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Practice Group:

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SEC PROPOSES MAJOR REVISIONS TO MONEY MARKET FUND RULES

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On June 5, 2013, the Securities and Exchange Commission (“SEC”) voted to release its long-awaited proposals¹ to make significant revisions to the rules governing money market mutual funds (“money funds”), as well as to adopt related new disclosure requirements. The SEC stated that the proposed amendments seek to reduce what the SEC perceives to be money funds’ vulnerability to heavy redemptions, attributing much of the redemption activity during periods of “financial stress” to “prime money market funds” (funds that invest mainly in taxable short-term obligations of corporations and banks, repurchase agreements, and asset-backed commercial paper) rather than government, U.S. Treasury, and tax-exempt/municipal money funds.

Summary of the SEC’s Proposals

The SEC has proposed two alternative sets of proposals. One option would require money funds, with certain important exceptions, to sell and redeem shares using a “floating” NAV, that is, at a share price based on a model-based value of the funds’ portfolio securities (the “Floating NAV” proposal).² The other option would permit all money funds to continue to sell and redeem shares at a stable NAV, but would require funds to impose liquidity fees if the level of weekly liquid assets falls below a specified threshold, and would permit money fund boards to suspend redemptions under those circumstances, that is, to “gate” the funds (the “Fees & Gates” proposal). The SEC noted that it is considering adopting some combination of the Floating NAV and Fees & Gates proposals. The SEC is seeking comment on all aspects of the two proposals.

Floating NAV Proposal (Alternative 1):

- Prime institutional money funds would be required to use a floating NAV instead of a stable NAV (e.g., \$1.00). To implement this proposal, prime institutional money funds would generally no longer be allowed to use amortized cost to value their portfolio securities (except for very short-term holdings). The proposal would require prime institutional money funds to “basis point round” their share price to the nearest 1/100th of 1% (e.g., the fourth decimal place in the case of a fund with a \$1.0000 share price). Government and retail money funds could use the “penny rounding method” of calculating their NAVs, but could not use amortized cost pricing (except for very short-term holdings).
- Government money funds would not be required to adopt a floating NAV. Government money funds would be defined as “any money market fund that holds at least 80% of its assets in cash, government securities, or repurchase agreements collateralized with

¹ Money Market Fund Reform; Amendments to Form PF, Investment Company Act Release No. 60551 (June 6, 2013) (the “Proposing Release”).

² The SEC notes that sale prices are typically not available for money market instruments. Accordingly, mark to market pricing is based on models. The SEC does not specify the model to be used. See, Proposing Release at footnote 27.

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government securities.” Government funds would be required to use the penny rounding method to maintain a stable NAV, if they choose to do so.

- Retail money market funds would not be required to adopt a floating NAV. A retail money fund would be defined as “a money market fund that limits each shareholder’s redemptions to no more than \$1 million per business day.” Retail money market funds would be required to use the penny rounding method to maintain a stable NAV, should they choose to do so.

Fees & Gates Proposal (Alternative 2):

- All money funds could continue to use penny rounding to maintain a stable NAV but would be required and/or be permitted to use liquidity fees and redemption gates whenever the fund’s liquid assets fall below certain thresholds (typically arising, but not exclusively, in times of heavy redemptions).
- *Fees.* A liquidity fee not to exceed 2% would be imposed where a money fund’s level of weekly liquid assets³ falls below 15% of total assets. The fund’s board, however, could determine that a lower fee, or no fee, is in the fund’s best interest.
- *Redemption gates.* A money fund would be able to temporarily suspend redemptions when the fund’s level of weekly liquid assets falls below 15% of total assets. Any such gating could not exceed 30 days and would not be allowed to be imposed for more than 30 days in any 90-day period.

The SEC also proposed other rule and form amendments that, in many cases, would be applicable to all money funds regardless of the other proposals that are adopted.

- *Disclosure.* Under either the Floating NAV or the Fees & Gates alternatives, New Form N-CR would require money funds to file reports on material events (e.g., issuer defaults, the fund’s receipt of financial support or its NAV calculated to four decimal places dropping significantly) shortly after they occur (in some cases within one business day). If the Fee & Gates alternative were to be adopted, then Form N-CR would require reporting when the fund’s level of weekly liquid assets falls below 15% of total assets, and when liquidity fees and/or gates are initiated, or lifted.
- *Private Liquidity Funds.* The SEC proposed amendments to Form PF that would require investment advisers of unregistered short-term liquidity funds to provide much of the same monthly information that is currently required (and proposed to be required) of registered money funds.

A more detailed summary of the proposed money fund rule and form changes is included in the Appendix to this alert.

Floating NAV

Under the Floating NAV proposal, all money funds would be required to value their portfolio securities at market, rather than use the amortized cost method that currently is available to all money funds and is used almost exclusively by money market funds today. The SEC stated that money funds, as is the case for other types of funds, could continue to use the amortized cost method to value

³ Weekly liquid assets generally include “cash, U.S. Treasury securities, certain other government securities with remaining maturities of 60 days or less, and securities that convert into cash within one week.”

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securities maturing in 60 days or less, if the fund board determines that this approach is appropriate, as permitted under guidance issued by the SEC in 1977.⁴ Under this proposal, all money funds (with two important exemptions described below) would be required to calculate their share prices using “basis point rounding,” that is, the share price would have to be calculated to the nearest 1/100th of 1% (e.g., the fourth decimal place in the case of a fund with a \$1.0000 share price, rather than using the “penny rounding” method that is currently available to money funds.

Government and Retail Funds Exemptions

Under this alternative, “government” and “retail” funds would be permitted to adopt the penny rounding method to calculate share prices, but would not be permitted to continue to use the amortized cost method, except as described above for securities maturing in 60 days or less.⁵ The inability to use the amortized cost method for many portfolio holdings is likely to impose additional burdens on the ability of government and retail funds to maintain a stable NAV; the SEC stated both that the principal benefit to money funds of using the amortized cost method is that it alleviates the need to value each portfolio security each day using market factors and that it intends to impose penny rounding on all money market funds.

