



## The SEC’s Reform of Rule 2a7 Regulations: How Do The Changes Affect The RBC Money Funds?

On January 27th the Commissioners of the Securities and Exchange Commission (SEC) voted to adopt a number of revisions to its rules governing the money market fund industry. The industry regulations, commonly referred to as “Rule 2a7” of the Investment Company Act of 1940, were reviewed as part of a broad initiative to enhance regulation of the money fund industry to better position the industry against near-catastrophic events such as occurred in the Reserve Fund during the fall of 2008. The revisions adopted on January 27th represent the first step of a two-part reform process. The first round of changes focuses on enhancing the credit quality of portfolio holdings, as well as enhancing definitions for liquidity and weighted average maturity of money funds. In addition, the changes expand the frequency of reporting on matters of portfolio holdings, market pricing, and knowledge of a fund’s shareholders. The announcement of the second round of money fund reforms is expected later in the first quarter. Those reforms will address more fundamental regulatory changes for the industry such as a determination of whether to require floating NAVs and mandatory redemptions in kind, and real-time disclosure of NAV.



by *Scott Cabalka*  
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What do these revisions mean for the RBC Money Market Funds? In a nutshell, very little will change for the RBC Funds. We have a long-standing practice of managing our money market funds in a manner that incorporates the standards recently approved by the Commission. More specifically, we manage the portfolios to have at least 10% in daily liquidity as well as at least 30% in weekly liquidity. The weighted average portfolio maturities are already managed to not exceed 60 days and we have been employing surveillance of a weighted average life maturity for more than a year. Furthermore, throughout the 18 years of their existence, the RBC Money Market Funds have never invested in securities that fell below tier one credit quality. All money market fund complexes, including the RBC Funds, will be developing methodologies to meet the new requirements of stress testing portfolios against rapid market swings and exceptional withdrawal activity.

The RBC Money Market Funds are well positioned to comply with the new standards as adopted in SEC regulation. We will continue to manage the portfolios in a manner commensurate with our ranked priorities for the preservation of principal, with sustained levels of liquidity, while offering competitive yields to shareholders. ■

### Summary Of Rules As Adopted By The SEC On January 27, 2010

Rule Topic	Descriptions	Notes
Weighted Average Maturity	60 days maximum	Reduced from a 90 day WAM
Weighted Average Life Maturity	120 days	New rule
Securities Rated Tier 2	<ul style="list-style-type: none"> <li>• 3% limit as percentage of assets</li> <li>• 0.50% per issuer</li> <li>• Maximum term of 45 days</li> </ul>	

## Money Market Update

Rule Topic	Descriptions	Notes
Illiquid Securities	5% limit as percentage of assets	Reduced from 10%
Liquidity Requirements	<ul style="list-style-type: none"> <li>• 10% of assets in daily liquidity</li> <li>• 30% of assets in 7 day liquidity</li> <li>• 7 day will include certain government agency securities with less than 60 days to maturity</li> </ul>	New rules
Initiation of 'Know Your Customer' Rules		Specific details undefined
Disclosure & Reporting of Portfolio Characteristics	Monthly, 5th business day after month end	New rule
Monthly Shadow NAV	Reported monthly, with 60 day lag	New rule
Holds on Redemptions	Directors will suspend redemptions if the fund falls below \$1.00 NAV to organize an orderly distribution	New rule
Transactions Processing	Ability to process transactions at a mark to market of other than \$1.00 NAV	
Stress Testing	Requires the fund to perform and report	New rules; details undefined
Credit Ratings	Directs the fund's board to assign up to 4 ratings agencies as source of credit quality	New rule
Affiliate Transactions	Allows flexibility for affiliate to purchase fund holdings to assist in redemptions	

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