

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

**A. JUSTIFICATION**

**1. Necessity for the Collection Information**

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-1 *et seq.*] (the “Act”) exempts certain money market funds from the valuation requirements of the Act, and, subject to certain risk-limiting conditions, permits these 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 government or retail money market fund, in supervising the fund's operations, must establish written procedures designed to stabilize the fund's net asset value (“NAV”). A money market fund’s 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.

In addition, money market fund boards must adopt written procedures that provide for periodic stress testing (and reporting to the board) of the fund's ability to minimize principal volatility and maintain a certain level of weekly liquid assets based on certain hypothetical events and to maintain policies and procedures that specifically address ongoing minimal credit risk monitoring. Funds must also post monthly portfolio information and certain other 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.

On December 15, 2021, the Commission proposed amendments to rule 2a-7 that are designed to improve the resilience and transparency of money market funds.<sup>1</sup> Several of the amendments create new collection of information requirements or modify existing ones. These amendments include: (1) removal of fee and gate provisions from rule 2a-7 and the associated board determinations of whether to impose a fee or gate; (2) new provisions requiring institutional prime and institutional tax-exempt money market funds to establish and implement swing pricing policies and procedures and deliver a board report no less frequently than annually; and (3) new provisions requiring government and retail money market funds to maintain and keep current records identifying the financial intermediaries the fund has determined have the capacity to transact at non-stable prices per share and the intermediaries for which the fund was unable to make this determination. The retention period with respect to the

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<sup>1</sup> Money Market Fund Reforms, Investment Company Act Release No. 34441 (Dec. 15, 2021) [87 FR 7248 (Feb. 8, 2022)]

swing pricing policies and procedures, board reports, and financial intermediary determinations is six years, the first two years in an easily accessible place.

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

Certain provisions of rule 2a-7, as well as certain of the proposed amendments, contain “collection of information” requirements within the meaning on the Paperwork Reduction Act of 1995 (“Paperwork Reduction Act”), 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 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 NAV (where a fund seeks to maintain a stable NAV), 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 Electronic Signatures in Global and National Commerce Act<sup>2</sup> and rules under the Investment Company Act of 1940 and the Investment Advisers Act of 1940 permit money market funds and their advisers to maintain records electronically. In addition, money market funds are required to post monthly portfolio information and certain other information on their websites, taking advantage of investors’ widespread use of the internet to obtain investment information.

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<sup>2</sup> P.L. 106-229, 114 Stat. 464 (June 30, 2000).

#### **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 the proposed amendments to 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. The Commission reviews all rules periodically, as required by the Regulatory Flexibility Act<sup>3</sup>, to identify methods to minimize recordkeeping or reporting requirements affecting small businesses. However, 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.

Based on information in filings submitted to the Commission, we believe that only one money market fund is a small entity.<sup>4</sup> For this reason, the Commission believes the proposed amendments to rule 2a-7, would not, if adopted, have a significant economic impact on a

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<sup>3</sup> See 5 U.S.C. 604(a).

<sup>4</sup> Under the Investment Company Act, an investment company is considered a small business or small organization if it, together with other investment companies in the same group of related investment companies, has net assets of \$50 million or less as of the end of its most recent fiscal year. See 17 CFR 270.0-10.

substantial number of small entities.

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

The collection of information under rule 2a-7 is integral to the framework of rule 2a-7 and therefore necessary to help further the rule's goals of creating a resilient, transparent, and efficient regulatory framework for money market funds. Thus, not requiring this collection of information would be incompatible with the goals of rule 2a-7.

#### **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 (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 retention period with respect to the proposed swing pricing policies and procedures, board reports, and financial intermediary determinations would be six years, the first two years in an easily accessible place. 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 and requires funds to post certain 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 informal exchanges. These various forums provide the Commission and the staff with a means of ascertaining and acting upon paperwork burdens confronting the industry. In addition, the Commission has requested public comment on the proposed amendments to rule 2a-7, including the collection of information requirements resulting from the proposed amendments. Before adopting these amendments, the Commission will receive and evaluate public comments on the proposed amendments and their associated collection of information requirements.

**9. Payment or Gift**

Not applicable.

