

August 14, 2023

Client Alert | Investment Management

Full Disclosure: Reporting and Disclosure Obligations in the SEC's Money Market Fund Reforms

At a meeting on July 12, 2023, the U.S. Securities and Exchange Commission (SEC), in a 3-2 vote, adopted amendments to Rule 2a-7 under the Investment Company Act of 1940 that impact the operation and management of money market funds.¹ This client alert will address the new reporting and disclosure obligations adopted as part of the SEC's rulemaking package. For information on other portions of the rulemaking package, including the modified liquidity fee framework adopted by the SEC, please see our separate [client alert](#) on the SEC's money market fund rulemaking package. Please let our money market fund team know if you have any questions about the rulemaking package or this alert.

Liquidity Fees

As further discussed in our separate [client alert](#) on the SEC's money market fund rulemaking package, amended Rule 2a-7 includes a modified liquidity fee regime for money market funds. As part of the reforms, money market funds will be required to report information about their use of liquidity fees in monthly Form N-MFP filings² as well as in their registration statements. Specifically:

- **Form N-MFP.** For each business day a money market fund applied a liquidity fee during the reporting period, amended Form N-MFP will require money market funds to report the date on which the liquidity fee was applied, the type of liquidity fee (mandatory or discretionary), and the amount of the liquidity fee applied by the fund (in dollars and as a percentage of the value of shares redeemed).³
- **Registration Statement.** Under amendments to Form N-1A, money market funds will be required to disclose information in their statement of additional information (SAI) about any occasion on which the money market fund has imposed a liquidity fee for the last 10 years.⁴ This information applies to both mandatory and discretionary liquidity fees and includes the date on which the fund imposed a liquidity fee and the size of such fee.⁵ In addition, money

¹ Money Market Fund Reforms; Form PF Reporting Requirements for Large Liquidity Fund Advisers; Technical Amendments to Form N-CSR and Form N-1A, Investment Company Act Release No. 34959 (July 12, 2023), available at <https://www.sec.gov/files/rules/final/2023/33-11211.pdf> [hereinafter the Adopting Release].

² Form N-MFP is a public reporting form that is used for monthly reports of information about money market funds and their portfolio holdings.

³ Item A.22 of amended Form N-MFP.

⁴ This is similar to current Form N-1A requirements but removes references to the tie between liquidity fees and liquidity levels.

⁵ Item 16(g)(1) of amended Form N-1A.

market funds subject to liquidity fee requirements will be required to include narrative risk disclosure in their summary prospectuses about liquidity fees.⁶

Amended Rule 2a-7 does not contain website reporting requirements for liquidity fees. The imposition of a liquidity fee does not require reporting on Form N-CR.

Share Cancellation

As further discussed in our separate [client alert](#) on the SEC's money market fund rulemaking package, the SEC adopted amendments to Rule 2a-7 to permit the use of share cancellation in a negative interest rate environment, subject to certain board determinations and disclosure requirements. Should a negative interest rate event occur, amended Rule 2a-7 provides that a money market fund must provide timely, concise and plain-English disclosure about the fund's share cancellation practices and their effects on investors both before and during a negative interest rate event, including (1) advance notification to investors in the money market fund's prospectus that the fund plans to use share cancellation in a negative interest rate event and potential effects on investors and (2) when the money market fund is cancelling shares, information in each account statement or in a separate writing accompanying each account statement identifying that such practice is in use and explaining its effect on investors.⁷ The SEC did not provide template disclosure regarding share cancellations in a negative interest event but has stated that when disclosing the effects of share cancellation on investors, the money market fund should include a clear and prominent statement that an investor is losing money when the fund cancels the investor's shares and generally should also clearly and concisely describe tax effects for shareholders.⁸

With respect to prospectus disclosure, this disclosure must be provided before a money market fund begins to use share cancellation and generally should be provided with sufficient advance notice to allow an investor to take into account information about the fund's possible use of share cancellation and the effects of that approach in the investor's investment decisions.⁹ The figure below provides more information on the placement of disclosure in the event of a negative interest rate event:

⁶ For example, institutional funds will be required to disclose the following in the summary portion of their prospectus:

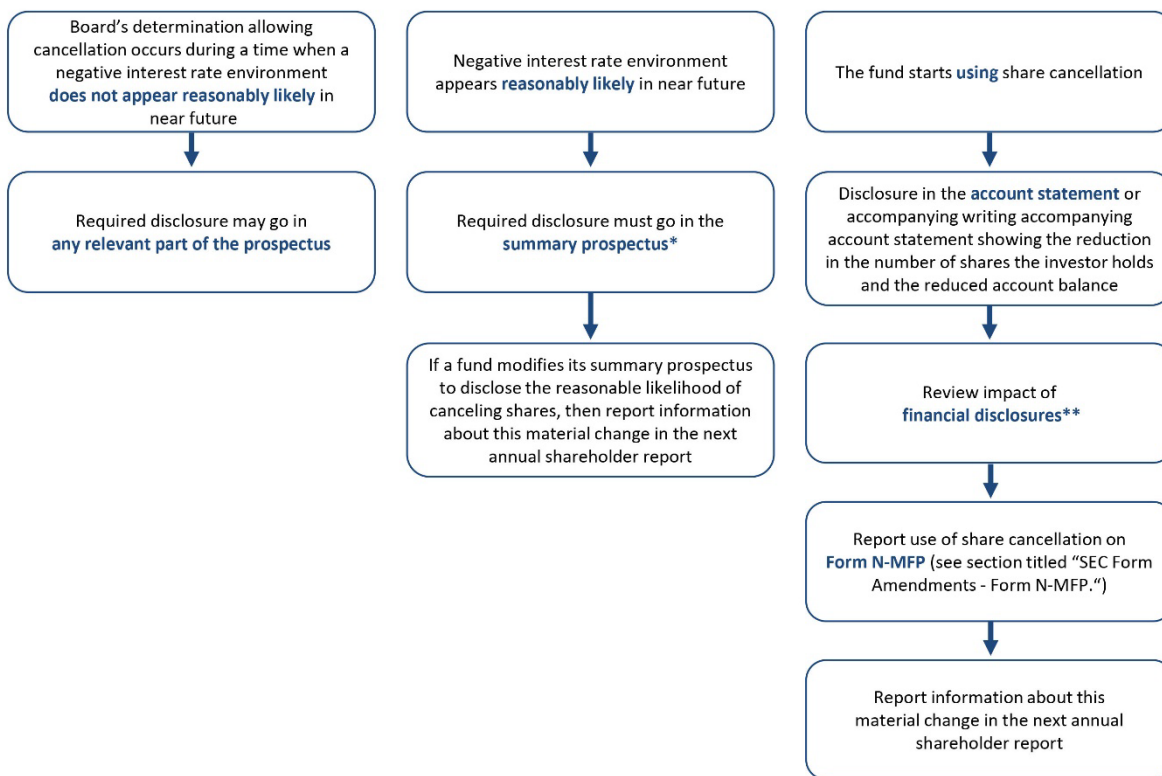
You could lose money by investing in the Fund. Because the share price of the Fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The Fund may impose a fee upon sale of your shares. The Fund generally must impose a fee when net sales of Fund shares exceed certain levels. An investment in the Fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor is not required to reimburse the Fund for losses, and you should not expect that the sponsor will provide financial support to the Fund at any time, including during periods of market stress.

Item 4(b)(1)(ii)(A) of amended Form N-1A.

⁷ Amended Rule 2a-7(c)(3)(iv).

⁸ Adopting Release at 120.

⁹ *Id.*



* A fund may “sticker” its summary prospectus to provide this information.

** Under the requirements for disclosing the total distributions to shareholders in Rule 6-09(3)(c) of Regulation S-X, negative distributions attributable to reverse distribution mechanism would be “other sources” of distributions. Funds generally should disclose negative distributions.