Redemption-Related Rule Changes

The SEC proposed amendments to Rule 2a-7 that would exempt retail funds from Sections 18(f)(1) and 22(e) of the Investment Company Act of 1940, as amended (the “1940 Act”) (which otherwise effectively prohibit mutual funds from suspending or limiting a shareholder’s right to redeem fund shares), to the extent necessary for those funds to limit each shareholder’s daily redemption amount to \$1 million.⁶ In addition, variable insurance separate accounts would be permitted by the SEC to impose such redemption limits on contract holders who invest in underlying money funds such that the funds would qualify as retail funds for purposes of this proposal. The SEC’s position is that a money market fund that is held within a variable annuity separate account could look through that separate account and that so long as the contract holder becomes subject to the daily redemption limit, the money market fund would be considered a retail fund.

Omnibus Accounts

The SEC acknowledged that many investors hold money fund shares through financial intermediaries that maintain omnibus accounts with the funds. Under the Floating NAV alternative, the SEC would permit the \$1 million per day redemption limit to be applied not to the omnibus account but rather to the beneficial holders underlying the omnibus account, if adequate procedures were in place to ensure that the limit was applied at the beneficial account level. In the SEC’s release proposing these amendments (the “Proposing Release”), the SEC noted that many funds, and the intermediaries that hold shares of those funds in street name through omnibus accounts, currently face many of the same

⁴ Accounting Series Release No. 219, May 31, 1977. In the Proposing Release, however, the SEC stated that this guidance effectively limits the use of amortized cost valuation to circumstances where it is the same as valuation based on market factors. See Proposing Release at n.136 and accompanying text. The Proposing Release noted that issuer-specific conditions could make it inappropriate to use amortized cost valuation. Therefore, short-term securities of distressed issuers would have to be marked to market, even if their final maturity was within 60 days.

⁵ The authors are aware of no money market fund that uses the penny rounding method of valuation at this time. Accordingly, under both alternatives virtually all money market funds would have to adopt penny rounding as a new valuation methodology.

⁶ The SEC selected \$1 million on the basis that it believes that few retail investors would be inconvenienced by the limit. See Proposing Release footnote 214.

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issues with respect to the imposition of redemption fees in accordance with Rule 22c-2 under the 1940 Act. The SEC also intends that 401(k) plans would be viewed as omnibus accounts.

Fees & Gates

Under the Fees & Gates proposal, no money fund would be compelled to adopt a floating NAV. Under this proposal, all money funds would continue to calculate a stable NAV using the penny rounding method instead of amortized cost valuation; as described above, money funds under this proposal could continue to use amortized cost valuation only for portfolio securities maturing in 60 days or less, if appropriate. Under this proposal, when the level of a money fund's "weekly liquid assets" declines below 15% of its total assets, the fund would be required to impose a liquidity fee not to exceed 2% on redemptions; the fund's board could decide to impose a lower, or no, liquidity fee if the board believed that the alternative action would be in the fund's best interest. A money fund's "weekly liquid assets" means cash, Treasuries, other government securities maturing in 60 days or less, and securities that convert into cash within one week.

In addition, once a money fund's weekly liquid assets declined below the 15% threshold, the fund's board would be permitted to suspend redemptions from the fund, or to "gate" the fund, for a period of up to 30 days. A fund's board could gate the fund for no more than 30 days in any 90 day period. The SEC also proposed amendments to Rule 22e-3 under the 1940 Act that would permit money funds to impose fees and gates, which would otherwise be considered impermissible suspensions of redemptions in violation of Section 22(e) of the 1940 Act.

Government money funds would be exempt from the obligation to impose fees or gates but could do so if the ability to do so was disclosed in the funds' prospectuses. In the SEC's view, government funds have tended to experience inflows rather than outflows during periods of market stress. In addition, the SEC noted that Treasury funds are highly unlikely to decline below the 15% weekly liquidity threshold because such funds are required to hold at least 80% of assets in Treasury securities and overnight Treasury-collateralized repurchase agreements.

Other Proposals

The SEC also proposed other rule and form amendments, many of which would be applicable to all money funds regardless of which alternative set of proposals was adopted.

New Form N-CR

The SEC proposed the adoption of a new Form N-CR, which money funds would be required to file to report various events, including issuer defaults or downgrades, the crossing of a specified liquidity threshold, the imposition of liquidity fees or gates, and any support provided by the fund's sponsor, among other events. Stable value funds would be required to report on Form N-CR any deviations from NAV of $\frac{1}{4}$ of 1% or more. Filings generally would be required within one business day, subject to certain exceptions.

Diversification Amendments

The SEC proposed amendments to Rule 2a-7's provisions related to issuer diversification. One change would require a money fund to aggregate control affiliates to determine whether the fund has reached Rule 2a-7's 5% concentration limit in securities of a single issuer. "Control" for this purpose would be defined as the ownership of over 50% of an issuer's voting securities. The purpose of this amendment would be to preclude a practice of money funds investing in excess of 5% in issuers within the same

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holding company group that, in the SEC's view, may be subject to the same credit risks. The proposed amendments also would eliminate the so-called "25% basket" under which a money fund currently could hold up to 25% of its total assets in securities subject to guarantees or demand features from a single institution. The amendments also would require funds to aggregate asset-backed securities vehicles sponsored by the same entity for purposes of the 10% guarantor diversification limit, under which money funds may not invest more than 10% of assets in securities subject to guarantees or demand features from a single institution.

Enhanced Stress Testing

The SEC proposed amending Rule 2a-7 to enhance stress testing of money funds. In particular, floating NAV funds, as well as retail and government funds, would be required to test for their ability to maintain 15% of their assets in weekly liquid assets. In addition, retail and government funds would be required to test for the ability to maintain a stable share price. Under the amended rules, all money funds would be required to consider the following in their stress testing — (1) correlations of securities returns and event concurrences; (2) the effect of defaults or downgrades of some securities on other securities; (3) testing for changes in short-term interest rates, limited to increases in such rates (since rate decreases can be handled by distributions of the resulting capital gains); (4) broader spread movements affecting asset classes; and (5) other interest rate movements, *e.g.*, changes in the yield curve.

