



**DEPARTMENT OF THE TREASURY**

**Office of the Comptroller of the Currency**

**12 CFR Part 9**

**Docket No. OCC-2011-0023**

**RIN: 1557-AD37**

**Short-term Investment Funds**

**AGENCY:** Office of the Comptroller of the Currency, Treasury (OCC).

**ACTION:** Notice of proposed rulemaking.

**SUMMARY:** The OCC is requesting comment on a proposal that would revise the requirements imposed on banks pursuant to 12 CFR 9.18(b)(4)(ii)(B), the short-term investment fund (STIF) rule (STIF Rule). The proposal would add safeguards designed to address the risk of loss to a STIF's principal, including measures governing the nature of a STIF's investments, ongoing monitoring of its mark-to-market value and forecasting of potential changes in its mark-to-market value under adverse market conditions, greater transparency and regulatory reporting about a STIF's holdings, and procedures to protect fiduciary accounts from undue dilution of their participating interests in the event that the STIF loses the ability to maintain a stable net asset value (NAV).

**DATES:** Comments should be received on or before [SIXTY DAYS FROM THE DATE OF PUBLICATION].

**ADDRESSES:** Because paper mail in the Washington, DC area and at the OCC is subject to delay, commenters are encouraged to submit comments by the Federal eRulemaking Portal or e-mail, if possible. Please use the title "Short-term Investment Funds" to facilitate the organization and distribution of the comments. You may submit comments by any of the following methods:

- **Federal eRulemaking Portal—"regulations.gov"**: Go to <http://www.regulations.gov>. Click "Advanced Search". Select "Document Type" of "Proposed Rule", and in "By Keyword or ID" box, enter Docket ID "OCC-2011-0023", and click "Search". If proposed rules for more than one agency are listed, in the "Agency" column, locate the notice of proposed rulemaking for the OCC. Comments can be filtered by Agency using the filtering tools on the left side of the screen. In the "Actions" column, click on "Submit a Comment" or "Open Docket Folder" to submit or view public comments and to view supporting and related materials for this rulemaking action.
- Click on the "Help" tab on the Regulations.gov home page to get information on using Regulations.gov, including instructions for submitting or viewing public comments, viewing other supporting and related materials, and viewing the docket after the close of the comment period.
- **E-mail:** [regs.comments@occ.treas.gov](mailto:regs.comments@occ.treas.gov).
- **Mail:** Office of the Comptroller of the Currency, 250 E Street, SW., Mail Stop 2-3, Washington, DC 20219.
- **Fax:** (202) 874-5274.
- **Hand Delivery/Courier:** 250 E Street, SW., Mail Stop 2-3, Washington, DC 20219.

*Instructions:* You must include "OCC" as the agency name and "Docket ID OCC-2011-0023" in your comment. In general, OCC will enter all comments received into the docket and publish them on the Regulations.gov Web site without change, including any

business or personal information that you provide such as name and address information, e-mail addresses, or phone numbers. Comments received, including attachments and other supporting materials, are part of the public record and subject to public disclosure. Do not enclose any information in your comment or supporting materials that you consider confidential or inappropriate for public disclosure.

You may review comments and other related materials that pertain to this notice of proposed rulemaking by any of the following methods:

- **Viewing Comments Electronically:** Go to <http://www.regulations.gov>. Click “Advanced Search”. Select “Document Type” of "Public Submission", and in “By Keyword or ID” box enter Docket ID "OCC-2011-0023", and click "Search". If comments from more than one agency are listed, the “Agency” column will indicate which comments were received by the OCC. Comments can be filtered by Agency using the filtering tools on the left side of the screen.
- **Viewing Comments Personally:** You may personally inspect and photocopy comments at the OCC, 250 E Street, SW., Washington, DC. For security reasons, the OCC requires that visitors make an appointment to inspect comments. You may do so by calling (202) 874-4700. Upon arrival, visitors will be required to present valid government-issued photo identification and to submit to security screening in order to inspect and photocopy comments.
- **Docket:** You may also view or request available background documents and project summaries using the methods described above.

**FOR FURTHER INFORMATION CONTACT:**

OCC: Joel Miller, Group Leader, Asset Management (202) 874-4493, David Barfield, NBE, Market Risk (202) 874-1829, Patrick T. Tierney, Counsel, Legislative and Regulatory Activities Division (202) 874-5090, or Adam Trost, Senior Attorney, Securities and Corporate Practices Division (202) 874-5210, Office of the Comptroller of the Currency, 250 E Street SW., Washington, DC 20219.

