

Summary and frequently asked questions on recent SEC Money Market Fund Reform

July 28, 2014

The following information is regarding the final rules adopted by the Securities and Exchange Commission (SEC) on July 23, 2014 relating to U.S. money market funds (MMFs). It is not intended to provide and should not be relied on for accounting, legal or tax advice or investment recommendations.

The purpose of the amendments is to make structural and operational reforms to address risks of investor runs in MMFs, while preserving the benefits of the funds.

This information is as of July 28, 2014.

Summary of the Final Rules

- 1) **Compliance Dates (all measured from the date that the amendments are published in the Federal Register, which is expected to occur over the next few weeks) –**
 - a) 2 years– Floating NAV and Fees and Gates
 - b) 9 months – Form N-CR
 - c) 18 months – amendments to diversification, stress testing, disclosure, Form PF, Form N-MFP and clarifying amendments
- 2) **Floating Net Asset Value (“NAV”)** – The amendments require institutional MMFs, other than “government MMFs,” to transact at an NAV based on the current market value of the securities in their portfolios rounded to the fourth decimal place (e.g., 1.0000). “Retail MMFs” are excluded from this requirement.

Government and retail MMFs must calculate their market-based NAVs daily, but may continue to utilize amortized cost to value their portfolio securities and to seek to transact at their existing \$1.00 share price.

- a) **Government MMFs** are defined as MMFs that invest a minimum of 99.5% of their total assets in cash, government securities, and/or repo collateralized by government securities or cash. Previously, a government MMF was required to invest a minimum of 80% of its assets in such instruments. Government MMFs do not include Municipal MMFs.
 - b) **A Retail MMF** is defined as a MMF that has policies and procedures reasonably designed to limit all beneficial owners of the fund to “natural persons.”
- 3) **Liquidity Fees and Redemption Gates** –This applies to both retail and institutional MMFs (other than government MMFs). MMF boards are given the ability to impose liquidity fees or suspend redemptions temporarily if a MMF’s level of weekly liquid assets falls below 30% of the fund’s total assets.
 - (a) **Liquidity Fees:** If a MMF’s level of weekly liquid assets falls below 30% of its total assets, its board has discretionary authority to impose a liquidity fee of up to 2% on all redemptions if it is in the fund’s best interests. If a MMF’s weekly liquid assets decline below 10% of its total assets, the Fund’s board must impose a liquidity fee of 1% on all redemptions, unless it determines that such a fee is not in the best interests of the fund or that a higher (up to 2%) or a lower fee would be in the best interests of the fund.

- (b) **Gates:** If a MMF’s level of weekly liquid assets falls below 30% of its total assets, its board, in its discretion, may temporarily suspend redemptions if it finds that imposing a gate is in the fund’s best interests. A board would not be able to impose a gate for more than 10 business days in any 90-day period.

While the amendments relating to fees and gates are not required for government MMFs, including Treasury MMFs, such funds may voluntarily opt into them if they disclose to investors in advance that they will do so.

Fees and gates must be lifted in the event that weekly liquid assets rise above 30% of a MMF’s total assets and may be lifted sooner by a MMF board in its discretion.

“Weekly liquid assets” generally include cash, U.S. Treasury securities, certain other government securities with remaining maturities of 60 days or less and securities that convert into cash within one week. Under the existing rules, all MMFs must have invested at least 30% of their total assets in weekly liquid assets at the time that they acquire any security that does not qualify as a weekly liquid asset.

Frequently asked questions

When will the new rules become effective?

The rules will become effective 60 days after the publication of the rules in the Federal Register. However, the SEC has allowed a transition period with compliance dates as follows (each measured from the date the amendments are published in the Federal Register):

Floating NAV	2 years
Liquidity fees and redemption gates	2 years
Form N-CR	9 months
Diversification, stress testing, disclosure, Form PF and Form N-MFP	18 months

Which funds will be required to float their NAVs?

Institutional MMFs will be required to move to a floating NAV. This means that they will be required to transact shareholder transactions at a floating NAV based on the current market-based value of the securities in their underlying portfolios rounded out to the fourth decimal place (e.g., \$1.0000).

Which funds will be required to apply liquidity fees and redemption gates?

Institutional prime, institutional municipal and retail MMFs have been given the ability for their board to impose a liquidity fee or gate in the event that a MMF’s weekly liquid asset level falls below 30% of the fund’s total assets; in the event that weekly liquid assets level falls below 10%, the MMF board must apply a liquidity fee of 1% on all redemptions, unless it determines that such a fee is not in the best interests of the fund or that a higher (up to 2%) or a lower fee would be in the best interests of the fund.