Form N-MFP Amendments

The SEC proposed expanding the information required to be filed on Form N-MFP and making the information publicly available upon filing (thereby eliminating the current 60-day delay on public availability). Under the amendments, the information reported on Form N-MFP would have to be current as of the last calendar day instead of the last business day. In the amended Form N-MFP, references to "amortized cost" would be replaced with references to the "value" of portfolio securities. Consistent with these changes, money funds would no longer be required to report a "shadow price": all portfolio securities held by a money fund would be market-valued, or fair valued at amortized cost, if the securities mature in 60 days or less, if deemed appropriate.

Form N-1A and Rule 482 Amendments

The SEC proposed changes to Form N-1A and Rule 482 to establish certain mandatory bulleted disclosures in the summary portion of statutory prospectuses, in summary prospectuses, and in money fund advertisements. Proposed changes to Form N-1A also would require new disclosure in money funds' Statements of Additional Information ("SAIs").

Prospectus/Summary Prospectus Disclosure and Advertisements. Under these proposed amendments, every money fund would be required to include bulleted statements in the summary section of statutory prospectuses, summary prospectuses, and advertisements, to the effect that the money fund investor could lose money, that the fund is not insured by FDIC or other government agency, and that the fund's sponsor has no obligation to support the fund. The last statement could be omitted if the fund sponsor currently was supporting the fund.

In particular, under the Floating NAV option, floating NAV money funds would have to include bulleted statements that the investor should not invest in the fund if stable value is required, and that the value of the fund's shares will fluctuate. Under the Fees & Gates option, a money fund would be required to include bulleted statements that a redemption fee may be imposed when the fund is under

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considerable stress, and that the investor's ability to redeem may be suspended when the fund is under considerable stress.

SAI Disclosure. Under the proposed amendments to Form N-1A, every money fund would be required to disclose in its SAI any support provided by the fund's sponsor during the past 10 years, including any similar support provided by the sponsors of other funds that have merged into the fund during the same time period. Under the Fees & Gates proposal, a money fund would be required to disclose material events that occurred during the past 10 years, including any declines of its weekly liquid assets below 15%, any imposition of liquidity fees and/or gates, and, if relevant, the fund board's analysis supporting a decision to impose (or to not impose) fees and/or gates.

Website Disclosure Amendments

Under proposals applicable to all money funds, money funds would be required to provide expanded information on their websites. Such information would include— (1) any redemption fees and gates in effect; (2) a daily update of "current NAV" (to four decimal places for funds with a \$1.0000 share price, with six months history); (3) the maturity dates of all holdings; (4) a monthly update of holdings without a 60-day delay; (5) any current sponsor support; and (6) a daily update of the level of daily and weekly liquid assets as a percentage of the fund's assets.

Form PF Amendments

The SEC proposed amending Form PF, which is filed by investment advisers to certain unregistered funds. The amendments would require advisers to unregistered "liquidity funds" that have more than \$1 billion combined in money fund and liquidity fund assets to provide the same type of information requested of registered money funds on Form N-MFP, as revised. The Proposing Release states that these amendments to Form PF are intended to prevent a decrease in transparency if investors shift to unregistered short-term products, and better enable the Financial Stability Oversight Council (the "FSOC") to monitor and address systemic risk across all similar short-term debt pooled investment vehicles.

Other Issues

Tax and Accounting Issues. The Proposing Release raises a series of additional issues that have potentially far-reaching implications for money fund sponsors and investors. In particular, the Proposing Release discusses money fund sponsors' and investors' concerns about the tax and accounting issues under the Floating NAV option—that purchases and sales could generate a capital gain or loss requiring reporting and potential taxes, and that money funds might no longer be cash equivalents under U.S. Generally Accepted Accounting Principles ("GAAP"). The SEC noted that the tax reporting effects of a floating NAV could be "quite burdensome" for money fund investors that typically engage in frequent transactions. The SEC also noted that the Treasury Department and the Internal Revenue Service are "considering" changes that would allow net reporting of gains and losses and summary income tax reporting, which the SEC "anticipates ... could" reduce these burdens, but the SEC gave no indication regarding the likelihood that these changes would be adopted. The SEC also stated that it "believes" that an investment in a money fund with a floating NAV would meet the definition of a "cash equivalent" under GAAP, but it did not indicate whether it or the Financial Accounting Standards Board was taking steps to provide authoritative guidance to that effect.

Preventing Runs and Protecting Shareholders. In considering the relative merits of the two options that the SEC has proposed, market participants would need to consider which option would likely be more effective at preventing a significant cycle of redemptions and protecting shareholders. Gates are

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likely to be effective in preventing such redemptions (as hedge fund sponsors have used them), and liquidity fees should help to protect shareholders (given their anti-dilutive nature). It is unclear, however, whether a floating NAV would eliminate the incentive for a redemption cycle.

Operational Issues. The SEC’s proposals also raise a number of operational issues for money fund sponsors. Notwithstanding the SEC’s statement to the contrary, the penny rounding method generally is not used by money funds currently because it is believed to increase a fund’s likelihood of “breaking the buck.” Since few money fund accounting systems are compatible with the penny rounding method, a requirement to use the method extensively would introduce increased operational risk and costs. Similarly, the proposed use of a \$1.0000 NAV would appear to be inconsistent with current transfer agency systems and may not be practical within the banking payments system. The SEC did not question whether it is currently possible for parties to transact with one another on this basis. It should be noted, however, that the SEC’s proposal accommodates \$100.00 NAV targets in addition to \$1.0000 NAV targets.

Board Considerations

Valuation. The valuation obligations of money fund boards would likely increase. Losing the ability to use amortized cost accounting would increase a money fund board’s valuation risk. A board would be required to consider factors that might make amortized cost inappropriate on a security-by-security basis, *e.g.*, due to an impairment of the creditworthiness of an issuer, or other factors. In addition, boards would have to consider whether a mark-to-market valuation methodology using model pricing is sufficiently accurate.

