A Message from Dreyfus on the Proposed New Regulation of Money Market Funds

On June 5, 2013, the U.S. Securities and Exchange Commission (SEC) released its much anticipated set of rule proposals for re-fashioning the money market fund (MMF) industry in an effort to address the potential negative market and economic consequences arising from heavy net redemption activity in MMFs during times of severe market stress. The SEC’s proposals also are intended to help MMFs manage through such periods of stress in a way that limits potential contagion effects across the financial markets from heavy net redemption activity as well as make the “risk of loss” inherent in MMFs more readily transparent to investors. Importantly, the SEC voiced its intent to preserve the utility and benefits that MMFs provide to investors as well as to the capital formation process. Further, the SEC recognized that a “one size fits all” solution may not be appropriate for the entire MMF industry.

The two proposed alternatives described below could be adopted alone, or as alternative frameworks, or in combination. The SEC is seeking comment on the most appropriate framework for adoption.

Alternative One: Floating the Net Asset Value of MMFs

Under this alternative, MMFs, other than government MMFs and “retail” MMFs, would calculate their net asset values (NAVs) based on the market values of their portfolio holdings only and would not rely on the amortized cost method as currently permitted under Rule 2a-7. As a result, shares for these types of MMFs would not be priced at a fixed $1 NAV.

For purposes of the exception noted above, a “retail” fund would be defined as a MMF that prohibits each shareholder from redeeming more than $1 million in shares on any business day. Such a limitation would have to be established by the fund’s board.

Alternative Two: Authority to Impose Liquidity Fees and Redemption Gates

Under this alternative, all non-government MMFs would be permitted to price at a fixed $1 NAV and would have available the power to impose a redemption fee and apply a redemption “gate” during periods of market stress. These tools would be available at the discretion of the fund’s board and would be triggered if a MMF’s “Weekly Liquid Assets” (as defined in Rule 2a-7) fall below 15% of the fund’s total assets. If approved by the fund’s board in such circumstances, the liquidity fee can be set at up to 2% of the redemption amount. The fee would help defray the potential detrimental impact of redemption activity during periods of market stress.

The board also would be able to impose a temporary suspension of redemption activity for up to 30 days. This “redemption gate” would need to be lifted within 30 days or the fund would be subject to liquidation. This option offers the ability for a fund to repair its liquidity profile organically in a more orderly manner.
Other Rule Proposals

The rule proposals also contain a number of other new requirements that would apply to all MMFs. These include:

- Daily website posting of MMF market-based NAVs and Weekly Liquid Asset levels
- A new Form N-CR filing to disclose certain material events related to MMFs (e.g., imposition of redemption gates)
- Amending the Form N-MFP to eliminate the 60-day hold on posting the Form on [www.sec.gov](http://www.sec.gov)
- Enhancing certain Rule 2a-7 Diversification Requirements, including
  - Aggregating affiliate exposures for purposes of calculating the rule’s 5% issuer concentration limit
  - Eliminate the 25% “single guarantor” basket exception
  - Aggregate ABS exposures by sponsor for purposes of complying with the rule’s 10% guarantor diversification limit
- Enhanced Stress Testing Practices
  - Require stress testing for a fund’s Weekly Liquid Assets falling below 15%
  - Revising board stress testing reporting

Proposed Implementation Period

The SEC has proposed the following time frames for implementing these proposals, if adopted (each time frame is measured from the date the SEC adopts the proposal and publishes it in the Federal Register):

- For implementing a floating NAV – 2 years
- For implementing liquidity fees and redemption gating practices – 1 year
- For implementing each other proposal – 9 months

Summary

The SEC has requested comment on these proposals and provided a 90-day comment period. Currently, Dreyfus is reviewing and assessing this very lengthy and detailed set of rule proposals with a view toward providing timely comment to the SEC.

Preliminarily, we appreciate that the SEC has requested comment on a set of rule proposals that are designed to be more narrowly tailored to address the overall systemic risk concerns that arose in 2008. We commend the SEC for eschewing a “one size fits all” approach to MMF regulation by proposing alternative regulatory frameworks as well as recognizing that certain kinds of MMFs do not raise the systemic risk concerns perceived to be raised by other kinds of MMFs.

We look forward to staying in touch with our valued clients and fund shareholders on this important topic.

*Investors should consider the investment objectives, risks, charges, and expenses of the fund carefully before investing. Call your financial advisor to obtain a prospectus that contains this and other information about a mutual fund, and read it carefully before investing.*

*An investment in any money market is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in a money market fund.*

*This information should not be viewed as a recommendation to buy or sell any security. Past performance is no guarantee of future results. Yields fluctuate.*