

## SEC Amendments to Rule 2a-7

2 0 1 0

On February 23, 2010, the SEC published a series of approved amendments to Rule 2a-7 designed to strengthen the regulatory framework for money market funds.

### Shorten Maturity Limits

- Restrict maximum WAM of a MMF to 60 days (vs. current limit of 90 days)
- Restrict maximum WAL of a fund's portfolio to 120 days (vs. no current limit)

### Improve Liquidity

- Reduce "illiquid securities" bucket to a maximum of 5% of portfolio assets<sup>1</sup> (vs. current limit of 10%)
- Taxable funds must have at least 10% of assets liquid within one day, and all funds must have at least 30% liquid within one week

### Higher Credit Quality

- MMFs are restricted to investing a maximum of 3% of portfolio holdings in Tier II securities, with a concentration limit of 0.5% in any one issuer (Currently money funds can invest 5% of their assets in Tier II paper, with a maximum of 1% of assets per issuer)

### Periodic Stress Tests

- Require fund managers to examine fund's ability to maintain a stable net asset value per share in the event of market turbulence and changes in the credit quality of the portfolio

### Monitor Shareholder Concentrations

- Require money funds to develop procedures to identify those large shareholders whose redemption requests may pose liquidity problems for the fund

### Provide Enhanced Disclosure of Portfolio Securities

- Require money funds to post their portfolio holdings on their websites each month
- Money funds must report their portfolio holdings to the SEC each month in a format that the SEC can use to create an interactive database. Results from this will be a "shadow" NAV calculation that will be disclosed to the public on a 60-day lag

### Suspension of Redemptions

- Allow a fund's board of directors to authorize the suspension of redemptions if the fund were to "break the buck" and decide to liquidate

### Electronic Processing

- Require that all MMFs and their administrators be able to process purchases and redemptions electronically at a price other than \$1 per share. The requirement would facilitate share redemptions if a fund were to "break the buck"

### Purchases by Affiliates

- Expand the ability of affiliates of MMFs to purchase distressed assets from funds in order to protect a fund from losses

Source:  
"Money Market Fund Reform." Securities and Exchange Commission.  
Final Rule. February 23, 2010. <http://sec.gov/rules/final.shtml>

<sup>1</sup> Illiquid Securities are those defined as any security that can not be sold or disposed of within 7 days at carrying value. This summary is for informational purposes only. Morgan Stanley is not commenting on the SEC's changes. These changes may not represent the views of Morgan Stanley as a whole.

**May 5, 2010:**

**Stress Testing** – requires funds to establish testing measures for the NAV

**Eliminate the ability for funds to purchase Treasury securities with maturities > 397 days**

**Affiliate Purchases** – expands rules for purchasing securities out of MMFs

**Fund Liquidation** – allows funds to suspend redemptions to facilitate orderly liquidation

**June 30, 2010:**

**Weighted Average Maturity** – reduce maximum WAM to 60 days

**Weighted Average Life** – creates “spread” WAM limit of 120 days

**December 31, 2010:**

**Rating Agencies** – designate four or more NRSROs, any one or more of whose short-term credit ratings the fund would look to under the rule in determining whether a security is an eligible security, and determine at least once each calendar year that the designated NRSROs issue credit ratings that are sufficiently reliable for that use

**January 27, 2010:**

SEC approved a series of rule amendments designed to strengthen the regulatory framework for money market funds

