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JPM Details Fund Updates, Cutoffs, Gates in Filing; Linton Comments

J.P. Morgan Asset Management filed a Prospectus Supplement for the **J.P. Morgan Market Funds** that **summarizes its latest Money Fund Reform plans and details a number of fund changes, including categorizations, cutoff times, fees and gates policies, and weekly liquid asset levels**. The filing says, "The **Securities and Exchange Commission** ("SEC") has amended the rules that govern the operation of registered money market funds ("MMFs"). The compliance date for certain of these amendments is October 14, 2016.... **The following is a summary of the major components of these amendments, as well as information pertaining to certain changes that will impact the JPMorgan MMFs**." We review this latest filing below, and **we also get comments from JPMAM's Andrew Linton, Managing Director and Head of Product Development for Global Liquidity, about the compliance dates and implications for investors**. (See our **Feb. 23, 2015 News** "**JPMorgan Announces MMF Changes; Prime to Float; First Designations**," and see our **Jan. 6, 2016 News**, "**Rolling w/Reform Changes II: Recap of '15 Announcements, '16 Plans**.")

The Supplement explains, "Under the amendments, MMFs that qualify as "retail" ("Retail MMFs") or "government" ("Government MMFs") will be permitted to utilize the amortized cost method of valuation to transact at a stable NAV of $1.00 per share. **MMFs that do not qualify as Retail MMFs or Government MMFs (collectively, "Institutional MMFs") will be required to price and transact in their shares at a floating NAV reflecting current market-based values of their portfolio securities**. The floating NAV will need to be rounded to four decimal places for a MMF utilizing a $1.00 NAV per share (e.g., $1.0000). Additionally, as discussed below, **all Retail and Institutional MMFs must adopt policies and procedures to enable them to impose liquidity fees on redemptions and/or redemption gates** in the event that the MMF's weekly liquid assets (as defined below) were to fall below a designated threshold, subject to the actions of the MMF's board. **Government MMFs are exempt from this requirement**."

It continues, "At a February 2016 meeting, the Funds' Board of Trustees (the "Board") agreed with management's recommendation that each of the JPMorgan MMFs be designated as set forth below." **JPMorgan Prime MMF will be designated as Institutional** and will have a floating NAV starting Oct. 1, 2016; **JPMorgan Liquid Assets MMF, JPMorgan California Municipal MMF, JPMorgan New York Municipal MMF, JPMorgan Municipal MMF, and JPMorgan Tax Free MMF** will "seek to qualify" as Retail by October 1 and keep a stable NAV; and, **JPMorgan 100% U.S. Treasury Securities Money Market Fund, JPMorgan Federal MMF, JPMorgan U.S. Government MMF and JPMorgan U.S. Treasury Plus MMF** (all share classes) will be designated Government. Only the Government funds won't have the ability to use liquidity fees and temporary gates, but the filing says in a footnote, "**The Board has no current intention to subject the Government MMFs to temporary liquidity fees and redemption gates**. Please note, however, that the Board may reserve the ability to subject the Government MMFs to a liquidity fee and/or redemption gate in the future after providing appropriate prior notice to shareholders."

Regarding "**Retail MMFs**," JPMAM comments, "As required under the rule amendments, each Retail MMF must adopt policies and procedures reasonably designed to limit all beneficial owners of the Fund to natural persons.

(Continued on page 2)

(Continued from page 1)

In order to separate retail and non-retail investors, a Retail MMF may redeem investors that do not satisfy the eligibility requirements for Retail MMF investors. Each Fund that will operate as a retail MMF will provide advance written notice of its intent to make any such involuntary redemptions.... The Funds listed in the table above will seek to qualify as Retail MMFs by October 1, 2016. On or before October 1, 2016, investments in those Funds will be limited to accounts beneficially owned by natural persons. **Natural persons may invest in a Retail MMF through certain tax-advantaged savings accounts, trusts and other retirement and investment accounts, which may include, among others: participant-directed defined contribution plans; individual retirement accounts ... or certain other retirement and investment accounts with ultimate investment authority held by the natural person beneficial owner, notwithstanding having an institutional decision maker making day to day decisions**."

