

Events Requiring Action by a Money Market Fund

If you have questions or would like additional information on the material covered in this text, please contact one of the authors:

*Stephen A. Keen
(Pittsburgh)
412.288.1567
skeen@reedsmith.com*

*Leslie K. Ross
(Pittsburgh)
412.288.7404
lross@reedsmith.com*

...or the Reed Smith attorney with whom you regularly work.

Paragraphs (c)(6) and (7) of Rule 2a-7 require money market funds to dispose of securities or take other appropriate actions in response to various events that might affect the funds' ability to maintain a stable net asset value per share. However, the complex definitions of "Eligible Security," "First and Second Tier" and "Requisite NRSRO" can make it difficult to recognize these events. We therefore developed a chart that translates the defined terms so that you can recognize more easily when an occurrence requires a response.

To make the table more useful, we have included examples based on changes in ratings. For purpose of the table:

- A-1 refers to the highest short-term rating category of Standard & Poor's ("S&P"), A-2 to the second highest and A-3 to the third highest;
- F-1 refers to the highest short-term rating category of FitchRatings ("Fitch"), F-2 to the second highest and F-3 to the third highest; and
- P-1 refers to the highest short-term rating category of Moody's Investors Service, Inc. ("Moody's"), P-2 to the second highest and P-3 to the third highest.

Only three ratings are required to illustrate the examples, because the definition of "Requisite NRSROs" turns on the highest ratings given by any two NRSROs. Ratings from other NRSROs (such as A.M. Best or Dominion) could be substituted or added without changing the result. Certain examples also refer to first, second, third and fourth highest long-term ratings (AAA, AA, A and BBB for S&P and Fitch, Aaa, Aa, A and Baa for Moody's).

The left hand column of each table sets forth the events, or examples of events, covered by paragraphs (c)(6) and (c)(7); the right hand column sets forth the actions required by Rule 2a-7 or other regulations. The tables are organized as follows:

- Events Affecting Rated Securities,
- Events Affecting Unrated Securities,
- Defaults and Events of Insolvency, and
- Adverse Deviations and Determinations

* * * * *

Reed Smith is a top-20 global relationship law firm with more than 1,300 lawyers in 20 offices throughout the United States, the United Kingdom, Europe and the Middle East. Founded in 1877, the firm represents leading international businesses from Fortune 100 corporations to mid-market and emerging enterprises. Its attorneys provide litigation services in multi-jurisdictional matters and other high stake disputes, deliver regulatory counsel, and

NEW YORK
LONDON
PARIS
LOS ANGELES
WASHINGTON, D.C.
SAN FRANCISCO
PHILADELPHIA
PITTSBURGH
OAKLAND
MUNICH
ABU DHABI
PRINCETON
N. VIRGINIA
WILMINGTON
BIRMINGHAM
DUBAI
CENTURY CITY
RICHMOND
GREECE

Events Requiring Action by a Money Market Fund

execute the full range of strategic domestic and cross-border transactions. Reed Smith is a preeminent advisor to industries including financial services, life sciences, health care, advertising and media, shipping, international trade and commodities, real estate, and education. For more information, visit reedsmith.com.

