



## **Market Memo: Federated welcomes SEC money market changes**

We at Federated welcome the changes to money market fund industry oversight approved today by the Securities & Exchange Commission, not so much for what was done but for what wasn't done.

Most significantly, we were pleased that the SEC opted to retain the stable \$1 Net Asset Value (NAV) pricing for funds instead of replacing it with a floating rate as had been considered. As a more than \$3.2 trillion business, the money market industry is a critical source of short-term funding for U.S. businesses and industry that is built around the concept of \$1 NAV, which is easy to use for record-keeping, accounting and valuation purposes. The SEC will require money funds to regularly disclose the underlying value of their assets per share on a delayed basis—so-called shadow pricing—but we don't believe that will undermine the way funds currently operate using NAV.

We also believe the SEC appropriately decided to not treat money funds as banks, and to not bar money funds from owning so-called second-tier securities—those rated a notch below top investment-grade securities. Neither of the moves, which had been under consideration, made much sense to us. Banks make loans and take on a lot more risk than money market funds, which are more highly regulated, operating under strict SEC rules aimed at limiting risk—rules that were tightened further with today's actions. And the use of second-tier securities, which the SEC did limit to 3% from the current 5% of fund assets, helps provide portfolio flexibility and a way to develop new types of securities—measures that ultimately improve money fund liquidity, one of the goals the SEC was seeking to achieve with today's changes.

### **Changes fit with the way Federated operates**

In sum, we already are operating in line with today's amendments that seek to improve disclosure, boost liquidity and limit risk, and don't anticipate straying from our time-tested principle of operating our money market funds to preserve capital, maintain daily liquidity at par and maximize yields, using a disciplined approach that eschews speculative strategies and esoteric financial instruments. We have and always will continue to emphasize stringent credit research and experienced portfolio management, using the SEC's Rule 2a-7 standards as a starting point, not a finishing point.

As the credit market crisis that really started in 2007 has made clear, far from being plain-vanilla investments, money market funds are complex, short-term instruments that are interconnected with and crucial to the operation of other parts of the capital markets. Appropriate oversight and regulation of this market is needed and welcome.

Finally, we take pride in the growth of our money market business during this period—we added more than \$170 billion in money market fund assets in 2007 and 2008, with the bulk of the gains coming at the

height of the crisis as investors sought us out for our proven track record. As is the case with the others in the money market industry, we gave back some of the growth the past year as the crisis abated and the economy began to improve, making investors confident enough to move some money into fixed-income and equity products.

Views are as of January 27, 2010, and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security.

Rule 2a-7 is a rule under the Investment Company Act of 1940 which permits a money market fund to use amortized cost to stabilize the value of its shares at \$1.00. Rule 2a-7 imposes various restrictions on the money market fund's portfolio, including restrictions related to diversification, and credit quality and maturity of portfolio securities.

*An investment in money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in these funds.*

*Investors should carefully consider the fund's investment objectives, risks, charges and expenses before investing. To obtain a prospectus containing this and other information, contact us or view the prospectus provided on this website. Please carefully read the prospectus before investing.*

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