

Money Market Reform Communication Series

Redemption Restrictions for Money Market Mutual Funds: Liquidity Fees and Redemption Gates

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 new rules permit some money market mutual funds to limit redemptions under certain conditions. In particular, if a fund’s weekly liquid assets were to fall below 30%, the board of directors of a prime (general purpose) fund or a municipal fund may either charge a liquidity fee of up to 2% on shareholder redemptions or impose a halt on all shareholder redemptions (known as a “gate”) for no longer than 10 days. Additionally, if weekly liquid assets were to fall below 10%, a prime or municipal fund must impose a liquidity fee of 1%, unless the fund’s board determines that such a fee is not in the fund’s best interests. These liquidity fee and redemption gate requirements apply to both retail and institutional funds. Government and U.S. Treasury money market mutual funds will not be subject to liquidity fees or redemption gates.¹

Understanding a money market mutual fund’s liquidity is key to determining whether a fund may impose a redemption restriction. For a money market mutual fund, “liquidity” refers to the extent to which the fund’s holdings can be quickly converted to cash, reflecting its ability to meet near-term shareholder redemptions.

Current SEC regulations require money market mutual funds to hold at least 10% of total assets in securities that are convertible into cash within one business day whether through maturity or exercise of a demand feature² in one business day (“daily liquid assets”) and 30% of total assets in securities that are convertible into cash within five business days (“weekly liquid assets”). Assets that satisfy the SEC requirements for daily and weekly liquid assets are listed in Exhibit 1 (page 2), and will continue to be eligible to qualify as liquid assets under the new rules.

Liquidity fees: guidelines

- The board of directors **may impose** a fee of up to 2% on shareholder redemptions if a fund’s weekly liquid assets were to fall below 30%.

Nancy Prior
President, Fixed Income

Kevin Meagher
*Senior Vice President,
Deputy General Counsel*

NEW SEC RULES:

- Retail and institutional prime (general purpose) and municipal money market mutual funds may, subject to its board’s discretion, impose a fee of up to 2% on shareholder redemptions if weekly liquid assets were to fall below 30%.
- Additionally, the fund’s board may impose a temporary suspension of redemptions (“gate”) if weekly liquid assets were to fall below 30%.

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*
- *Comparing Stable and Floating Net Asset Value Money Market Mutual Funds*
- *Government Money Market Mutual Funds: An Attractive Option for Institutional Cash Management*
- *Understanding Liquidity in Money Market Mutual Funds*



EXHIBIT 1: Types of money market mutual fund assets that satisfy SEC requirements for daily and weekly liquid assets

Daily Liquid Assets	Weekly Liquid Assets
Cash ³	Daily liquid assets (see column to left)
Direct obligations of the U. S. government ⁴	Government agency discount notes with remaining maturities of 60 days or less
Securities that will mature or are subject to a demand feature that is exercisable and payable within one business day	Securities that will mature or are subject to a demand feature that is exercisable and payable within five business days
Receivables scheduled to be paid within one business day	Receivables scheduled to be paid within five business days

- If weekly liquid assets were to fall below 10%, the board **is required to impose** a 1% liquidity fee, unless the board determines that a fee is not in the best interests of the fund.
- The fee would be lifted when weekly liquid assets return to 30% or when the fund’s board determines that a liquidity fee is no longer in the best interests of the fund.
- All fees would be payable to the fund.
- The board will have the authority to impose a lower fee or perhaps no fee at all if, in its opinion, that is in the best interests of the fund.

Liquidity fees: reasoning, disclosure requirements

- The SEC’s intent in imposing a fee is to transfer the costs of liquidating fund securities from the shareholders who remain in the fund to those who leave the fund during periods when liquidity is scarce.
- Once the new rules are implemented, a money market mutual fund will disclose daily on its website the daily and weekly liquid assets as a percentage of the fund’s total assets.

- The imposition or removal of a liquidity fee, as well as a discussion of the board’s analysis in determining whether or not to impose a fee, must be disclosed promptly and publicly by a money market mutual fund.

Redemption Gates

- In addition to imposing a liquidity fee, the new SEC rules permit the fund’s board to impose a temporary suspension of all redemptions if weekly liquid assets were to fall below 30%.
- The gate would be lifted when weekly liquid assets return to 30% or when the fund’s board determines a gate is no longer in the best interests of the fund.
- The gate could be in place for 10 consecutive days or 10 days in total over the course of a 90-day period.
- A money market mutual fund must disclose promptly and publicly whether a redemption gate has been imposed or removed, as well as a discussion of the board’s analysis in determining whether or not to impose or remove a gate.

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 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.

² A demand feature is an embedded attribute of a security that entitles the holder to redeem the security at a price that approximates its amortized cost plus any accrued interest at the time of exercise. Most securities with a demand feature in the money market universe have an exercise price of 100% of face value (plus accrued interest), and tend to trade at or near par.

³ In the money market mutual fund industry, "cash" is broadly understood to take the form of demand deposits at banks.

⁴ U.S. Treasury bills, notes, and bonds.

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.



694190.3.0

© 2014 FMR LLC. All rights reserved.