

# Money Market Reform Communication Series

## Comparing Retail and Institutional Money Market Mutual Funds

After several years of deliberation, the Securities and Exchange Commission (SEC) recently approved regulatory changes for money market mutual funds. The changes will take effect over a multi-year period, and, when implemented, may affect the shareholder experience in many money market mutual funds. The final rules will require some funds to price and transact at a per-share price that changes, or “floats.” In rare circumstances, some funds may impose restrictions on shareholder redemptions.

Fidelity is well prepared for the new rules. Where needed, we will make changes to our product offerings and fund operations to comply with these rules. Fidelity remains fully committed to the money market mutual fund business and to educating investors through a series of publications that discuss how these new regulatory requirements will impact various types of money market mutual funds.

The SEC’s final rules for money market mutual funds create a new distinction between “retail” prime and municipal funds, which can be held only by individual investors, and “institutional” prime and municipal funds, which can be held by a broader range of investors, including large corporations, small businesses, and pension plans (see Exhibit 1 below).

EXHIBIT 1: Examples of types of retail and institutional accounts.

Examples of Types of Retail Accounts	Examples of Types of Institutional Accounts
Natural persons represent the beneficial ownership interest of these accounts	Natural persons do not represent the beneficial ownership interest of these accounts
<ul style="list-style-type: none"> <li>Individual accounts (brokerage or mutual fund)</li> <li>Retirement accounts, including workplace defined contribution plans</li> <li>College savings plans</li> <li>Health savings plans</li> <li>Ordinary trusts</li> <li>Accounts sold through intermediaries with the underlying beneficial ownership being a natural person</li> </ul>	<ul style="list-style-type: none"> <li>Accounts with registrations based on a tax identification number with the beneficiary not being a natural person</li> <li>Small business accounts</li> <li>Defined benefit plans</li> <li>Endowments</li> </ul>

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### NEW SEC RULES:

- The retail/institutional distinction will apply to prime and municipal money market mutual funds.
- Retail money market mutual funds will be eligible to price and transact at a stable share price of \$1.00. Institutional money market mutual funds will be required to price and transact using a “floating” share price.

For more information about the SEC’s final rules, please read the **Fidelity Investments Money Market Reform Communication Series** to include:

- *Key Money Market Mutual Fund Regulations 2014: Overview of Final SEC Rules*
- *Glossary of Key Terms for Money Market Mutual Fund Regulation*
- *Understanding Government and U.S. Treasury Money Market Mutual Funds*
- *Comparing Stable and Floating Net Asset Value Money Market Mutual Funds*
- *Redemption Restrictions in Money Market Mutual Funds: Liquidity Fees and Redemption Gates*
- *Government Money Market Mutual Funds: An Attractive Option for Institutional Cash Management*
- *Understanding Liquidity in Money Market Mutual Funds*



The terms “retail” and “institutional” are commonly used to describe money market mutual funds today. Investors should understand that the definition under the SEC’s final rules creates a new test for determining whether a fund is retail or institutional. As a result, funds that currently may be considered retail or institutional could have a different classification once the new rules are implemented.

The SEC adopted a retail definition based on its conclusion that, historically, retail investors have behaved differently than institutional investors. Unlike institutional investors, retail investors have been less likely to make large redemptions from money market mutual funds during times of market stress. This distinction has strongly influenced the structural features that prime and municipal funds are required to implement.

### Retail prime and municipal money market mutual funds

- **Retail funds** will be defined as those that have policies and procedures reasonably designed to limit all beneficial owners to “natural persons,” meaning individual investors, or human beings. This definition will apply to prime and municipal money market mutual funds, and includes individuals investing through brokerage accounts, retirement accounts, college savings plans, health savings plans, and accounts sold through intermediaries, provided that the underlying account ownership meets the natural person definition. Ordinary trusts will need to be considered on a case-by-case basis, but will most likely qualify for a retail fund.
- Natural persons who own shares in funds through an intermediary will be eligible for retail money market mutual funds.

- Retail money market mutual funds will be eligible to transact at a stable share price and may be subject to a liquidity fee<sup>1</sup> and/or redemption gate.<sup>2</sup>

### Institutional prime and municipal money market mutual funds

- **Institutional funds** will consist of all funds that do not qualify as a retail funds. Investors that are not natural persons, such as small businesses, large corporations, and pension plans are able to purchase institutional funds. However, natural persons will also be able to purchase institutional funds.
- Daily share prices of institutional money market funds will be required to “float,” meaning the funds will be required to price and transact their shares out to four-digits (\$1.0000). Shareholders in floating NAV money market mutual funds may experience a gain or loss if the per-share value of the funds change by 1/100th of a penny (also known as a “basis point”). An institutional money market mutual fund may be subject to a liquidity fee and/or redemption gate.

Investors with both “retail” and “institutional” account registrations will be subject to the eligibility requirements outlined above and will be required to maintain those accounts separately in their designated retail or institutional funds.

The retail/institutional distinction will not apply to government and U.S. Treasury money market mutual funds. Government and U.S. Treasury money market mutual funds will be eligible to price and transact at a stable share price of \$1.00 and will not be subject to liquidity fees or redemption gates.<sup>3</sup>

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**You could lose money by investing in a money market fund. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Fidelity Investments and its affiliates, the fund's sponsor, have no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.**

**Before investing in any mutual fund, consider the funds' investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus or, if available, a summary prospectus containing this information. Read it carefully.**

Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.

**Past performance is no guarantee of future results.**

#### Endnotes

<sup>1</sup> If a fund's weekly liquid assets were to fall below 30%, the fund's board

may impose a 2% fee on redemptions. If a fund's weekly liquid assets were to fall below 10%, redemptions will be subject to a 1% fee, unless the fund's board determines otherwise.

<sup>2</sup> If a fund's weekly liquid assets were to fall below 30%, the fund's board may suspend redemptions for up to 10 days.

<sup>3</sup> The final rules are clear that liquidity fees and/or redemption gates do not apply to U.S. Treasury or government money market mutual funds. The SEC is allowing U.S. Treasury or government money market mutual funds to add liquidity fees and/or redemption gates to a fund, but only after shareholders receive 60 days' written advance notice.

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