Conversion to a Floating NAV Money Market Fund

Amended Rule 2a-7 permits a stable net asset value (NAV) money market fund to either convert to a floating NAV or to engage in share cancellation in a negative interest rate event.¹⁰ While amended Rule 2a-7 does not directly address disclosure requirements should a stable NAV money market fund convert to a floating NAV money market fund, the SEC in the Adopting Release has stated that a stable NAV money market fund that plans to convert to a floating NAV if it has negative gross yield due to negative interest rates generally should consider similar prospectus, shareholder report and account statement disclosures, as applicable, as required for share cancellation given investors’ lack of experience with negative interest rates and potential expectation that the fund will continue to maintain a stable NAV.¹¹

SEC Form Amendments

In addition to the substantive changes to Rule 2a-7 discussed in our separate [client alert](#) on the SEC’s money market fund rulemaking package and disclosure obligations related to share cancellation addressed above, the SEC also adopted amendments to forms on which money market funds report. These are detailed below. All filings on Forms N-MFP, N-CR and PF on or after June 11, 2024, must comply with the below reporting requirements. This means that a fund’s first filing on amended Form N-MFP will be the fund’s Form N-MFP filing covering the June 2024 reporting period, required to be filed no later than July 8, 2024.

¹⁰ *Id.* at 116. See also amended Rule 2a-7(c)(3).

¹¹ Adopting Release at 123.

Form N-MFP

The SEC adopted amendments to Form N-MFP that (i) require new information to be reported, (ii) involve changes to improve the accuracy and consistency of currently reported information, (iii) require more frequent data points to be reported and (iv) include certain technical and miscellaneous changes.

New Information Required to be Reported

- **Shareholder Concentration.** Money market funds will be required to disclose the type of person who owns of record or is known by the fund to own beneficially 5% or more of the shares outstanding in the relevant class.¹² In a change from the proposal, money market funds will not be required to disclose the name of each beneficial or record owner who owns 5% or more of the shares outstanding in the relevant class. Amended Form N-MFP contains the following categories: retail investor, nonfinancial corporation, pension plan, nonprofit, state or municipal government entity (excluding governmental pension plans), registered investment company, private fund, depository institution or other banking institution, sovereign wealth fund, broker-dealer, insurance company and other. Money market funds should make sure they are able to track their investors by these specified categories in order to comply with this new reporting requirement.
- **Shareholder Composition.** As proposed, a money market fund that is not a government or retail money market fund must identify the percentage of investors within the same categories identified under “Shareholder Concentration” above (with the exception of the retail investor category, as retail money market funds are excluded from this requirement).¹³
- **Prime Money Market Fund Selling Activity.** As proposed, prime money market funds (i.e., money market funds that are not government or tax-exempt money market funds) will be required to report information about the gross market value of portfolio securities a prime money market fund sold or disposed of during the reporting period and do so by category of investment.¹⁴
- **Liquidity Fees.** For each business day that a money market fund applied a liquidity fee during the reporting period, amended Form N-MFP will require money market funds to report the date on which the liquidity fee was applied, the type of liquidity fee (mandatory or discretionary) and the amount of the liquidity fee applied by the fund (in dollars and as a percentage of the value of shares redeemed).¹⁵
- **Share Cancellation.** Amendments to Form N-MFP will require a money market fund to report whether the fund engaged in share cancelling, including the dollar value of shares canceled, the number of shares canceled and the dates on which it used share cancellation.¹⁶

¹² Item B.10 of amended Form N-MFP. If a money market fund knows that two or more beneficial owners of a class are affiliated with each other, the money market fund must treat them as a single beneficial owner when calculating percentage ownership and identify separately each affiliated beneficial owner by type and percentage interest.

¹³ Item B.11 of amended Form N-MFP.

¹⁴ Item D.1 of amended Form N-MFP. The categories of investments mirror the categories that money market funds already use on Form N-MFP for identifying their month-end holding.

¹⁵ Item A.22 of amended Form N-MFP.

¹⁶ Item B.12 of amended Form N-MFP.

