The option contracts on the Robusta Coffee futures contract authorized for offer and sale in the United States by Order issued on November 30, 1989 was denominated in sterling. By letter dated January 30, 1991, and subsequent telephone conversations with Commission staff, London Fox advised the Commission that on or after March 1, 1991, the denomination for the option contract on the Robusta Coffee futures contract would be changed to United States dollars and that other terms and conditions of the contract would be changed as well. In addition, London Fox indicated that as of the changeover date, no new positions would be opened in sterling and that all new trading would be in dollars. Since the conversion to a dollar denomination is considered a material change in the option contract, the Commission is publishing the new terms and conditions of the option contract on the Robusta Coffee futures contract for notice purposes only.

Contract Specifications

Options on the Robusta Coffee Futures Contract

Contract Units: 5 tonnes.

Minimum Price Fluctuation: $1 per tonne.

Exercise/Strike Price Increments: $50 per tonne.

Trading Months: January, March, May, July, September, November.

Trading Hours: 09:45 to 12:32 hours; 14:30 to 17:00 hours. (As for the underlying Futures Contract—trading in Traded Options will continue until trading in the underlying Futures Contracts has ceased.) Shall be the close of business on the third Wednesday in the preceding month. Declaration (or non-declaration) instruction shall be given to the Clearing House not later than one hour after close of business.

List of Subjects in 17 CFR Part 30

Commodity futures, Commodity options, Foreign commodity options.

Accordingly, 17 CFR part 30 is amended as set forth below:

PART 30—FOREIGN FUTURES AND FOREIGN OPTION TRANSACTIONS

1. The authority citation for part 30 continues to read as follows:

Authority: Secs. 2(a)(1)[A], 4, 4c, and 8a of the Commodity Exchange Act, 7 U.S.C. 2, 6, 6c and 12a.

2. Appendix B to part 30 is amended by revising the existing entry for

"London Futures and Options Exchange" option contract on Robusta Coffee futures contract to read as follows:

Appendix B—Option Contracts Permitted To Be Offered or Sold in the U.S. Pursuant to Section 30.3(a)

<table>
<thead>
<tr>
<th>Exchange</th>
<th>Type of contract</th>
<th>FR date and citation</th>
</tr>
</thead>
<tbody>
<tr>
<td>London Futures and Options Exchange</td>
<td>Option Contract on Robusta Coffee Futures Contract</td>
<td>Dec. 6, 1988; 54 FR 50356, Feb. 27, 1990</td>
</tr>
</tbody>
</table>

Issued in Washington, DC on February 21, 1991.

Lynn K. Gilbert, Deputy Secretary of the Commission.

[FR Doc. 91-4520 Filed 2-20-91; 8:45 am]

BILLING CODE 6511-01-M

SECURITIES AND EXCHANGE COMMISSION

17 CFR Parts 230, 239, 270, and 274
[Rel. Nos. 33-6682; IC-18005; S7-13-90]
RIN 3235-AD91

Revisions to Rules Regulating Money Market Funds

AGENCY: Securities and Exchange Commission.

ACTION: Final amendments to rules and forms.

SUMMARY: The Commission is adopting amendments to rules and forms under the Securities Act of 1933 and the Investment Company Act of 1940 affecting money market funds. The amendments tighten the risk-limiting conditions of rule 2a-7, the rule that permits money market funds to use the amortized cost method of valuing portfolio securities and the penny-rounding method of computing price per share, and require that all mutual funds that hold themselves out as money market funds meet these conditions. The amendments require a money market fund to disclose prominently on the cover page of its prospectus and in its sales literature and advertisements that an investment in the fund is not guaranteed or insured by the U.S. Government and that there is no assurance that the fund will be able to maintain a stable net asset value. The amendments are designed both to reduce the likelihood that a money market fund will not be able to maintain a stable net asset value, and to increase investor awareness that investing in a money market fund is not without risk.

EFFECTIVE DATES: The amendments to rules 2a-7, 2a-41-1, 13d-3-1 and 4b-1 (17 CFR 270.2a-7, 270.2a-41-1, 270.13d-3-1 and 270.4b-1) and Form N-SAR (17 CFR 274.101) under the Investment Company Act of 1940 and rule 462 (17 CFR 230.462) under the Securities Act of 1933, and to Item 22 of Form N-1A (17 CFR 233.15A and 274.11A), Item 25 of Form N-3 (17 CFR 239.17a and 274.11b) and Item 21 of Form N-4 (17 CFR 239.17b and 274.11c) will be effective June 1, 1991. The amendments to Item 1 of Form N-1A and Item of Form N-3 will be effective: (1) For investment companies whose registration statements become effective on or after May 1, 1991, and investment companies with fiscal years ending on December 31, as to prospectuses used on or after May 1, 1991; and (2) for all other investment companies, upon use of any prospectus contained in any post-effective amendment filed on or after May 1, 1991.

FOR FURTHER INFORMATION CONTACT:
Kenneth J. Berman, Special Counsel, or Eli A. Nathans, Attorney, (202) 272-2107, Office of Disclosure and Adviser Regulation, Division of Investment Management, Securities and Exchange Commission, 450 Fifth Street NW., Washington, DC 20549.

SUPPLEMENTARY INFORMATION: The Securities and Exchange Commission ("Commission") is adopting several amendments to rules and forms affecting money market funds, including rule 2a-7 (17 CFR 270.2a-7) under the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.) ("1940 Act"). (Unless otherwise noted, all references to rule 2a-7, as amended, or any paragraph thereof, will be to 17 CFR 270.2a-7.) Rule 2a-7 is used by most money market funds to maintain a stable net asset value of $1.00 per share.

The Commission is adopting amendments to rule 2a-7 to require a money market fund to: (1) Limit its investment in the securities of any one issuer to no more than five percent of fund assets, measured at the time of purchase (the "five percent diversification test"), except for certain investments held for not more than three business days; (2) limit its investment in securities which are "Second Tier Securities" to no more than five percent of fund assets, with investment in the Second Tier Securities of any one issuer being limited to the greater of one percent of fund assets or one million dollars; and (3) limit investments in securities that are determined to have "minimal credit risks" and are "Eligible
Securities.” “Eligible Securities” are defined as securities rated by the Requisite NRSROs in one of the two highest short-term rating categories and comparable unrated securities. “Second Tier Securities” are Eligible Securities that are not “First Tier Securities.” “First Tier Securities” are defined as securities which are rated by at least two nationally recognized statistical rating organizations (“NRSROs”) 1 or by the only NRSRO that has rated the security (the “Requisite NRSROs”) in the highest short-term rating category, or comparable unrated securities.

The amendments also (1) Limit fund investments to securities with a remaining maturity of not more than thirteen months (except that money market funds that do not use the amortized cost method of valuation may invest in U.S. Government securities that have a remaining maturity of not more than twenty-five months); (2) require a fund to maintain a dollar-weighted average portfolio maturity of not more than ninety days; (3) require a fund, in the event that a portfolio security goes into default or the rating of a portfolio security is downgraded so that it is no longer an Eligible Security, and in certain other circumstances, to resecuritize promptly whether the security presents minimal credit risks, determine whether continuing to hold the security is in the best interest of the fund, and record such actions in fund records; and (4) require a fund to notify the Commission if it holds defaulted securities which amount to one-half of one percent or more of fund assets.

Finally, the amendments to rule 2a-7 make it unlawful for any registered investment company to use the term “money market” in its name or hold itself out as a “money market fund” unless it meets the risk limiting conditions of the rule. Funds that hold themselves out as distributing income that is exempt from regular federal income tax (“tax exempt funds”) are exempted from the five percent diversification test for First Tier Securities, the five percent limit on investments in Second Tier Securities, and the one percent limit on investments in the Second Tier Securities of any one issuer.

The Commission is also adopting amendments to rule 462 (17 CFR 230.462) under the Securities Act of 1933 (15 U.S.C. 77a et seq.) (“1933 Act”), rule 34b-1 under the 1934 Act (17 CFR 270.34b-1), and Forms N-1A (17 CFR 274.11A and 239.15A), N-3 (17 CFR 274.11B and 239.17A), and N-4 (17 CFR 274.11C and 239.17B) under the 1933 and 1940 Acts to: (1) Require the cover page of money market fund prospectuses, and fund advertisements and sales literature, to disclose prominently that an investment in a money market fund is neither insured nor guaranteed by the U.S. Government and that there is no assurance that the fund will be able to maintain a stable per share net asset value; and (2) revise the definition of a “money market fund” for purposes of determining if those funds eligible to quote a seven-day yield in advertisements and sales literature to include only those funds that meet the risk-limiting conditions.

Finally, the Commission is adopting amendments to rules 241-1 and 12d-3 under the 1940 Act (17 CFR 270.241-1 and 270.12d-3) and to instructions to Forms N-SAR (17 CFR 274.101) to conform certain cross-references to specified paragraphs of rule 2a-7.

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Appendix: Conversion Table

I. Background
On July 17, 1990, the Commission proposed amendments to rules and forms under the 1933 Act and the 1940 Act affecting money market funds, including rule 2a-7 under the 1940 Act. Rule 2a-7 permits money market funds to maintain a stable per share price, through the use of the amortized cost method of valuation 1 and the penny-rounding method of pricing. 2 But for rule 2a-7, section 2(a)(41) of the 1940 Act (15 U.S.C. 80a-2(a)(41)), together with rules 2a-4 and 22c-1 under the 1940 Act (17 CFR 270.2a-4 and 270.22c-1), would require a money market fund to calculate its current net asset value per share by valuing portfolio securities for which market quotations are readily available at market value, and other securities and assets at fair value as determined in good faith by the board of directors (“mark-to-market”). 3


2 Most money market funds maintain a stable price of $1.00 per share. The stable $1.00 price has encouraged investors to view money market funds as an alternative to bank deposit and checking accounts, even though money market funds lack federal deposit insurance.

3 Under the amortized cost method, portfolio securities are valued at acquisition cost as adjusted for amortization of premium or accretion of discount. The definition of the term “amortized cost method” has been amended to include the term “accounting for “accumulation” in order to reflect current finance and accounting terminology. Paragraph (a)(1) of rule 2a-7, as amended.

4 Share price is determined under the penny rounding method by valuing securities at market value, fair value, or amortized cost (as described in note 2 and accompanying text, infra) and rounding the per share net asset value to the nearest cent on a share value of a dollar, as opposed to the nearest ten of one cent. Paragraph (a)(1) of rule 2a-7, as amended. See also Investment Company Act Rel. No. 15380 (July 11, 1983) (48 FR 35256 (July 16, 1983)) (hereinafter, “Release 15380”) at n. 4, and Investment Company Act Rel. No. 12206 (Feb. 1, 1982) (47 FR 5428 (Feb. 8, 1982)) (hereinafter, “Release 12206”) at 6-7.

