OUT WITH THE OLD, IN WITH THE NEW–SEC SCRAPS SWING PRICING PROPOSAL, REMOVES REDEMPTION GATES, AND MANDATES LIQUIDITY FEES FOR MONEY MARKET FUNDS

Date: 17 July 2023

US Asset Management and Investment Funds Alert

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In a surprising change, the SEC heeded the cacophony of opposition to swing pricing, but instead threw the industry a curveball by requiring mandatory liquidity fees for institutional prime and institutional tax-exempt money market funds. Mandatory liquidity fees were not discussed in detail in the proposing release, but rather suggested as an alternative among a long list of requests for comments in the proposal. Many other proposals set forth in the proposing release were adopted largely as proposed, but it will be the mandatory liquidity fees that will be at the center of discussion for all sponsors of and investors in prime and tax-exempt money market funds. Below is a summary of the highlights of the adopting release. K&L Gates will be providing a more detailed consideration of the impact of the new liquidity fee and how it will be calculated in a future client alert.

EXECUTIVE SUMMARY

On 12 July 2023, the Securities and Exchange Commission (the SEC) adopted amendments to Rule 2a 7 under the Investment Company Act of 1940, as amended (the 1940 Act) (the Final Rule), which governs the structure and operation of money market funds (MMFs). The amendments, which were first proposed by the SEC in a December 2021 release (the Proposed Rule), reflect the SEC's concern over market stresses experienced in response to the COVID-19 pandemic in March 2020 and are intended to improve the resiliency and transparency of MMFs.

The Final Rule, most importantly, does not include swing pricing, which was the most commented upon aspect of the Proposed Rule. In lieu of swing pricing, the SEC has landed upon mandatory liquidity fees for institutional prime and institutional tax-exempt MMFs when a fund has daily net redemptions that exceed 5% of net assets (unless liquidity costs are de minimis) in an attempt to deter first mover advantage and mitigate potential dilution caused by large shareholder redemptions in times of market stress. As liquidity fees were not discussed in detail in the Proposed Rule, the industry was not given sufficient opportunity to provide any comments on such a proposal prior to the adoption of the Final Rule. The Final Rule also eliminates redemption gates and the link between weekly liquid assets and liquidity fees which were part of the 2014 amendments.

In addition, the Final Rule:

- Permits nongovernment MMFs to impose discretionary liquidity fees if the fund's board determines that a fee is in the best interest of the fund;

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- Increases the minimum daily and weekly liquidity requirements to provide a larger buffer in the event of rapid redemptions;
- Permits retail and government MMFs to convert from a stable share price to a floating share price *or* to reduce the number of shares outstanding to maintain a stable net asset value (NAV) per share, subject to certain board determinations and disclosures to investors, in response to a negative interest rate environment;
- Modifies the calculation of maturity measures (to ensure consistent reporting) and certain reporting forms to reflect the other amendments adopted as part of the Final Rule; and
- Amends Form PF to require additional reporting for private liquidity funds in line with the reporting for registered MMFs.

For additional details regarding the Final Rule, including a comparison of certain of the requirements currently in place under Rule 2a-7 with those contained in the Final Rule, please see the "Comparison Chart" at the end of this alert.

RULE 2A-7 AMENDMENTS

Mandatory and Discretionary Liquidity Fees

In response to numerous comments received to the Proposed Rule, the SEC has determined not to adopt the controversial swing pricing requirements as initially proposed, and instead adopt a requirement that institutional prime and institutional tax-exempt MMFs must impose *mandatory* liquidity fees when a fund experiences daily net redemptions that exceed 5% of net assets, unless the fund's liquidity costs are *de minimis*. In addition, the Final Rule permits non-government MMFs to impose a *discretionary* liquidity fee if the fund's board (or its delegate) determines that a fee is in the best interest of the fund. This liquidity fee framework is designed to protect shareholders from having their interests diluted, and aims to allocate costs in a more equitable manner so that redeeming shareholders (and not shareholders remaining in the fund) bear the estimated transaction costs of liquidating securities to meet their redemptions.