Fairness. The Floating NAV option in particular would raise a number of important considerations for money fund boards. Boards would need to consider whether to impose a \$1 million redemption limit on non-government funds in order to rely on the retail fund exemption from the floating NAV requirement. Thus, they would need to consider whether choosing this option discriminates unfairly against investors who redeem more than \$1 million in a trading day. How would a board determine that it was in the best interest of a fund to treat one class of investors differently from another? Boards also would need to consider that shares in certain “institutional” money funds, *e.g.*, those funds used in wrap fee accounts, managed accounts, and brokerage sweep accounts, are beneficially held by retail investors as well as “true institutional investors.”⁷

Tax Exempt and Municipal Funds. In many cases, shares of tax-exempt and municipal money funds, which often are considered “retail funds” by the investment community, are held by investors with balances in excess of \$1 million. Such funds are not used by institutional investors, did not experience runs during the financial crises of the past few years, and typically invest in high quality issuers with a history of very few defaults. In considering whether to impose redemption limits so that such funds would qualify as “retail funds” under the Floating NAV option, boards of such funds will have to consider whether it would be fair to discriminate against high balance retail investors.

Omnibus Account Supervision. Money fund boards would need to focus on how to look through omnibus accounts to determine \$1 million redemptions. What level of due diligence will be sufficient? Would rules apply uniformly to beneficial owners with diverse account types, *e.g.*, IRAs, UGMAs, and joint accounts?

Operational Risk/Cost. Since basis point NAVs are unknown to mutual fund record-keeping systems, it is unclear whether either transfer agent systems or omnibus sub-accounting systems currently have

⁷ Note that while the omnibus account exception would allow a retail fund to look through an omnibus account, an institutional fund’s NAV would float, affecting all investors in that fund.

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the ability to process a share price below \$1.0000, *e.g.*, \$0.9998. Boards also would need to consider who would compensate the transfer agent and/or omnibus account intermediaries to upgrade their systems to process such transactions.

Multi-Class Funds. For money funds that offer both institutional and retail share classes, the board will have to consider whether to apply a floating NAV regime on all share classes or to spin out the institutional share class and impose redemption limits on the remaining classes, which may have tax consequences. The board also would have to consider whether announcing a spin-out of institutional shares would trigger a cycle of redemptions of fund shares.

Variable Contracts. The imposition of redemption limits to qualify as a retail fund under the Floating NAV option may raise issues for certain insurance company separate accounts investing in money funds because outstanding variable contracts that offer these funds may not permit such redemption limits. In addition, the Fees & Gates proposal appears to contemplate redemptions at the contract owner, rather than at the insurance company level. In a situation where a money fund is gated, the SEC's proposal does not address whether the insurance company could permit contract owner redemptions under circumstances in which the insurance company could submit a net purchase order to the fund. In addition, gates would interfere with certain variable annuity operations, including rebalancing, dollar-cost averaging, annuity payouts, and death benefits. Moreover, variable contract disclosure and advertisements would have to be amended to conform to new underlying money fund redemption limits or fees and gates.

[Request for Comments](#)

The SEC requested comment on all aspects of its proposal. Comments are due 90 days after publication in the Federal Register.

[Proposed Compliance Dates](#)

If adopted, the SEC proposed compliance periods of two years for the Floating NAV alternative, one year for the Fees & Gates alternative, and nine months for the other proposed changes that are not specifically tied to either alternative.

Policy Analysis

The SEC's proposal marks an important milestone in the evolution of the post-crisis financial regulatory structure. In essence, the FSOC, created by the Dodd-Frank Act to address systemic risk, in releasing its own recommendations for changes to the money fund regulatory structure in November 2012, can be seen to be claiming jurisdictional ground that previously was the exclusive province of the SEC. The FSOC's initiative appears to have motivated the SEC to release its own money fund reform proposal, which in turn appears to be a compromise between the FSOC's recommendations and those who reason that previous SEC changes to the regulations governing money funds have sufficiently addressed the issues that arose during the financial crisis.

Several high-profile events led to the release of the SEC's money fund proposal. Following former chair Mary Schapiro's announcement in August 2012 that the SEC would not move forward with money fund reform,⁸ the FSOC issued its own recommendations.⁹ In doing so, the FSOC announced its intention to assert jurisdiction over money fund regulation if the SEC failed to "move forward with

⁸ Statement on Money Market Fund Reform by Chairman Mary L. Schapiro, U.S. Securities and Exchange Commission (Aug. 22, 2012) available at <http://www.sec.gov/news/press/2012/2012-166.htm>.

⁹ Please see our previous [alert](#) for a discussion of the FSOC's money fund reform recommendations.

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meaningful structural reforms” for money funds.¹⁰ The struggle between the FSOC and SEC is emblematic of the divide between the “safety and soundness” regulatory orientation of the banking regulators and the orientation of the securities and market regulators toward disclosure, investor protection, and capital formation. Importantly, the FSOC’s proposed recommendations drew heavily from material previously prepared by the Federal Reserve Board¹¹ and other banking regulators sitting on the FSOC, demonstrating the influence of the banking regulators on the FSOC and their predisposition to apply a safety-and-soundness regime to financial products governed under the securities laws. The SEC’s release attempts to find common ground between these camps by proposing a floating net asset value (“NAV”) for certain money funds, as well as liquidity fees and gating, as possible reform options, while declining to propose capital buffers or a minimum balance at risk, which had been included in the FSOC’s recommendations.

The SEC’s proposals ultimately remain subject to review by the FSOC, which will determine whether the SEC has taken the steps that it believes are necessary to mitigate the perceived systemic risk posed by money funds; the FSOC is authorized to make further recommendations to the SEC if it determines that the SEC’s actions are in its view insufficient. Consequently, the FSOC’s response to the SEC’s final rule on money fund reform will indicate the FSOC’s and banking regulators’ continued willingness to influence the direction of money fund regulation.