5 The Commission has adopted an interpretive position permitting open-end investment companies that hold a significant amount of debt securities to respect to debt securities that mature in sixty days or less unless the particular circumstances dictate otherwise (i.e., due to the timeliness of the creditworthiness of an issuer). Investment Company Act Rel. No. 07180 (May 31, 1977) (42 FR 22880 (June 7, 1977)) (hereinafter, “Release 9760”).
Rule 2a-7 was adopted in 1983. It contains a number of conditions designed to reduce the likelihood that the net asset value of a money market fund as determined by the amortized cost method will deviate materially from the net asset value as determined by the mark-to-market method. The rule also requires a fund's board of directors to take prompt action as it deems appropriate to eliminate or reduce to the extent reasonably practicable any deviation between a fund's amortized cost and its mark-to-market value if the deviation could result in material dilution or unfair results to investors. Currently, money market funds that rely on rule 2a-7 can invest only in "high quality" debt securities, i.e., securities rated in one of the top two quality categories by any NRSRO. Funds using the rule are prohibited from investing in instruments with a maturity of greater than one year and from maintaining a dollar-weighted average portfolio maturity that exceeds 120 days. The rule's conditions have had the effect of reducing the likelihood that a fund will hold securities that will substantially decline in value and that a fund will break a dollar. As discussed in the Proposing Release, the Commission decided to reexamine the conditions contained in rule 2a-7 light of developments in the commercial paper market since the rule was adopted. In June 1989 and March 1990, several money market funds held commercial paper of issuers that defaulted. The shareholders of these money market funds were not adversely affected, because each fund's investment adviser (or an affiliate) purchased the defaulted paper from the fund at its amortized cost or principal amount. The Commission proposed amendments to rule 2a-7 that would require a money market fund to limit fund investments in securities that had received less than the highest rating from any NRSRO to five percent of fund assets (the "five percent quality test"). Investment in any single lower-rated issuer would have been limited to one percent of fund assets (the "one percent diversification test"). The amendments would have reduced the maximum permitted dollar-weighted average portfolio maturity to ninety days. The amendments would also have required money market funds to disclose to investors that the fund is not federally insured or guaranteed. The proposal had two principal purposes: to provide additional safeguards to reduce the likelihood that a money market fund would have to break a dollar, and to increase investor awareness that investments in a money market fund are not "risk free." The Commission received comments on the proposed amendments from 289 commenters, including sixty-nine issuers of commercial paper, eight commercial paper dealers and related trade groups, thirty-five investment companies (including the Investment Company Institute), three NRSROs, and 169 individual investors. The comment letters reflect a wide variety of views on almost every topic discussed in the Proposing Release. Commenters representing the mutual fund industry generally supported most aspects of the Commission proposal, and in some cases would go further than the proposed amendments in restricting the types of securities in which money market funds may invest. Individual investors almost unanimously supported placing restrictions on money market fund investment in lower rated commercial paper. Issuers and commercial paper dealers almost uniformly opposed the proposed restrictions on purchases of securities that had not received the highest rating from a NRSRO. Upon consideration of the comments and further analysis, the Commission is adopting the amendments with several changes, many of which were suggested by the commenters. The five percent diversification tests in being adopted substantially as proposed, with the proviso that a fund may invest more than five percent of its assets in the First Tier Securities of a single issuer for up to three business days after purchase in order to allow a fund more flexibility temporarily to invest large inflows of cash in a single high quality issuer. The one percent diversification and five percent quality tests for Second Tier Securities (collectively, the "Second Tier Security tests") have also been adopted substantially as proposed. However, the standards for determining which securities are subject to the Second Tier Security tests have been modified. Under the proposal, a security would have been a First Tier Security only if all NRSROs rating the security had given it the highest rating. Under the rule as amended, a security qualifies as a First Tier Security if two NRSROs (or one, if only one NRSRO has rated the security) (the "Requisite NRSROs") have given it the highest rating, or if it is an unrated security of comparable quality. Where the Security is rated by only one NRSRO, or is unrated, the acquisition by the fund of the security must expressly be approved or ratified by the fund's board of directors. Tax exempt funds are exempted from the five percent diversification and the Second Tier Security tests. The amendments also limit fund investments in securities with a remaining maturity of not more than thirteen months (except that a fund that does not use the amortized cost method may invest in U.S. Government securities with a remaining maturity of not more than twenty-five months), and require a fund to maintain a dollar-weighted average portfolio maturity of not more than ninety days. Finally, the amendment also makes it unlawful for any registered investment company to use the term "eligible securities" as defined by the Investment Company Act Reel. No. 14983 (Mar. 12, 1983). Those securities were referred to in the Proposing Release as "Securities Not Having the Highest Rating." Rule 2a-7, as amended, refers to securities that are subject to the adopted investment limitations as "Second Tier Securities." While the basis for identifying a Second Tier Security is somewhat different from the proposed test for Securities Not Having the Highest Rating, for ease of reference the term Second Tier Securities is also used in this Release to refer to securities that under the amendments as proposed would have been Securities Not Having the Highest Rating. The comment letters and a summary of the comments prepared by the Commission staff are included in File No. ST-13-90.
“money market” in its name (or in the name of any of its redeemable securities) or hold itself out as a “money market fund” unless it meets the risk limiting conditions of the rule.

II. Discussion

A. Preliminary Matters

Rule 2a-7 limits a money market fund to investing in securities that its board of directors determines present “minimal credit risks” and that are “high quality” as defined in the rule. While the amendments revise the definition of high quality, they do not revise the requirement that a money market funds board of directors (or its delegate) evaluate the creditworthiness of the issuer of any portfolio security and any entity providing a credit enhancement for a portfolio security. Possession of a certain rating by a NRSRO is not a “safe harbor.” Where the security is rated, having the requisite NRSRO rating is a necessary but not sufficient condition for investing in the security and cannot be the sole factor considered in determining whether a security has minimal credit risks. To underscore this point, a parenthetical has been added to the rule stating that the determination of whether an instrument presents minimal credit risks “must be based on factors pertaining to credit quality in addition to the rating assigned * * * by a NRSRO.”

The extensiveness of the evaluation will vary with the type and maturity of the security involved and the board’s (or its delegate’s) familiarity with the issuer of the security. For example, little credit analysis of a Government security would be expected. A different analysis may be appropriate for a security with a remaining maturity of seven days than for one of the same issuer with a remaining maturity of one year. In a letter dated May 8, 1990, the Division of Investment Management provided guidance on elements of a minimal credit risk analysis. As stated in the May 8 Letter and reiterated in the Proposing Release, these elements are only examples. The focus of any minimal credit risk analysis must be on those elements that indicate the capacity of the issuer to meet its short-term debt obligations.

The amendments adopted in this Release place additional restrictions on money market funds in selecting portfolio securities, including commercial paper. The Commission believes these amendments are necessary to ensure that money market funds meet investors’ expectations for safety, soundness and convenience by maximizing the likelihood that these funds will be able to maintain a stable net asset value under the pricing procedures they are permitted to use. Rule 2a-7 and the amendments adopted today were developed in response to the characteristics of a specific type of registered investment company with a specific type of share pricing standard. The Commission wishes to emphasize that the amendments are not intended to limit the ability of investment companies not holding themselves out as money market funds to invest in lower-rated securities, including lower-rated commercial paper. Nor are the amendments intended to suggest that these investment limitations are necessarily appropriate for any other types of investment vehicles.

B. Portfolio Quality and Diversification

1. Five Percent Diversification Test

Most money market funds taking advantage of the exemptions provided by rule 2a-7 are “diversified” investment companies within the meaning of section 5(b)(1) of the 1940 Act. Section 5(b)(1) provides that a diversified investment company, with respect to seventy-five percent of its assets, may not invest more than five percent of its assets in securities of any issuer, other than cash, cash items, Government securities, and securities of other investment companies. The remaining twenty-five percent of the fund’s assets (the “twenty-five percent basket”) may be invested in any manner. The Commission proposed to amend rule 2a-7 to limit any money market fund (except a tax exempt fund) to investing no more than five percent of its total assets in the securities—except Government securities—of any one issuer. The effect of this proposal would be to eliminate the twenty-five percent basket.

Most commenters, including most mutual fund commentators, supported the proposed five percent diversification test as appropriate for a money market fund and indicated that, despite the flexibility provided by section 5(b)(1) with respect to the twenty-five percent basket, in practice, most money market funds limit their investment in non-U.S. Government issuers to approximately five percent or less of total assets. The Commission has decided to adopt the five percent diversification test as proposed, with a provision designed to permit funds to make certain temporary investments in excess of the five percent limit, and with the clarifications noted below.

a. Three Day Safe Harbor. The five percent diversification test, as adopted, permits a fund to invest more than five percent of its total assets in the First Tier Securities of a single issuer for a period of up to three business days after the purchase thereof. This change from the proposal has been made in response to comments that the twenty-five percent basket often is useful in managing portfolio liquidity and large cash inflows; they urged that the ability to invest a large percentage of fund assets in a single high quality issuer on a temporary basis is an efficient way to assure liquidity in the event of unexpected redemptions by shareholders or to invest anticipated cash inflows. The Commission believes that a three day limit will permit a fund to realize these efficiencies without being exposed to the risks associated

17 The rule as originally adopted used the term “high quality.” The Proposing Release used the term “Eligible Quality.” Rule 2a-7, as amended, uses the term “Eligible Security.” See note 18, infra.

18 The board generally can delegate to the fund’s investment adviser the responsibility for determining that individual portfolio securities present minimal credit risks, but only under guidelines established by the board. In certain instances, these determinations must be expressly approved or ratified by the board (and not its delegate). See section II.C. of this Release, infra.

19 Paragraph (c)(1) of rule 2a-7, as amended.

21 Paragraph (c)(1) of rule 2a-7, as amended.

22 Letter to Registrants (pub. avail. May 8, 1990) (hereinafter, the “May 8 Letter.”)
with investing more than five percent of fund assets in a single issuer for an indefinite period of time. For example, a fund that holds First Tier Securities that will mature in three business days may enable itself of an opportunity to purchase additional securities of the same issuer rather than disposing of the securities it holds or waiting for them to mature.