While the amendments relating to fees and gates will apply to institutional and retail MMFs under the amendments, government MMFs, including Treasury MMFs, may voluntarily opt into them if they make disclosure to investors in advance, but are not required to do so.

Are any funds excluded from the requirement to float NAVs and/or apply redemption gates?

Government MMFs (both retail and institutional), retail prime and retail municipal MMFs are excluded from the requirement to float NAVs.

Government MMFs are not required to apply liquidity fees and redemption gates, but may voluntarily opt into them if they make disclosure to investors in advance.

Will municipal MMFs be required to float NAVs?

A municipal (or tax-exempt) MMF would be required to float its NAV unless it qualifies as a retail MMF.

How will “government MMFs” be defined under the new rules?

Government MMFs are defined as MMFs that invest a minimum of 99.5% of their total assets in cash, government securities, and/or repurchase agreements collateralized by government securities and/or cash. Previously, a government MMF was required to invest a minimum of 80% of its assets in such instruments.

How will “retail MMFs” be defined under the new rules?

A retail MMF is defined under the rules as a MMF that has policies and procedures reasonably designed to limit all beneficial owners of the fund to “natural persons.”

Floating NAV MMFs can be complicated to manage from a tax and accounting perspective. How will this be managed?

The SEC has worked with the U.S. Department of the Treasury and the Internal Revenue Service in an effort to manage the tax and accounting difficulties expected to be experienced with floating NAV MMFs. The U.S. Department of the Treasury and the Internal Revenue Service issued tax guidance on July 23 that: (i) allows shareholders in floating NAV MMFs to use a simplified accounting method to track gains and losses and (ii) provides relief from certain “wash sale” rules for losses on shares of a Floating NAV MMF.

Will MMFs still qualify as a “cash and cash equivalent” under U.S. GAAP?

The SEC stated in the adopting release that “The Commission’s position continues to be that, under normal circumstances, an investment in a money market fund that has the ability to impose a fee or gate under rule 2a-7(c)(2) qualifies as a “cash equivalent” for purposes of U.S. GAAP.” It further stated that “...our position continues to be that an investment in a floating NAV money market fund under our final rules, under normal circumstances, meets the definition of a “cash equivalent.” The SEC noted however, that, as this is a case by case analysis, investors will need to classify their investments based on facts and circumstances.

Did the SEC prohibit MMFs from being rated?

The SEC has not prohibited MMFs from soliciting or carrying a fund rating.

NOT FOR RETAIL DISTRIBUTION: This communication has been prepared exclusively for Institutional/Wholesale Investors as well as Professional Clients as defined by local laws and regulation. This material is not intended to represent an offer or solicitation of any financial instrument

Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument.

J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide. This communication is issued by the following entities: in the United Kingdom by JPMorgan Asset Management (UK) Limited which is regulated by the Financial Conduct Authority (FCA); in other EU jurisdictions by JPMorgan Asset Management (Europe) S.à r.l., Issued in Switzerland by J.P. Morgan (Suisse) SA, which is regulated by the Swiss Financial Market Supervisory Authority FINMA; in Hong Kong by JF Asset Management Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited, all of which are regulated by the Securities and Futures Commission; in India by JPMorgan Asset Management India Private Limited which is regulated by the Securities & Exchange Board of India; in Singapore by JPMorgan Asset Management (Singapore) Limited or JPMorgan Asset Management Real Assets (Singapore) Pte Ltd, all of which are regulated by the Monetary Authority of Singapore; in Japan by JPMorgan Securities Japan Limited which is regulated by the Financial Services Agency; and in Australia by JPMorgan Asset Management (Australia) Limited which is regulated by the Australian Securities and Investments Commission; in Taiwan by JPMorgan Asset Management (Taiwan) Limited and JPMorgan Funds (Taiwan) Limited, which are regulated by the Financial Supervisory Commission; in Brazil by Banco J.P. Morgan S.A. (Brazil) which is regulated by The Brazilian Securities and Exchange Commission (CVM) and Brazilian Central Bank (Bacen); and JPMorgan Asset Management (Canada) Inc. a registered Portfolio Manager and Exempt Market Dealer in all Canadian provinces and territories except the Yukon and is also registered as an Investment Fund Manager in British Columbia, Ontario, Quebec and Newfoundland and Labrador. In the United States by J.P. Morgan Institutional Investments Inc., which a member FINRA/SIPC. Accordingly this document should not be circulated or presented to persons other than to professional, institutional or wholesale investors as defined in the relevant local regulations. The value of investments and the income from them may fall as well as rise and investors may not get back the full amount invested.

FOR INSTITUTIONAL/WHOLESALE AND PROFESSIONAL CLIENTS ONLY | NOT FOR RETAIL DISTRIBUTION