¹⁰ Financial Stability Oversight Council, Proposed Recommendations Regarding Money Market Mutual Fund Reform, 77 Fed. Reg. 69455, 69460 (Nov. 19, 2012).

¹¹ See The Minimum Balance at Risk: A Proposal to Mitigate the Systemic Risks Posed by Money Market Funds, Finance and Economics Discussion Series Divisions of Research & Statistics and Monetary Affairs, Federal Reserve Board, Washington, D.C (Jul. 7, 2012), available at <http://www.federalreserve.gov/pubs/feds/2012/201247/201247pap.pdf>

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Appendix

| Affected Rules and Forms | Proposed Actions | Proposed Rule /Form Item |
|--------------------------|--|---|
| 1940 Act Rule 2a-7 | <p>Amend Rule 2a-7 pursuant to either the Floating NAV or Fees & Gates alternatives:</p> <p>Floating NAV <i>Floating NAV Funds</i></p> <ul style="list-style-type: none"> -Requires money funds (with key exceptions) to “float” their net asset value (“NAV”) and rescinds exemptions allowing penny rounding NAV pricing. -Rescinds provisions regarding amortized cost method valuation to maintain a stable NAV. -Modifies the rounding convention to the fourth decimal place where the target share price is \$1.00 (<i>i.e.</i>, \$1.0000) or the equivalent (<i>e.g.</i>, \$10.000 for a money fund with a target share price of \$10). <p>Exemptions</p> <ul style="list-style-type: none"> -Government money funds (money funds that maintain at least 80% of total assets in cash, government securities, or fully-collateralized repurchase agreements) would not be required to use basis point rounding and would be permitted to use penny rounding to maintain a stable price. -Money funds that limit redemptions to \$1 million/day/investor, under exemptions to 1940 Act Sections 18(f)(1) and 22(e), would not be required to use basis point rounding and would be permitted to use penny rounding to maintain a stable price. -Omnibus account holders would be exempt if their money fund and intermediary have procedures to identify underlying accounts eligible for retail money fund exemption. -Insurance company separate accounts and sponsoring insurance company would be exempt from 1940 Act Section 27(i)(2)(A) to allow contract owners to qualify for the retail exemption. <p>Website Disclosures</p> <ul style="list-style-type: none"> -Requires the money fund’s website to prominently display: <ul style="list-style-type: none"> (i) notice of financial support from fund sponsor or affiliates as reported on Form N-CR, Part C; (ii) the percentage of money fund assets invested in daily and weekly liquid assets; (iii) net inflows or outflows as of the end of the previous business day, and historical information for the previous six months; (iv) the money fund’s NAV, rounded to the fourth decimal place where the target share price is \$1.00 (<i>i.e.</i>, \$1.0000), or the equivalent (<i>e.g.</i>, \$10.000 for a money fund with a target share price of \$10.00) as of the end of the previous business day, and the historical NAV for the previous six months. -Amends the categories of portfolio securities and maturity dates to be | <p>2a-7(c)</p> <p>2a-7(c)(2)</p> <p>2a-7(c)(3)</p> <p>2a-7(h)</p> |

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| Affected Rules and Forms | Proposed Actions | Proposed Rule /Form Item |
|--------------------------|--|---|
| | <p>reported.</p> <p>-Discloses the market value of each portfolio security to reflect the fact that the money fund would no longer be permitted to use the amortized cost method.</p> <p>Diversification</p> <p>-Applies the 5% issuer diversification limit to control affiliates. “Control” is defined as the ownership of more than 50% of an entity’s voting securities.</p> <p>-Eliminates the “25% basket” under which up to 25% of a money fund’s assets may be subject to guarantees or demand features from a single institution, resulting in all assets becoming subject to the 10% diversification requirement.</p> <p>-Treats the sponsor of a special purpose entity (“SPE”) as the guarantor of the SPE’s asset-backed securities and not the issuer, subject to agreement otherwise, thereby allowing a 10% cap.</p> <p>Stress Tests</p> <p>-Alters the focus from maintaining the target price to maintaining at least 15% weekly liquid assets.</p> <p>-Money funds exempt from the floating NAV requirement would focus on both the fund’s ability to maintain a stable share price and at least 15% weekly liquid assets.</p> <p>-Adds the following test factors:</p> <ul style="list-style-type: none"> (i) correlations among securities returns and concurrences of events; (ii) the effect of downgrades or defaults of some portfolio securities on other portfolio securities; (iii) the effect of redemptions in tandem with assumptions regarding the price for which portfolio securities could be sold; (iv) changes in spreads among the indexes to which interest rates of portfolio securities are tied; and (v) other movements in interest rates that may affect portfolio securities (<i>e.g.</i>, parallel and non-parallel shifts in the yield curve). <p>-Money funds are only required to test for increases, as opposed to both increases and decreases, in the general level of short-term interest rates.</p> <p>-Expands the information to be provided to the board relating to stress test results and other information reasonably necessary to evaluate the test.</p> <p>Clarifying Amendments</p> <p>-Requires money funds to determine a security’s maturity in the same manner used for determining weighted average life (“WAL”).</p> <p>-Defines an agency discount note maturing in 60 days or less as a weekly liquid asset if it is issued without an obligation to pay additional interest.</p> <p>-Includes in the definitions of daily and weekly liquid assets accounts</p> | <p>2a-7(d)(3)(ii)(F)</p> <p>2a-7(d)(3)(i) and (iii)</p> <p>2a-7(d)(3)(iii)</p> <p>2a-7(g)(7)</p> <p>2a-7(a)(8) and (31)</p> <p>2a-7(a)(31)(iii)</p> <p>2a-7(a)(8)(iv)</p> |

