

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, or seek to minimize fluctuations in their price per share. 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 sufficient minimum liquidity under 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 July 12, 2023, the Commission adopted amendments to rule 2a-7 that are designed to improve the resilience and transparency of money market funds.¹ Several of the amendments create new collection of information requirements or modify existing ones. These amendments include: (1) removing the provisions that link liquidity thresholds and board determinations regarding potential imposition of redemption gates, and related changes to website disclosure requirements; (2) changing the rule's liquidity fee framework to remove links to liquidity thresholds, require institutional prime and institutional tax-exempt money market funds to comply with mandatory liquidity fee requirements, provide for discretionary liquidity fees for non-government money market funds, and associated board review, approved guidelines, and ongoing oversight; (3) revising provisions requiring a money market fund to identify in its

¹ See Money Market Fund Reforms; Form PF Reporting Requirements for Large Liquidity Fund Advisers; Technical Amendments to Form N-CSR and Form N-1A (Investment Company Act Release No. 34959) (July 12, 2023) [88 FR 51404 (Aug. 3, 2023)] ("Adopting Release").

written stress testing procedures the minimum liquidity levels for stress testing; and (4) adding new provisions that permit a stable NAV fund to engage in share cancellation in a negative interest rate environment, subject to board determination and investor disclosure requirements.

2. Purpose and Use of the Information Collection

Certain provisions of rule 2a-7 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. 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 Act² 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

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

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 either. The recordkeeping, reporting, and website posting required by rule 2a-7, including the amendments, generally is not duplicated elsewhere. Although the website posting requirements may duplicate some information that money market funds are required to report each month on Form N-MFP, the website information that rule 2a-7 requires facilitates investors' efficient access to the information and generally provides timelier information to investors than the monthly reports. In contrast, the information reported on Form N-MFP must be filed in XML-tagged format, which facilitates staff analysis and enhances Commission oversight of money market funds.

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 Act³, 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

³ See 5 U.S.C. 604(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.⁴ For this reason, the Commission believes the amendments to rule 2a-7, will not have a significant economic impact on a 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), the written guidelines approved by the board regarding liquidity fees under the amended rule, 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

⁴ 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.

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 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

On December 15, 2021, the Commission issued a proposing release soliciting comment on collections of information related to, among other things, proposed amendments to rule 2a-7. Before adopting these amendments, the Commission received and evaluated public comments on the proposed amendments and their associated collection of information requirements. The Commission's solicitation of public comments included estimating and requesting public comments on updated burden estimates for all information collections under this OMB control number (*i.e.*, both changes associated with the rulemaking and other burden updates). Comments on the Commission's releases are generally received from registrants, investors, and other market participants. In addition, the Commission and staff participate in an ongoing dialogue with representatives of various market participants through public conferences, meetings, and informal exchanges. All comments received on the proposal are available at <https://www.sec.gov/comments/s7-22-21/s72221.htm>. The Commission considered all comments received prior to publishing the final rules as required by 5 CFR 1320.11(f). The Commission did not receive any comments specifically addressing the estimated PRA burdens in the proposing release associated with the amendments to rule 2a-7. The Commission did, however, receive comments suggesting that implementation of some elements of the proposal,

including the associated collections of information, may be more burdensome than the Commission estimated at proposal. The Commission took these comments into account in estimating the burdens of the final rule.

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 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 294 money market funds subject to rule 2a-7, although the new collections of information will each apply to certain subsets of money market funds, as reflected

in the below table.⁵ The new collections of information are mandatory for the identified types of money market funds that rely on rule 2a-7, except that the collection related to use of share cancellation will be necessary only for those funds seeking to use share cancellation instead of converting to a floating NAV. 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.⁶

The tables below summarize the change to the total annual compliance burden of rule 2a-7, in hours and in costs, as a result of the amendments.

Table 1: Estimated Burdens of Amendments

	Internal initial burden hours	Internal annual burden hours ¹		Wage rate ²	Internal time costs	Annual external cost burden
FINAL ESTIMATES³						
Removal of tie between liquidity threshold and fees and gates and associated board determinations	0 hours	-7 hours	×	\$1,713 ⁴	-\$11,991	
Number of funds⁵		×	2		×	2
Total annual burden for removal of tie between liquidity threshold and fees and gates and associated board determinations (I)		-14 hours			-\$23,982	
Guidelines and board review for mandatory and discretionary liquidity fees	12 hours ⁶	3 hours	×	\$368 ⁷	\$1,104	
		2 hours ⁸		\$4,770 ⁹	\$9,540	
		1 hour ¹⁰		\$425 ¹¹	\$425	
Number of funds¹²		×	111		×	111
Total annual burden for liquidity fee requirements (II)		666 hours			\$1,228,659	
Identification of minimum liquidity levels for stress testing policies	1 hour ¹³	0.3 hour		\$428 ¹⁴	\$128	

⁵ Based on Form N-MFP filings, there were 294 money market funds as of March 2023.