Changes for Accuracy and Consistency of Currently Reported Information

- Repurchase Agreements. Amended Form N-MFP will require additional information about repurchase agreement transactions and standardize how filers report certain information. Specifically, the final amendments will require, as proposed, that filers identify (1) the name of the counterparty in a repurchase agreement; (2) whether a repurchase agreement is centrally cleared and the name of the central clearing counterparty, if applicable; (3) if a repurchase agreement was settled on a triparty platform and (4) the CUSIP of the securities involved in the repurchase agreement.¹⁷ In a change from the proposal, the SEC did not adopt amendments to remove the ability of money market funds to aggregate certain required information if multiple securities of an issuer are subject to the repurchase agreement. Accordingly, under the final amendments, money market funds will continue to be permitted to aggregate certain required information regarding repurchase agreements under certain conditions.
- “Government Category.” As proposed, amended Form N-MFP will replace the existing “Treasury,” “Government/Agency” and “Exempt Government” categories with a single “Government Category” and include a new subsection that requires government money market funds to indicate whether they typically invest at least 80% of the value of their assets in U.S. Treasury obligations or repurchase agreements collateralized by U.S. Treasury obligations.¹⁸
- Cash Management Vehicle for Affiliated Funds and Accounts. As proposed, amended Form N-MFP includes a new item requiring filers to indicate whether the money market fund is established as a cash management vehicle for affiliated funds and accounts not available to other investors.¹⁹
- Categories of Investments. As proposed, amended Form N-MFP includes a distinction in the list of categories of investments between U.S. government agency debt categorized as (1) a coupon-paying note and (2) a no-coupon discount note.²⁰
- Fee Waivers and Expense Reimbursements. As proposed, amended Form N-MFP will require money market funds to report only the amount of any fee waiver or expense reimbursement that occurred during the reporting period (rather than the name of any person who paid for or waived all or part of the fund’s operating expenses or management fees during the reporting period and the amount and nature of the fee and expense waiver or reimbursement).²¹

In a change from the proposal, the SEC did not adopt amendments to require public lot-level reporting. Under the final amendments, filers will continue to be permitted but are not required to report information separately for each lot.²²

¹⁷ Items C.1, C.3 and C.8 of amended Form N-MFP.

¹⁸ Item A.10 of amended Form N-MFP.

¹⁹ Item A.21 of amended Form N-MFP.

²⁰ Item C.6 of amended Form N-MFP. In addition, the SEC adopted as proposed a conforming change to the list of investment categories that a money market fund must use for purposes of disclosing information about its holdings on its website.

²¹ Item B.9 of amended Form N-MFP.

²² Adopting Release at 149.

More Frequent Data Points

- Daily Liquid Assets (DLA), Weekly Liquid Assets (WLA), NAV Per Share, Shareholder Flow Data. As proposed, amended Form N-MFP will require a money market fund to report its percentage of total assets invested in DLA and in WLA, NAV per share (including for each class of shares) and shareholder flow data for each business day of the reporting period.²³ Currently, this information is required to be reported on Form N-MFP on a weekly basis and is required to be reported on a fund's website as of the end of each business day during the preceding six-month period.
- Yield Information. As proposed, amended Form N-MFP will require money market funds to report seven-day gross yields (at the series level) and seven-day net yields (at the share class level) for each business day of the reporting period.²⁴ Currently, money market funds must report such information as of the end of the reporting period.

Despite the additional reporting requirements, the SEC did not extend the filing deadline for Form N-MFP. Accordingly, Form N-MFP filings are still required to be filed no later than the fifth business day of each month.

Form N-CR

The SEC adopted various amendments to Form N-CR, including required reporting for liquidity threshold events, removing reporting requirements related to liquidity fees and redemption gates, and requiring Form N-CR to be filed in a structured data language.²⁵

As proposed, money market funds will be required to report publicly on Form N-CR if a fund has invested less than (1) 25% of its total assets in WLA or (2) 12.5% of its total assets in DLA (a "liquidity threshold event").²⁶ If such an event occurs, then a fund must report: (1) the initial date on which the fund fell below either 25% WLA or 12.5% DLA, (2) the percentage of the fund's total assets invested in both WLA and DLA on the initial date of a liquidity threshold event and (3) a brief description of the facts and circumstances leading to the liquidity threshold event.²⁷ Consistent with the current timing requirements for other reportable events on Form N-CR, a money market fund must file a report within one business day after the occurrence of a liquidity threshold event. A fund may file an amended report providing the required brief description of the facts and circumstances leading to the liquidity threshold event up to four business days after such event.²⁸

Money market funds will no longer be required to report on Form N-CR information related to the imposition of a redemption gate or liquidity fee. See the sections regarding amendments to

²³ Items A.13 and A.20 of amended Form N-MFP.