Swing Pricing

As proposed, *institutional prime* and *institutional tax-exempt* MMFs would have been required to impose a "swing factor" reflecting spread costs and other transaction costs of selling a vertical slice of the portfolio during any pricing period in which there were net redemptions. If redemptions were to exceed 4% of the fund's NAV (divided by the number of pricing periods in a given day), that swing factor would have additionally needed to take into account market impact factors (which would have reflected the potential decline in value of a security if sold under current market conditions). This aspect of the proposal received considerable comments against adoption due to a number of factors including among others, (1) concerns regarding the difficultly and inaccuracy of using estimates in calculating a swing factor or a market impact factor; (2) the fact that a swing factor or market impact factor related discount could be required to be applied based on estimated costs even though there were no actual costs incurred to redeem shares due to the availability of cash or maturing daily liquid securities on hand to meet redemptions (which is the case for many MMFs); (3) the fact that subscribing investors would receive a corresponding discount; and (4) the added volatility or lack of clarity regarding the fund's NAV.

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Mandatory Liquidity Fees

The Final Rule notes that industry commentators suggested a liquidity fee (likely a *discretionary* liquidity fee) would be less confusing and more transparent with respect to the liquidity costs redeeming investors incur because investors are more familiar with the concept of liquidity fees (which exist in the current rule). In response to such comments, the SEC determined to require institutional prime and institutional tax-exempt MMFs to impose *mandatory* liquidity fees when a fund experiences daily net redemptions that exceed 5% of net assets, unless the fund's liquidity costs are *de minimis*. While the Proposed Rule included certain questions regarding liquidity fees, liquidity fees were not part of the Proposed Rule and the industry arguably has not had an opportunity to comment on a liquidity fee proposal resembling the fee adopted in the Final Rule.

Similar to the proposed swing pricing requirement, the mandatory liquidity fee being adopted is calculated based on a net redemption threshold. The mandatory liquidity fee must be applied when the fund has net redemptions on a business day in excess of 5% of the fund's net assets. A fund's board, or its delegate, may determine to use a net redemption threshold below 5% for the purpose of applying mandatory fees.

The Final Rule states that, as with the proposed swing factor, the mandatory liquidity fee will be calculated based on a good faith estimate of the costs the fund would incur if it sold a pro rata amount of each security in its portfolio to satisfy the amount of net redemptions, i.e. a vertical slice of the fund's portfolio. A fund will be required to estimate transaction costs, including spread costs and any other charges, fees, and taxes associated with portfolio security sales and market impacts for each security, as part of this calculation. There remains a concern that a fee could be triggered even though the fund did not incur corresponding transaction costs or market impact costs to meet such redemption as the fund had cash or maturing liquid assets on hand to satisfy redemptions.

As with swing pricing under the Proposed Rule, funds can estimate costs and market impacts for each type of security with the same or substantially similar characteristics and apply those estimates to all securities of that type in the fund's portfolio, rather than analyze each security separately. The SEC continues to believe it would be reasonable to assume a market impact of zero for the fund's daily and weekly liquid assets, since a fund could reasonably expect such assets to convert to cash without a market impact to fulfill redemptions (e.g., because the assets are maturing shortly).

In recognition of the difficulty of producing timely, good faith estimates of each of these costs, if a fund is unable to make such a good faith estimate of these transaction costs a default liquidity fee of 1% will be applied. In addition, the Final Rule will not require an otherwise impacted fund to apply a liquidity fee if the estimated costs are considered *de minimis* i.e., less than 0.01% of the value of the shares redeemed. We note, however, that the upper limit of the mandatory liquidity fee is uncapped as it reflects the estimated liquidity costs of the fund.

The SEC believes that the mandatory liquidity fees accomplish substantially the same goals as the swing pricing mechanism, namely the fair allocation of costs stemming from net redemptions, and the prevention of dilution and a first-mover advantage. In a change from the current requirements of Rule 2a-7, the board of a prime or institutional tax-exempt MMF does not have discretion as to whether a liquidity fee will be imposed.

The Final Rule also imposes responsibilities on a fund's board to administer a mandatory liquidity fee, however, in a change from the current rules, the board may delegate this responsibility to the fund's adviser or officer. Under this delegation provision, the board must adopt and periodically review written guidelines and procedures under which this delegate makes liquidity fee determinations.

