UBS

Money Market Reform in Depth

Details of amended money market fund rules

The most significant stage of money market fund reform is fast approaching and will affect the entire money market fund industry. In this update, we provide a summary of certain aspects of the amended rules to help investors navigate the new environment.

Key details and implementation timeline

In July 2014, the US Securities and Exchange Commission (SEC) amended the rules governing the US money market mutual fund industry. In addition, in September 2015, the SEC approved further rule amendments.These amended rules are intended to mitigate fund risk and enhance fund regulation and transparency for investors.

The amendments will primarily target prime and tax-free money market funds and will also differentiate between investor types. Today, retail investors ("natural persons," as defined by the new amendments) and institutional investors (for example, banks, corporations, hospitals, colleges or governments) can invest in the same money market fund. Under the amended rules, *institutional investors* desiring a money market fund that seeks to maintain a constant net asset value (CNAV) per share of $1.00 may only invest in government/Treasury funds.

Institutional investors seeking to own prime or tax-free money market funds will be limited to money market funds that have a floating net asset value (FNAV) per share. Prime and tax-free money market funds that are open to *retail investors only* may continue to seek to maintain a CNAV per share of $1.00. Retail investors will be permitted to invest in both CNAV and FNAV types of funds.

To further protect investors, the SEC has adopted additional measures that give money market funds the ability to suspend redemptions, if deemed necessary. A "redemption gate" is a discretionary tool that a fund's board can impose to limit fund redemptions for up to 10 business days. Fund boards may also impose a "liquidity fee" of up to 2% on redemptions, which can help pay for that liquidity during times of market stress.

The regulatory changes will occur over the course of the compliance period, which extends until October 2016. All money market fund firms must be in compliance with the amendments by October 14, 2016.

UBS impact

We are working to ensure that our products, systems and processes will comply with the new SEC regulations before the compliance deadlines and meet the funds' goals of safety, liquidity and income. To assist clients in managing their liquidity needs we aim to provide comprehensive money fund product offerings as well as other investment solutions.

For details of planned fund changes and offerings, please refer to '2016 Money Market Fund Platform' and 'US Money Market Reform Overview,' which can be found on the UBS Money Market Fund website.

The chart below provides a closer look at some key aspects of the SEC's amendments to its money market fund rules:

Reform	Regulatory Implementation Dates	Description
Retail Money Market Funds vs Institutional Money Market Funds	10/14/16	The amendments create a distinction between retail and institutional money market funds. A retail money market fund is defined as a money market fund that has policies and procedures reasonably designed to limit all beneficial owners of the money market fund to "Natural Persons." For example, retail funds may be limited to investors deemed to be Natural Investors by virtue of (i) a social security number when they open an account (or, for non-US investors, some other form of government-issued identification, such as a passport); (ii) a social security number in connection with recordkeeping for a retirement plan; and (iii) information regarding individual beneficiaries when opening certain types of trust accounts. Institutional money market funds are defined as funds with both 'natural' and 'non-natural' beneficial owners. 'Non-natural' is commonly used to define the institutional investor (e.g., corporations, colleges/hospitals, state and local governments).
Government Money Market Funds	10/14/16	Under the amendments, a 'government money market fund' is defined as a money market fund that invests 99.5% or more of its total assets in cash, government securities and/or repurchase agreements that are collateralized fully (i.e., collateralized with cash and/or government securities).
Floating Net Asset Value (FNAV)	10/14/16	Applies to: institutional prime and institutional tax-exempt funds • Requires these fund-types, which are primarily utilized by non-natural investors, to move from a stable $1.00 share price to valuing their portfolio securities at market value and to sell and redeem shares based on a floating net asset value (FNAV). • Funds are required to transact at a floating NAV and round prices to four decimal places in the case of a fund with a $1.00 target share price (i.e., $1.0000). • Government and retail only money market funds are permitted to continue to seek a stable $1.00 NAV per share.
Liquidity Fees and Redemption Gates	10/14/16	Applies to: all non-government money market funds (e.g., prime and tax-exempt money market funds) and provides fund boards new tools to stem heavy redemptions by giving them discretion to impose a liquidity fee or to gate (i.e., suspend) redemptions • Fund boards will have discretion to impose either a liquidity fee of up to 2% or a temporary suspension of redemptions (gate) if a fund's level of weekly liquid assets falls below 30% of its total assets, and the board determines that the fee or gate is in the best interest of the fund's shareholders. • A fund will be <u>required</u> to impose a liquidity fee of 1% if the fund's level of weekly liquid assets falls below 10%, *unless* the fund's board determines it is not in the best interest of the fund's shareholders. • Gates cannot be in place for more than 10 business days in a 90-day period, and the fund's board may lift the gate sooner.

Liquidity Fees and Redemption Gates	10/14/16	✓ It is likely that fees and gates will be used only rarely in extreme circumstances when needed to protect the interests of fund shareholders. ✓ Government money market funds are not subject to the new fees and gates provisions, although these funds can voluntarily opt into them.
Material Event Reporting	7/14/15	Funds are required to promptly disclose certain events: • Portfolio security defaults • Sponsor or fund affiliate support, including the amount and reason for support • Decrease in a fund's market-based NAV per share to below $0.9975 (retail and government money market funds only) • Imposition or removal of liquidity fees or redemption gates
Disclosure	4/14/16	New disclosure requirements include the following: • **Website Disclosure** –Regular disclosure of daily and weekly liquid assets, net shareholder inflows or outflows, market-based NAVs, imposition of fees/gates and sponsor support • **Disclosure of sponsor support** – Funds required to disclose in their SAIs any occasion during the last 10 years where the fund received sponsor or fund affiliate support (beginning 4/14/16).
Diversification	4/14/16	Building upon the changes adopted by the SEC in the 2010 money market rule amendments, new requirements include: • **Aggregation of affiliates** – Funds will be required to treat affiliated entities as single issuers for purposes of the 5% issuer diversification limit otherwise applicable to portfolio holdings. • **Amendment of the "25% basket" for guarantees** – Changes to the '25% basket' (that allows 25% of securities held in a fund to be subject to guarantees or demand features from one or two institutions, for example): o Tax-exempt funds – Basket is limited to 15% o All other money funds – limited to 10% in any single institution • **Asset-backed securities** – Funds will be required to treat sponsors of ABS as guarantors subject to the 10% diversification limit applicable to guarantees and demand features (above)
Stress Testing	4/14/16	Enhances existing stress-testing requirements by requiring each fund to test its ability to maintain weekly liquid assets of at least 10% and to minimize volatility under specific hypothetical stress scenarios.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund. Mutual funds are sold by prospectus, which includes more complete information on risks, charges, expenses and other matters of interest. Investors should read the prospectus carefully before investing.

Mutual funds are sold by prospectus. Investors should carefully read and consider a mutual fund's investment objectives, risks, charges, and expenses before investing. The prospectus contains this and other information about a mutual fund. To obtain a free prospectus, please call your Financial Advisor or write to: UBS Asset Management, 1285 Avenue of the Americas, New York, NY 10019. You can also contact UBS Asset Management at 888-793 8637 or visit www.ubs.com/usmoneymarketfundsholdings for a current prospectus.
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