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| | <p>receivable that are due unconditionally within one or five business days, respectively, on pending sales of portfolio securities.</p> <p>-Amends the definition of demand feature to include a feature permitting the holder of a security to sell the security at an exercise price equal to the approximate amortized cost of the security plus accrued interest, if any, at the time of exercise, paid within 397 calendar days of exercise, and eliminates the requirement that the same be exercisable at any time on no more than 30 calendar days' notice.</p> <p>-Clarifies the method for determining WAL for a short-term floating rate security by defining its maturity as equal to the period remaining until the principal amount can be recovered through demand.</p> <p>-Clarifies that the 45-day limit for a money fund's purchase of second-tier securities does not incorporate maturity-shortening provisions in rule 2a-7 for interest rate readjustments.</p> <p>Compliance Period</p> <p>- Proposes a two-year compliance window.</p> <p>Fees & Gates</p> <p><i>Fees & Gates Funds</i></p> <p>-Institutes a 2% liquidity fee, which may be waived by the board, including a majority of the independent board members, should the money fund's weekly liquid assets fall below 15%.</p> <p>-The liquidity fee automatically terminates when the weekly liquid assets return to 30% and may be adjusted, subject to a 2% cap, or waived at any time by the board.</p> <p>-Authorizes the board, including a majority of the independent board members, to halt redemptions (a "gate") should the money fund's weekly liquid assets fall below 15%.</p> <p>-Any gate would automatically terminate when the money fund's weekly liquid assets return to 30%, by a vote of the board, or after 30 days. No money fund may be gated for more than 30 days in any 90-day period.</p> <p>-Provides an exemption from 1940 Act Rule 22c-1 to allow liquidity fees and gates.</p> <p>Exemptions</p> <p>-Exempts government money funds (as defined above) from the Fees & Gates provisions, unless such gates and/or liquidity fees are disclosed in the prospectus.</p> <p>Website Disclosures</p> <p>-Requires money funds to post prominently on their websites information regarding:</p> <ul style="list-style-type: none"> (i) the imposition of liquidity fees; (ii) the suspension of redemptions; (iii) the removal of liquidity fees and gates; | <p>and (31)(v)</p> <p>2a-7(a)(9)</p> <p>2a-7(i)(4)</p> <p>2a-7(d)(2)(ii)</p> <p>2a-7(c)(2)</p> <p>2a-7(c)(2)(iii)</p> <p>2a-7(h)(10)</p> |

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| | <p>(iv) notice of financial support from fund sponsor or affiliates as reported on Form N-CR Part C;</p> <p>(v) the percentage of money fund assets invested in daily and weekly liquid assets and net inflows or outflows as of the end of the previous business day, and historical information for the past six months;</p> <p>(vi) the money fund’s NAV, rounded to the fourth decimal place where the target share price is \$1.00 (<i>i.e.</i>, \$1.0000) or the equivalent (<i>e.g.</i>, \$10.000 for a money fund with a target share price of \$10.00) as of the end of the previous business day, and historical NAVs for the past six months.</p> <p>-Amends the categories of portfolio securities and maturity dates to be reported.</p> <p>-Would disclose the current value of each portfolio security to reflect the fact that the money fund would no longer be permitted to use amortized cost.</p> <p>Diversification</p> <p>-Applies 5% issuer diversification limit to control affiliates. “Control” is defined as the ownership of more than 50% of an entity’s voting securities.</p> <p>-Treats the sponsor of a special purpose entity (“SPE”) as the guarantor of the SPE’s asset-backed securities and not the issuer, subject to agreement otherwise, thereby allowing a 10% cap.</p> <p>-Eliminates the “25% basket” under which up to 25% of a money fund’s assets may be subject to guarantees or demand features from a single institution, resulting in all assets becoming subject to the 10% diversification requirement.</p> <p>Stress Tests</p> <p>-Focuses on both the money fund’s ability to maintain a stable share price and at least 15% weekly liquid assets.</p> <p>-Tests the effect of:</p> <ul style="list-style-type: none"> (i) redemptions in tandem with assumptions regarding the price for which portfolio securities could be sold; (ii) changes in spreads among the indexes to which interest rates of portfolio securities are tied; (iii) other movements in interest rates that may affect portfolio securities (<i>e.g.</i>, parallel and non-parallel shifts in the yield curve). <p>-Money funds are only required to test for increases, as opposed to both increases and decreases, in the general level of short-term interest rates.</p> <p>Clarifying Amendments</p> <p>-Requires money funds to determine a security’s maturity in the same manner they must calculate for purposes of determining WAL.</p> <p>-Defines an agency discount note maturing in 60 days or less as a weekly liquid asset if it is issued without an obligation to pay additional</p> | <p>2a-7(d)(3)</p> <p>2a-7(g)(9)</p> <p>2a-7(a)(8) and (31)</p> <p>2a-7(a)(31)(iii)</p> |

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| | <p>interest.</p> <ul style="list-style-type: none"> -Amends the definition of demand feature to mean a feature permitting the holder of a security to sell the security at an exercise price equal to the approximate amortized cost of the security plus accrued interest, if any, at the time of exercise, paid within 397 calendar days of exercise, and eliminates the requirement that the same be exercisable at any time on no more than 30 calendar days' notice. -Clarifies the method for determining WAL for a short-term floating rate security by defining its maturity as equal to the period remaining until the principal amount can be recovered through demand. -Clarifies that the 45-day limit for money fund's purchase of second-tier securities does not incorporate maturity-shortening provision regarding interest rate resets. <p>Compliance Period</p> <ul style="list-style-type: none"> -Proposes a one-year compliance window. | <p>2a-7(a)(9)</p> <p>2a-7(i)(4)</p> <p>2a-7(d)(2)(ii)</p> |
| <p>Securities Act of 1933 ("Securities Act") Rule 482</p> | <p>Amend Rule 482(b)(4) pursuant to either the Floating NAV or Fees & Gates alternatives:</p> <p>Floating NAV</p> <ul style="list-style-type: none"> -Expands disclosures in advertisements and sales materials to include, for money funds not exempt from the Floating NAV requirement, cautionary language advising investors that: <ul style="list-style-type: none"> (i) the investor could lose money by investing in the fund; (ii) the investor should not invest in the fund if stable value is required; (iii) fund shares will fluctuate in value and be affected by various factors; (iv) an investment in the fund is not insured or guaranteed by the FDIC; and (v) the fund sponsor is not obligated to provide financial support. -Expands disclosures in advertisements and sales materials for government and retail money funds to include cautionary language advising investors that: <ul style="list-style-type: none"> (i) the investor could lose money by investing in the fund; (ii) the fund seeks to preserve the value of the investment at \$1.00 per share, but cannot guarantee such stability; (iii) an investment in the fund is not insured or guaranteed by the FDIC; and (iv) the fund sponsor is not obliged to provide financial support. <p>Fees & Gates</p> | <p>482(b)(4)(i)</p> <p>482(b)(4)(ii)</p> |