Funds which are diversified investment companies would still be subject to the diversification requirements of section 5(b)(3) of the 1940 Act, however, and the three-day sale harbor could therefore be used only with respect to twenty-five percent of the net assets of the fund.

d. Repurchase Agreements. Rule 2a-7 has been clarified to reflect the applicability of the five percent diversification test to puts. Except in the case of tax exempt funds, no more than five percent of a fund's assets may be invested in securities issued by or subject to puts from any single issuer. However, an unconditional put is not subject to this test if no more than ten-percent of the fund's total assets is invested in securities issued or guaranteed by the issuer of the unconditional put.

c. Diversification as to Bank Instruments. The amended rule requires that a money market fund (except a tax exempt fund) not invest more than five percent of its assets in bank instruments, but do not include customary demand deposits. The proposed amendments provide that for purposes of the five percent diversification test, a repurchase agreement collateralized by Government securities would be deemed to be an acquisition of the underlying securities if it was "collateralized fully." One commenter requested that the status of repurchase agreements collateralized by non-Government securities be clarified.

The rule, as adopted, extends the approach taken with respect to repurchase agreements collateralized by Government securities to other repurchase agreements. After giving

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88 Paragraph (c)(ii)(d) of rule 2a-7, as amended. Tax exempt funds would continue to be subject to the diversification requirement with respect to puts in the current rule, i.e., the five percent diversification test for puts must be met with respect to seventy-five percent of the fund's assets. However, the rule, as amended, makes clear that in determining compliance with this condition, the tax exempt fund must aggregate securities issued by and subject to puts from the same institution.

89 Paragraph (c)(iii)(C) of rule 2a-7, as amended. Paragraph (c)(ii)(d) of rule 2a-7, as amended, treated unconditional puts as subject to the same limitations. Rule 2a-7, as amended, treats unconditional puts as subject to the same limitations. An unconditional put includes a bank credit of credit or other unconditional credit enhancement under which the holder of the instrument subject to the put could recover amounts due on the instrument. Paragraph (e)(I)(f) of rule 2a(2), as amended.

89 Paragraph (c)(ii)(d) of rule 2a-7, as amended. Tax exempt funds would continue to be subject to the diversification requirement with respect to puts in the current rule, i.e., the five percent diversification test for puts must be met with respect to seventy-five percent of the fund's assets. However, the rule, as amended, makes clear that in determining compliance with this condition, the tax exempt fund must aggregate securities issued by and subject to puts from the same institution.

90 Paragraph (c)(iii)(C) of rule 2a-7, as amended. Paragraph (c)(ii)(d) of rule 2a-7, as amended, treated unconditional puts as subject to the same limitations. Rule 2a-7, as amended, treats unconditional puts as subject to the same limitations. An unconditional put includes a bank credit of credit or other unconditional credit enhancement under which the holder of the instrument subject to the put could recover amounts due on the instrument. Paragraph (e)(I)(f) of rule 2a(2), as amended.

effect to the securities collateralizing the repurchase agreement, a fund may not invest more than five percent of its assets in any one issuer, including the issuer of securities collateralizing the repurchase agreement. Where the underlying securities are not Government securities, they also must be of the highest quality at the time the repurchase agreement is entered into, i.e., rated in the highest grade by the "Requisite NSROS." This is to assure that in the event that the fund has to realize on the collateral, it will be holding only the highest quality securities. Fund directors should be aware of the risks of investing in repurchase agreements that are collateralized by instruments with remaining maturities of greater than one year. If the fund were required to realize on the collateral underlying the repurchase agreement, these instruments would have to be taken into account in calculating the fund's dollar-weighted average portfolio maturity. The fund would have to dispose of the collateral as soon as possible if the instruments constituting the collateral caused the fund's average portfolio maturity to exceed ninety days or did not satisfy the remaining maturity condition of the rule.

2. Diversification and Quality Test for Second Tier Securities

The Commission proposed to prohibit a taxable money market fund from investing more than five percent of its total assets in Second Tier Securities, adopted substantially as proposed. Certain duplicative language in the clause describing the requirements in connection with securities registered on a book entry system has been deleted from paragraph (e)(iii). In order for a fund to qualify to state the unqualified right to possess the underlying securities, as collateral, required by paragraph (e)(ii)(iii), its rights would have to be evidenced in an appropriate fashion. For example, in the case of U.S. Treasury bills, entry of the name of the custodian or its custodian as owner on the book entry system maintained by a Federal Reserve Bank would evidence those rights. See 51 CFR 320.4.

92 Paragraph (a)(iv) of rule 2a-7, as amended. The "Requisite NSROS" concept is discussed in section II.B. of this Release.infra. Repurchase agreements typically relate to long-term debt securities; the securities would have to be rated "AAA" or its equivalent. The rule does not require that the underlying securities comply with the provisions of the rule relating to remaining maturity; the maturity of the repurchase agreement is determined by reference to the date on which the underlying securities are required to be repurchased. See paragraph (c)(ii)(d) of rule 2a-7, as amended. Since any non-Government securities exposed a fund to greater interest rate risk than short-term instruments. See section III.C. of this Release, infra.
with investment in the Second Tier Securities of any one issuer being limited to no more than one percent of total assets. In proposing these limitations the Commission stated that, in light of recent experiences of money market funds, a substantial investment in these securities may create an inappropriate risk for funds seeking to maintain a stable price per share. While most commenters representing the mutual fund industry supported or did not oppose these limitations on Second Tier Securities (or suggested additional limitations), all of the commercial paper dealers and issuers of Second Tier Securities that commented on the proposals strongly opposed them. Commenting on the proposal that these diversification and quality tests would raise the borrowing costs of second tier issuers by reducing the amount of their short-term paper bought by money market funds, and expressed concern that many funds, especially smaller funds, would not invest in any Second Tier Securities. Several of these commenters also argued that the Commission’s concerns over the creditworthiness of second tier issuers were misplaced. These commenters urged the Commission to rely instead on increased prospectus disclosure concerning the risks posed when a money market fund invests in a substantial amount of Second Tier Securities. Many commenters also argued that the proposed limitations would discourage funds from performing independent credit research, since the benefits of research are often realized by investment in lower-rated securities.

In each case compliance with the limitations would be determined at the time of acquisition.

The proposed exemption of tax exempt funds from the five percent diversification and Second Tier Security tests was generally supported by commenters, who stated that these funds often would have difficulties meeting the tests due to the limited number of tax exempt issuers in certain markets. Paragraph (c)(4)(I) of rule 2a-7, as amended, adopts the exemption. The definition of tax exempt fund has been amended to clarify that it includes a fund that distributes income exempt from “regular” federal income tax. See paragraph (a)(7) of rule 2a-7, as amended. A fund that distributes income from the alternative minimum tax would therefore be considered a tax exempt fund for this purpose.

The Commission requested comment on the possibility of excluding money market funds from the risk-limiting conditions of rule 2a-7. Comment was divided, and the Commission has decided not to create such an exemption at this time. The Commission is concerned that, if an institutional fund were to break a dollar, there might be a loss of confidence in the money market fund industry. An institutional investor exception is being considered in the Division of Investment Management’s current study of the Investment Company Act. See Investment Company Act Rel. No. 17534 (June 15, 1990) (55 FR 20335 (June 21, 1990)).

The Commission continues to believe that the recent history of defaults in the commercial paper market and the extent to which these defaults have affected money market funds warrant taking measures to assure that investors’ expectations of the relative safety of investment companies holding themselves out as money market funds continue to be met. Almost all money market funds attempt to maintain a stable net asset value, and this policy is understood by investors to imply a high level of investor safety. Investors have come to equate investments in these funds to “money.” Because holding money does not entail any credit risks, the credit risks to which holders of money market shares are exposed should be minimized to the lowest level practicable.

After considering the comments received and after weighing the incremental risks and benefits of allowing money market funds to invest a greater percentage of their assets in Second Tier Securities, the Commission has decided to adopt the Second Tier Security tests substantially as proposed, but with one change to the one percent diversification test. As amended, rule 2a-7 limits money market fund investment in Second Tier Securities to no more than five percent of fund assets. Paragraph (c)(4)(I)(B) of rule 2a-7, as amended, limits the amount a money market fund may invest in the Second Tier Securities of a single issuer to the greater of one percent of the fund’s total assets or one million dollars. The one million dollar test is intended to allow smaller money market funds to invest in Second Tier Securities. The three day safe harbor discussed above applies only to First Tier Securities and thus it would not permit a fund to exceed the diversification limits for Second Tier Securities.

As explained in the Proposing Release, compliance with the five percent diversification and Second Tier Security tests is measured at the time the fund purchases the security. Thus a fund would not be required subsequently to dispose of a security because of a change in the percentage of fund assets the security represents or in the fund’s overall investment in Second Tier Securities. In addition, to facilitate determining compliance with the Second Tier Security tests, rule 2a-7, as amended, specifies that in calculating the percentage of fund assets invested in Second Tier Securities, a fund should only include securities that were Second Tier Securities at the time they were

In addition, these limitations are necessary in order to assure that shareholders of funds using the amortized cost of penny rounding method will not suffer any dilution of the value of their investment. See note 8, infra.

Paragraph (c)(4)(I)(B)(2) of rule 2a-7, as amended, defines a Second Tier Security as any Eligible Security that is not a “First Tier Security.” Paragraph (a)(3) of rule 2a-7, as amended, defines a First Tier Security as a security that is rated by the “Requisite NRSROs” in the highest rating category, or if unrated, which is of comparable quality. See section II.B.3 of this Release, infra, discussing the definition of the term “Requisite NRSROs” and its effect on split rated securities.

The five percent diversification and five percent quality tests would still apply, and thus a fund could not purchase one million dollars of Second Tier Securities if it would result, immediately after the purchase of the securities, in the fund having more than five percent of its total assets invested in securities of that issuer or in Second Tier Securities.

