credit risk, we estimate that each money market fund complex on average will incur a one-time burden of 9 hours,<sup>11</sup> at an estimated cost of \$2,838,<sup>12</sup> to review and revise, as appropriate, its

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<sup>10</sup> See Adopting Release, *supra* note 7, at section V.A.

<sup>11</sup> We estimate that the lower range of the one-time hour burden for a money market fund complex to review and revise, as appropriate, its policies and procedures for determining minimal credit risk would be 6 hours (4 hours by a compliance manager and 2 hours by an attorney). We estimate that the upper range of the one-time hour burden for a money market fund complex to review and revise, as appropriate, its policies and procedures for determining minimal credit risk would be 12 hours (8 hours by a compliance manager and 4 hours by an attorney). For purposes of our estimates for this analysis, we have taken the mid-point of this range, 9 hours (6 hours by a compliance manager and 3 hours by an attorney).  $(6 \text{ hours} + 12 \text{ hours}) \div 2 = 9 \text{ hours}$ .

<sup>12</sup> The Commission's estimate concerning the wage rates is based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association. The estimated wage figures are based on published rates for compliance managers and attorneys, modified to account for an 1,800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead, yielding effective hourly rates of \$283 and \$380, respectively. See Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.  $(6 \text{ hours} \times \$283 \text{ per hour for a compliance manager}) + (3 \text{ hours} \times \$380 \text{ per hour for an attorney}) = \$2,838$ .

policies and procedures. Using an estimate of 103 money market fund complexes,<sup>13</sup> we estimate that money market funds would incur, in aggregate, a total one-time burden of 927 hours,<sup>14</sup> at an estimated cost of \$292,314,<sup>15</sup> to comply with the amended provisions of rule 2a-7 modifying the credit quality standard to be used in determining the eligibility of a fund's portfolio securities. Amortizing these hourly burdens over three years results in an average annual increased burden for all money market fund complexes of 309 hours,<sup>16</sup> at a cost of \$97,438.<sup>17</sup> We do not believe that funds would newly implement or change any annual review of policies and procedures that they currently perform as a result of the adopted amendments.

#### **b. Monitoring Minimal Credit Risks**

Rule 2a-7 required a money market fund board (or its delegate) to promptly reassess whether a security that has been downgraded by an NRSRO continues to present minimal credit risks. As discussed above, the amendments to rule 2a-7 eliminated the use of credit ratings in the rule's downgrade and default provisions. Rule 2a-7 instead now requires a money market fund to adopt written procedures requiring the fund adviser, or any person to whom the fund's board of directors has delegated portfolio management responsibilities, to provide ongoing review of each portfolio security to determine that the issuer continues to present minimal credit risks.<sup>18</sup> To comply with these amendments, a fund complex will incur one-time costs to review the amended provisions of rule 2a-7 and adopt policies and procedures providing for ongoing review to determine whether a money market fund's portfolio securities continue to present minimal credit risks. Money market funds were not previously required to maintain policies and procedures that specifically address ongoing minimal credit risk monitoring. Although we understand, based on staff experience, that most money market funds currently monitor portfolio securities for minimal credit risk on an ongoing basis, we are assuming that all money market fund

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<sup>13</sup> Based on data from Form N-MFP and iMoneyNet as of April 30, 2015.

<sup>14</sup> 9 hours per money market fund complex × 103 money market fund complexes = 927 hours.

<sup>15</sup> \$2,838 per money market fund complex × 103 money market fund complexes = \$292,314.

<sup>16</sup> 927 hours ÷ 3 years = 309 hours per year.

<sup>17</sup> \$292,314 ÷ 3 years = \$97,438 per year.

<sup>18</sup> Rule 2a-7(g)(3); *see also* Adopting Release, *supra* note 7, at section II.C.



complexes would need to adopt new written policies and procedures to provide for this ongoing review in order to comply with the amended provisions of rule 2a-7.

We estimate that each money market fund complex on average would incur a one-time burden of 5 hours,<sup>19</sup> at a cost of \$3,619,<sup>20</sup> to adopt policies and procedures for ongoing review of minimal credit risks. Using an estimate of 103 money market fund complexes,<sup>21</sup> we estimate that money market funds will incur, in aggregate, a total one-time burden of 515 hours,<sup>22</sup> at a cost of \$372,757,<sup>23</sup> to comply with the amended provisions of rule 2a-7. Amortizing these hourly and cost burdens over

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<sup>19</sup> These hour estimates assume that the process of adopting written policies and procedures will consist primarily of transcribing and reviewing any existing policies and procedures that funds currently use when monitoring minimal credit risk on an ongoing basis. Because we cannot predict the extent to which funds may need to develop these policies and procedures to comply with the amended provisions of rule 2a-7, or may need to transcribe and review any existing policies and procedures, we have taken, as an estimated average burden, the mid-point of a range of hour estimates discussed below in the following paragraph for purposes of our PRA analysis.