**10. Confidentiality**

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

**11. Sensitive Questions**

No information of a sensitive nature, including social security numbers, will be required under this collection of information. The information collection does not collect personally identifiable information (PII). The agency has determined that a system of records notice (SORN) and privacy impact assessment (PIA) are not required in connection with the collection of 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. Several provisions of the proposed amendments to rule 2a-7 create new collection of information requirements or

modify existing ones. The respondents to these collections of information will be money market funds. We estimate that there are 318 money market funds subject to rule 2a-7, although the proposed new collections of information would each apply to certain subsets of money market funds, as reflected in the below table.<sup>5</sup> The new collections of information are mandatory for the identified types of money market funds that rely on rule 2a-7. In our most recent Paperwork Reduction Act submission for rule 2a-7, the Commission estimated that the annual compliance burden to comply with the collection of information requirements of rule 2a-7 is 293,516 hours.<sup>6</sup>

The table below summarizes our PRA initial and ongoing annual burden estimates associated with the proposed amendments to rule 2a-7.

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<sup>5</sup> Based on Form N-MFP filings, there were 318 money market funds as of July 2021.

<sup>6</sup> The most recent rule 2a-7 PRA submission was approved in 2022 (OMB Control No. 3235-0268).

**Table 1: Proposed Burden Estimates for Rule 2a-7**

	Internal initial burden hours	Internal annual burden hours <sup>1</sup>		Wage rate <sup>2</sup>	Internal time costs	Annual external cost burden
<b>PROPOSED ESTIMATES</b>						
Removal of fee and gate provisions	0 hours	-7 hours	×	\$1,562 <sup>3</sup>	-\$10,935	
<b>Number of funds</b>		×	2 <sup>4</sup>		×	2 <sup>4</sup>
<b>Total annual burden for removal of fee and gate provisions (I)</b>		-14 hours			-\$21,870	
Swing pricing policies and procedures	54 hours <sup>5</sup>	20 hours <sup>6</sup>	×	\$382 <sup>7</sup>	\$7,640	
		2 hours		\$4,470 <sup>8</sup>	\$8,940	
Swing pricing board reporting		4 hours <sup>9</sup>	×	\$2,419 <sup>10</sup>	\$9,676	
Swing pricing recordkeeping		4 hours <sup>11</sup>	×	\$113 <sup>12</sup>	\$452	
<b>Number of fund complexes</b>		×	25 <sup>13</sup>		×	25 <sup>13</sup>
<b>Total annual burden for swing pricing requirement (II)</b>		750 hours			\$667,700	
Recordkeeping related to financial intermediary determinations	3 hours	2 hours <sup>14</sup>		\$110 <sup>15</sup>	\$220	
<b>Number of funds</b>		×	265 <sup>16</sup>		×	265 <sup>16</sup>
<b>Total annual burden for determinations related to financial intermediaries (III)</b>		530 hours			\$58,300	
<b>Total new annual burden (I + II + III)</b>		1,266 hours			\$704,130	
Current burden estimates		293,516 hours			\$73,612,364	\$73,612,364
Revised burden estimates		294,782 hours			\$74,316,494	\$73,612,364

**Notes:**

- This estimate includes the initial burden estimates amortized over a three-year period.
- The Commission's estimates of the relevant wage rates (with the exception of the board of directors) are based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association's Office Salaries in the Securities Industry 2013. The estimated wage figures are modified by Commission staff to account for an 1,800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, overhead, and adjusted to account for the effects of inflation. These PRA estimates assume that the same types of professionals would be involved in the proposed requirements that we believe otherwise would be involved in complying with other information collection requirements in rule 2a-7.
- Represents the wage rate and burden hour allocations the Commission used in its most recent PRA submission. In that submission, the Commission estimated 5 hours for an attorney (at a rate of \$401 per hour) and 2 hours for a board of 9 directors (at a rate of \$4,465 per hour).
- In its most recent PRA submission, the Commission estimated that 2 funds per year would have weekly liquid assets below 30% of total assets, which would require a board determination of whether to impose fees or gates. Because our proposal would remove the fee and gate provisions from the rule, we similarly propose to remove the burdens that have been allocated to these provisions.
- We are estimating for the purpose of this analysis that each fund complex would incur a one-time average burden of 48 hours to document swing pricing policies and procedures, with 24 hours spent by a senior accountant and 24 hours spent by a chief compliance officer. Since a fund board approves the fund's swing pricing policies and procedures and reviews, no less frequently than annually, a written report that includes certain required elements, we estimate a one-time burden of 6 hours per fund complex associated with the fund board's review and approval of swing pricing policies and procedures.
- We estimate that each fund complex will spend 4 hours each year, on average, to update swing pricing policies and procedures, with 2 hours spent by a senior accountant and 2 hours spent by a chief compliance officer.
- Represents a blended wage rate of a senior accountant (\$221 per hour) and a chief compliance officer (\$542 per hour).
- Represents an estimated cost per hour for an entire board of directors, assuming an average of 9 board members per board.
- We estimate that each fund complex would spend 2 hours each year, on average, preparing the required written report to the board. We estimate an annual burden of 2 hours per fund complex associated with the fund board's review of the swing pricing administrator's report.
- Represents a wage rate of a compliance attorney at \$373 per hour and 2 hours for a board of 9 directors at a rate of \$4,770 per hour.
- We estimate that the burden is four hours per fund complex each year to retain the proposed swing pricing records, with 2 hours spent by a general clerk and 2 hours spent by a senior computer operator.
- Represents a blended wage rate of general clerk (\$64 per hour) and senior computer operator (\$97 per hour).