Paragraph (c)(4)(I) of rule 2a-7, as amended.
acquired (at original purchase or at any subsequent roll-over) and need not take into account rating changes subsequent to the acquisition of the security.\footnote{Thus, a fund would not be required to "drop" a First Tier Security into the five percent Second Tier Security "band" due to a downgrade. Paragraph (c)(3)(i)(B) of rule 2a-7, as amended. However, a fund board of directors (or its delegate) will be required to assess promptly whether a security which has ceased to be a First Tier Security presents minimal credit risks and cause the fund to take such action as is determined to be in the best interest of the fund. See note 70 and accompanying text, infra, and paragraph (c)(3)(i)(B) of rule 2a-7, as amended, to section I.E.1 of this Release. }  

3. Treatment of Split Rated Securities

This section (insofar as it discusses the term "Eligible Security") and all subsequent sections of the Release describe changes that are applicable to both taxable and tax exempt funds.\footnote{While tax exempt funds are not subject to the Five Percent Diversification and Second Tier Security tests, they are, like taxable funds, only permitted to invest in Eligible Securities. See paragraph (c)(3) of rule 2a-7, as amended, and notes 15 and 16 and accompanying text, supra.}

Under this approach, a security would be an Eligible Security, and either a First Tier Security or Second Tier Security, if the "Requisite NRSROs" have agreed on the relevant rating.\footnote{Id. Paragraphs (a)(3)(i) and (a)(6) of rule 2a-7, as amended. Rule 2a-7, as amended, reflects the fact that some NRSROs use specific security issues while others provide a rating of the issuer that is applicable to all of the issuer's debt within a specific class (e.g., short-term or long-term). This approach is also reflected in the definition of "Unrated Securities." See section II.D. of this Release and paragraph (c)(12) of rule 2a-7, as amended. Paragraph (a)(13) of rule 2a-7, as amended, defines the term "Requisite NRSROs." Where a security is rated by only one NRSRO, neither a money market fund nor the issuer is required to solicit ratings from other NRSROs to make the security eligible for investment by the fund. In addition, where only one NRSRO has issued a rating with respect to the security at the time it is purchased or rolled over, under paragraph (a)(13) that NRSRO determines the status of the security regardless of any subsequent ratings by other NRSROs. If a security is rated by only one NRSRO when purchased, a change in the security's status (i.e., from First Tier to Second Tier) will trigger the reassessment requirement only when the NRSRO that rated the security when it was originally acquired lowers its rating. However, where the security is a Second Tier Security, a reassessment of its credit risk by the fund's board of directors would be required if the fund's investment adviser becomes aware that any other NRSRO subsequently rated the security below its second highest rating. See section I.E.8 of this Release, infra. Paragraphs (c)(3) and (e) of rule 2a-7, as amended. Paragraph (c)(3) of rule 2a-7, as amended, and note 61.} In the case of a security that has been rated by only one NRSRO, that rating determines the status of the security during the time it is held by a money market fund.\footnote{Id. Id. Paragraphs (c)(3)(i) and (a)(13) of rule 2a-7, as amended.} However, the acquisition of a security rated by only one NRSRO must be approved or ratified by the fund's board of directors.\footnote{Id. Paragraphs (a)(3)(i) and (a)(6) of rule 2a-7, as amended. Rule 2a-7, as amended, reflects the fact that some NRSROs use specific security issues while others provide a rating of the issuer that is applicable to all of the issuer's debt within a specific class (e.g., short-term or long-term). This approach is also reflected in the definition of "Unrated Securities." See section II.D. of this Release and paragraph (c)(12) of rule 2a-7, as amended. Paragraph (a)(13) of rule 2a-7, as amended, defines the term "Requisite NRSROs." Where a security is rated by only one NRSRO, neither a money market fund nor the issuer is required to solicit ratings from other NRSROs to make the security eligible for investment by the fund. In addition, where only one NRSRO has issued a rating with respect to the security at the time it is purchased or rolled over, under paragraph (a)(13) that NRSRO determines the status of the security regardless of any subsequent ratings by other NRSROs. If a security is rated by only one NRSRO when purchased, a change in the security's status (i.e., from First Tier to Second Tier) will trigger the reassessment requirement only when the NRSRO that rated the security when it was originally acquired lowers its rating. However, where the security is a Second Tier Security, a reassessment of its credit risk by the fund's board of directors would be required if the fund's investment adviser becomes aware that any other NRSRO subsequently rated the security below its second highest rating. See section I.E.8 of this Release, infra. Paragraphs (c)(3) and (e) of rule 2a-7, as amended. Paragraph (c)(3) of rule 2a-7, as amended, and note 61.} A money market fund could limit the number of NRSROs it must follow by adopting a policy of only investing in securities rated by at least two NRSROs.\footnote{Id. Paragraphs (c)(3)(i) and (a)(13) of rule 2a-7, as amended.}  

C. Maturity of Portfolio Securities

1. Ninety-Day Dollar Weighted Average Maturity

The Commission is adopting proposed rule amendments to require a money market fund to maintain a dollar weighted average portfolio maturity of not more than ninety days, as opposed to the 120 days now permitted.\footnote{A money market fund will have to determine whether any other NRSRO has rated a security that, when purchased, was rated by only one NRSRO, in two situations: [1] when it proposes to buy that security, to confirm that it is not rated by other NRSROs; and, [2] when it proposes to "roll over" that security to determine whether another NRSRO has given it a lower rating. See note 44 supra, and paragraph (a)(10) of rule 2a-7, as amended. However, a reassessment of the security's credit risk would be required if the investment adviser becomes aware that a NRSRO has given the security less than its second highest rating. See section I.E.8 of the Release, infra.} The change will decrease the exposure of money market fund investors to interest rate risk. Most commenters supported the change. These commenters stated that almost all funds already limit their maturities to an even greater extent than the amendments would require.\footnote{Currently the Commission's Division of Market Regulation has designated five NRSROs. See note 2, supra.} As explained in the Proposing Release, the ninety-day limit is a maximum.\footnote{Paragraph (c)(2)(iii)(B) of rule 2a-7, as amended.} A

4 A money market fund will have to determine whether any other NRSRO has rated a security that, when purchased, was rated by only one NRSRO, in two situations: [1] when it proposes to buy that security, to confirm that it is not rated by other NRSROs; and, [2] when it proposes to "roll over" that security to determine whether another NRSRO has given it a lower rating. See note 44 supra, and paragraph (a)(10) of rule 2a-7, as amended. However, a reassessment of the security's credit risk would be required if the investment adviser becomes aware that a NRSRO has given the security less than its second highest rating. See section I.E.8 of the Release, infra.  

5 A money market fund will have to determine whether any other NRSRO has rated a security that, when purchased, was rated by only one NRSRO, in two situations: [1] when it proposes to buy that security, to confirm that it is not rated by other NRSROs; and, [2] when it proposes to "roll over" that security to determine whether another NRSRO has given it a lower rating. See note 44 supra, and paragraph (a)(10) of rule 2a-7, as amended. However, a reassessment of the security's credit risk would be required if the investment adviser becomes aware that a NRSRO has given the security less than its second highest rating. See section I.E.8 of the Release, infra.  

6 As of February 1, 1991 the average portfolio maturity of tax-exempt money market funds was 33 days and the average maturity of tax exempt funds was 50 days. See the Money Fund Report, supra, note 2. One commenter noted that the danger that a long portfolio maturity might cause a fund to break a dollar has been demonstrated. In 1987, municipal money market instruments fluctuated by 240 basis points over a sixty day period, a fluctuation large enough to cause a fund with a ninety-day average dollar weighted average maturity to break a dollar. The commenter suggested that the maximum portfolio maturity be reduced to sixty days. However, the Commission believes that a ninety day period should provide investors with additional safeguards without unduly limiting the flexibility of money market funds to adjust fund maturities to levels that are appropriate in view of market conditions. See the Proposing Release, supra note 2, at n. 61.
money market fund must maintain a dollar-weighted average portfolio maturity appropriate to its objective of maintaining a stable net asset value or price per share. Thus, in delegating portfolio management responsibilities to the fund’s investment adviser, the board should adopt guidelines with respect to portfolio maturity designed to assure that this objective is met.

2. Extension of Maximum Maturity Period for Any Security
The proposed amendments would have extended the current limit on the maximum remaining maturity of any portfolio security from one year to two years. Most commenters addressing this issue criticized this proposal as inconsistent with other changes proposed by the Commission.

Commenters stated that a two-year maximum would increase the exposure of funds to both credit risk and interest rate risk. One commenter supported the proposed extension, arguing that, in the context of the ninety-day average limit, increasing maximum allowed maturities would have little effect on the overall risk exposure of a fund while allowing it to enhance yield. Several commenters stated that if the Commission was concerned by the degree of risk involved in increasing the permitted maturity period of securities, it could limit purchases of longer maturity instruments to Government securities. In view of the increased credit risks of securities with longer maturities, the Commission has decided to limit investment in securities with longer maturities to Government securities.

However, the value of Government securities with a remaining maturity in excess of thirteen months may be subject to price fluctuations due to changes in interest rates (which could result in significant deviations between amortized cost and market values), rule 2a-7, as amended, permits their purchase only by a money market fund that uses market-based values in calculating its net asset value (including funds that rely on Release 9786 to value portfolio securities).

With respect to securities other than Government securities, as suggested by several commenters, the rule extends the maximum permitted maturity of individual securities to thirteen months. This change has been made in order to accommodate funds purchasing annual tender bonds, and securities on a when-issued or delayed delivery basis. These securities often are not delivered for a period of up to one month after the purchaser has made a commitment to purchase them. Since the purchaser must “book” the security on the day it agrees to purchase it, the maturity period begins on that day. The revised rule allows funds to invest in securities with a remaining maturity of no more than thirteen months (397 days).

3. Variable Rate Demand Instruments
Many commenters objected to the provision of the current rule that the remaining maturity of a variable rate instrument with a demand feature be deemed equal to the longer of (i) the period remaining until the next interest readjustment or (ii) the period remaining until the principal amount can be recovered through demand. Several commenters urged the Commission to revise the standard to provide that the maturity period is the shorter of the two periods. One commenter recommended that the maturity period simply be made equal to the period remaining until the next interest readjustment, ignoring any demand feature.

The current treatment of variable rate instruments derives from a concern that measuring maturity only from interest rate readjustments does not reflect the risk that the quality of a variable rate instrument might decline. Therefore, retaining the current approach continues to be appropriate generally.

D. Unrated Securities, Long-term Securities and Demand Instruments
Rule 2a-7 permits a fund to invest in unrated securities that the board of directors deems to be of comparable quality to instruments that are “Eligible Securities” by virtue of the ratings assigned them. The Commission has modified the rule to clarify that a security that is not itself rated is not an Unrated Security if its issuer has received ratings for outstanding securities that are comparable in priority and security with the security.

In response to commenter suggestions that the lack of a rating often indicates that a security would not have received the first or second highest rating from any NRSRO, paragraph (c) of rule 2a-7, as amended, requires that the fund’s board of directors approve or ratify the acquisition of each unrated security.

Currently, securities with one of the two highest long-term ratings are considered “high quality” securities. Thus, where long-term ratings are used to determine whether securities are “high quality,” money market funds may only invest in securities rated “AA” (or its equivalent) and above.

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66 See Paragraph (c)(2) of rule 2a-7, as amended.
67 The current rule defines one year as 365 days, but provides that in the case of an instrument that was issued on a one-year instrument, but has up to 365 days until maturity, one year equals 365 days. This provision was designed to accommodate certain government agency securities that have this characteristic. See Release 13380, supra note 8, at n. 13.

68 Paragraph (c)(2)(i) of rule 2a-7, as amended. In order to accommodate Government securities purchased on a delayed delivery or when issued basis as discussed infra, paragraph (c)(2)(ii) provides that a fund not using the amortized cost method may invest in a Government security with a remaining maturity of 762 calendar days (25 months). In addition, funds may invest in Government securities that have final maturities in excess of twenty-five months provided that the interest rate is adjusted at least every twenty-five months. See paragraph (d)(1) of rule 2a-7, as amended.