"Liquidity fees and redemption gates are most likely to be imposed, if at all, during times of extraordinary market stress." *- JPMAM Filing*

For the "**JPMorgan Institutional MMF**," it says, "**Under the rule amendments, both retail and non-retail investors will be able to own shares of the JPMorgan Prime Money Market Fund**, but the Fund will be required to transition to a floating NAV calculated to four decimals (e.g., $1.0000) on or before October 14, 2016. **This transition currently is expected to occur with respect to the JPMorgan Prime Money Market Fund on or about October 1, 2016**. The JPMorgan Prime Money Market Fund will also be subject to the liquidity fee and redemption gate provisions described below. **Effective on or about October 1, 2016, the NAV of each class of shares of the JPMorgan Prime Money Market Fund will ordinarily be calculated as of the following times on each day the Fund accepts purchase orders and redemption requests: JPMorgan Prime Money Market Fund — 8:00 a.m., 12:00 p.m. and 3:00 p.m. ET**."

Under a section "**More Information on Liquidity Fees and Redemption Gates**," the filing explains, "**Under the rule amendments, if a MMF's weekly liquid assets fall below 30% of its total assets, the MMF's board, in its discretion, may impose liquidity fees of up to 2% of the value of the shares redeemed and/or redemption gates**. In addition, if a MMF's weekly liquid assets fall below 10% of its total assets at the end of any business day, the MMF must impose a 1% liquidity fee on shareholder redemptions **unless the MMF's board determines that not doing so is in the best interests of the MMF**. "Weekly liquid assets" include (i) cash; (ii) direct obligations of the U.S. Government ... (iv) securities that will mature or are subject to a demand feature that is exercisable and payable within five business days; and (v) amounts receivable and due unconditionally within five business days.... **With regard to all Funds that do not qualify as Government MMFs (as set forth above), the liquidity fee and redemption gate powers described above will be available to the Board on October 14, 2016**."

It adds, "**Liquidity fees and redemption gates are most likely to be imposed, if at all, during times of extraordinary market stress**. The Board generally expects that a redemption gate would be imposed prior to notification to shareholders and financial intermediaries that a gate would be imposed. Additionally, the Board generally expects that a liquidity fee would be implemented, if at all, after a Fund has notified financial intermediaries and shareholders that a liquidity fee will be imposed (generally, applied to all redemption requests processed at the first net asset value calculation on the next business day following the announcement that the Fund will impose a liquidity fee).... In the event that a liquidity fee or redemption gate is imposed, the Board expects that for the duration of its implementation and the day after which such gate or fee is terminated, the Fund would strike only one NAV per day.... **The imposition and termination of a liquidity fee or redemption gate will be reported by a Fund to the SEC on Form N-CR**. Such information will also be available on the Fund's website (www.jpmorganfunds.com).

The Prospectus Supplement continues, "**The Board may, in its**

(Continued on page 3)

(Continued from page 2)

discretion, terminate a liquidity fee or redemption gate at any time if it believes such action to be in the best interest of a Fund and its shareholders. Also, liquidity fees and redemption gates will automatically terminate at the beginning of the next business day once a Fund's weekly liquid assets reach at least 30% of its total assets. Redemption gates may only last up to 10 business days in any 90-day period.... The Board may, in its discretion, permanently suspend redemptions and liquidate if, among other things, a Fund, at the end of a business day, has less than 10% of its total assets invested in weekly liquid assets. The Board of a Fund that operates as a Retail or Government MMF may suspend redemptions and liquidate the Fund if the Board determines that the deviation between its amortized cost price per share and its market-based NAV per share may result in material dilution or other unfair results to investors or existing shareholders."

JPMAM also writes, "**Effective September 1, 2016, each of the JPMorgan California Municipal Money Market Fund, JPMorgan New York Municipal Money Market Fund and JPMorgan Municipal Money Market Fund has adopted a non-fundamental policy to ordinarily invest, under normal circumstances, 100% of its total assets in weekly liquid assets (as defined under Rule 2a-7)**. The maturity restrictions applicable to weekly liquid assets may reduce these Funds' yield and performance. Investors should note that the historical yield and performance information for these Funds, as described in their prospectuses, is based on the investment policies of the Funds prior to the implementation of these changes."

