

### SEC Staff Publishes a Compilation of Securities Lending No-Action Letters

On November 5, 2012, the U.S. Securities and Exchange Commission (the “SEC”) released a compilation of no-action letters pertaining to securities lending. The SEC compilation provides a background on securities lending by institutional investors, including open-end and closed-end investment companies, and addresses the applicable laws under the Investment Company Act of 1940, as amended (“1940 Act”) that govern the investment practice. No-action letters published by the SEC staff offer guidance to investment companies, and are thus relied upon by those companies which engage in the practice to ensure adherence to the 1940 Act standards. The series of letters, which are organized by subject area, may be accessed at: <http://www.sec.gov/divisions/investment/securities-lending-open-closed-end-investment-companies.htm>.

### Financial Stability Oversight Council Proposes Money Market Fund Reform Options for Public Comment

On November 13, 2012, the Financial Stability Oversight Council (“FSOC”) offered three (3) recommendations for structural reform to money market mutual funds (“MMFs”) pursuant to Section 120 of the Dodd Frank Wall Street Reform and Consumer Protection Act. While U.S. Securities and Exchange Commission (the “SEC”) Chairman Mary Schapiro announced on August 22, 2012 that the SEC would not seek public comment on the staff proposal for MMF structural reform, the FSOC has incorporated some of the suggestions in the three (3) recommendations:

1. **Floating Net Asset Value (“NAV”):** The FSOC proposes requiring MMFs to use a floating net asset value (“NAV”) per share, as opposed to the current fixed NAV of \$1.00. Under this proposal the NAV would reflect the actual market value of the portfolio holdings.
2. **Stable NAV with NAV Buffer and “Minimum Balance at Risk”:** The FSOC proposes requiring MMFs to have a NAV buffer of 1% of total assets to absorb day-to-day value fluctuations and maintain a stable NAV. A specific minimum balance at risk (“MBR”) requirement would require 3% of a shareholder’s highest account values in excess of \$100,000 over the previous the last 30 days be made available for redemption on a delayed basis. Under this proposal, any loss incurred by the MMF that exceeded the NAV buffer would first be borne by the MBRs of the shareholders who most recently redeemed.
3. **Stable NAV with NAV Buffer and Other Measures:** The FSOC proposes requiring MMFs implement a NAV buffer of 3% to absorb losses, coupled with potential diversification requirements, increased minimum liquidity levels, and increased disclosure reporting. The FSOC is open to discussion on the size of the NAV buffer in regards to the increased security these other measures would have on the MMF.

The FSOC public comment period ends on January 18, 2013. The complete FSOC proposed recommendations may be accessed at the U.S. Department of the Treasury website at:

<http://www.treasury.gov/initiatives/fsoc/Documents/Proposed%20Recommendations%20Regarding%20Money%20Market%20Mutual%20Fund%20Reform%20-%20November%2013,%202012.pdf>.

### HIGHLIGHTS

Securities lending guidance compiled by the SEC

FSOC proposes three alternatives to MMF reforms

SEC issues staff summary report on nationally recognized statistical rating organizations examination

ICI Securities Law Developments Conference scheduled for December 12

## SEC Issues Report on Nationally Recognized Statistical Rating Organizations

On November 15, 2012, the U.S. Securities and Exchange Commission ("SEC") issued its second annual staff report under Section 15E(p)(3) of the Securities and Exchange Act of 1934, summarizing the essential findings of examinations conducted on credit rating agencies registered as Nationally Recognized Statistical Rating Organizations ("NSROs") with the SEC.

New reporting, disclosure, and examination requirements provisioned under the Dodd-Frank Wall Street Reform and Consumer Protection Act requires SEC staff to examine each NSRO at least annually and issue a report on their findings. The report issued by the SEC's Office of Credit Ratings made recommendations in several areas including:

- Adherence to business methodologies, policies, and procedures in determining credit ratings;
- Establishment, maintenance, and enforcement of written policies and procedures reasonably designed to address and manage conflicts of interest;
- Adequate transparency and disclosure of ratings methodology and/or subsequent changes to such methodology;
- The oversight function performed by the NSROs' boards and governing committees and the appointment of a designated compliance officer and annual DCO certification;
- Controls to safeguard material nonpublic information regarding credit ratings;
- Avoidance of unfair, coercive, or abusive practices around credit ratings;
- Policies and procedures for the receipt, retention, and treatment of complaints regarding credit ratings, models, methodologies; and
- Overall effectiveness of internal control structure.

In an effort to highlight credit rating agency compliance issues between examinations, the SEC will send "Dear DCO" letters to Designated Compliance Officers at all of rating firms to promote compliance with SEC requirements and statutory requirements, as well as increase the public's understanding of NRSOs.

2012 SEC Summary Report:

<http://www.sec.gov/news/studies/2012/nrsro-summary-report-2012.pdf>

"Dear DCO" Letter:

<http://www.sec.gov/about/offices/ocr/dear-dco-letter-17g4-111512.pdf>

## Investment Company Institute 2012 Securities Law Developments Conference in DC

On December 12, 2012, the Investment Company Institute (the "ICI") will hold its annual Securities Law Developments Conference in Washington, D.C. The one-day conference will address various regulatory reforms and initiatives by the U.S. Securities and Exchange Commission and the U.S. Commodity Futures Trading Commission. To learn more about the program, or to register to attend, please visit the ICI website at: <http://www.ici.org/events/upcoming/conf 12 seclaw>.

For more information, please speak to your relationship manager or visit [jpmorgan.com/wss](http://jpmorgan.com/wss).

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