69 See note 6, supra.
70 The remaining maturity of an instrument is measured from the trade date or other date upon which the fund’s interest in the security is subject to market action. See Release 13380, supra note 8, at n. 11. At the suggestion of one commenter, this language has been incorporated into the rule at paragraph (d). Thus, for securities purchased under normal settlement procedures, the length of maturity would be calculated based on the trade date. For instruments such as “when issued” or “delayed delivery” securities, if the commitment to purchase is based upon either a commitment date, then the maturity will be calculated based upon the commitment date.

71 Paragraph (c)(3)(i) of rule 2a-7, as amended. See Release 13380, supra note 8, at n. 27. The Commission also believed that variable rate demand notes might not be readily marketable. The term “Variable Rate Instrument” is defined in paragraph (e)(2) or rule 2a-7, as amended.
Commenters recommended that the Commission permit funds to purchase long-term securities with one of the three highest ratings, i.e., those rated "A" or above. Several commenters stated that most issuers with long-term ratings in the three highest categories are rated in the highest short-term category, and the remainder are rated in the second highest category.

The Commission agrees that the correct yardstick of quality is the rating given to the issuer's short-term debt, since at the time a money market fund invests in a long-term security, its remaining maturity will be less than thirteen months. Where the issuer has rated short-term debt outstanding that is now comparable in terms of priority and security to the long-term security, the fund must base its determination of whether the long-term security is an Eligible Security or a First Tier Security on the short-term rating, regardless of the long-term rating. The Commission is not convinced that issuers with a single "A" long-term rating, but no short-term rating, will in all cases be appropriate investments for money market funds. Where the issuer does not have rated short-term debt outstanding, the long-term security is treated as unrated, but may not be purchased if it has a long-term rating from any NRSRO that is below the second highest category.

The amendments, as adopted, also clarify the categorization of demand instruments as Eligible Securities and First Tier Securities. As under the current rule, a demand instrument that has an Unconditional Demand Feature may be determined to be an Eligible Security or a First Tier Security based solely on its quality in its portfolio, and an Unconditional Demand Feature is an Eligible Security or a First Tier Security, as the case may be. Where the demand instrument does not have an Unconditional Demand Feature, in addition to having the requisite short-term ratings, the long-term debt securities of the issuer of the demand instrument (or the demand instrument itself) must be rated by the Requisite NRSROs in one of the two highest rating categories for long-term debt obligations, or, if unrated, determined to be of comparable quality by the money market fund's board of directors.

E. Changes in Credit Risk and Quality

1. Disposition of Portfolio Securities

The Commission proposed to require that where a money market fund holds a security that is in default, is no longer "Eligible Quality," or no longer presents "minimal credit risks," the fund must dispose of the security "as soon as practicable" absent a specific finding by the board that this would not be in the best interests of the fund. In the event securities were downgraded by a NRSRO but remained "Eligible Quality" securities, a prompt reassessment would have to be made as to whether the security presents minimal credit risks. The Commission is adopting these requirements, modified as discussed below.

As amended, the rule requires a prompt reassessment in two circumstances. First, a reassessment is required by the board of directors (or its delegate) where a security ceases to be a First Tier Security, either because it no longer has the highest rating from the Requisite NRSROs or, if unrated, is not deemed to be of comparable quality to a First Tier Security. Second, a reassessment is required where the security is no longer an Eligible Security.

One commenter requested clarification that, if a security were downgraded from a First Tier Security to a Second Tier Security, but the fund's holding of the security did not exceed the quality and diversification limits for Second Tier Securities, prompt reassessment on the part of the fund would not be required. The rule is being clarified, but not in the direction urged by the commenter. The rule, as amended, requires that if a security ceases to be a First Tier Security, a reassessment is required. Similarly, if one of the Requisite NRSROs indicates that it is reconsidering an issuer's rating, a fund may wish to consider reassessing the security's credit rating, although the fact that a security's rating is being reconsidered would not constitute a rating downgrade for purposes of the rule.

Paragraph (c)(5) of rule 2a-7, as amended, specifies that in determining that disposing of a security would not be in the best interest of the fund, the board may take into account "among other factors the decision to hold the security would have to be made by the board and not its delegate. A telephonic board of directors meeting could be promptly convened to discuss the security. The decision to hold the security would have to actually be made by the board, and not its delegate. See section III.F of this Release, infra.
F. Portfolio Management Responsibilities

On several occasions the Commission has stated that the portfolio management requirements imposed by rule 2a-7 may be delegated by the board of directors to the fund's investment adviser, provided that the board retains sufficient oversight. In response to commentator concerns over the scope of the board's responsibilities, new paragraph (e) of rule 2a-7 clarifies the responsibilities of the board to guide and monitor the investment adviser when the board delegates responsibilities for portfolio determinations. The paragraph states that the board may delegate to the investment adviser or an officer of the fund all of the responsibilities it has under the rule other than the determination that the fund should maintain a stable net asset value (paragraph (c)(3)), the establishment of amortized cost methods and procedures to achieve this objective (paragraphs (c)(8)(i) and (c)(8)(ii)), certain determinations with respect to Second Tier Securities, Unrated Securities, and certain securities that have been downgraded by NSRROs (paragraphs (c)(3)(i)(B) and (c)(3)(ii)) and in connection with the penny-rounding method of pricing, and duty to supervise the delegate (paragraph (a)(7)). In addition, credit risk determinations with respect to Unrated Securities and certain securities that have been rated by only one NSRRO must be approved or ratified by the fund's board of directors. The requirements of paragraph (e) are substantially consistent with previously stated Commission positions concerning the circumstances under which the board may delegate its responsibilities.

G. Investment Companies Holding Themselves Out as Money Market Funds

The Commission is adopting, substantially as proposed, a new paragraph (b) to rule 2a-7 to make it unlawful for a registered investment company to (1) adopt "money market" or similar terms as part of its name or title, or the name or title of any redeemable security of which it is the issuer, or (2) hold itself out to investors as a money-market fund, or the equivalent of a money-market fund, unless the company meets the risk-limiting conditions of paragraphs (e)(2)(i) (maturity), (e)(3)(i) (quality) and (e)(4)(i) (diversification) of rule 2a-7, as amended.

A fund that determines not to comply with the risk-limiting conditions of rule 2a-7, as amended, will be required to change its name to the extent it includes the term "money market" or similar terms. Pursuant to paragraph (b) of the rule, as amended, a fund which invests in short-term instruments but which does not wish to hold itself out as a money market fund may call itself any name that would accurately convey its character without being materially misleading.

One commenter argued that the Commission lacked rulemaking authority under section 38(a) of the Act (15 U.S.C. 80a-37(a)) to adopt paragraph (b). The Commission disagrees. Section 34(b) of the Act makes it unlawful for any person to make any untrue statement of a material fact in any document filed with the Commission or transmitted pursuant to the Act, or the keeping of which is required by section 31(a) of the Act (15 U.S.C. 80a-30(a)), or to omit to state any fact necessary in order to prevent the statements made therein, in light of the circumstances under which they were made, from being materially misleading. Through

unlawful for a registered investment company to (1) adopt "money market" or similar terms as part of its name or title, or the name or title of any redeemable security of which it is the issuer, or (2) hold itself out to investors as a money-market fund, or the equivalent of a money-market fund, unless the company meets the risk-limiting conditions of paragraphs (e)(2)(i) (maturity), (e)(3)(i) (quality) and (e)(4)(i) (diversification) of rule 2a-7, as amended.

A fund that determines not to comply with the risk-limiting conditions of rule 2a-7, as amended, will be required to change its name to the extent it includes the term "money market" or similar terms. Pursuant to paragraph (b) of the rule, as amended, a fund which invests in short-term instruments but which does not wish to hold itself out as a money market fund may call itself any name that would accurately convey its character without being materially misleading.

One commenter argued that the Commission lacked rulemaking authority under section 38(a) of the Act (15 U.S.C. 80a-37(a)) to adopt paragraph (b). The Commission disagrees. Section 34(b) of the Act makes it unlawful for any person to make any untrue statement of a material fact in any document filed with the Commission or transmitted pursuant to the Act, or the keeping of which is required by section 31(a) of the Act (15 U.S.C. 80a-30(a)), or to omit to state any fact necessary in order to prevent the statements made therein, in light of the circumstances under which they were made, from being materially misleading.
sections 9(b) and 42 (15 U.S.C. 80a-9(b) and 41) of the Act, the Commission has the authority to enforce these prohibitions. Section 38(a) provides that the Commission has the authority to adopt rules and regulations "as are necessary or appropriate to the exercise of the powers conferred upon the Commission elsewhere in this title." The Commission believes that this is ample authority to adopt a rule interpreting the application of section 34(b) to specific circumstances. In addition, to the extent that paragraph (b) affects the registration statements of money market funds, section 9(b) of the Act (15 U.S.C. 80a-9(b)) provides the Commission authority to prescribe the form or forms in which information required in registration statements, applications, and reports to the Commission shall be set forth. For the purposes of its rules or regulations the Commission may classify persons, securities, and other matters within its jurisdiction and prescribe different requirements for different classes of persons, securities or matters.

If, as the commenter argued, section 38(a) only "elaborates on" authority specifically granted by sections of the Act such as sections 6(c), 17d, and 17c (15 U.S.C. 80a-6(c), 80a-17d, and 80a-17c), the portion of section 38(a) that grants the Commission authority to adopt such rules and regulations and orders as are necessary or appropriate to the exercise of powers conferred elsewhere in this title would be superfluous because the authority specifically granted by the cited sections requires no "elaboration." See Sutherland Stat Const. § 46.08 (4th Ed.) ("A statute should be construed so as to effect given to all its provisions, so that no part will be inoperative or superfluous, void or insignificant, and that the statute will not destroy another unless the provision is the result of obvious mistake or error." [citations omitted]).

The amendments to rules 2a-7, 2a41-1, 12d3-1 and 34b-1 and Form N-SAR under the 1940 Act and rule 402 under the 1933 Act will become effective on June 1, 1991. If a money market fund has policies changeable only if authorized by a shareholder vote that are less restrictive than the rule as amended, compliance with the amended rule will not violate these policies, the Commission believes that compliance with rule 2a-7, as amended, would not require a shareholder vote under sections 6(b)(1) and (2) of the Act. To avoid confusing shareholders, however, funds should consider submitting to shareholders at the next shareholder meeting proposals that will conform the fund's stated policies to the fund's actual policies in light of the revisions to rule 2a-7. The rule does not require funds to dispose of securities owned at the time of the adoption of the rule to comply with the quality and diversification requirements of the rule as amended. Moreover, the Commission will not object if a fund does not dispose of securities owned at the time of the adoption of the rule to comply with the amended rule's maximum maturity provisions.

