

Fees and gates: a decision—not an obligation

Charting a steady course through any market cycle

Under the new Securities and Exchange Commission (SEC) rules, effective on October 14, 2016, money market fund (MMF) boards can contemplate whether to implement a liquidity fee or redemption gate in certain circumstances.

WHEN CAN BOARDS CHOOSE TO IMPOSE FEES AND/OR GATES?

Boards have two key powers under the new rules. If a fund's weekly liquid assets (WLA) drop below 30%, a board has the option to impose a liquidity fee of up to 2% on redemptions until WLA rise above 30%. It can also set a gate on redemptions for any 10 days out of a 90-day period. If a fund's WLA drop below 10%, a 1% fee is required to be imposed, unless the Board determines that it's not in the best interest of the fund to do so.

It's important to remember, however, that a breach of the 30% threshold doesn't automatically lead to a fee or gate—these are only employed if the board believes them to be in the best interests of the fund and its investors. In the event that WLA drop below 10%, however, the board must assess the liquidity profile of the fund, but can still choose not to take action, if in the best interests of the fund and its investors.

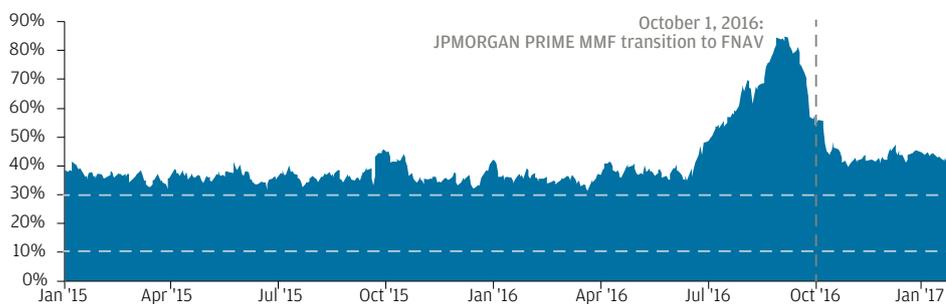
HOW DO WE KEEP LIQUIDITY WELL ABOVE THE 30% THRESHOLD?

Portfolio managers do everything within their power to actively manage weekly liquidity well above the 30% threshold. This is first achieved by carrying a robust liquidity buffer above the required threshold. If a fund approaches a liquidity threshold, a number of tools can be utilized to increase its liquidity buffer, including limiting term purchases and/or selling portfolio securities.

Additionally, we employ a rigorous governance framework to manage client concentration risk. And lastly, our dedicated distribution model fortifies the client relationship, supporting an active dialogue and significantly curtailing unknown cash flow activity.

HISTORICAL WEEKLY LIQUID ASSETS

JPMorgan Prime Money Market Fund



Source: J.P. Morgan Asset Management; data as of January 31, 2017.

THE NEW RULES IN A NUTSHELL

LIQUIDITY FEES: when a fund's WLA drop below 30%, a board can impose a liquidity fee of up to 2% on redemptions until WLA rise above 30%. If a fund's WLA drop below 10%, a 1% fee is required to be imposed, unless the Board determines that it's not in the best interest of the fund to do so.

REDEMPTION GATES: when a fund's WLA drop below 30%, a board can suspend redemptions on a fund for any 10 out of 90 days.

DEFINITION OF WEEKLY LIQUID ASSETS (WLA)

- Securities that will mature or have a demand feature that is exercisable within five business days
- Cash
- Direct obligations of the US government
- Agency discount notes maturing within 60 days
- Any receivables or sales proceeds unconditionally due within five business days

Steps implemented to increase liquidity if fund approaches threshold:

- *Limiting term purchases*
- *Selling portfolio securities*

Our interests are closely aligned with those of our investors. It's in our mutual interest to avoid asking the board to convene to assess the liquidity profile of the fund and potentially impose a fee or gate.

WHAT ARE THE IMPLICATIONS FOR SHAREHOLDERS?

Fees and gates can empower MMF boards to give shareholders stability and support in times of market stress. And gates can stop a run on an MMF in its tracks, giving the board precious time to react—and respond—to the situation. They can therefore be used as shareholder-friendly tools, helping to ensure equitable treatment of all shareholders in a potential stressed scenario.

SO WHAT'S THE TAKEAWAY FOR SHAREHOLDERS?

The SEC sets the rules, but the MMF's board is not obliged to take any specific action when WLA thresholds are breached. Instead, the board has freedom to decide on the best course of action for its funds and its investors. There is one exception to this rule: if WLA drop below 10% of assets, the board must take action, but this action could simply consist of a meeting to discuss the liquidity profile of the fund.

At J.P. Morgan, we remain committed to avoiding fees and gates, and are well positioned to help investors understand and manage these regulatory changes.

BUILDING THE RIGHT CASH STRATEGY WITH J.P. MORGAN

Rigorous credit and risk management, combined with access to J.P. Morgan's global resources and expertise, help us to deliver the most effective short-term fixed income solutions for our clients.

Global coordination, lasting partnerships

- Harness the power of our research-driven, globally coordinated investment process, led by our dedicated team of liquidity professionals.
- Make investment decisions based on actionable insights from our senior investors, and build portfolios based on the output of proprietary benchmarking tools.
- Select from a breadth of outcome-oriented solutions designed to help you build the most effective cash strategy.
- Tap into award-winning innovation and success of one of the world's top liquidity fund managers, with over 30 years of demonstrated results across market cycles.

NEXT STEPS

For further information, please contact your client advisor.

Visit our website for additional insight www.jpmballiquidity.com

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