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| | <p>-Expands disclosures in advertisements and sales materials to include, for money funds not exempt from the Fees & Gates provisions, cautionary language advising investors that:</p> <ul style="list-style-type: none"> (i) the investor could lose money by investing in the fund; (ii) the fund seeks to preserve the value of the investment at \$1.00 per share, but cannot guarantee such stability; (iii) the fund may impose a liquidity fee if the fund is under considerable stress; (iv) the fund may temporarily suspend the ability to redeem shares when the fund is under considerable stress; (v) an investment in the fund is not insured or guaranteed by the FDIC; and (vi) the fund’s sponsor is not obliged to provide financial support. <p>-Would require government money funds relying on an exemption to the Fees & Gates provisions to include in their advertising and sales materials cautionary language advising investors that:</p> <ul style="list-style-type: none"> (i) the investor could lose money by investing in the fund; (ii) the fund seeks to preserve the value of the investment at \$1.00 per share, but cannot guarantee such stability; (iii) an investment in the fund is not insured or guaranteed by the FDIC; and (iv) the fund sponsor is not obliged to provide financial support. | <p>482(b)(4)(i)</p> <p>482(b)(4)(ii)</p> |
| <p>1940 Act Rule 22e-3</p> | <p>Proposes to amend rule 22e-3 pursuant to either the Floating NAV or Fees & Gates alternatives:</p> <p>Floating NAV</p> <p>-Allows a money fund to suspend redemptions upon declining below 15% in weekly liquid assets.</p> <p>-In addition to the above, government and retail money funds may suspend distributions if the fund’s share price as computed for purposes of distribution, redemption, and repurchase is no longer equal to its target stable share price.</p> <p>Fees & Gates</p> <p>-Permits suspension of redemptions and liquidation if weekly liquid assets fall below 15% of assets.</p> <p>-Would retain a money fund’s current ability under rule 22e-3 to suspend redemptions and liquidate if the deviation between the fund’s shadow price and its market-based NAV may result in material dilution or other unfair results to investors or existing shareholders.</p> | <p>22e-3</p> |
| <p>1940 Act Rule 30b1-7</p> | <p>Makes Form N-MFP publically available immediately upon filing and eliminates current 60-day waiting period.</p> | <p>30b1-7</p> |
| <p>New 1940 Act Rule 30b1-8</p> | <p>Would require money funds to file proposed Form N-CR when certain events occur, e.g., issuer defaults and sponsor support.</p> | <p>30b1-8</p> |

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| Form N-1A | <p>Proposes to amend Form N-1A pursuant to either the Floating NAV or Fees & Gates alternatives:</p> <p>Floating NAV</p> <p>-Expands disclosures in the prospectus and (if applicable) summary prospectus, for money funds not exempt from the floating NAV requirement, to include cautionary language advising investors that:</p> <ul style="list-style-type: none"> (i) the investor could lose money by investing in the fund; (ii) the investor should not invest in the fund if stable value is required; (iii) fund shares will fluctuate in value and be affected by various factors; (iv) an investment in the fund is not insured or guaranteed by the FDIC; and (v) the fund sponsor is not obligated to provide financial support. <p>-Expands disclosures in the prospectus and (if applicable) summary prospectus for government and retail money funds to include cautionary language advising investors that:</p> <ul style="list-style-type: none"> (i) the investor could lose money by investing in the fund; (ii) the fund seeks to preserve the value of the investment at \$1.00 per share, but cannot guarantee such stability; (iii) an investment in the fund is not insured or guaranteed by the FDIC; and (iv) the fund sponsor is not obliged to provide financial support. <p>-Money funds must disclose in their SAIs any financial support received from the fund’s sponsor or an affiliate in the last 10 years.</p> <p>-“Financial support” includes:</p> <ul style="list-style-type: none"> (i) any capital contribution; (ii) the purchase of fund securities in reliance on 1940 Act Rule 17a-9; (iii) the purchase of any defaulted or devalued security at par; (iv) the purchase of fund shares; (v) the execution of letters of credit or indemnity; (vi) a capital support agreement; (vii) a performance guarantee; or (viii) any other action designed to increase the value of the fund or provide support during time of distress. <p>-The financial support 10-year look-back provision also applies to any predecessor funds.</p> <p>Fees & Gates</p> <p>-Expands disclosures in the prospectus and (if applicable) summary</p> | <p>Item 4(b)</p> <p>Item 16(g)</p> <p>Item 4(b)</p> |

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| | <p>prospectus to include cautionary language advising investors that:</p> <ul style="list-style-type: none"> (i) the investor could lose money by investing in the fund; (ii) the fund seeks to preserve the value of the investment at \$1.00 per share, but cannot guarantee such stability; (iii) the fund may impose a liquidity fee if the fund is under considerable stress; (iv) the fund may temporarily suspend the ability to redeem shares when the fund is under considerable stress; (v) an investment in the fund is not insured or guaranteed by the FDIC; and (vi) the fund’s sponsor is not obliged to provide financial support. <p>-Requires government money funds relying on an exception to the Fees & Gates provisions to include in their prospectus and (if applicable) summary prospectus cautionary language advising investors that:</p> <ul style="list-style-type: none"> (i) the investor could lose money by investing in the fund; (ii) the fund seeks to preserve the value of the investment at \$1.00 per share, but cannot guarantee such stability; (iii) an investment in the fund is not insured or guaranteed by the FDIC; and (iv) the fund’s sponsor is not obliged to provide financial support. <p>-Requires government money funds electing to utilize gates and liquidity fees to disclose such in their prospectus and, if applicable, summary prospectus.</p> <p>-Requires money funds (other than government money funds not electing to use liquidity fees and gates) to disclose in their SAIs the 10-year history of declines in weekly liquid assets below 15%, whether the fund imposed fees or gates in such instances, and whether the fund received sponsor support.</p> <p>- “Financial support” includes:</p> <ul style="list-style-type: none"> (i) any capital contribution; (ii) the purchase of fund securities in reliance on rule 17a-9; (iii) the purchase of any defaulted or devalued security at par; (iv) the purchase of fund shares; (v) the execution of letters of credit or indemnity; (vi) a capital support agreement; (vii) a performance guarantee; or (viii) any other action designed to increase the value of the fund or provide support during time of distress. <p>-The financial support 10-year look-back provision also applies to any predecessor funds.</p> <p>-Clarifies the definition of “redemption fee” to exclude the liquidity fee from the fee table.</p> | <p>Item 16(g)</p> <p>Item 3</p> |

