

Money Market Reform Communication Series

Comparing Stable and Floating Net Asset Value 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 new SEC rules will require certain money market mutual funds to price and transact shares using a floating share price, also known as a floating NAV (net asset value). All other money market mutual funds will continue to price and transact shares at a stable NAV. This publication is intended to help investors understand which funds are impacted and how the floating NAV will affect shareholders.

Specifically, institutional prime and institutional municipal money market mutual funds will have a floating NAV, and price and transact shares to four decimal places (i.e., \$1.0000). U.S. Treasury, government, retail prime and retail municipal money market mutual funds will be eligible to transact shares to two decimal places (i.e., \$1.00), which is known as a stable NAV.

Under the new rules, the SEC defined a retail fund as one that has policies and procedures reasonably designed to limit all beneficial owners to natural persons, which are individuals, or human beings. An institutional money market mutual fund is any fund that does not meet the retail fund definition. Institutional fund ownership can include small businesses, large corporations, and pension plans. Natural persons also will be able to purchase institutional funds.

The SEC’s decision to adopt a retail definition was based on its conclusion that 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.

Stable NAV

- Retail prime (general purpose) and retail municipal money market mutual funds will be eligible to use amortized cost accounting to price and transact shares at \$1.00.
- Government and U.S. Treasury money market mutual funds will be eligible to use amortized cost accounting to price and transact at a stable \$1.00 net asset value.

Nancy Prior
President, Fixed Income

Kevin Meagher
*Senior Vice President,
Deputy General Counsel*

NEW SEC RULES:

- U.S. Treasury, government, retail prime (general purpose) and retail municipal money market mutual funds will be eligible to price and transact shares at \$1.00.
- When the new rules are fully implemented, the daily share prices of all institutional prime and institutional municipal money market mutual funds will be required to “float.”

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 Retail and Institutional 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*



- A stable \$1.00 NAV has been a fundamental feature of money market mutual funds, making these funds a convenient and popular vehicle for managing cash, settling brokerage trades, and facilitating a broad range of other financial transactions.

Floating NAV

- When the new rules are fully implemented, the daily share prices of all institutional prime and institutional municipal money market mutual funds will be required to “float.” This means that instead of shares being priced at \$1.00, as they are today, the funds will be required to price and transact at a NAV that uses four-decimal-place precision (\$1.0000), a process known as “basis-point rounding.”
- Floating NAV money market mutual funds will not be permitted to use amortized cost accounting.¹
- When a fund uses basis-point rounding to set its NAV, its shareholders may experience a gain or loss if the per-share value of the fund changes by 1/100th of a penny. For example, if a shareholder owned 10,000 shares priced at \$1.0000, a 1 basis point change in a floating NAV fund would result in a gain or loss of \$1.00.

Floating NAV: tax, accounting and related matters

- Once the new rules come into effect, shareholders in institutional prime and institutional municipal money market mutual funds may experience gains or losses as the NAV changes. Under existing tax law, any gains or losses could create taxable events.

- Under guidance issued by the U.S. Department of the Treasury (Treasury) and the Internal Revenue Service (IRS), floating NAV shareholders will be able to report a single net number for the gains and losses experienced over the course of a year, rather than reporting individual transactions. This will significantly reduce the tax recordkeeping for shareholders.
- The Treasury and the IRS have made it clear in their guidance that sales of floating NAV money market mutual funds will not be subject to the wash-sale rule.²
- With the respect to accounting, the SEC stated its position that floating NAV money market mutual funds will be considered a “cash equivalent.”
- The SEC also provided clarity that a floating NAV money market mutual fund could be eligible for same-day settlement by pricing fund shares multiple times within a single day.

Market value NAV: daily website disclosure

Within 18 months of the new SEC rule being finalized, each money market mutual fund will disclose daily on its website, the fund’s:

- Daily market NAV, reported out to four decimal places (\$1.0000)
- Daily and weekly liquid assets as a percentage of the fund’s total assets
- Net flows from the previous day

Authors

Nancy Prior
President, Fixed Income

Nancy Prior is president of Fidelity’s Fixed Income division, where she has strategic oversight of Fidelity’s Global Bond and Money Market groups.

Kevin Meagher
Senior Vice President, Deputy General Counsel

Kevin Meagher is Senior Vice President, Deputy General Counsel for Fidelity Investments, where he is responsible for leading the Fixed Income Legal Team.

Views expressed are as of the date indicated, based on the information available at that time, and may change based on market and other conditions. Unless otherwise noted, the opinions provided are those of the authors and not necessarily those of Fidelity Investments or its affiliates. Fidelity does not assume any duty to update any of the information.

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, 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

¹ Floating NAV money market mutual funds will not be permitted to use amortized cost accounting except to the extent that it is available to all mutual funds.

² A wash sale occurs when a security is sold at a loss and within 30 days prior to or after that sale, a "substantially identical" stock or security, or a contract or option is purchased by the same individual, the individual's spouse, or a company controlled by the individual.

Third-party marks are the property of their respective owners; all other marks are the property of FMR LLC.

If receiving this piece through your relationship with Fidelity Institutional Asset Management (FIAM), this publication is provided to investment professionals, plan sponsors, institutional investors, and individual investors by Fidelity Investments Institutional Services Company, Inc., and for certain institutional investors by Pyramis Distributors Corporation LLC.

If receiving this piece through your relationship with Fidelity Personal & Workplace Investing (PWI), Fidelity Family Office Services (FFOS), or Fidelity Institutional Wealth Services (IWS), this publication is provided through Fidelity Brokerage Services LLC, Member NYSE, SIPC.

If receiving this piece through your relationship with National Financial or Fidelity Capital Markets, this publication is for institutional investor use only. Clearing and custody services are provided through National Financial Services LLC, Member NYSE, SIPC.



694189.3.0

© 2014 FMR LLC. All rights reserved.