



Insights

SEC Adopts Final Rule 2A-7 Amendments

Regulatory Updates - SFI
September 18, 2015

On September 17, 2015, the Securities and Exchange Commission (SEC) adopted final amendments to Rule 2a-7 under the Investment Company Act of 1940. The amendments eliminate references to credit ratings in the Rule and make changes to the issuer diversification requirements of the Rule.

The final amendments were adopted largely as initially proposed by the SEC on July 23, 2014.

1. Elimination of Ratings Requirements

As required by Dodd-Frank, the amendments eliminate references to credit ratings in the rule and adopt a new uniform standard for determining whether a security is eligible under the rule. Under the amended Rule, an eligible security is a security that the money market fund determines presents “minimal credit risk.” The amendment refers to guidance factors for making this determination.

2. Issuer Diversification Requirements

The amendments eliminate the exception in the current Rule which allows money market funds to bypass the issuer diversification requirement for securities subject to guarantees by “non-controlled persons” (that is, sponsors of ABS) so that on the amendment’s compliance date, investors in securities that are subject to guarantees by “non-controlled persons” will also be subject to the issuer diversification requirements of the Rule with respect to those securities. This means that on the compliance date, investors in the commercial paper of ABCP conduits (whether fully-supported or deemed to be fully guaranteed because of the “deemed guarantee” provision in the amendment to the Rule adopted in July 2014) that are currently subject only to the guarantor diversification requirements of Rule 2a-7 will also be subject to the issuer diversification requirements, including the requirement that “10% obligors” of such ABCP conduits (other than restricted special purpose entities) must be treated as issuers of the ABCP for purposes of the Rule.

The effective date for today’s amendments will be 30 days after publication of the final amendments in the Federal Register. The compliance date for the aspects of the Rule 2a-7 amendments described above will be October 14, 2016.

For a copy of the final rule, please click [here](#).