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| 1940 Act Form N-MFP | <p>Proposes to amend Form N-MFP as follows:</p> <ul style="list-style-type: none"> -Removes references to “amortized cost” in favor of disclosing the “value” (as defined by 1940 Act Section 2(a)(41)) of portfolio securities, which is determined by market-based factors and/or fair value pricing. -Removes the disclosure of “shadow price,” which is irrelevant without amortized cost. -Amends the categories of portfolio securities to be disclosed on Form N-MFP. -Requires money funds to report the maturity date for each portfolio security using the maturity date used to calculate the dollar-weighted average life maturity. -Increases the required disclosures for each security bought and sold to include: (i) the principal amount; (ii) the purchase date; (iii) the yield at purchase; (iv) the yield as of the reporting date; and (v) the purchase price. -Requires disclosures regarding amount of cash held, daily and weekly liquid assets, and whether each security is considered a daily or weekly asset. -Requires disclosure of gross weekly subscriptions and redemptions for each week during the reporting month. -Requires disclosure of the total shares outstanding, to the nearest .1%, held by the twenty largest shareholders. -Requires disclosure regarding payment or partial or complete waivers of the money fund’s operating expenses or management fee. -Requires money funds to provide NAV per-share data as of the close of business each Friday for the month reported. -Requires a money fund to disclose the stable share price it seeks to maintain. -Requires that all values are rounded to the fourth decimal place where the target share value is \$1.00 (i.e. \$1.0000) or the equivalent (e.g. \$10.000 for a money fund with a target share price of \$10.00). -Requires, in addition to the CUSIP number, the Legal Entity Identifier (CICIs being acceptable until a global standard is established) attached to each security. | <p>Item C.6</p> <p>Item C.12</p> <p>Item C.17</p> <p>Items A.14 &13, C.21-C.22</p> <p>Item B.6</p> <p>Item A.19</p> <p>Item B.8</p> <p>Items A.21, B.5</p> <p>Item A.18</p> <p>Item A.21</p> <p>Item C.4</p> |
| Section 3 of Investment Advisers Act of 1940 Form PF | <p>Proposes to amend Section 3 of Form PF as follows:</p> <ul style="list-style-type: none"> -Requires liquidity funds that manage, collectively with their related persons, at least \$1 billion to provide the certain information for each portfolio security. -Requires liquidity funds to provide information regarding securities sold, such as sale and purchase price. -Requires the liquidity funds to identify any money funds adviser by the | <p>Question 63</p> <p>Question 64</p> <p>Question 65</p> |

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| | adviser or its related persons that follows the substantially same investment strategy as the liquidity fund. | |
| New 1940 Act Form N-CR | <p>Proposes to adopt Form N-CR pursuant to either the Floating NAV or Fees & Gates alternatives. The Form would require a money fund to:</p> <p>Floating NAV</p> <ul style="list-style-type: none"> -Report when receiving financial support from its sponsor or affiliates and detail the support’s nature, amount, terms, and relationship with the person providing support. (Upon adoption, the SEC will eliminate the support notice requirement of rule 2a-7(c)(iii)(B) as it would duplicate the foregoing.) -Report when an issuer of securities held by the fund, or an issuer of a demand feature or guarantee, either of which account for at least 0.5% of total money fund assets, defaults or experiences insolvency, as well as the financial ramifications for the fund. -Report if the fund’s NAV deviates from its intended stable NAV by more than 0.25%, the extent of such deviation, and the principal reason for the deviation. <p>Fees & Gates</p> <ul style="list-style-type: none"> -If liquidity fees are imposed, report within four business days: (i) the date on which the fund fell below 15% in weekly liquid assets; (ii) the date on which the liquidity fee was instituted; (iii) description of the facts and circumstances leading to breaching the 15% threshold; and (iv) a discussion of the board’s decision as to why the liquidity fee was in the best interest of the fund. -If the fund is gated, report within four business days: (i) the date on which the fund fell below 15% in weekly liquid assets; (ii) the date on which the gate was instituted; (iii) a description of the facts and circumstances leading to breaching the 15% threshold; and (iv) a discussion of the board’s decision as to why gate is in the best interest of the fund. -Report when the board lifts the liquidity fee and/or gate. -Report when receiving financial support from its sponsor or affiliates and detail the support’s nature, amount, terms, and relationship with the person providing support. (Upon adoption, the SEC will eliminate the support notice requirement of rule 2a-7(c)(iii)(B) as it would duplicate the foregoing.) -Report if an issuer of securities held by the fund, or an issuer of a demand feature or guarantee, either of which account for at least 0.5% of total fund assets, defaults or experiences insolvency, as well as the financial ramifications for the fund. -Report if the fund’s NAV deviates from its intended stable NAV by more than 0.25%, the extent of such deviation, and the principal reason for the deviation. | <p>Part C</p> <p>Part B</p> <p>Part D</p> <p>Part E</p> <p>Part F</p> <p>Part G</p> <p>Part C</p> <p>Part B</p> <p>Part D</p> |

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