The amendments to rules 402 under the 1933 Act and 34b-1 under the 1940 Act regarding advertisements and sales literature also become effective on June 1, 1991. All advertisements and sales
The Commission is staggering the effective dates of the amendments to (1) Item 1 of Forms N-1A and N-3 so that a fund will not be required to revise its registration statement to add the new cover page legend until its next post-effective amendment.** The amendments to Item 1 of Form N-1A and Item 1 of Form N-3 will be effective: (1) For investment companies whose registration statements become effective on or after May 1, 1991, and investment companies with fiscal years ending on December 31, as to prospectuses used on or after May 1, 1991; and (2) for all other investment companies, upon use of any prospectus contained in any post-effective amendment filed on or after May 1, 1991. If the registration statement of a fund discloses investment policies that are less restrictive than those required by the rule amendments, the Commission will not object if the fund does not, upon the effective date of the amendments to rule 2a-7, revise its disclosure provided the current disclosure is not misleading. For example, if a fund's registration statement states that the fund may invest in an unlimited amount of Second Tier Securities, a revision would not be necessary. However, if the registration statement states that a fund will invest twenty percent of its assets in Second Tier Securities, revision would be necessary.

It is possible that, upon the adoption of the amendments to rule 2a-7, some funds may choose no longer to hold themselves out as money market funds rather than comply with the rule's limitations. These funds would no longer be eligible to quote a seven-day yield under rule 482(d) and would be required to revise their registration statements and sales material. These funds also may have to revise their fundamental organizational documents. If the extent of the changes that any such fund would be required to make, or other circumstances, made it impossible for the fund to comply with the amended rules by their effective date, the Commission staff would entertain requests for "no action" relief.

IV. Regulatory Flexibility Analysis

A summary of the Initial Regulatory Flexibility Analysis regarding the proposed rule and form amendments was published in the proposing release. One comment was received. The Commission has prepared a Final Regulatory Flexibility Analysis in accordance with 5 U.S.C. 603, a copy of which may be obtained by contacting Eli A. Nathans, Mail Stop 10-6, Securities and Exchange Commission, 450 Fifth Street NW., Washington, DC 20549.

V. Statutory Authority

The Commission is amending rule 2a-7 under the除外emptive and rulemaking authority set forth in sections 6(c) (15 U.S.C. 80a-6(e)), 8(b) (15 U.S.C. 80a-6(l)), 22(c) (15 U.S.C. 80a-22(c)), 34(b) (15 U.S.C. 80a-33(b)), and 38(a) (15 U.S.C. 80a-38(a)) of the Investment Company Act of 1940. The authority citations for the amendments to the rules and forms precede the text of the amendments.

VI. Text of Rule and Form Amendments

List of Subjects in 17 CFR Parts 230, 239, 270 and 274

Investment companies, Reporting and recordkeeping requirements, Securities.

For the reasons set out in the preamble, the Commission is amending chapter II, title 17 of the Code of Federal Regulations as follows:

PART 230—GENERAL RULES AND REGULATIONS, SECURITIES ACT OF 1933

1. The authority citation for part 230 continues to read, in part, as follows: Authority: 15 U.S.C. 77b, 77f, 77g, 77h, 77j, 77k, 77k-1, 77k-2, 77k-3, 77k-4, 77k-4A, 77k-5, 77k-6, 77k-7, and 80e-3, as amended, unless otherwise noted.

2. Section 230.462 is amended by removing the period at the end of the paragraph (a)(8) and by replacing it with a semicolon, by adding a new paragraph (a)(7) and revising paragraph (c)(1) to read as follows:

§ 230.462 Advertising by an investment company as satisfying requirements of section 10:

(a) • • •

(7) In the case of an investment company that holds itself out to be a "money market" fund, it includes a prominent statement that (i) an investment in the fund is neither insured nor guaranteed by the United States Government and (ii) there can be no assurance that the fund will be able to maintain a stable net asset value of $1.00 per share (or, if other than $1.00, the applicable net asset value), provided, however, that a money market fund not holding itself out as maintaining a stable net asset value may omit the portion of the statement required by paragraph (a)(7)(ii) of this section.

(d) In the case of a "money market" fund, any quotation of the money market fund's yield contained in an advertisement shall be:

(1) A quotation of current yield based on the method of computation prescribed in Form N-1A (set forth in §§ 230.15A and 274.11A of this chapter), Form N-3 (set forth in §§ 239.17A and 274.11B of this chapter), or Form N-4 (set forth in §§ 238.17B and 274.11C of this chapter) and identifying the length of and the date of the last day in the base period used in computing that quotation; or

(2) A quotation of current yield described in paragraph (d)(1) of this section and a corresponding quotation of effective yield based on the method of computation prescribed in Forms N-1A, N-3, or N-4. Provided, that when both a quotation of current yield and effective yield are used in the same advertisement, each quotation shall relate to an identical base period and shall be given equal prominence.

PART 270—RULES AND REGULATIONS, INVESTMENT COMPANY ACT OF 1940

3. In the authority citation to part 270, the general authority continues to read, as set forth below, the specific authority for §§ 270.2a-7, 270.2a-41, and 270.12d-1 is revised as follows:

Sections 38, 40, 45 Stat. 841, 842; 15 U.S.C. 80a-37, 80a-68; The Investment Company Act of 1940, as amended, 15 U.S.C. 80a-1 et seq.; unless otherwise noted.


4. By revising section 270.2a-7 to read as follows:

§ 270.2a-7 Money market funds.

(a) Definitions—(1) Amortized Cost Method of valuation shall mean the method of calculating an investment company's net asset value whereby portfolio securities are valued at the fund's acquisition cost as adjusted for amortization of premium or accretion of discount rather than at their value based on current market factors.
(2) Business day means any day, other than Saturday, Sunday, or any customary holiday.

(3) Collateralized fully, in the case of a repurchase agreement shall mean that:
(i) The value of the securities collateralizing the repurchase agreement reduced by the transaction costs (including loss of interest) that the money market fund reasonably could expect to incur if the seller defaults, is, and during the entire term of the repurchase agreement remains, at least equal to the resale price provided in the agreement; and
(ii) The money market fund or its custodian either has actual physical possession of the collateral, or, in the case of a security registered on a book entry system, the book entry is maintained in the name of the money market fund or its custodian; and
(iii) The money market fund retains an unqualified right to possess and sell the collateral in the event of a default by the seller; and
(iv) The collateral consists entirely of Government securities or securities that, at the time the repurchase agreement is entered into, are rated in the highest rating category by the Requisite NRSROs.

(4) Demand Feature shall mean a Put that entitles the holder to receive the principal amount of the underlying security or securities and that may be exercised either:
(i) At any time on no more than 30 days' notice; or
(ii) At specified intervals not exceeding 397 calendar days and upon no more than 30 days' notice.

(5) Eligible Security shall mean:
(i) A security with a remaining maturity of less than or equal to 397 calendar days or less, and
(ii) Any two NRSROs that have issued a rating, with respect to a class of Short-term debt obligations, or any security within that class, that is comparable in priority and security with the security; by the Requisite NRSROs in one of the two highest rating categories for Short-term debt obligations (within which there may be sub-categories or gradations indicating relative standing); or
(iii) An Unrated Security that is of comparable quality to a security meeting the requirements of paragraph (a)(3)(i) or (ii) of this section, as determined by the money market fund's board of directors: Provided, however, That:
(A) The board of directors may base its determination that a Standby Commitment is an Eligible Security upon a finding that the issuer of the commitment presents a minimal risk of default; and
(B) A security that at the time of issuance was a Long-term security but that has a remaining maturity of 397 calendar days or less and that is an Unrated Security is not an Eligible Security if the security has a Long-term rating from any NRSRO that is not within the NRSRO's two highest categories (within which there may be sub-categories or gradations indicating relative standing).

(6) First Tier Security shall mean any Eligible Security that:
(i) Is rated (or that has been issued by an issuer that is rated with respect to a class of Short-term debt obligations, or any security within that class, that is comparable in priority and security with the security) by the Requisite NRSROs in the highest rating category for Short-term debt obligations (within which there may be sub-categories or gradations indicating relative standing); or
(ii) Is a security described in paragraph (a)(3)(i) or (ii) of this section whose issuer has received from the Requisite NRSROs a rating, with respect to a class of Short-term debt obligations (or any security within that class) that is comparable in priority and security with the security, in the highest rating category for Short-term debt obligations (within which there may be sub-categories or gradations indicating relative standing); or
(iii) Is an Unrated Security that is of comparable quality to a security meeting the requirements of clauses (i) and (ii) of paragraph (a)(3)(i) or (ii) of this section, as determined by the fund's board of directors.

(7) Floating Rate Instrument shall mean a security the terms of which provide for the adjustment of its interest rate whenever a specified interest rate (such as a bank's designated prime lending rate) changes and which, at any time, can reasonably be expected to have a market value that approximates its par value.

(8) Government security shall mean any Government security as defined in section 2(a)(18) of the Act.

(9) Long-term shall mean having a remaining maturity greater than 366 days.

(10) NRSRO shall mean any nationally recognized statistical rating organization, as that term is used in paragraphs (c)(2)(vi) (E), (F) and (H) of rule 15c3-1 under the Securities Exchange Act of 1934 (17 CFR 240.15c3-1(c)(2)(vi) (E), (F) and (H)), that is not an affiliated person, as defined in section 2(a)(3)(c) of the Act (15 U.S.C. 80a-2(a)(3)(c)), of the issuer of, or any insurer, guarantor or provider of credit support for, the instrument.

(11) Penny-Rounding Method of pricing shall mean that method of computing an investment company's price per share for purposes of distribution, redemption and repurchase whereby the current net asset value per share is rounded to the nearest one percent.

(12) A Put shall mean a right to sell a specified underlying security or securities within a specified period of time and at a specified exercise price, that may be sold, transferred or assigned only with the underlying security or securities.

(13) Requisite NRSROs shall mean:
(i) Any two NRSROs that have issued a rating with respect to a security or class of debt obligations of an issuer, or
(ii) If only one NRSRO has issued a rating with respect to such security or issuer at the time the fund purchases or rolls over the security, that NRSRO.

(14) Second Tier Security shall mean any Eligible Security that is not a First Tier Security.

(15) Short-term shall mean having a remaining maturity of 366 days or less.

(16) Standby Commitment shall mean a Put that entitles the holder to achieve same day settlement and to receive an exercise price equal to the amortized cost of the underlying security or securities plus accrued interest, if any, at the time of exercise.

(17) Tax exempt fund shall mean any money market fund that holds itself out as distributing income exempt from regular federal income tax.