**SUPPLEMENTARY INFORMATION:**

**I. Background.**

**A. Short-Term Investment Funds (STIFs)**

A Collective Investment Fund (CIF) is a bank-managed fund that holds pooled fiduciary assets that meet specific criteria established by the OCC fiduciary activities regulation at 12 CFR 9.18. Each CIF is established under a “Plan” that details the terms under which the bank manages and administers the fund’s assets. The bank acts as a fiduciary for the CIF and holds legal title to the fund’s assets. Participants in a CIF are the beneficial owners of the fund’s assets. Each participant owns an undivided interest in the aggregate assets of a CIF; a participant does not directly own any specific asset held by a CIF.<sup>1</sup>

CIFs are designed to enhance investment management capabilities by combining assets from different accounts into a single fund with a specific investment strategy. By pooling fiduciary assets, a bank may lower the operational and administrative expenses associated with investing fiduciary assets and enhance risk management and investment performance for the participating accounts.

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<sup>1</sup> 12 CFR 9.18.

A fiduciary account's investment in a CIF is called a "participating interest." Participating interests in a CIF are not FDIC-insured and are not subject to potential claims by a bank's creditors. In addition, a participating interest in a CIF cannot be pledged or otherwise encumbered in favor of a third party.

The general rule for valuation of a CIF's assets specifies that a CIF admitting a fiduciary account (that is, allowing the fiduciary account, in effect, to purchase its proportionate interest in the assets of the CIF) or withdrawing the fiduciary account (that is, allowing the fiduciary account, in effect, to redeem the value of its proportionate interest in the CIF) may only do so on the basis of a valuation of the CIF's assets, as of the admission or withdrawal date, based on the mark-to-market value of the CIF's assets.<sup>2</sup> This general valuation rule is designed to protect all fiduciary accounts participating in the CIF from the risk that other accounts will be admitted or withdrawn at valuations that dilute the value of existing participating interests in the CIF.

A STIF is a type of CIF that permits a bank to value the STIF's assets on an amortized cost basis, rather than at mark-to-market value, for purposes of admissions and withdrawals. This is an exception to the general rule of market valuation. In order to qualify for this exception, a STIF's Plan must require the bank to: (1) maintain a dollar-weighted average portfolio maturity of 90 days or less; (2) accrue on a straight-line or amortized basis the difference between the cost and anticipated principal receipt on maturity; and (3) hold the fund's assets until maturity under usual circumstances.<sup>3</sup> These conditions are designed to protect fiduciary accounts from the risk of dilution of the value

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<sup>2</sup> 12 CFR 9.18(b)(5)(i). If the bank cannot readily ascertain market value as of the valuation date, the bank generally must use a fair value for the asset, determined in good faith. 12 CFR 9.18(b)(4)(ii)(A).

<sup>3</sup> 12 CFR 9.18(b)(4)(ii)(B).

of their participating interests. In particular, by limiting the STIF's investments to shorter-term assets and generally requiring those assets to be held to maturity, realized differences between the amortized cost and mark-to-market value of the assets will be rare, absent atypical market conditions or an impaired asset. As further discussed in this **Supplementary Information** section, the amortized cost approach is beneficial for many fiduciary accounts, because some participants require that a certain percentage of the assets held in these accounts be in a liquid, low risk investment.

The OCC's STIF Rule governs STIFs managed by national banks. In addition, regulations adopted by the Office of Thrift Supervision, now recodified as OCC rules pursuant to Title III of the Dodd-Frank Wall Street Reform and Consumer Protection Act,<sup>4</sup> have long required federal savings associations (FSAs) to comply with the requirements of the OCC's STIF Rule.<sup>5</sup> Thus, the proposed revisions to the national bank STIFs Rule would apply to a federal savings association that establishes and administers a STIF fund. As of December 31, 2011, there was approximately \$112 billion invested in STIFs administered by national banks and there were no STIFs administered by FSAs reported.<sup>6</sup>

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<sup>4</sup> 76 FR 48950 (2011).

<sup>5</sup> 12 CFR 150.260.