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Discretionary Liquidity Fees

The existing discretionary liquidity fee requirements in Rule 2a-7 are being retained for all MMFs, including institutional prime and institutional tax-exempt MMFs. Accordingly, even though these funds must impose a mandatory fee when they experiences daily net redemptions that exceed 5% of net assets, they may also impose discretionary liquidity fees at a lower threshold, if they so choose . Following commenter feedback, the SEC determined to retain this discretionary liquidity fee provision to give eligible funds an additional mechanism to manage their liquidity during times of stress. In a change to current Rule 2a-7, the tie between discretionary liquidity fees and a liquidity threshold is being removed. The SEC has taken this measure to reduce any incentive for preemptive redemptions. Under the Final Rule a fund's board has discretion to impose a liquidity fee if the board determines that such a liquidity fee is in the best interest of the fund, irrespective of the funds weekly asset levels and redemption levels.

Similar to mandatory liquidity fees, the board is responsible for administering the liquidity fee requirement, but the board can delegate this responsibility to the fund's investment adviser or officers, subject to written guidelines established and reviewed by the board and ongoing board oversight.

In addition to removing the ties between weekly liquid asset thresholds and the implementation of liquidity fees, the SEC has also removed the redemption gate provisions from Rule 2a-7.

Removing the Tie Between Asset Threshold Levels and Liquidity Fee and Removal of Redemption Gate Provisions

Rule 2a-7 previously required that nongovernment MMFs adopt procedures that would allow the fund to impose a liquidity fee of up to 2% or temporarily suspend redemptions for up to 10 business days (i.e., impose a “gate”) if the fund's weekly liquid assets fell below 30% of its total assets and the fund's board of directors determined that imposing a fee or gate was in the fund's best interests. Further, pursuant to Rule 2a-7, nongovernment MMFs had to impose a 1% liquidity fee on redemptions if their weekly liquid assets fell below 10%, unless the fund's board determined that such fee was not in the fund's best interest.

Initially adopted as part of the 2014 MMF reforms despite resistance from the industry, the SEC intended these provisions to provide a cooling off period in times of investor panic and to better allocate the cost of providing liquidity to redeeming investors. Instead, these measures had unintended consequences. The SEC noted that in March 2020, even though no MMF imposed a fee or gate, the possibility of their imposition appears to have altered both shareholder and fund behavior. Specifically, the SEC indicated that large institutional shareholders shifted significant assets from prime and municipal MMFs that had fees and gates policies to government MMFs, which do not have fees and gates policies, to avoid the risk that a fee or gate would be imposed as funds approached reported weekly liquidity thresholds. The SEC suggests that certain prime MMF managers sought to avoid risk of imposition of fees or gates by maintaining weekly liquid asset levels above the thresholds. The SEC also suggests that this was accomplished in part by selectively selling securities with longer maturities, rather than using shorter maturity assets to meet redemptions, resulting in costs to be borne by shareholders who remained and did not redeem. This also caused stress on the commercial paper market, which required the Federal Reserve to take steps to support liquidity by providing loans to financial institutions on advantageous terms to purchase securities from MMFs that were raising liquidity.

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The SEC, seeking to reduce the risk of investor runs on MMFs during periods of market stress, has determined to remove gate provisions altogether from Rule 2a-7.

The SEC further noted that Rule 22e-3[1] will likely serve as a more realistic alternative to the imposition of gates because it is unlikely that a fund's board would approve a gate in the absence of circumstances that are otherwise likely to result in a fund liquidation. As a consequence, the SEC has concluded that the gate provisions had increased risks to investors without the intended benefits, and that Rule 22c-2[2] provides a reasonable alternative for the functions previously served by the redemption gates provision of Rule 2a-7.

Amendments to Portfolio Liquidity Requirements

Prior to the adoption of the Final Rule, Rule 2a-7 required that immediately after acquisition of an asset, an MMF must hold at least 10% of its total assets in daily liquid assets and at least 30% of its total assets in weekly liquid assets.[3] The Final Rule increases the daily and weekly liquid asset requirements to 25% and 50%, respectively. The SEC noted that these thresholds are based on an analysis of the level of liquid assets needed to meet redemptions in March 2020. The increased thresholds are intended to provide a greater buffer for MMFs to meet larger and more frequent redemptions.

In addition, the Final Rule requires each MMF to notify its board of any “liquidity threshold event,” which is defined as an event in which the fund has invested less than 25% of its total assets in weekly liquid assets or less than 12.5% of its total assets in daily liquid assets. These notification thresholds have been established at half of the daily and weekly liquid asset minimums, which the SEC believes represent a significant decrease in liquidity. As discussed more below, a liquidity threshold event will also require the filing of a Form N-CR. This notification requirement is designed to facilitate board monitoring and engagement when a fund's liquidity levels fall significantly below the minimum requirements.