(18) Total Assets shall mean, with respect to a money market fund using the Amortized Cost Method, the total amortized cost of its assets and, with respect to any other money market fund, the total market-based value of its assets.

(19) An Unconditional Put or an Unconditional Demand Feature shall mean a Put or a Demand Feature (including any guarantee, letter of credit or similar unconditional credit enhancement) that by its terms would be readily exercisable in the event of a
default in payment of principal or interest on the underlying security or securities.

(20) Any Unrated Security shall mean:
(i) A security with a remaining maturity of 367 days or less issued by an issuer that does not have a current Short-term rating assigned by any NRSRO;
(A) To the security, or
(B) To the issuer with respect to a class of Short-term debt obligations (or any security within that class) that is comparable in priority and security with the security; and
(ii) A security:
(A) That at the time of issuance with a Long-term security but that has a remaining maturity of 397 calendar days or less, and
(B) Whose issuer has not received from any NRSRO a rating with respect to a class of Short-term debt obligations (or any security within that class) that now is comparable in priority and security with the security; and
(iii) A security that is a rated security and is the subject of an external credit support agreement that was not in effect when the security (or the issuer) was assigned its rating.
A security is not an Unrated Security if any Short-term debt obligation ("reference security") that is issued by the same issuer and is comparable in priority and security with that security is rated by a NRSRO. The status of such security as an Eligible Security or First Tier Security shall be the same as that of the reference security.

(21) A Variable Rate Instrument shall mean a security the terms of which provide for the adjustment of its interest rate on stated dates (such as the last day of a month or every quarter) and which, upon such adjustment, can reasonably be expected to have a market value that approximates its par value.

(b) Holding Out. It shall be an untrue statement of material fact within the meaning of section 24(b) of the Act (15 U.S.C. 80a-33(b)) for a registered investment company, in any registration statement, application, report, account, record, or other document filed or transmitted pursuant to the Act, including any advertisement, pamphlet, circular, form letter, or other sales literature, addressed to or intended for distribution to prospective investors that is required to be filed with the Commission by section 24(b) of the Act (15 U.S.C. 80a-24(b)) to:
(1) Adopt the term "money market" as part of its name or title or the name or title of any subsidiary or part of its name or title of any security of which it is the issuer, or
(2) Hold itself out to Investors as, or adopt a name which suggests that it is, a money market fund or the equivalent of a money market fund, unless such registered investment company meets the conditions of paragraphs (c)(2), (c)(3), and (c)(4) of this section. For purposes of this paragraph, a name which suggests that a registered investment company is a money market fund or the equivalent thereof shall include one which uses such terms as "cash," "liquid," "money," "ready assets" or similar terms.
(c) Share Price Calculations. The current price per share, for purposes of distribution, redemption and repurchase, of any redeemable security issued by any registered investment company ("money market fund"), notwithstanding the requirements of section 2(a)(41) of the Act (15 U.S.C. 80a-2(a)(41)) and of rule 2a-4 (17 CFR 270.2a-4) and rule 22c-1 (17 CFR 270.22c-1) thereunder, may be computed by use of the Amortized Cost Method or the Penny-Rounding Method: Provided, however, That:
(1) Board Findings. The board of directors of the money market fund shall determine, in good faith, that it is in the best interests of the fund and its shareholders to maintain a stable net asset value per share or stable price per share, by virtue of either the Amortized Cost Method or the Penny-Rounding Method, and that the money market fund will continue to use such method only so long as the board of directors believes that it fairly reflects the market-based net asset value per share.
(2) Portfolio Maturity. The money market fund shall maintain a dollar-weighted average portfolio maturity appropriate to its objective of maintaining a stable net asset value per share or price per share: Provided, however, That the money market fund will not:
(i) Except as provided in paragraph (c)(2)(ii) of this section, purchase any instrument with a remaining maturity of greater than 397 calendar days, or
(ii) In the case of a money market fund not using the Amortized Cost Method, purchase a Government security with a remaining maturity of greater than 762 calendar days; or
(iii) Maintain a dollar-weighted average portfolio maturity that exceeds ninety days.
(3) Portfolio Quality. The money market fund will limit its portfolio investments, including Puts and repurchase agreements, to those United States dollar-denominated instruments that its board of directors determines present minimal credit risks (which determination must be based on factors pertaining to credit quality in addition to

the rating assigned to such instruments by a NRSRO and which are at the time of acquisition Eligible Securities. In the case of an Unrated Security (including a demand instrument) other than a Government Security, or a security that is an Eligible Security based on the rating of one NRSRO, the acquisition of each such security by the money market fund must be approved or ratified by the money market fund's board of directors. For purposes of this section:
(i) A demand instrument that has an Unconditional Demand Feature may be determined to be an Eligible Security or a First Tier Security based solely on whether the Unconditional Demand Feature is an Eligible Security or First Tier Security, as the case may be; and
(ii) A demand instrument that does not have an Unconditional Demand Feature is not an Eligible Security or First Tier Security unless it meets the requirements for being an Eligible Security or First Tier Security, as the case may be, and, in addition, the demand instrument or the Long-term debt securities of the issuer of the demand instrument have been rated by the Requisite NRSROs in one of the two highest rating categories for Long-term debt obligations (within which there may be sub-categories or gradations indicating relative standing), or, if unrated, are determined to be of comparable quality by the money market fund's board of directors.

(4) Portfolio Diversification: General. Except for a Tax-exempt fund, immediately after the acquisition of any security (other than a Government security):
(A) The money market fund shall not have invested more than five percent of its Total Assets in securities issued by the issuer of the security: Provided, however, That a fund may invest more than five percent of its Total Assets in the First Tier Securities of a single issuer for a period of up to three Business days after the purchase thereof (subject to section 5(b)(1) of the Act (15 U.S.C. 80a-5(b)(1)) if the money market fund is a diversified investment company): Provided, further, That the fund may not make more than one investment in accordance with the foregoing proviso at any time; and
(B) In the event that such security is a Second Tier Security, the money market fund shall not have invested more than

the greater of one percent of its Total Assets or one million dollars in securities issued by that issuer which, when acquired by the fund (either initially or upon any subsequent roll over) were Second Tier Securities, and
(2) Five percent of its Total Assets in securities which, when acquired by the fund (either initially or upon any subsequent roll over) were Second Tier Securities.

For purposes of making calculations under paragraph (c)(4)(i)(A) of this section, a repurchase agreement shall be deemed to be an acquisition of the underlying securities, provided that the obligation of the seller to repurchase the securities from the money market fund is Collateralized Fully.

(ii) Portfolio Diversification: Puts. Immediately after the acquisition of any Put, no more than five percent of the money market fund's Total Assets may be invested in securities issued by or subject to Puts from the same institution, Provided, however, That if the money market fund is a Tax exempt fund, the foregoing condition shall only be applicable with respect to 75 percent of its Total Assets.

(iii) General. For purposes of paragraph (c)(4) of this section:

(A) A Put will be considered to be from the party to whom the money market fund will look for payment of the exercise price;

(B) An Unconditional Put will be considered to be a guarantee of the underlying security or securities; and

(C) A guarantee of, or Unconditional Put with respect to, a security will not be deemed to be issued by the institution providing the guarantee or the Put, provided that the value of all securities held by the money market fund and issued or guaranteed by the issuer providing the guarantee or Put shall not exceed ten percent of the money market fund's Total Assets.

(5)(i) Security Downgrades. In the event that (A) a portfolio security of a money market fund ceases to be a First Tier Security (either because it no longer has the highest rating from the Requisite NRSROs or, in the case of an Unrated Security, the board of directors of the money market fund determines that it is no longer of comparable quality to a First Tier Security), or (B) the money market fund's Investment adviser (or any person to whom the money market fund's board of directors has delegated portfolio management responsibilities) becomes aware that any Unrated Security or Second Tier Security held by the money market fund has, since the security was acquired by the fund, been given a rating by any NRSRO below the NRSRO's second highest rating category, the board of directors of the money market fund shall reassess promptly whether such security presents minimal credit risks and shall cause the money market fund to take such action as the board of directors determines is in the best interests of the money market fund and its shareholders:

Provided, however, That the reassessment required by paragraph (c)(5)(i)(B) of this section is not required if, in accordance with the procedures adopted by the board of directors, the security is disposed of (or matures) within five Business days of the adviser becoming aware of the new rating and the board is subsequently notified of the adviser's actions.

(ii) Defaults and Other Events. In the event:

(A) Of a default with respect to a portfolio security (other than an immaterial default unrelated to the financial condition of the issuer); or

(B) A portfolio security of a money market fund ceases to be an Eligible Security; or

(C) It has been determined that a security no longer presents minimal credit risks;

absent a finding by the board of directors that disposal of the portfolio security would not be in the best interests of the money market fund (which determination may take into account, among other factors, market conditions that could affect the orderly disposition of the security), the money market fund shall dispose of such security as soon as practicable consistent with achieving an orderly disposition of the security, by sale, exercise of any Demand Feature or otherwise.

(iii) Notice to the Commission. In the event of a default with respect to one or more portfolio securities (other than an immaterial default unrelated to the financial condition of the issuer) which immediately before default accounted for 1/2 of 1 percent or more of a money market fund's Total Assets, the money market fund shall promptly notify the Commission of such fact and the actions the money market fund intends to take in response to such situation.

Notification under this paragraph shall be made telephonically or by means of a facsimile transmission, followed by letter sent by first class mail, directed to the attention of the Director of the Division of Investment Management.

(b) Required Procedures: Amortized Cost Method. In the case of a money market fund using the Amortized Cost Method, the money market fund's board of directors undertakes, as a particular responsibility within the overall duty of care owed to its shareholders, to establish written procedures reasonably designed, taking into account current market conditions and the money market fund's investment objectives, to stabilize the money market fund's net asset value per share, as computed for the purpose of distribution, redemption and repurchase, at a single value.

(i) Included within the procedures adopted by the board of directors shall be the following:

(A) Written procedures providing that the extent of deviation, if any, of the current net asset value per share calculated using available market quotations (or an appropriate substitute which reflects current market conditions) from the money market fund's amortized cost price per share, shall be calculated at such intervals as the board of directors determines appropriate and reasonable in light of current market conditions; periodic review by the board of directors of the amount of the deviation as well as the methods used to calculate the deviation; and maintenance of records of the determination of deviation and the board's review thereof; and

(B) In the event such deviation from the money market fund's amortized cost price per share exceeds 1/2 of 1 percent, a requirement that the board of directors shall promptly consider what action, if any, should be initiated by the board of directors; and

(C) Where the board of directors believes the extent of any deviation from the money market fund's amortized cost price per share may result in material dilution or other unfair results to investors of existing shareholders, it shall cause the fund to take such action as it deems appropriate to eliminate or reduce to the extent reasonably practicable such dilution or unfair results.