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

Number of funds		x 294	x 294	
Total annual burden for amending stress testing policies (III)		88 hours	\$37,632	
Determination and disclosures regarding share cancellation	6 hours ¹⁵	2 hours ¹⁶	\$484 ¹⁷	\$968
		1 hour	\$4,770 ⁹	\$4,770
Number of funds ¹⁸		x 169	x 169	
Total annual burden for determinations related to share cancellation (IV)		507 hours	\$969,722	
Changes to website disclosure related to fees and gates		-1 hour	\$254 ¹⁹	-\$254
Number of funds ²⁰		x 1	x 1	
Other changes to website disclosure	1 hour	0.3 hour	\$289 ²¹	\$87
Number of funds		x 294	x 294	
Total annual burden for website disclosure amendments (V)		87 hours	\$25,324	
Total new annual burden (I+II+III+IV+V)		1,334 hours	\$2,237,355	
Current burden estimates		293,516 hours	\$73,612,364	\$52,300,000 ²²
Revised burden estimates		294,850 hours	\$75,849,719	\$52,300,000

Notes:

1. This estimate includes the initial burden estimates amortized over a three-year period.
2. 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 new requirements that we believe otherwise would be involved in complying with other information collection requirements in rule 2a-7.
3. For additional detail about the proposed estimates, see Money Market Fund Reforms, Investment Company Act Release No. 34441 (Dec. 15, 2021) [87 FR 7248 (Feb. 8, 2022)].
4. 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 \$484 per hour) and 2 hours for a board of 9 directors (at a rate of \$4,770 per hour).
5. 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 amendments would remove the gate provisions from the rule and would amend the liquidity fee provision's information collection requirements as otherwise reflected in this PRA, we are removing the burdens that have been allocated to these provisions of the current rule.
6. We are estimating for the purpose of this analysis that each fund would incur a one-time average burden of 9 hours to prepare liquidity fee guidelines in conformance with the final rule's liquidity fee provisions, with 4.5 hours spent by a senior accountant and 4.5 hours spent by a chief compliance officer. Since a fund board reviews and approves the liquidity fee written guidelines for determining the application and size of liquidity fees, we estimate a one-time burden of 3 hours per fund associated with the fund board's review and administration/delegation of the liquidity fee framework. We assume for these purposes that all affected fund boards will delegate responsibilities for day-to-day administration of mandatory liquidity fees to the fund's adviser or officers. The estimates reflect the average burden per fund, although on a per-fund basis burdens for institutional funds will likely be higher than burdens for non-institutional funds, given that institutional funds are subject to the mandatory liquidity fee provision as well as the discretionary fee provision.
7. Represents a blended wage rate of a senior accountant (\$252 per hour) and an attorney (\$484 per hour).
8. Reflects a one-time burden of 3 hours of board time, annualized over 3 years, plus an ongoing burden of 1 hour of board time per year to review liquidity fee guidelines and the delegate's liquidity fee determinations.
9. Represents an estimated cost per hour for an entire board of directors, assuming an average of 9 board members per board.
10. We estimate that each fund will spend 1 hour of compliance and professional legal time each year, on average, to review and amend its liquidity fee guidelines.
11. Represents an estimated cost per hour for a compliance attorney.
12. Includes prime and tax-exempt money market funds as of Mar. 2023. We assume for purposes of this analysis that no government money market funds will opt in to the discretionary liquidity fee framework. Although the estimates reflect a per-fund average, we believe that funds within the same fund complex would experience certain efficiencies in responding to the collection of information requirements. Depending on the size of the fund complex, per fund costs

may be higher or lower than our estimated averages.

13. We estimate an initial burden of 1 hour per fund for determining and recording the minimum liquidity levels for fund stress testing policies.

14. Represents a blended wage rate of a senior portfolio manager (\$383 per hour), a senior risk management specialist (\$416 per hour), and an attorney (\$484 per hour).

15. We estimate an initial burden of 6 hours per fund for determining whether the fund will use share cancellation in the event of negative fund yields, with 3 hours of board time and 3 hours of attorney time to prepare materials for board review and to prepare written records of board determinations.

16. We estimate that each fund will spend 1 hour of attorney time each year, on average, to update disclosures regarding the potential use of share cancellation in the event of negative fund yields.

17. Represents an estimated cost per hour for an attorney.

18. We estimate that not all stable NAV money market funds would seek to use share cancellation in the event of negative interest rates and, for purposes of this analysis, we assume that 70% of stable NAV money market funds would pursue such an approach. 169 funds represents 70% of the number of government and retail money market funds as of Mar. 2023, based on Form N-MFP data.

19. Represents the wage rate and burden hour allocations the Commission used in its most recent PRA submission. In that submission, the Commission estimated 1 hour for a webmaster (at a rate of \$254 per hour) for 1 fund per year.