We estimate that the lower range of the one-time hour burden for a money market fund complex to adopt policies and procedures for ongoing review to determine whether a money market fund's portfolio securities continue to present minimal credit risks would be 3.5 hours (2 hours by a compliance manager and 1 hour by an attorney to develop and review policies and procedures or transcribe and review pre-existing policies and procedures + 0.5 hours for the fund's board to adopt the policies and procedures). We estimate that the upper range of the one-time hour burden for a money market fund complex to adopt such policies and procedures would be 6.5 hours (4 hours by a compliance manager and 2 hours by an attorney to develop and review policies and procedures or transcribe and review pre-existing policies and procedures + 0.5 hours for the fund's board to adopt the policies and procedures). The mid-point of the lower range estimate and the upper range estimate is 5 hours.

<sup>20</sup> (3 hours × \$283 per hour for a compliance manager) + (1.5 hours × \$380 per hour for an attorney) + (0.5 hours × \$4,400 per hour for a board of 8 directors) = \$3,619. We previously estimated in 2009 that the average cost of board of director time was \$4,000 per hour for the board as a whole, based on information received from funds and their counsel. Adjusting for inflation, we estimate that the current average cost of board of director time is approximately \$4,400 per hour.

<sup>21</sup> Based on data from Form N-MFP and iMoneyNet as of April 30, 2015.

<sup>22</sup> 5 hours per money market fund complex × 103 money market fund complexes = 515 hours.

<sup>23</sup> \$3,619 per money market fund complex × 103 money market fund complexes = \$372,757.

three years results in an average annual increased burden for all money market fund complexes of 172 hours<sup>24</sup> at a cost of \$124,252.<sup>25</sup>

**c. Stress Testing**

Rule 2a-7 has required money market funds to adopt written stress testing procedures and to perform stress tests according to these procedures on a periodic basis. The amendments to rule 2a-7 replace the reference to ratings downgrades in the rule's stress testing provisions with a hypothetical event that is designed to have a similar impact on a money market fund's portfolio.<sup>26</sup> The amendment is designed to retain a similar standard for stress testing as under previous rule 2a-7. Specifically, while rule 2a-7 already required a fund to stress test its portfolio based on certain hypothetical events, including a downgrade of portfolio securities, the amendments require a fund to stress test for an event indicating or evidencing credit deterioration in a portfolio security, and will include a downgrade or default as examples of that type of event. As discussed below, we recognize that a money market fund could use its current policies and procedures to comply with the amendment, and could continue to use credit quality evaluations prepared by outside sources, including NRSRO downgrades, in stress tests. Because the rule currently requires testing for a downgrade as a hypothetical event, we do not believe that funds will take any additional time to review and revise their policies and procedures with respect to the continued use of downgrades in stress testing. Accordingly, we do not expect the amendments will significantly change current collection of information burden estimates for rule 2a-7.

**d. Total Burden for Rule 2a-7**

The current approved collection of information for rule 2a-7 is 632,244 annual aggregate hours. The aggregate additional burden hours associated with the adopted amendments to rule 2a-7 increase the burden estimate to 632,725 hours annually for all funds.<sup>27</sup>

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<sup>24</sup> 515 hours ÷ 3 years = 172 hours per year.

<sup>25</sup> \$372,757 ÷ 3 years = \$124,252 per year.

<sup>26</sup> Rule 2a-7(g)(8)(i)(B); *see* Adopting Release, *supra* note 7, at section II.D.

<sup>27</sup> 632,244 hours currently approved hours + 309 hours for eligible security determinations for money market fund portfolio securities, including securities that are subject to a conditional demand feature + 172 hours for monitoring minimal credit risks = 632,725 hours.

**13. Cost to Respondents**

Cost burden is the cost of goods and services purchased in connection with complying with the collection of information requirements of rule 2a-7. The cost burden does not include the cost of the hour burden discussed in Item 12 above.

The current approved collection of information for rule 2a-7 is \$92,900,000 in external costs. There will be no external costs associated with complying with the amended requirements of rule 2a-7. Because we estimate no external costs associated with complying with the amended rule 2a-7 requirements, the annual costs associated with the rule 2a-7 collection of information requirements will remain \$92,900,000.

**14. Costs to Federal Government**

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

**15. Changes in Burden**

The total annual hour burden of 632,725 hours represents an increase of 481 hours over the previous burden estimate of 632,244 hours. The change in burden hours is due to the Commission's estimates of the one-time time burdens that will result from our amendments. The currently approved cost burden did not change as a result of our amendments.

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

The results of any information collected will not be published.

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

The Commission is not seeking approval to not display the expiration date for OMB approval.

**18. Exceptions to Certification for Paperwork Reduction Act Submissions**

The Commission is not seeking an exception to the certification statement.

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

The collection of information will not employ statistical methods.