Amendments Related to Potential Negative Interest Rates

In a further reversal from the Proposed Rule, the Final Rule provides that retail and government MMFs may handle a negative interest rate environment either by converting from a stable share price to a floating share price or by reducing the number of shares outstanding to maintain a stable NAV per share. The Proposed Rule would have expressly prohibited MMFs from the use of such mechanisms (including a reverse distribution mechanism, routine reverse stock split, or other device) that would periodically reduce the number of the fund's outstanding shares to maintain a stable share price. In the adopting release, the SEC noted it had received a number of comments from the industry in support of a reverse distribution, or similar, mechanism in addition to the proposed conversion to a floating share price.

The Final Rule notes that a reverse distribution mechanism may only be used by a stable NAV fund if the fund's board determines that it is in the best interest of the fund and its shareholders. In making such a determination, the SEC notes the board should consider the capabilities of the fund's service providers and intermediaries to support the equitable application of such a mechanism, any applicable state law limitations on share cancellations, and the federal tax consequences to the fund and its shareholders of such a share reduction. Funds engaging in share cancellation must comply with certain conditions outlined in the Final Rule, including the requirement that the fund provide timely, concise, and plain-English disclosure to investors regarding such share cancellation. The Final Rule does not permit a fund's board to delegate such a determination to the fund's adviser or officers.

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In contrast with the Proposed Rule, the Final Rule eliminates the recordkeeping requirements for stable NAV MMFs identifying the intermediaries able to process orders at a floating NAV, and stable NAV MMFs are no longer required to transact with only those intermediaries who are able to process orders at a floating NAV.

Amendments to Specify the Calculation of Weighted Average Maturity (WAM) and Weighted Average Life (WAL)

The SEC has amended Rule 2a-7(d)(1) to require that MMFs calculate WAM and WAL based on the percentage of each security's market value in the portfolio. The SEC had found MMFs used different approaches when calculating WAM and WAL under the previous definitions in the rule. For instance, a majority of MMFs calculated WAM and WAL based on the percentage of each security's market value in the portfolio, while other MMFs based calculations on the amortized cost of each portfolio security. This discrepancy could have created inconsistency in WAM and WAL calculations across funds, including in data reported to the SEC and provided on fund websites. Accordingly, the SEC will now require funds to use market value because all types of MMFs already determine the market values of their portfolio holdings for other purposes, while only certain MMFs use amortized cost for such purposes.

Amendments to Stress Testing Requirements

Prior to the adoption of the Final Rule, Rule 2a-7 required MMFs to conduct periodic stress tests and report those tests to the board. These stress tests included a requirement that the fund show an ability to maintain 10% of its net assets in weekly liquid securities in specified market conditions. The SEC has now removed the 10% threshold in favor of a requirement that each fund determine the minimum level of liquidity it seeks to maintain during stress periods, identify that liquidity level in its written stress testing procedures, periodically test its ability to maintain such liquidity, and provide the fund's board with a report on the results of the testing. In releasing this Final Rule, the SEC noted that funds will have the flexibility to determine the appropriate level of liquidity based on the unique characteristics of each fund, including the type of fund, investor characteristics, or investor concentration among other factors.

Amendments to Reporting Requirements

The Final Rule amends certain reporting requirements on Forms N-CR and N-MFP to improve the availability of information about MMFs, as well as make certain changes to Form PF to require certain advisers to provide additional reporting on liquidity funds they advise.

Form N-CR

With respect to Form N-CR, by which MMFs are required to report specific material events, the SEC will now require that an MMF file a report on Form N-CR when the fund falls below a specified liquidity threshold (i.e., the fund has invested less than 25% of its total assets in weekly liquid assets or less than 12.5% of its total assets in daily liquid assets). As previously required for reports on Form N-CR, the report of these liquidity threshold events will be required to be filed within one business day of the event and include the initial date of the liquidity event and the percentage of the fund's total assets invested in both weekly liquid assets and daily liquid assets on the initial date of the liquidity threshold event. The fund must also include a brief description of the facts and circumstances leading to the liquidity threshold event, but is permitted to include this narrative via amendment up to four business days after the initiation of the liquidity event. To the extent that a fund has persistent liquidity

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events across multiple days, only one filing would be required. Current liquidity fee reporting requirements on Form N-CR have been removed under the Final Rule, and such reporting requirements have moved to Form N-MFP.

