

Money Market Fund Reform

Procedures
Operations &
Compliance



Money Market Fund Reform

Money market funds (MMFs) are a popular and widely used option within retirement plans, and it is important for plan fiduciaries to understand the rules around the use of MMFs.

Driven by events that occurred during the 2008 financial crisis, the Securities and Exchange Commission (SEC) implemented a series of changes to the regulations that govern MMFs.

These rules were intended to increase fund liquidity and to protect investors.

Impact of the Reform Rules

MMF Eligibility:

Investor Type vs. MMF Type

- The amendments introduced a distinction between Retail and Institutional Investors as well as Retail and Institutional MMFs.
- Generally, Retail Investors are: individual investors, end clients of registered investment advisers and participants in most 401(k) plans. Examples of Institutional Investors include corporations, defined benefit plans, and other entities.
- Retail Investors can invest in Retail MMFs, which are defined as funds with policies that limit beneficial ownership to those investors deemed as “natural persons.”
- Institutional Investors are eligible to invest in Institutional MMFs with a variable net asset value (VNAV). Retail Investors may also choose to invest in these funds.
- Both Retail and Institutional Investors are eligible to invest in Government MMFs.

	Government Money Market Funds	Prime Money Market Funds	Municipal Money Market Funds
	GOVERNMENT AND TREASURY MONEY MARKET FUNDS	RETAIL MONEY MARKET FUNDS	INSTITUTIONAL MONEY MARKET FUNDS
Retail Investors	Eligible	Eligible	Eligible
Institutional Investors	Eligible	Not Eligible	Eligible

Charles Schwab Trust Bank

This document provides you with the Money Market Fund Reform Procedures as referenced in the addendum to the Information Services Agreement for Money Market Fund Reform for Independent Recordkeepers.



Account Classification

Eligibility & Participant Direction

Money Market Fund Structural Reform:

Liquidity Fees and Redemption Gates and Net Asset Value vs. Money Market Fund Type

- In times of exceptional market volatility and potential stress on MMFs, the amendments allow a MMF’s board of directors to impose either a liquidity fee and/or redemption gate if it is in the best interest of the fund. The Board of Trustees of the Schwab Government Money Funds has determined not to subject the funds to liquidity fees or redemption gates.
- All Government/Treasury MMFs as well as Retail Prime and Retail Municipal MMFs are exempt from the requirement to price and transact at a Variable Net Asset Value (VNAV) and continue to be permitted to price and transact at a Constant Net Asset Value (CNAV).
- All Institutional Prime and Institutional Municipal MMFs are required to price and transact at a VNAV per share that can change or “float” based on pricing the underlying fund holdings out to four decimal places (\$1.0000).

	Government Money Market Funds	Prime Money Market Funds		Municipal Money Market Funds	
	GOVERNMENT AND TREASURY MONEY MARKET FUNDS	RETAIL MONEY MARKET FUNDS	INSTITUTIONAL MONEY MARKET FUNDS	RETAIL MONEY MARKET FUNDS	INSTITUTIONAL MONEY MARKET FUNDS
Liquidity Fees and Redemption Gates	Optional	Yes	Yes	Yes	Yes
NAV	Constant	Constant	Variable	Constant	Variable

Liquidity Fees

The following procedures will apply to the imposition of liquidity fees

For each MMF that imposes a liquidity fee, **whether intraday or at the end of the day**, Trust Bank shall provide each third party administrator or plan recordkeeper (a “Recordkeeper”) written notice of such fee (which may be by electronic mail) as soon as practicable after Trust Bank receives such notice from the MMF or Charles Schwab & Co., Inc. (CS&Co). CS&Co and Trust Bank will use commercially reasonable efforts to implement the liquidity fee on their systems as close to the normal close of the NYSE (typically 4 pm ET) on the day on which the notice of such fee was received from the MMF or CS&Co., but in any event no later than the normal open of the NYSE on the following Business Day after instructions were received.

Each Recordkeeper will be required to represent and warrant that it has the systems capability to impose and process a liquidity fee and to further agree in writing that it will impose such a fee upon notification by the MMF, Trust Bank or CS&Co. If a Recordkeeper is unable to impose and process a liquidity fee, such Recordkeeper shall not be allowed to submit orders to purchase shares of any MMF that may charge a liquidity fee and all clients of such Recordkeeper shall not be permitted to retain shares of any MMF that may charge a liquidity fee.