Finally, the filing adds, "With regard to each Fund, the following language applies and has been added to the prospectus: **You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so**. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time." Note: A separate filing comments, "Effective April 1, 2016, JPMorgan Funds Management, Inc., the Funds' administrator, will be merged with and into J.P. Morgan Investment Management Inc. As a result of this action, all references to JPMorgan Funds Management, Inc. will be replaced with **J.P. Morgan Investment Management Inc**."


Andrew Linton

JPMAM's Linton tells us, "**The key decision for investors is whether to maintain their current cash investments (assuming they remain eligible to do so) or move to new investments**. We expect that this decision will be based on fund classifications, the potential imposition of redemption fees and gates and the investors' needs. For example, under MMF reform, institutions that currently invest in Retail MMFs will no longer be eligible to do so and will have to move cash investments to a Government or Institutional MMF. **Those currently invested in Institutional MMFs, but who want to remain invested in a fund that (1) can continue to utilize amortized cost accounting to seek to maintain a stable NAV and (2) is not subject to fees and gates, may find a Government MMF more appropriate for some or all of these cash investments, despite a potential give-up in yield**."

He explains, "**Most investors understand the concepts of a floating NAV and fees and gates**. What they have less clarity on is how their MMFs will be classified and the details of how FNAVs and fees and gates will be implemented.... Effective liquidity management is key for our investors. **We want to help investors in the JPMorgan MMFs to plan for these changes in a timely, thoughtful and informed way**. Without fund-specific information, they can't do that. **Now is the time to assess current investment strategies, talk with money managers and determine what, if any, changes to their cash investments may be warranted**."

Linton says, "**The JPMorgan Prime Money Market Fund currently plans to calculate its net asset value three times per day,**

(Continued on page 4)

(Continued from page 3)

at 8:00 a.m., 12:00 p.m. and 3:00 p.m., EST. We think these times will meet the liquidity needs of investors by allowing the fund to ordinarily make redemption proceeds available throughout the day, following the calculation of the NAVs. We also felt that transitioning to a floating NAV around the start of a calendar quarter might be helpful for investors."

He adds, "**I think some investors are still more concerned about fees and gates than floating NAVs**. Simply put, these investors want ready access to their funds if and when they need them.... **First, investors should keep in mind that redemption gates and liquidity fees are powerful tools that, during times of extraordinary market stress, may enable MMF boards to provide shareholders with equitable treatment**. I believe gates and fees are most likely to be imposed, **if at all, only during times of extraordinary market instability**.... This decision is ultimately at the discretion of a board, **which is not required to implement a gate or a fee**. However, in the rare event that either step is deemed to be in the best interest of a MMF, I would generally expect that a board would consider implementing a gate first, without prior notification to shareholders or intermediaries, to prevent a sudden, disorderly flood of redemptions and to allow time to implement a liquidity fee."

> *"Certain liquidity investors ... are likely to move assets to Government MMFs.... **This could result in a widening of spreads, making Institutional MMFs more appealing to liquidity investors.**"*
>
> *- Andrew Linton*

Finally, Linton comments, "I would emphasize the following: **Think strategically about cash segmentation**. By that I mean, forecast cash flows and use these estimates to classify cash balances as, for example, "operating" (requiring daily liquidity), "reserve" (available in a 6 - to 12-month timeframe), or "strategic" (available beyond a 1-year horizon). **Segmentation helps define the priorities for liquidity and investment return**.... For strategic cash, if investment policies permit, some liquidity investors may decide to move beyond MMFs — to ultra-short duration or short-duration bond funds (with floating NAVs) which may assume greater risk.... Certain liquidity investors that want to avoid a floating NAV and fees and redemption gates are likely to move assets to Government MMFs, potentially challenging supply/demand dynamics for securities held by Government MMFs. **This could result in a widening of spreads, making Institutional MMFs more appealing to liquidity investors**. Finally, **don't delay decision making**. Consider the options, obtain required information and approvals — and then, take action. There is no reason to wait until October 14 to implement appropriate changes." ◈