EVENTS AFFECTING RATED SECURITIES	
EVENTS	ACTIONS REQUIRED
<p>A portfolio security, issuer or the provider of a Guarantee or Demand Feature previously rated A-1 is downgraded to A-2. [¶(c)(6)(i)(A)(1), ¶(a)(22)]</p> <p>S&P adds an A-2 rating to a portfolio security, issuer or the provider of a Guarantee or Demand Feature rated F-1. [¶(c)(6)(i)(A)(1), ¶(a)(21)-(22)]</p> <p>A portfolio security, issuer or the provider of a Guarantee or Demand Feature previously rated A-1/F-1 or A-1/F-1/P-2 is downgraded to A-2/F-1 or A-2/F-1/P-2. [¶(c)(6)(i)(A)(1), ¶(a)(21)-(22)]</p> <p>S&P adds an A-3 rating to a portfolio security, issuer or the provider of a Guarantee or Demand Feature previously rated F-2/P-1 or F-2/P-2. [¶(c)(6)(i)(A)(2)]</p> <p>A portfolio security, issuer or the provider of a Guarantee or Demand Feature previously rated A-2/F-1/P-2 or A-2/F-2/P-2 is downgraded to A-3/F-1/P-2 or A-3/F-2/P-2. [¶(c)(6)(i)(A)(2), ¶(a)(21)-(22)]</p>	<p>Either:</p> <ol style="list-style-type: none"> 1. Dispose of the affected portfolio securities within five Business Days in accordance with procedures adopted by the board of directors. If the disposition resulted from a downgrade to A-3 or issuance of a new A-3 rating, notify the board of directors [¶(c)(6)(i)(B)]; or 2. Have board of directors reassess the minimal credit risks of the affected portfolio securities and take such action as is in the best interest of the fund and its shareholders. [¶(c)(6)(i)(A)] <p>The board of directors may delegate the determinations required by the second step to the fund's investment adviser or officers [¶(e)]; provided that, a First Tier Demand Feature is reduced to Second Tier, the fund must exercise the Demand Feature to reduce the Total Assets invested in securities subject to the Demand Feature to 5% or less, unless the board of directors determines that it would not be in the best interest of the fund. The determination not to exercise a Demand Feature cannot be delegated. [¶(c)(i)(C)]</p>
<p>A portfolio security, issuer or the provider of a Guarantee or Demand Feature previously rated A-2 is downgraded to A-3. [¶(c)(6)(ii)(B), ¶(a)(10)(i)]</p> <p>S&P adds an A-3 rating to a portfolio security, issuer or the provider of a Guarantee or Demand Feature rated F-1 or F-2. [¶(c)(6)(ii)(B), ¶(a)(10)(i), ¶(a)(21)]</p> <p>A portfolio security, issuer or the provider of a Guarantee or Demand Feature previously rated A-1/F-1, A-2/F-1 or A-2/F-2 is downgraded to A-3/F-1 or A-3/F-2. [¶(c)(6)(ii)(B), ¶(a)(10)(i), ¶(a)(21)]</p> <p>A portfolio security underlying a Conditional Demand Feature previously rated A-2 (short-term) or AA is downgraded to A-3 (short-term) or A. [¶(c)(6)(ii)(B), ¶(c)(3)(iv)(C)]</p> <p>S&P adds an A-3 or A rating to a portfolio security underlying a Conditional Demand Feature that is also rated F-1 or AA. [¶(c)(6)(ii)(B), ¶(c)(3)(iv)(C)]</p>	<p>Dispose of the affected securities as soon as practicable consistent with achieving an orderly disposition, unless board of directors determines that it would not be in the best interest of the fund. [¶(c)(6)(ii)]</p> <p>Any actions taken, and any affected portfolio securities held at the end of a reporting period, must be identified in response to Sub-item 77N of Form N-SAR.</p>

Events Requiring Action by a Money Market Fund

<p>A portfolio security underlying a Conditional Demand Feature previously rated A-2/F-1 or AA/AA is downgraded to A-3/F-1 or A+/AA. [¶(c)(6)(ii)(B), ¶(c)(3)(iv)(C), ¶(a)(21)]</p> <p>All NRSROs withdraw their ratings from an Asset Backed portfolio security (unless the underlying Qualifying Assets consist solely of Non-Conduit municipal securities). [¶(c)(6)(ii)(B), ¶(a)(10)(ii)(B)]</p> <p>All NRSROs withdraw their ratings from a portfolio security subject to a Guarantee By A Non-Controlled Persons and from all other obligations of the Guarantor having comparable priority and security. [¶(c)(6)(ii)(B), ¶(a)(10)(iii)(A)]</p>	
--	--