²⁴ Items A.19 and B.8 of amended Form N-MFP. See the section titled "Liquidity Fees" for additional information on such requirements.

²⁵ Other amendments to Form N-CR include (1) a requirement for funds to provide the registrant name, series name and legal entity identifiers (LEIs) for the registrant and the series; (2) added definitions of LEI, registrant and series for consistency with the same defined terms on Form N-MFP and (3) if required to file on Form N-CR for affiliated financial support, reporting the date a fund acquired a security that was then purchased from the fund by the fund's sponsor.

²⁶ Part E of amended Form N-CR.

²⁷ *Id.*

²⁸ *Id.*

Form N-MFP above and Form N-1A below for information on liquidity fee reporting and disclosure obligations on Form N-MFP and a fund's registration statement.

Form N-1A (Registration Statement)

Amended Form N-1A will require money market funds to modify existing summary prospectus risk disclosure to reflect the removal of redemption gates and the implementation of the modified liquidity fee regime (as applicable, depending on the type of money market fund) and disclose information about any occasion in the last 10 years on which the money market fund has imposed a liquidity fee in its SAI.²⁹

Form N-PF

As part of the SEC's rulemaking package, the SEC adopted amendments to Form PF to require additional information regarding liquidity funds advised by large liquidity fund advisers.³⁰ The amendments to Form PF apply to liquidity funds, which are defined as any private fund that seeks to generate income by investing in a portfolio of short-term obligations in order to maintain a stable NAV per unit or minimize principal volatility for investors.³¹ The amendments apply only to large liquidity fund advisers, which generally are SEC-registered investment advisers (or advisers required to register with the SEC) that advise at least one liquidity fund and manage, collectively with their related persons, at least \$1 billion in combined liquidity fund and money market fund assets.³² Currently, large liquidity fund advisers are required to file information on Form PF quarterly, including certain information about each liquidity fund they manage. The amendments adopted by the SEC require large liquidity fund advisers to report substantially the same information that the SEC had proposed money market funds report on Form N-MFP. The SEC adopted the amendments to Form PF largely as proposed, with a few exceptions.³³ Click [here](#) for a chart outlining the changes to Section 3 of Form PF.

Stradley Ronon is pleased to host a webinar on Sept. 6, 2023, at 12:00 pm (Eastern time) on money market fund reform. We hope that you can join us. Details will follow soon.

²⁹ Items 4 and 16(g)(1) of amended Form N-1A.

³⁰ Form PF is a confidential reporting form for certain SEC-registered investment advisers to private funds (or advisers that are required to register with the SEC).

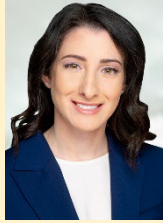
³¹ See Form PF: Glossary of Terms.

³² Specifically, a private fund adviser is considered a large liquidity fund adviser if it advises one or more liquidity funds and as of the last day of any month in the fiscal quarter immediately preceding the adviser's most recently completed fiscal quarter, the adviser and its related persons, collectively, had at least \$1 billion in combined money market and liquidity fund assets under management. See Instruction 3 to Form PF.

³³ In a change from the proposal, the SEC did not adopt a requirement for advisers to provide information separately for initial and subsequent transactions relating to securities purchased or sold by their liquidity funds during the reporting period. The same requirement was ultimately not adopted in connection with amendments to Form N-MFP.

Please let our money market fund team know if you have any questions about the rulemaking package or this alert.

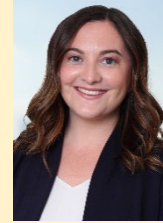
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