In Part C of Form N-CR, which generally covers the provision of financial support to a fund from an affiliated entity, the SEC further requires disclosure of the fund's purchase date of any asset that is ultimately purchased by an affiliate. The SEC notes that this disclosure may provide context and identification of fund support that occurs within a short period of time and highlight instances in which the risk profile of a particular security has declined rapidly.

The SEC now also will require funds to file Form N-CR reports in a custom eXtensible Markup Language (XML) based structured data language. Further, the SEC has adopted other amendments to improve the utility of reported information and to remove reporting requirements related to the imposition of liquidity fees and redemption gates under Rule 2a-7.

Form N-MFP

With respect to Form N-MFP, by which MMFs file a monthly schedule of portfolio holdings, the SEC has adopted the following amendments:

- A requirement that nongovernment or retail MMFs provide information about the composition of their shareholders by type. The item requires these funds to identify the percentage of shareholders within the following categories: non-financial corporation; pension plan; non-profit; state or municipal government entity (excluding governmental pension plans); registered investment company; private fund; depository institution and other banking institution; sovereign wealth fund; broker-dealer; insurance company; and other;
- Amendments to Part C that permit the provision of information separately for the initial acquisition of a security and each separate additional lot of the security in order to assist the SEC in understanding how long a fund has held a given position and the maturity of the position when it was first acquired;
- Addition of a new Part D to Form N-MFP, which requires information about the number of portfolio securities an institutional or retail prime MMF sold or disposed of during the reporting period. This information is meant to aid in the monitoring of prime MMFs' liquidity management, as well as their secondary market activities in normal and stress periods, and improve the availability of data about how selling activity by MMFs relates to broader trends in short-term funding markets;
- Require MMFs to report the date on which a liquidity fee was applied by the fund, the type of liquidity fee and the amount of the liquidity fee;
- Removal of the current liquidity fee reporting requirements on Form N-CR;
- Require a stable NAV fund to report its use of share cancellation;
- Standardize the current repurchase agreement reporting section to require disclosure of the name of the counterparty, whether a repurchase agreement is centrally cleared and the name of the central clearing counterparty, whether the repurchase agreement was settled on a triparty platform, and the Committee on Uniform Securities Identification Procedures of the securities involved in the repurchase agreement;

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- Collapse the “Treasury”, “Government/Agency”, and “Exempt Government” categories of MMFs into a single category of “Government.” The new Rule now requires government MMFs to disclose whether they typically invest at least 80% of the value of their assets in treasuries or repurchase agreements collateralized by treasuries;
- Require each fund to provide daily liquidity, NAV, and flow data for each business day of the month, rather than on a weekly basis, in order to allow the SEC staff to better and more precisely monitor risks and trends in these areas and to provide industry-wide daily data in a central repository as a resource for investors and others;
- Require funds to report seven-day gross yields (at the series level) and seven-day net yields (at the share class level) each business day instead of the previous end-of-the-reporting-period requirement. The SEC has noted that the higher-frequency reporting would assist in the timely monitoring and assessment of fund risks, particularly during periods of market stress;
- Limit the required disclosure of reimbursement or waiver of operating expenses or management fees to the disclosure of the amount of any waiver or reimbursement during the period. Previously, funds were required to provide the name of any person who paid for or waived any part of the fund's operating expenses or management fees during the reporting period and a description of the amount and nature of the fee and expense waiver or reimbursement;
- Whereas under current Form N-MFP, funds are only required to disclose a category of instrument for each portfolio security, under the Final Rule funds must add a new category that distinguishes between U.S. government agency notes that are coupon-paying and those that are no-coupon discount notes in order to allow the SEC to better understand which notes constitute weekly liquid assets;
- Add a new item that would require MMFs to indicate whether the fund is established as a cash management vehicle for affiliated funds and accounts; and
- Add a check box for funds to indicate whether they seek to maintain a stable share price.

Form PF

In a change from the Proposed Rule, the SEC is amending Form PF to require large liquidity fund advisers to provide additional information regarding liquidity funds they advise, given the similarity between liquidity funds and MMFs. The SEC believes this additional reporting will allow greater insight into the short-term financing markets, which will subsequently provide enhanced investor protection and systematic risk assessments.