13. Represents the number of fund complexes that have institutional prime and institutional tax-exempt funds as of July 2021, based on Form N-MFP data. We estimate the burdens related to swing pricing at the fund complex level because we believe funds in the same complex would experience certain efficiencies in developing and updating written policies and procedures and in board oversight of swing pricing.

14. We estimate that each fund complex would spend 2 hours each year, on average, making the required determinations whether fund intermediaries are capable of transacting in fund shares at other than a stable NAV, typically using a senior compliance examiner.

15. Represents a blended wage rate of general clerk (\$64 per hour) and senior computer operator (\$97 per hour).

16. Represents the number of government and retail money market funds as of July 2021, based on Form N-MFP data.

### Summary of Revised Annual Responses, Burden Hours, and Cost Estimates

IC Title	Annual No. of Responses			Annual Time Burden (Hrs.)			Annual External Cost Burdens (\$)		
	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>
Rule 2a-7	27,820	27,990	170	293,516	294,782	1,266	\$73,612,364	\$73,612,364	\$0

### 13. Cost to Respondents

Commission staff estimates that in addition to the costs described in section 12, money market funds will incur external costs to preserve records, as required under rule 2a-7.<sup>7</sup> These costs will vary significantly for individual funds, depending on the amount of assets under fund management and whether the fund preserves its records in a storage facility in hard copy or has

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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. 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-CR are included in the PRA burden estimate for that form.

developed and maintains a computer system to create and preserve compliance records.<sup>8</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 \$33.0 million per year.<sup>9</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 \$71.6 million for all large funds.<sup>10</sup>

Commission staff further estimates that, even absent the requirements of rule 2a-7, money

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<sup>8</sup> The amount assets under management in individual money market funds ranges widely, varying from below \$50 million to well over \$150 billion. We further note that the assets under management figures were calculated based on net assets at the fund level and not the sum of the market values of the underlying funds.

<sup>9</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 \$328.5 million under management in small funds, \$52.4 billion under management in medium funds and \$5.4 trillion under management in large funds, the costs of preservation were estimated as follows:  $((0.0051295 \times \$328.5 \text{ million}) + (0.0005041 \times \$52.4 \text{ billion}) + (0.0000009 \times \$5.4 \text{ trillion}) = \$33.0 \text{ million}$ . 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>10</sup> This estimate is based on the following calculation:  $\$0.0000132 \times \$5.4 \text{ trillion in assets under management for large funds} = \$71.6 \text{ million}$ .

market funds would spend at least half of the amount for capital costs (\$35.8 million)<sup>11</sup> and for record preservation (\$16.5 million)<sup>12</sup> 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. Accordingly, the Commission staff estimates that the total external cost burden for compliance with rule 2a-7 is \$52.3 million.<sup>13</sup> We do not believe that the proposed amendments to rule 2a-7 would add external cost burdens for money market funds.

#### **14. Cost to the Federal Government**

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

#### **15. Changes in Burden**

The estimated total annual hourly burden associated with rule 2a-7 would increase from 27,820 hours to 27,990 hours (an increase of 170 hours) as a result of the proposed amendments. This increase is attributable to the estimated time burdens related to the proposed swing pricing requirements and the recordkeeping requirements related to financial intermediaries. The external cost burden associated with rule 2a-7 would not change. The Commission requested public comment on all information collection burden estimates for this OMB control number.

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

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<sup>11</sup> This estimate is based on the following calculation: \$71.6 million in capital costs / 2 = \$35.8 million.

<sup>12</sup> This estimate is based on the following calculation: \$33.0 million in record preservation costs / 2 = \$16.5 million

<sup>13</sup> This estimate is based on the following calculation: \$35.8 million in capital costs + \$16.5 million in record preservation = \$52.3 million

Not applicable.

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

Not applicable.

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

**Submissions**

Not applicable.

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

Not applicable.