Prime money market funds have served a vital role as an investment vehicle for institutional investors since the 1980’s. At their peak, money market funds reached $3.9 trillion in assets with bank deposits recorded at more than $10 trillion. Despite the last seven years of near zero interest rates, money market fund assets still stand at more than $2.7 trillion with bank deposits at more than $8.1 trillion.

Effective October 14, 2016, designated institutional prime and municipal money market funds will price their fund shares using a floating net asset value (FNAV) out to 4 decimals, and in times of extreme market stress, a fund’s board will have the ability to impose liquidity fees and/or redemption gates. These changes are designed to provide greater reporting transparency and protection to shareholder principal during extreme liquidity, credit or other market events that affect fixed income securities.

While liquidity fees and/or redemption gates appear to be new investment concepts within the money market asset class, they have been in existence within various mutual funds or other types of investment products in the past. Below is a summary of how redemption gates and liquidity fees work under the 2a-7 rule change and the potential benefits they bring to you as an investor.

### Understanding Redemption Gates

#### TODAY
(Effective May 2010)

In the SEC Rule 2a-7 language that was revised in 2010 (pages 97-101 in section H: Fund Liquidation), the gate language is summarized below in a fairly simplified explanation:

Funds are permitted to suspend redemptions and postpone payment of redemption proceeds in order to facilitate an orderly liquidation of the fund. The Rule permits a fund to do so if:

(i) The fund’s board determines that the deviation between the fund’s amortized cost price per share and the market-based net asset value per share may result in a material dilution of other unfair results,

(ii) The board irrevocably has approved the liquidation of the fund, and

(iii) The fund notifies the Commission of its decision to liquidate and suspend redemptions.

The rule is designed only to facilitate the permanent termination of a fund in an orderly manner.

#### POST-MMF REFORM
(Effective October 2016)

Redemption gates (apply to all money market funds except Government/Treasury money market funds):

1. Fund boards have discretion to impose a redemption gate (i.e. suspend redemptions) if a fund’s weekly liquid assets (WLA) level falls below 30% and the fund’s boards determine that doing so in the best interest of the fund. Weekly liquid assets includes cash, U.S. Treasury securities, certain other government securities with remaining maturities 60 days or less, and securities that convert into cash within five business days.

   a. Redemptions gates are limited to 10 business days over any 90-day period.

2. The fund must lift a redemption gate automatically after the fund’s level of WLA rises to or above 30% and the fund’s boards determine that doing so in the best interest of the fund. Weekly liquid assets includes cash, U.S. Treasury securities, certain other government securities with remaining maturities 60 days or less, and securities that convert into cash within five business days.

3. A board may permanently suspend redemptions and liquidate a money market fund if the fund’s WLA drops below 10% of its total assets.

Redemption gates are designed to protect shareholders during times of excessive market stress and in the future, will not necessarily require the fund to liquidate as it does under current 2a-7 rules.
Understanding Liquidity Fees

In the current environment, a 2a-7 money market fund is one of the only fixed income securities that strives to maintain a constant net asset value of $1.00 per share by valuing fund shares at amortized cost. This pricing methodology allows the fund to smooth any pricing volatility during the life of the investment to produce a constant share price. If an investor bought a Treasury Bill and sold the security before its maturity, the investor may or may not receive their full principal in return, as the security would be redeemed based on the prevailing market rate given the remaining maturity of the security. In essence, this resembles a liquidity fee.

A liquidity fee that is imposed on a money market redemption is designed to protect the fund and the principal of its remaining shareholders by reimbursing to the fund the cost of liquidity when redemptions occur during times of extreme market stress.

Regardless of the type of security, liquidity comes at a premium when there are disruptions in fixed income markets. Money market mutual funds are unique products that can provide investors a diversified short-term investment option that requires rigid oversight, liquidity standards and embedded protections to safeguard a shareholder’s principal.

Compliance Language for 2016 Money Market Reform: Liquidity Fees

The SEC has provided the ability for all money market funds to impose liquidity fees (of up to 2%) to help curb heavy redemptions during times of stress (a government money market fund is not subject to the requirement below unless the fund opts to implement fees and gates structures and disclose this in its prospectus).

1. Fund boards have discretion to impose a liquidity fee (up to 2%) if a fund’s level of WLA falls below 30% and the board determines that doing so is in the best interests of the fund.

2. Fund boards will be required to impose a liquidity fee if a fund’s WLA level falls below 10%, unless the board determines that imposing the fee is not in the best interests of the fund or determines that a lower or higher fee is appropriate (not to exceed 2%).

3. The fund must lift a liquidity fee automatically after the fund’s WLA level raises to or above 30% of its total assets. A money fund may also lift a liquidity fee under any circumstances if the fund’s board decides to modify the fee or determines that the fee is no longer in the best interests of the fund.

If you have any questions regarding the above or if you need sales information relating to our money market funds, please reach out to your BNY Mellon Fixed Income Sales representative or call our Institutional Servicing group at 1-800-346-3621.

All investments involve risk including loss of principal. Certain investments involve greater or unique risks that should be considered along with the objectives, fees, and expenses before investing.

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