Division of Investment Management Responses to Frequently Asked Questions about The Reserve Fund and Money Market Funds

United States: Securities and Exchange Commission (SEC)
Division of Investment Management
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The Reserve Fund and Money Market Funds

I. Introduction

In September 2008, The Reserve Fund announced that The Primary Fund ("Fund"), a series of a money market fund registered with the Commission as an investment company under the Investment Company Act of 1940, calculated its net assets at 97 cents per share, and would suspend payment of redemption proceeds to Fund investors, for up to seven days after the redemption, with certain exceptions. Many investors have asked questions about their investments in the Fund and in other money market funds. The following questions and answers have been prepared by and represent the views of the Staff of the Division of Investment Management to assist investors in understanding recent events. They are not rules, regulations, or statements of the Commission. Further, the Commission has neither approved nor disapproved these answers and is not bound by them.

II. Responses to Questions

Question 1: What does it mean for a money market fund to "break a dollar" or "break the buck"?

Answer: A money market fund is a type of mutual fund. It registers with the SEC as an "investment company" under the Investment Company Act of 1940. The share price (or "net asset value per share") of a mutual fund reflects the value of the assets owned by the fund. The share price of most mutual funds fluctuates each day, according to changes in values of the assets the funds own. The share price of a money market fund, however, is designed to remain constant at $1.00 per share. This means that investors can buy, for example, 10,000 shares for $10,000, and redeem those shares for $10,000 when they choose. Extra income from the fund over the $1.00 share price is distributed to shareholders on a daily basis. A fund whose net assets fall below $1.00 per share is said to "break a dollar" or "break the buck." This is a rare occurrence - before the events of September 2008, the last (and only) time a registered money market fund broke a dollar was in 1994.

Question 2: What is the current status of The Reserve Fund?

Answer: As discussed above, The Primary Fund announced in September that it would suspend payment of redemption proceeds for up to seven days. On September 22, the SEC issued a temporary order permitting The Primary Fund and another Reserve fund (the U.S. Government Fund) to suspend redemptions and payment of redemption proceeds, until the markets are liquid to a degree that enables each fund to liquidate portfolio securities without impairing the net asset value of each fund, or until the Commission rescinds the order. To view the order, click here. There is also private litigation involving The Reserve Fund, to which the SEC is not a party.

Question 3: What did the SEC's order do?
Answer: See the Answer to Question 2, above. To view the order, click here.

Question 4: How can I monitor the developments at The Reserve Fund?

Answer: You can contact The Reserve Fund directly, as well as any intermediary (such as a brokerage firm) through which you hold your shares. You can monitor The Reserve Fund's website for updates. To access The Reserve Fund's website, click here. (Note: this mention of the website does not in any way endorse the contents of the website.)

Question 5: Does Treasury's Temporary Guarantee Program for Money Market Funds protect investments in the Reserve Primary Fund?

Answer: It is the SEC staff’s understanding that Treasury’s Temporary Guarantee Program does not cover the Reserve Primary Fund. Additional information about Treasury’s Program is available at http://www.treasury.gov/press/releases/hp1163.htm. If you have additional questions about The Reserve Fund, you can e-mail the SEC staff at IMOCC@sec.gov.

Question 6: What is the SEC doing to help prevent future problems with money market funds?

Answer: The SEC and its staff have been working on a variety of matters concerning money market funds, including staff guidance in connection with financial support for money market funds, compliance inspections and examinations of funds, and possible rule amendments. The SEC also has enforcement powers that can be used in the case of securities law violations.

http://www.sec.gov/divisions/investment/guidance/reservefundmmffaq.htm