Events Requiring Action by a Money Market Fund

EVENTS AFFECTING UNRATED SECURITIES	
EVENTS	ACTIONS REQUIRED
<p>An Unrated Security in the portfolio previously determined to be comparable to securities rated A-1 is determined to be comparable to securities rated A-2. [¶(c)(6)(i)(A)(1), ¶(a)(22)]</p> <p>An Unrated Security in the portfolio previously determined to be comparable to securities rated A-1 is rated A-2. [¶(c)(6)(i)(A)(1), ¶(a)(22)]</p>	<p>Either:</p> <ol style="list-style-type: none"> 1. Dispose of the affected portfolio securities within five Business Days in accordance with procedures adopted by the board of directors. If the disposition resulted from a downgrade to A-3 or issuance of a new A-3 rating, notify the board of directors [¶(c)(6)(i)(B)]; or 2. Have board of directors reassess the minimal credit risks of the affected portfolio securities and take such action as is in the best interest of the fund and its shareholders. [¶(c)(6)(i)(A)] <p>The board of directors may delegate the determinations required by the second step to the fund's investment adviser or officers [¶(e)]; provided that, a First Tier Demand Feature is reduced to Second Tier, the fund must exercise the Demand Feature to reduce the Total Assets invested in securities subject to the Demand Feature to 5% or less, unless the board of directors determines that it would not be in the best interest of the fund. The determination not to exercise a Demand Feature cannot be delegated. [¶(c)(i)(C)]</p>
<p>An Unrated Security in the portfolio previously determined to be comparable to securities rated A-1 or A-2 is determined to be comparable to securities rated A-3. [¶(c)(6)(ii)(B), ¶(a)(10)(ii)]</p> <p>An Unrated Security in the portfolio previously determined to be comparable to securities rated A-1 or A-2 is rated A-3. [¶(c)(6)(ii)(B), ¶(a)(10)(i)]</p> <p>An Unrated Security with an initial maturity of more than 397-days receives or is downgraded to a long-term credit rating of BBB+ (unless the security also maintains ratings of at least A-3/A-). [¶(c)(6)(ii)(B), ¶(a)(10)(ii)(A)]</p> <p>An Unrated Security underlying a Conditional Demand Feature previously determined to be comparable to securities rated A-2 (short-term) or AA is determined to be comparable to securities rated A-3 (short-term) or A. [¶(c)(6)(ii)(B), ¶(c)(3)(iv)(C)]</p> <p>An Unrated Security underlying a Conditional Demand Feature receives a rating of A-3 (short-term) or A. [¶(c)(6)(ii)(B), ¶(c)(3)(iv)(C)]</p>	<p>Dispose of the affected securities as soon as practicable consistent with achieving an orderly disposition, unless board of directors determines that it would not be in the best interest of the fund. [¶(c)(6)(ii)]</p> <p>Any actions taken, and any affected portfolio securities held at the end of a reporting period, must be identified in response to Sub-item 77N of Form N-SAR.</p>