Form N-1A

With the elimination of redemption gates, the Final Rule amends Form N-1A to update the Rule 482 risk narrative with respect to each category of MMF, which was first adopted as part of the 2014 MMF reforms. For additional detail regarding the finalized revisions to the Rule 482 disclosures, which are included in each MMF's prospectus and certain other marketing materials, please see the “Comparison Chart” below.

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COMPLIANCE DATES

As adopted, the SEC has removed the fees and gates provisions of Rule 2a-7 as well as associated disclosure requirements in Form N-1A and N-CR, effective 60 days following publication in the Federal Register.

The SEC has decided that, as of six months following the effective date of the Final Rule, funds must meet certain other aspects of the Final Rule, including, but not limited to, the minimum portfolio liquidity requirements and the *discretionary* liquidity fee provision. There will be a 12-month period following the effective date of the Final Rule for funds to implement the *mandatory* liquidity fee provision. Finally, the amendments to Forms N-MFP, N-CR, and PF will have a compliance date of 11 July 2024.

COMPARISON CHART

Current Requirements under Rule 2a-7	Final Rule
Liquidity Fees and Temporary Suspensions of Redemptions	
Currently, under Rule 2a-7, liquidity fees or redemption gates can be applied in the following scenarios: ▪ If an MMF's weekly liquid assets fall below 30% and the fund's board determines that it is in the fund's best interests, an MMF can impose a liquidity fee of up to 2% on all redemptions or temporarily impose a redemption gate; ▪ If an MMF's weekly liquid assets fall below 10%, the fund will be required to impose a liquidity fee of 1% on all redemptions unless the fund's board determines that imposing such a fee would not be in the best interests of the fund or determines that a lower or higher fee (not to exceed 2%) would be in the best interests of the fund; ▪ An MMF that imposes a liquidity fee or redemption gate is required to lift that fee or gate once the fund's weekly liquid assets have risen to or above 30% and a fund will be required to lift a redemption gate within 10 business days; ▪ A fund's board can lift any fee or gate prior to those thresholds if it determines that	The Final Rule removes the link between weekly liquid asset thresholds and fees and gates. It also removes the ability to impose temporary gates to suspend redemptions. The Final Rule now imposes mandatory and discretionary liquidity fees. Under the Final Rule: ▪ Institutional prime and institutional tax-exempt MMFs must impose liquidity fees when a fund experiences daily net redemptions that exceed 5% of net assets, unless the liquidity costs are de minimis. ▪ Under this rule, a fund is required to calculate estimated transaction costs. ▪ If a fund could not reasonably determine the impact of the redemptions, the fund will impose a 1% fee as a default. ▪ If the fund calculates that the fees would be less than 0.01%, the fund would not be required to impose a liquidity fee. ▪ The upper limit of the mandatory liquidity fee is uncapped. ▪ All MMFs may impose a discretionary liquidity fee if the fund's board (or its delegate) determines that a fee is in the

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lifting the fee or gate is in the best interests of the fund; ▪ A fund's board may not impose a redemption gate for more than 10 days in any 90 day period; and ▪ Government MMFs are not required to implement liquidity fees and redemption gates.	best interest of the fund.
Reverse Distribution Mechanisms	
No comparable prohibition is included in the current rule.	Under the Final Rule, an MMF may implement a reverse distribution mechanism in a negative interest-rate market environment, if approved by the fund's board.
Calculation of WAM and WAL	
Currently, MMFs must not maintain a dollar-WAM that exceeds 60 calendar days.	Under the Final Rule, the 60 calendar day WAM limitation remains, but the amendments clarify that such calculation must be based on each security's market value in the portfolio.
Currently, MMFs must not maintain a dollar-WAL that exceeds 120 calendar days, determined without reference to the exceptions of this section regarding interest rate readjustments.	Under the Final Rule, the 120 calendar day WAL limitation remains, but the amendments clarify that such calculation must be based on each security's *market value* in the portfolio.
Portfolio Liquidity Requirements	
Minimum daily liquidity requirement. The MMF may not acquire any security other than a daily liquid asset if, immediately after the acquisition, the fund would have invested less than 10% of its total assets in daily liquid assets. This provision does not apply to tax-exempt funds.	*Minimum daily liquidity requirement*. The MMF may not acquire any security other than a daily liquid asset if, immediately after the acquisition, the fund would have invested less than 25% of its total assets in daily liquid assets. This provision does not apply to tax-exempt funds.
Minimum weekly liquidity requirement. The MMF may not acquire any security other than a weekly liquid asset if, immediately after the acquisition, the fund would have invested less than 30% of its total assets in weekly liquid assets.	*Minimum weekly liquidity requirement*. The MMF may not acquire any security other than a weekly liquid asset if, immediately after the acquisition, the fund would have invested less than 50% of its total assets in weekly liquid assets.