**February 23, 2010:**

SEC Rule 2a-7 amendments are published

**May 28, 2010:**

**Tier 2 Securities** – limits holding levels, maturities, and concentration of these securities

**Illiquid Securities** – limits holding levels of these securities

**Liquidity Requirements** – implement daily and weekly liquidity minimums for MMFs

**Repurchase Agreements**

– limits look-through on collateral

**October 7, 2010:**

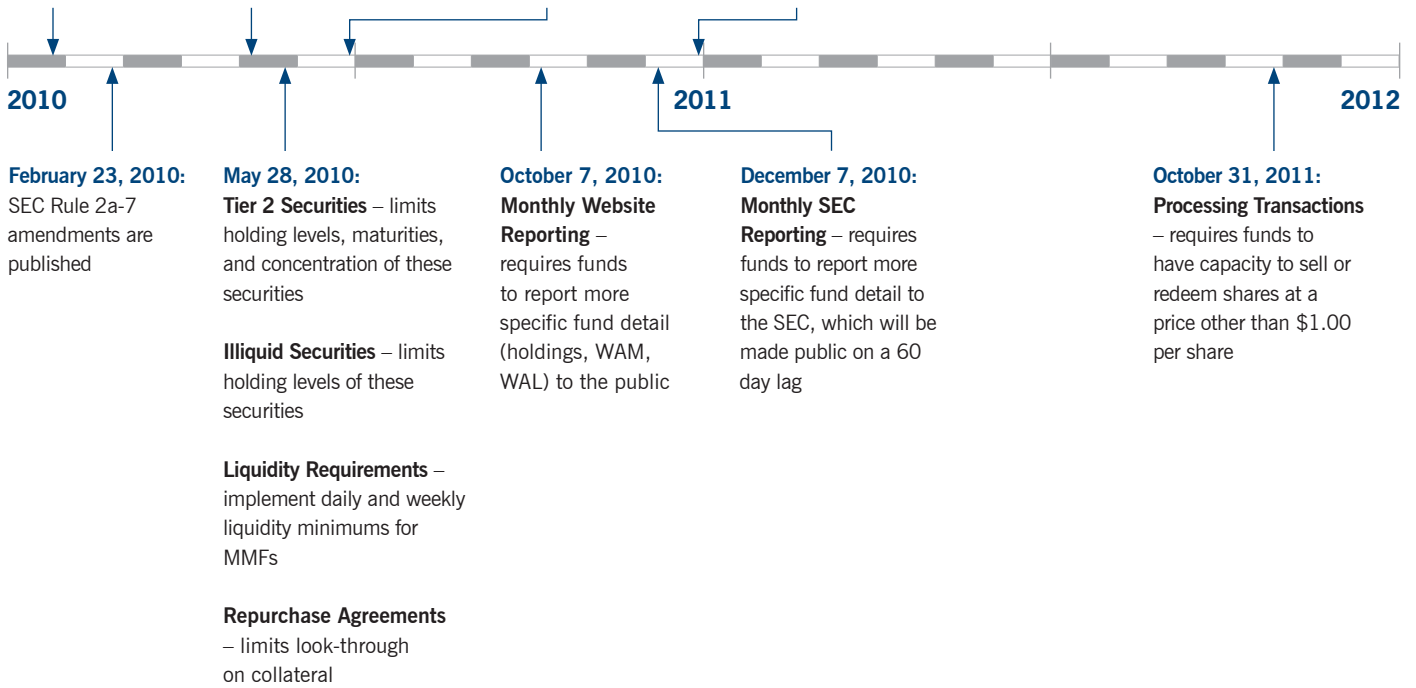
**Monthly Website Reporting** – requires funds to report more specific fund detail (holdings, WAM, WAL) to the public

**December 7, 2010:**

**Monthly SEC Reporting** – requires funds to report more specific fund detail to the SEC, which will be made public on a 60 day lag

**October 31, 2011:**

**Processing Transactions** – requires funds to have capacity to sell or redeem shares at a price other than \$1.00 per share



An investment in the 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.

Please consider the investment objectives, risks, charges and expenses of the funds carefully before investing. The

prospectus contains this and other information about the funds. To obtain a prospectus, contact Morgan Stanley Investment Management or download one at [morganstanley.com/im](http://morganstanley.com/im). Please read the prospectus carefully before investing.

© 2010 Morgan Stanley. Morgan Stanley Distribution, Inc. serves as the distributor for all MSILF portfolios. Morgan Stanley Distributors Inc., serves as the distributor of the Morgan Stanley retail money market funds.

Morgan Stanley

[www.morganstanley.com/im](http://www.morganstanley.com/im)