Events Requiring Action by a Money Market Fund

DEFAULTS AND EVENTS OF INSOLVENCY	
EVENTS	ACTIONS REQUIRED
<p>A default with respect to a portfolio security, Demand Feature or Guarantee (other than an immaterial default unrelated to the financial condition of the issuer or provider of a Demand Feature or Guarantee). [¶(c)(6)(ii)(A)]</p> <p>A portfolio security issuer or provider of a Demand Feature or Guarantee admits insolvency (<i>i.e.</i>, inability to pay obligations when due). [¶(c)(6)(ii)(D), 5b-3(c)(2)(i)]</p> <p>A portfolio security issuer or provider of a Demand Feature or Guarantee applies for the appointment of a trustee, receiver, rehabilitator, or similar officer for all or substantially all of its assets. [¶(c)(6)(ii)(D), 5b-3(c)(2)(i)]</p> <p>A portfolio security issuer or provider of a Demand Feature or Guarantee makes a general assignment for the benefit of creditors. [¶(c)(6)(ii)(D), 5b-3(c)(2)(i)]</p> <p>A portfolio security issuer or provider of a Demand Feature or Guarantee files a voluntary petition in bankruptcy or application for reorganization or an arrangement with creditors. [¶(c)(6)(ii)(D), 5b-3(c)(2)(i)]</p> <p>A portfolio security issuer or provider of a Demand Feature or Guarantee does not contest the institution of a petition in bankruptcy or application for reorganization or an arrangement with creditors. [¶(c)(6)(ii)(D), 5b-3(c)(2)(ii)]</p> <p>A government agency responsible for regulating the activities of a portfolio security issuer or the provider of a Demand Feature or Guarantee institutes similar proceedings, whether or not contested by the issuer or provider. [¶(c)(6)(ii)(D), 5b-3(c)(2)(iii)]</p> <p>A Conditional Demand Feature terminates, and, at the time of the termination, the underlying securities either (a) have a remaining maturity greater than 397-days or (b) do not independently meet the requirements for a First or Second Tier Security. [¶(c)(6)(ii)(B), ¶(a)(10)(i)]</p> <p>A portfolio security subject to a Demand Feature or Guarantee is amended to no longer require notice to holders of any substitution of the provider of the Demand Feature or Guarantee. [¶(c)(6)(ii)(B), ¶(a)(10)(iii)(B)]</p>	<p>If the affected securities are subject to a Demand Feature, exercise the Demand Feature. If the affected securities are subject to a Guarantee, confirm that the Guarantor will honor its obligations without protest. [¶(c)(6)(iv)]</p> <p>If the affected securities are not subject to a Demand Feature or Guarantee, the default or event relate to the provider of the Demand Feature or Guarantee, or the provider of a Demand Feature or Guarantee does not honor its obligations, dispose of the affected securities as soon as practicable consistent with achieving an orderly disposition, unless board of directors determines that it would not be in the best interest of the fund. [¶(c)(6)(ii)]</p> <p>Notify SEC by telephone, facsimile or e-mail, if, before event, the affected portfolio securities accounted for 0.5% or more of the fund's Total Assets. The notice should specify the event and the actions the fund intends to take in response. [¶(c)(6)(iii)]</p> <p>Any actions taken, and any affected portfolio securities held at the end of a reporting period, must be identified in response to Sub-item 77N of Form N-SAR.</p>

Events Requiring Action by a Money Market Fund

ADVERSE DEVIATIONS AND DETERMINATIONS	
EVENTS	ACTIONS REQUIRED
The amortized cost value of the portfolio deviates from the market value by more than 0.5%. [9(c)(7)(ii)(B)]	<ul style="list-style-type: none"> ▪ The board of directors shall promptly consider what action, if any, should be initiated by the board of directors. [9(c)(7)(ii)(B)] ▪ Any actions taken must be identified in response to Sub-item 77N of Form N-SAR.
A portfolio security is determined to no longer present minimal credit risks. [9(c)(6)(ii)(C)]	Dispose of the affected securities as soon as practicable consistent with achieving an orderly disposition, unless board of directors determines that it would not be in the best interest of the fund. [9(c)(6)(ii)]
A Floating Rate or Variable Rate portfolio security is no longer expected to have a market value that approximates its amortized cost upon adjustment of its interest rate, and its remaining maturity is greater than 397-days. [9(c)(6)(ii)(B), 9(a)(10)(i)-(ii)]	<p>Dispose of the affected securities as soon as practicable consistent with achieving an orderly disposition, unless board of directors determines that it would not be in the best interest of the fund. [9(c)(6)(ii)]</p> <p>Any actions taken, and any affected portfolio securities held at the end of a reporting period, must be identified in response to Sub-item 77N of Form N-SAR.</p>
The board of directors believes the extent of any deviation from the fund's amortized cost price per share may result in material dilution or other unfair results to investors or existing shareholders. [9(c)(7)(ii)(C)]	<p>The board of directors shall cause the fund to take such action as it deems appropriate to eliminate or reduce to the extent reasonably practicable such dilution or unfair results. [9(c)(7)(ii)(C)]</p> <p>Any actions taken must be identified in response to Sub-item 77N of Form N-SAR.</p>