

# BNY Mellon Liquidity Funds: Preparing for EU Money Market Fund Reform

AS OF AUGUST 2018

The EU's new regulations are aimed at making money market funds (MMFs) more robust, ensuring the smooth operation of the short-term funding market. Regulators set out to maintain the essential role that MMFs play in financing the European economy and recognize the importance of providing short-term options for investors. The rules have received final sign-off by the European Parliament and were published in the Official Journal on June 30, 2017. They came into force on July 20, 2017 with the effective date for compliance January 21, 2019.



Source: BNY Mellon Investment Management and Council of the European Union.

\* Official Journal.

Structural Options	Short-Term Money Market Funds	Standard Money Market Funds
Public Debt (Government) Constant Net Asset Value (CNAV)	✓	
Low Volatility Net Asset Value (LVNAV) — NEW	✓	
Variable Net Asset Value (VNAV)	✓	✓

The BNY Mellon Liquidity Funds Family will continue to offer the below two funds and their respective share classes. Based on the EU Reform these two funds are expected to be categorized as indicated below on or before January 21, 2019.

## BNY Mellon U.S. Dollar Liquidity Fund

**Short-Term Low Volatility Net Asset Value (LVNAV)** — Investors will be able to purchase and redeem at a stable NAV to two decimal places, provided the fund is managed to certain restrictions:

- *Value portfolio securities* < 75 days' maturity using amortized cost as long as mark-to-market valuation does not deviate by more than 10 bps. If greater than 10 bps, security must be valued at mark to market.
- *Value portfolio securities* > 75 days' maturity at mark to market.
- Value portfolio at amortized cost as long as mark-to-market valuation does not deviate by more than 20 bps. If greater than 20 bps, the fund must be valued using mark to market to four decimal places.
- Minimum liquidity requirements: Daily Liquid Assets (DLA) must be 10% or greater, Weekly Liquid Assets (WLA) must be 30% or greater.

## BNY Mellon U.S. Treasury Fund

**Short-Term Public Debt (Government) Constant Net Asset Value (CNAV)** — Funds characterized by:

- A constant net asset value ("CNAV") per unit/share.
- Required to invest at least 99.5% of the fund's assets in cash, government securities, or repurchase agreements that are fully collateralized.
- *Value securities* using the amortized cost method.
- *Value fund shares* using the amortized cost method.
- Minimum liquidity requirements: Daily Liquid Assets (DLA) must be 10% or greater, Weekly Liquid Assets (WLA) must be 30% or greater.

It is currently intended that the BNY Mellon Liquidity Funds will continue to offer the same share classes currently offered for the funds.

## BNY Mellon U.S. Dollar Liquidity Fund

- Participant Shares
- Investor Shares
- Institutional Shares
- Service Shares
- Administrative Shares
- Advantage Shares

## BNY Mellon U.S. Treasury Fund

- Participant Shares
- Investor Shares
- Institutional Shares
- Service Shares
- Administrative Shares
- Advantage Shares
- Agency Shares

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Below is information pertaining to the BNY Mellon Liquidity Funds along with EU Reform status as of August 2018.