(7) Required Procedures: Penny-Rounding Method. In the case of a money market fund using the Penny-Rounding Method, in supervising the money market fund's operations and delegating special responsibilities involving portfolio management to the money market fund's Investment adviser, the money market fund's board of directors undertakes, as a particular responsibility within the overall duty of care owed to its shareholders, to assure to the extent reasonably practicable, taking into account current market conditions affecting the money market fund's investment objectives, that the money market fund's price per share as computed for the purpose of distribution, redemption and repurchase, rounded to the nearest one percent, will
(8) Record Keeping and Reporting. The money market fund will record, maintain, and preserve permanently in an easily accessible place a written copy of the procedures (and any modifications thereto) described in paragraphs (c)(5), (c)(6), (c)(7) and (e) of this section, and the money market fund will record, maintain, and preserve for a period of not less than six years (the first two years in an easily accessible place) a written record of the board of directors' considerations and actions taken in connection with the discharge of its responsibilities, as set forth above, to be included in the minutes of the board of directors' meetings. The documents preserved pursuant to this condition shall be subject to inspection by the Commission in accordance with section 31(b) of the Act (15 U.S.C. 80a-30(b)) as if such documents were records required to be maintained pursuant to rules adopted under section 31(b) of the Act (15 U.S.C. 80a-30(a)). If any action was taken pursuant to paragraphs (c)(5)(i) (with respect to defaulted securities) or (c)(6)(i)(B) of this section, the money market fund will attach an exhibit to the Form N-SAR (17 CFR 274.101) filed for the period in which the action was taken describing with specificity the nature and circumstances of such action. The money market fund will report in an exhibit to such Form any securities it holds on the final day of the reporting period that are not Eligible Securities.

(d) Maturity of Portfolio Instruments. For the purposes of this rule, the maturity of a portfolio instrument shall be deemed to be the period remaining (calculated from the trade date or such other date on which the fund's interest in the instrument is subject to market action) until the date noted on the face of the instrument as the date on which the principal amount must be paid, or in the case of an instrument called for redemption, the date on which the redemption payment must be made, except that:

(1) An instrument that is issued or guaranteed by the United States government or any agency thereof which has a variable rate of interest readjusted no less frequently than every 725 days shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate.

(2) A Variable Rate Instrument, the principal amount of which is scheduled on the face of the instrument to be paid in 30 calendar days or less shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate.

(3) A Variable Rate Instrument that is subject to a Demand Feature shall be deemed to have a maturity equal to the longer of the period remaining until the next readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand.

(4) A Floating Rate Instrument that is subject to a Demand Feature shall be deemed to have a maturity equal to the period remaining until the principal amount can be recovered through demand.

(5) A repurchase agreement shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to be returned, or where no date is specified, but the agreement is subject to a demand, the notice period applicable to a demand for the repurchase of the securities.

(a) A bluff is defined as having a maturity equal to the period remaining until the date on which the loaned securities are scheduled to be returned, or where no date is specified, but the agreement is subject to a demand, the notice period applicable to a demand for the return of the loaned securities.

(e) Delegation. The money market fund's board of directors may delegate to the fund's investment adviser or officers the responsibility to make any determination required to be made by the board of directors under this section (other than the determinations required by the second sentence of paragraph (c)(9) which may be delegated subject to ratification by the money market fund's board of directors) and paragraphs (c)(1), (c)(5)(i)(B), (c)(5)(i), (c)(6)(i), (c)(6)(ii), and (c)(7) of this section) provided that the board:

(1) Establishes and periodically reviews written guidelines (including guidelines for determining whether instruments present minimal credit risks as required in paragraph (c)(3) of this section) and procedures under which the delegate makes such determinations; and

(2) Exercises adequate oversight (through periodic reviews of fund investments and the delegate's procedures in connection with investment decisions and prompt review of the adviser's actions in the event of the default of a security that requires notification of the Commission under paragraph (c)(5)(iii) of this section) to assure that the guidelines and procedures are being followed.

5. By revising the introductory text of paragraph (a) of § 270.2a41-1 as follows:

§ 270.2a41-1 Valuation of standby commitments by registered investment companies.

(a) A standby commitment as defined in rule 2a-7(a)(16) under the Act (17 CFR 270.2a-7(a)(16)) may be assigned a fair value of zero, Provided, That:

(1) * * * * *

(2) * * * * *

(3) * * * * *

(4) * * * * *

(5) * * * * *

(6) * * * * *

(7) * * * * *

(8) * * * * *

6. By revising paragraph (d)(8)(v) of § 270.12d3-1 as follows:

§ 270.12d3-1 Exemption of acquisitions of securities issued by persons engaged in securities related businesses.

(8) * * * * *

(9) * * * * *

(v) Acquisition of puts, as defined in rule 2a-7(a)(12) under the Act (17 CFR 270.2a-7(a)(12)), provided that, immediately after the acquisition of any put, the company will not, with respect to 75 percent of the total value of its assets, have invested more than five percent of the total value of its assets in securities underlying puts from the same institution. An unconditional put shall not be considered a put from that institution, provided, that, the value of all securities issued or guaranteed by the same institution and held by the investment company does not exceed ten percent of the total value of the company's assets. For the purposes of this section, a put will be considered to be from the party to whom the company will look for payment of the exercise price and an unconditional put, as defined in rule 2a-7(a)(19) under the Act (17 CFR 270.2a-7(a)(19)), will be considered to be a guarantee of the underlying security or securities. * * * * *

7. By revising the introductory text of § 270.34b-1 to read as follows:

§ 270.34b-1 Sales literature deemed to be misleading.

Any advertisement, pamphlet, circular, form letter, or other sales literature addressed to or intended for distribution to prospective investors that is required to be filed with the Commission by section 24(b) of the Act (15 U.S.C. 80a-24(b)) and that contains any investment company performance data (other than a report to shareholders under section 50(d) of the Act (15 U.S.C. 80a-28(d)) containing only performance data for the period of the report ("sales literature") shall have omitted to state a fact necessary in order to make the statements made therein not materially misleading unless the sales literature also contains the performance data specified in paragraphs (a), (b), and (c) of this section, and the disclosure required by paragraph (a)(6) of this
section and, in the case of an investment company that holds itself out as a
“money market fund,” paragraph [a](7) of rule 482 under the Securities Act of
1933 (17 CFR 230.482(a) (6) and (7)).

PART 239—FORMS PRESCRIBED
UNDER THE SECURITIES ACT OF 1933

PART 274—FORMS PRESCRIBED
UNDER THE INVESTMENT COMPANY
ACT OF 1940

8. The authority citation for part 239
continues to read as follows:
Authority: The Securities Act of 1933. 15
U.S.C. 77a, et seq., unless otherwise noted.

The authority citation for part 274
continues to read as follows:
Authority: The Investment Company Act of
1940, 15 U.S.C. 80a-1 et seq., unless otherwise noted.

10. Amending Form N-1A (17 CFR
239.15A and 274.11A), Part A, Item 1,
paragraph (a), by deleting the word
“and” at the end of paragraph (v),
redesignating paragraph (vi) as
paragraph (vii) and adding new
paragraph (vi) and a new Instruction,
to read as follows:

§ 239.15A Form N-1A, registration
statement of open-end management
investment companies.

§ 274.11A Form N-1A, registration
statement of open-end management
investment companies.

Note: Form N-1A is not codified in the
Code of Federal Regulations.

Part A Information Required in a
Prospectus

Item 1. Cover Page

(a) * * *

(ii) in the case of a Registrant holding
itself out as a money market fund, a
prominent statement that (A) an
investment in the fund is neither insured
nor guaranteed by the U.S. Government
and (B) there can be no assurance that
the fund will be able to maintain a
stable net asset value of $1.00 share (or,
if other than $1.00, the applicable net
asset value); and

Instruction: Registrants not holding
themselves out as maintaining a stable
net asset value may omit the disclosure
required by paragraph (b) of Item
1(a)(vi).

1. Revising Form N-1A (17 CFR
239.15A and 274.11A), part B, paragraph
(a) of Item 22 to read as follows:

Part B Information Required in a
Statement of Additional Information

Item 22. Calculation of Performance
Data

(a) Money Market Funds. If the
Registrant holds itself out as a “money
market fund” and if it advertises a yield
quotation or an effective yield quotation,
furnish:

* * * * *

12. Amending Form N-3 (17 CFR
239.17a and 274.11b), part A, Item 1,
paragraph (a), by deleting the word
“and” at the end of paragraph (a)(viii),
redesignating paragraph (a)(ix) as
paragraph (a)(x) and adding new
paragraph (a)(ix) to read as follows:

§ 239.17a Form N-3, registration
statement for separate accounts organized
as management investment companies.

§ 274.11b Form N-3, registration
statement of separate accounts organized
as management investment companies.

Note: Form N-3 is not codified in the
Code of Federal Regulations.

Part B Information Required in a
Statement of Additional Information

Item 21. Calculation of Performance
Data

(a) Money Market Funded Sub-
Accounts. For each sub-account that is
funded by a “money market” fund, and
for which the Registrant advertises a
yield quotation or an effective yield
quotation, furnish:

* * * * *

15. Amending Form N-SAR (17 CFR
274.101) by revising Instruction to Sub-
item 77N, to read as follows:

§ 274.101 Form N-SAR, semi-annual
report of registered investment companies.

Note: Form N-SAR is not codified in the
Code of Federal Regulations.

General Instructions

Instructions to Specific Items

Item 77: Attachments

Sub-item 77N: Actions required to be
reported pursuant to Rule 2a-7

A Registrant relying on rule 2a-7 (17
CFR 270.2a-7) to use the amortized cost
method of valuation is required by
paragraph (c)(8) of that rule: (1) To
report actions that were taken with
respect to defaulted securities held
during the period covered by the report;
(2) to report actions taken with respect
to deviations from the money market
fund’s amortized cost price per share
that may result in material dilution or
other unfair results to investors or
existing shareholders; and (3) to identify
securities held on the final day of the
reporting period that are no longer
Eligible Securities, as defined by
paragraph (a)(9) of that rule. If any such
action was taken during the reporting
period, or if such securities are held on
the last day of the reporting period, this
item should be checked and an exhibit
attached, listing the securities and
specifically describing the nature and circumstances of the action.

16. Amending Guide 1 (Name of Registrant) to Form N-1A by deleting the second paragraph and Guide 1 (Name of Registrant) to Form N-3, by deleting the last sentence of the first paragraph.

Note: The Guides to Forms N-1A and N-3 are not codified in the Code of Federal Regulations.

By the Commission.


Margaret H. Mcafairland,
Deputy Secretary.

Appendix: Conversion Table

Note: The conversion table is not codified in the Code of Federal Regulations.

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