20. In its most recent PRA submission, the Commission estimated that 1 fund per year would be required to update its website to disclose information about the imposition and removal of liquidity fees and the suspension and resumption of fund redemptions. Because our amendments would remove the gate provisions from the rule and would no longer require website disclosures about the imposition of liquidity fees, we are similarly removing the burdens that have been allocated to these provisions.

21. Represents an estimated cost per hour for a webmaster.

22. This reflects a correction of a typographical error regarding the currently approved external cost estimate.

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>Requested⁷</i>	<i>Change</i>
Rule 2a-7	27,820	26,147	-1,673	293,516	294,850	1,334	\$73,612,364	\$52,300,000	\$21,312,364

This annual number of responses estimate is based on the following calculation: (85 responses x 294 funds) + (1 response x 10 funds) + (1 response x 74 funds) + (7 responses per year across all funds) + (1 response x 10 funds) + (6 response x 80 fund complexes) + (1 response x 294 funds) + (1 response x 2 funds) + (1 response x 111 funds) + (1 response x 169 funds) = 26,147 responses.

⁷ This reflects a correction of a typographical error regarding the currently approved external cost estimate.

- 85 responses annually for each fund to document a record of credit risk analyses, and determinations regarding adjustable rate securities, asset-backed securities, asset-backed securities not subject to guarantees, securities subject to a demand feature or guarantee, and counterparties to repurchase agreements.
- 1 response annually for each of 10 new money market funds⁸ to formulate and establish written procedures and guidelines.
- 1 response annually for each of 74 money market funds⁹ to review and amend written procedures and guidelines.
- 7 responses annually across all money market funds¹⁰ to record the board of directors' determinations and actions related to events reportable on Form N-CR.
- 1 response annually for each of 10 new money market funds to formulate and establish written procedures to stress test periodically the ability of the fund to maintain sufficient minimum liquidity under certain specified hypothetical events.

⁸ Commission data indicates that on an annual basis, approximately 10 new money market funds per year register with the Commission. 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. These estimates are limited only to money market funds reporting on Form N-MFP, and do not include feeder funds, which invest all their assets in the portfolio of a master fund.

⁹ For purposes of this PRA we assumed that on average 25% (294 funds x .25 = 74 funds, approximately) of money market funds would review and update their procedures on an annual basis

¹⁰ Events reportable on Form N-CR occur infrequently. Based on prior collections of information, we estimate an average of approximately 7 occurrences across all funds each year; however, this number may vary significantly in any particular year. A fund must also provide information in a Notice to the Commission regarding these events, as an exhibit to Form N-CR. The burden hours and responses required for filing these exhibits are included in the PRA submissions for Form N-CR.

- 6 responses annually for each of 80 fund complexes to review, revise, and approve written procedures to stress test a fund’s portfolio and report to fund boards on the results of stress testing.
- 1 response annually for each of 294 funds to comply with website disclosure requirements.
- 1 response annually for each of 2 new money market funds to adopt written retail fund policies and procedures.
- 1 response annually for each of the 111 prime and tax-exempt funds to formulate a liquidity fee framework, including establishing guidelines and board review for mandatory and discretionary liquidity fees.
- 1 response annually for each of the 169 stable NAV funds connected to board determinations regarding the use of share cancellation and associated investor disclosures.

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-7.¹¹ 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

¹¹ 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.¹²

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.¹³

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.¹⁴

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

¹² 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.

¹³ 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 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.

¹⁴ This estimate is based on the following calculation: $\$0.0000132 \times \$5.4 \text{ trillion in assets under management for large funds} = \71.6 million .

market funds would spend at least half of the amount for capital costs (\$35.8 million)¹⁵ and for record preservation (\$16.5 million)¹⁶ 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.¹⁷ We do not believe that the amendments to rule 2a-7 will 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 has increased from 293,516 hours to 294,850 hours (an increase of 1,334 hours). The external cost burden associated with rule 2a-7 has not changed.¹⁸ The increases are attributable to the estimates associated with the amendments to rule 2a-7. These changes in burden also reflect the Commission's revision and update of burden estimates for all information collections under this OMB control number (whether or not associated with rulemaking changes), and the Commission requested public comment on all information collection burden estimates for this OMB control number.

¹⁵ This estimate is based on the following calculation: \$71.6 million in capital costs / 2 = \$35.8 million.

¹⁶ This estimate is based on the following calculation: \$33.0 million in record preservation costs / 2 = \$16.5 million

¹⁷ This estimate is based on the following calculation: \$35.8 million in capital costs + \$16.5 million in record preservation = \$52.3 million

¹⁸ For purposes of this PRA submission, the external costs burdens have been decreased by \$21,312,364 relative to the previously approved external costs burdens. This reflects a correction of a typographical error regarding the previously approved external cost estimate.

16. Information Collection Planned for Statistical Purposes

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.