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Board Reporting of Liquidity Threshold Events	
Board reporting under the old rule would only occur in connection with the imposition of a fee or gate.	An MMF must notify its board within one business day following the occurrence of: (A) The MMF investing less than 12.5% of its total assets in daily liquid assets; or (B) The MMF investing less than 25% of its total assets in weekly liquid assets. Following a liquidity threshold event, the MMF must provide its board of directors with a brief description of the facts and circumstances leading to such an event within four business days after the occurrence of the event.
Stress Testing	
Currently, MMFs are required to stress test their ability to maintain 10% weekly liquid assets under specified hypothetical events described in Rule 2a-7 since the breach of the 10% weekly liquid asset threshold would impose a default liquidity fee.	In connection with the elimination of the default liquidity fee, stress testing requirements around the 10% weekly liquid asset threshold will also be eliminated. As adopted, MMFs will be required to determine an individual minimum level of liquidity they seek to maintain during stress periods and then test whether they are able to maintain sufficient minimum liquidity under specified hypothetical events.
Delegation	
Under the current rules, an MMF's board may delegate to the fund's adviser or officers responsibility for: ▪ Determinations related to liquidity fees and redemption gates; ▪ Certain adverse events; ▪ Amortized costs and/or penny rounding procedures; and ▪ Stress testing procedures.	As adopted, with the elimination of redemption gates, an MMF's board will no longer be required to delegate any responsibilities for such requirements. An MMF's board is responsible for administering the liquidity fee requirement, but the board can delegate this responsibility to the fund's investment adviser.
Rule 482 Risk Disclaimer	

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Under the current rules, MMFs are required to include the following risk disclosures in their prospectuses and certain other advertising or marketing materials: *Institutional MMFs* "You could lose money by investing in the Fund. Because the share price of the Fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The Fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time."	Under the Final Rule, the risk disclaimers must be revised as follows to reflect the revised liquidity fee requirements and the elimination of redemption gate requirements (revisions are marked). *Institutional MMFs* "You could lose money by investing in the Fund. Because the share price of the Fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The Fund may impose a fee upon sale of your shares ~~or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors.~~ The Fund generally must impose a fee when net sales of Fund shares exceed certain levels. An investment in the Fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor ~~has no legal obligation to provide financial support to~~is not required to reimburse the Fund for losses, and you should not expect that the sponsor will provide financial support to the Fund at any time, including during periods of market stress."
Government and Retails MMFs "You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. The Fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time."	*Government and Retail MMFs (Discretionary Liquidity Fees)* "You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. The Fund may impose a fee upon sale of your shares ~~or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors.~~ An investment in the Fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor ~~has no legal obligation to provide financial support to~~is not required to reimburse the Fund for losses, and you should not expect that the sponsor will provide financial support to the Fund at

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	any time, including during periods of market stress.”
	Government and Retail MMFs (No Discretionary Liquidity Fees) “You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. ~~The Fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors.~~ An investment in the Fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor ~~has no legal obligation to provide financial support to~~is not required to reimburse the Fund for losses, and you should not expect that the sponsor will provide financial support to the Fund at any time, including during periods of market stress.”

FOOTNOTES

[1] Rule 22e-3 generally allows an MMF to suspend redemptions if, among other conditions: (i) the fund, at the end of a business day, has invested less than 10% of its total assets in weekly liquid assets or, in the case of a government or retail MMF, the fund's price per share has deviated from its stable price (i.e., it has “broken the buck”) or the fund's board determines that such a deviation is likely to occur, and (ii) the fund's board has approved the fund's liquidation.

[2] Rule 22c-2 provides that an open-end fund may impose a redemption fee, not to exceed 2% of the value of the shares redeemed, upon the determination by the fund's board of directors that such fee is “necessary or appropriate to recoup for the fund the costs it may incur as a result of those redemptions or to otherwise eliminate or reduce so far as practicable any dilution of the value of the outstanding securities issued by the fund.

[3] Assets that make up daily liquid assets and weekly liquid assets are cash or securities that can readily be converted to cash within one business day or five business days, respectively.

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