Any applicable liquidity fee due a MMF on a redemption order shall be estimated by Trust Bank on Day 1 (or in the case of DCC&S redemption orders, Day 2), and Trust Bank will notify such MMF of such estimate. The liquidity fee will be remitted by Trust Bank or CS&Co to the MMF no later than Day 3 (or in the case of DCC&S redemption orders, Day 4) in a manner mutually agreed upon by CS&Co or Trust Bank and the applicable MMF.



TRUST BANK

Gates

The following procedures will apply to the imposition of a gate

If a MMF imposes a redemption gate, Trust Bank or the MMF will notify each Recordkeeper in writing (which may be by electronic mail) of the imposition of the redemption gate as soon as practicable after Trust Bank receives such notice from the MMF or CS&Co. CS&Co and Trust Bank will implement the redemption gate on their systems as close to the normal close of the NYSE (typically 4 pm ET) as commercially reasonable on the day on which the instructions were received from the MMF but in any event no later than prior to the normal open of the securities markets on the following Business Day after the instructions were received.

Each Recordkeeper will be required to represent and warrant that it has the systems capability to impose and process a redemption gate and further agrees that it will impose and process such a gate upon notification by Trust Bank or the MMF. If a Recordkeeper is unable to impose a redemption gate, such Recordkeeper shall not be allowed to submit orders to purchase shares of any MMF that may impose a redemption gate and all clients of such Recordkeeper shall not be permitted to retain shares of any MMF that may impose a redemption gate.

Recordkeeper shall identify any redemption orders that were received from a participant or other beneficial owner after CS&Co or Trust Bank were notified of the redemption gate to allow the MMF to reject such redemption orders, to the extent allowed by the Reform Rules.

Removal of Liquidity Fees and Redemption Gates

Trust Bank will notify each Recordkeeper as soon as practicable after Trust Bank receives notice from the MMF or CS&Co that the MMF has terminated or ceased implementation of a liquidity fee or redemption gate. This message will be sent via electronic mail.

An Operational View

If liquidity fees and redemption gates are imposed by a MMF, the following provides you with the operational components in short form, to assist you, as an independent recordkeeper, to successfully manage MMF during these times.

Communications

Electronic mail communications will be sent directly by your Client Services Manager (CSM). An alert will also be sent and posted on the Schwab Retirement Center.

Trades

Only trades received in the recordkeeping system prior to a gate announcement should be sent to Trust Bank for processing.

Trades received in the recordkeeping system prior to a fee announcement will be sent to Trust Bank and processed as individual trades.

Trades received in the recordkeeping system after the fee announcement will have a fee calculated by the recordkeeping system. The recordkeeper will then send Trust Bank **two trades**:

1. One for the amount of the fee
2. One for the amount of the trade net the fee

Trust Bank will then process these trades to the fund company.



TRUST BANK

Client Return Files

All client return files for trades with fees will have three transactions:

1. Confirmation of the fee trade and proceeds
2. Confirmation of the trade net of fee and proceeds
3. Disbursement transaction from the plan noted as a MMF fee

Know the terminology

Capital preservation fund: A low-risk, low-yield investment fund managed toward the primary goal of preserving capital and preventing loss, typically used by retirees or those nearing retirement.

Cash equivalents: A low-risk, low-return asset class made up of short-term, easily liquidated securities of high credit quality.

Employee Retirement Income Security Act of 1974 (ERISA), as amended: Implements rules to protect the retirement assets of retirement plan participants, which qualified plans must follow.

Gate: A restriction placed on a fund to limit withdrawals or redemptions.

Liquidity: The speed and ease with which an asset can be converted to cash without affecting the value of the asset.

Natural person: A human being, as distinguished from an artificial person created by law.

Net asset value (NAV): Describes a mutual fund's price per share, calculated by dividing the total value of a fund's securities less liabilities by the number of outstanding fund shares; computed daily based on close-of-day market prices of all securities in the fund's portfolio.

Variable NAV: A net asset value tied to the day-to-day market value of the securities contained within a fund, calculated to the fourth decimal point.

Weekly liquid assets: A fund's total cash, direct U.S. government obligations, government agency discount notes with 60 days or less until maturity, securities maturing or subject to a demand feature payable within 5 business days, and receivables scheduled to be paid within 5 business days.



TRUST BANK

Money Market Fund Reform Operating Procedures