		BNY Mellon U.S. Treasury Fund (Expected Structure: Government CNAV)	BNY Mellon U.S. Dollar Liquidity Fund (Expected Structure: LVNAV)	Status
Fund Details	Maximum Asset Maturity	397 Days	397 Days	Compliant
	Maximum Weighted Average Maturity (WAM)	60 Days	60 Days	Compliant
	Maximum Weighted Average Life (WAL)	120 Days	120 Days	Compliant
	Minimum Daily Liquidity	10%	10%	Change will be reflected in the updated prospectus currently scheduled to be released in January 2019.
	Minimum Weekly Liquidity	30%	30%	Change will be reflected in the updated prospectus currently scheduled to be released in January 2019.
	Weekly Liquidity Eligible Assets	30% highly liquid assets from sovereign, supranationals or agencies < 190 days and up to 17.5% provided 1-day settlement	30% highly liquid assets from sovereign, supranationals or agencies < 190 days and up to 17.5% provided 1-day settlement	Change will be reflected in the updated prospectus currently scheduled to be released in January 2019.
	Eligible Assets for Investment	99.5% government assets, cash or reverse repo backed by government assets	Max 5% in money market instruments and asset-backed commercial paper issued by the same body; aggregate max 15% in Securitizations and ABCP (Securitizations and ABCP at 20% from 21/7/2018)	Compliant
	Diversification <sup>2</sup>	<ul style="list-style-type: none"> <li>Max 100% per sovereign, agency or European supranational, across at least six issues, max 30% per issue</li> <li>Max 15% per reverse repo<sup>1</sup> counterparty</li> </ul>	<ul style="list-style-type: none"> <li>Max 5% per issuer</li> <li>Max 10% per deposit counterparty</li> <li>Max 15% per reverse repo<sup>1</sup> counterparty</li> <li>Max 100% per sovereign, agency or European supranational, across at least six issues, max 30% per issue</li> <li>Max 5% risk exposure per derivative counterparty</li> <li>Max 5% per MMF</li> </ul>	Sovereign instruments are compliant today. Additional changes will be reflected in the updated prospectus currently scheduled to be released in January 2019.
	Aggregate Diversification	NA	<ul style="list-style-type: none"> <li>Max 15% overall exposure to securitization and ABCPs</li> <li>Max 17.5% overall MMF exposure</li> </ul>	Change will be reflected in the updated prospectus currently scheduled to be released in January 2019.
	Security Level Evaluation	Amortized cost	Mark-to-market/mark-to-model > 75 days' maturity <sup>3</sup>	Change will be reflected in the updated prospectus currently scheduled to be released in January 2019.
Credit Quality	Favorable assessment based on internal credit quality assessment. Credit rating agency ratings as inputs to internal assessment, among others.		Change will be reflected in the updated prospectus currently scheduled to be released in January 2019.	
Stress Testing	Stress Testing	Stress testing is a necessary requirement to test the ability of a fund to maintain \$1.00 NAV in the event of stressed scenarios such as deterioration in credit quality, high level of redemptions and shift in yield curve.		Compliance date will be on or about January 14, 2019.
Pricing	Portfolio Valuation <sup>4</sup>	Amortized cost	Amortized cost for instruments ≤ 75 day; mark to market for instruments > 75 days. Cannot use amortized cost for asset if deviation > 10bps.	Compliant
	NAV	Constant NAV per unit/share (\$1.00)	Constant NAV per unit/share. Move to four decimal place VNAV when mark-to-market NAV deviates by more than 20 bps from constant NAV.	Compliant
	How many NAV valuation times do you anticipate post reform? At what times?	One valuation time at 5:00 p.m. EST	One valuation time at 5:00 p.m. EST	Anticipated effective date Q3 2018.
Taxation	Are there tax implications for an LVNAV Fund?	N/A	In the event the fund converts to a VNAV fund, the gain/loss on each transaction or the adjusted cost basis of fund shares will apply. Please consult with your tax advisor for questions or additional information.	Compliant
Liquidity Fees and Redemption Gates	Three stages applies to all short term MMF categories.	1. A discretionary liquidity fee/gate by the fund's board if the weekly liquid assets fall below 30% of total assets AND the daily net redemptions exceed more than 10% of the fund's value.		Compliance date will be on or about January 14, 2019.
		2. Mandatory liquidity fee or temporary gate will be imposed if the weekly liquid assets fall below 10%.		
		3. If a redemption suspension is 15 days or more within a 90-day period, the fund must convert to a floating NAV fund.		
Website Items/ Disclosures	Required: The manager of an MMF shall, at least weekly, make all of the following information available to the MMF's investors.	(a) the maturity breakdown of the portfolio of the MMF; (b) the credit profile of the MMF; (c) the WAM and WAL of the MMF; (d) details of the 10 largest holdings in the MMF, including the name, country, maturity and asset type, and the counterparty in the case of repurchase and reverse repurchase agreements;	(e) the total value of the assets of the MMF; (f) the net yield of the MMF; (g) Market Value NAV posted daily to the website (h) NAV difference posted daily to website (Market Value NAV – Amortized Cost)	Compliant on www.dreyfus.com  Compliance date will be on or about January 14, 2019.
	Optional	Daily and Weekly Liquidity Percentages published on the website		Effective date will be on or about January 14, 2019.

Sources: Council of the European Union, Fitch as of January 2018 and BNY Mellon Global Management.

<sup>1</sup> Where fund is effectively lending cash in return for collateral. <sup>2</sup> Companies included in the same group for the purpose of consolidated accounts shall be regarded as a single body for the purpose of diversification requirements. <sup>3</sup> Use of mark-to-model valuation method where use of mark-to-market method not possible or where market data is not of sufficient quality. <sup>4</sup> Portfolio valuation and difference with the marked to market valuation must be published daily.

**The funds outlined are not available to U.S. Persons and may only be offered and sold in accordance with Regulation S under the U.S. Securities Act of 1933 (see each fund's prospectus for details).**

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Investors must carefully consider the risks associated with the investments described herein, some of which include: i) investing in the sub-funds is not comparable to investing in a deposit account; ii) investments are subject to uncertainties such as international political developments, changes in government policies, changes in taxation, restrictions on foreign investment and currency repatriation, currency fluctuations and other developments in the laws and regulations of countries in which investments are made or in which the BNY Mellon Liquidity Funds plc is incorporated; iii) the legal infrastructure and accounting, auditing and reporting standards in certain countries in which investment may be made may not provide the same degree of investor protection of information to investors as would generally apply in major securities markets; iv) a sub-fund may use futures or options which can increase volatility and the risk of loss; v) the value of a sub-fund will fluctuate in accordance with the changes in the foreign exchange rate between the euro, the dollar, the sterling and the currencies in which the sub-fund's investments are denominated, therefore creating an exposure to currency risk; vi) value of a sub-fund may be affected by changes in interest rates and the creditworthiness of issuers of the sub-fund's investments; and vii) certain sub-funds may invest in lower-rated fixed income securities, and such securities carry a higher degree of default risk which may affect the value of an investment. The foregoing list of certain risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the fund described herein. In addition, as the investment markets and investment products develop and change over time, an investment may be subject to additional and different risk factors. No assurance can be made that profits will be achieved or that substantial losses will not be incurred.

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