<sup>6</sup> Fifteen national banks collectively reported STIF investments that they administer. Based on thrift financial report data, federal savings associations administered no STIFs as of December 31, 2011. Other types of institutions managing certain types of CIFs may also observe the requirements of the OCC's STIF Rule. For example, New York state law provides that all investments in short-term investment common trust funds may be valued at cost, if the plan of operation requires that: (i) the type or category of investments of the fund shall comply with the rules and regulations of the Comptroller of the Currency pertaining to short-term investment funds and (ii) in computing income, the difference between cost of investment and anticipated receipt on maturity of investment shall be accrued on a straight-line basis. See N.Y. Comp. Codes R. & Regs. Tit. 3, § 22.23 (2010). Additionally, in order to retain their tax-exempt status, common trust funds must operate in compliance with § 9.18 as well as the federal tax laws. See 26 U.S.C. 584. The OCC does not have access to comprehensive data quantifying investments held by STIF funds administered by other types of institutions pursuant to legal requirements incorporating the OCC's

The OCC is proposing to revise the requirements of the STIF Rule. While fiduciary accounts participating in a STIF have an interest in the fund maintaining a stable net asset value (NAV), ultimately the participating interests remain subject to the risk of loss to a STIF's principal. The OCC is proposing additional safeguards designed to address this risk in several ways. These include measures governing the nature of a STIF's investments, ongoing monitoring of the STIF's mark-to-market value and assessment of potential changes in its mark-to-market value under adverse market conditions, greater transparency and regulatory reporting about the STIF's holdings, and procedures to protect fiduciary accounts from undue dilution of their participating interests in the event that the STIF loses the ability to maintain a stable NAV.

B. Comparison to Other Products that Seek to Maintain a Stable NAV

There are other types of funds that seek to maintain a stable NAV. By far, the most significant of these from a financial market presence standpoint are "money market mutual funds" (MMMFs). These funds are organized as open-ended management investment companies and are regulated by the U.S. Securities and Exchange Commission ("SEC") pursuant to the Investment Company Act of 1940, particularly pursuant to the provisions of SEC Rule 2a-7 thereunder ("Rule 2a-7").<sup>7</sup> MMMFs seek to

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STIF Rule. Although the direct scope of the STIF Rule provisions in section 9.18 of the OCC's regulations is national banks and Federal branches and agencies of foreign banks acting in a fiduciary capacity (12 CFR 9.1(c)), the nomenclature of the STIF Rule refers simply to "banks." For the sake of convenience, the OCC proposes to continue this approach and also applies the same convention to the discussion of the STIF Rule in this Notice of Proposed Rulemaking.

<sup>7</sup> 15 U.S.C. 80a; 17 CFR 270.2a-7. Because STIFs are a form of collective investment fund, they are generally exempt from the SEC's rules under the Investment Company Act. STIFs used exclusively for (1) the collective investment of money by a bank in its fiduciary capacity as trustee, executor, administrator, or guardian and (2) the collective investment of assets of certain employee benefit plans are exempt from the Investment Company Act under 15 U.S.C. 80a-3(c)(3) and (c)(11), respectively. MMMFs are not subject to comparable restrictions as to the type of participant who may invest in the fund or the purpose of such investment.

maintain a stable share price, typically \$1.00 a share. In this regard, they are similar to STIFs.

However, there are a number of important differences between MMMFs and STIFs; most significantly, MMMFs are open to retail investors, whereas, STIFs only are available to authorized fiduciary accounts. MMMFs may be offered to the investing public and have become a popular product with retail investors, corporate money managers, and institutional investors seeking returns equivalent to current short-term interest rates in exchange for high liquidity and the prospect of protection against the loss of principal. In contrast to the approximately \$112 billion currently held in STIFs administered by national banks, MMMFs, as of December 2011, held approximately \$2.7 trillion dollars of investor assets.<sup>8</sup>

During the recent period of financial market stress, beginning in 2007 and stretching into 2009, certain types of short-term debt securities frequently held by MMMFs experienced unusually high volatility. Concerns by investors that their MMMFs could not maintain a stable NAV eventually led to investor redemptions out of those funds, and some funds needed to liquidate sizeable portions of their securities to meet investor redemption requests. This flood of redemption requests depressed market prices for short-term debt instruments, exacerbating the problem for all types of stable NAV funds.

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<sup>8</sup> See [http://www.ici.org/info/mm\\_data\\_2011.xls](http://www.ici.org/info/mm_data_2011.xls).

The President’s Working Group on Financial Markets (“PWG”),<sup>9</sup> after reviewing the market turmoil during the period 2007 through 2009, recommended that the SEC strengthen the regulation and monitoring of MMMFs and also recommended that bank regulators consider strengthening the regulation and monitoring of other types of products that seek to maintain a stable NAV. The October 2010 report from the PWG states: “[b]anking and state insurance regulators might consider additional restrictions to mitigate systemic risk for bank common and collective funds and other investment pools that seek a stable NAV but that are exempt from registration under sections 3(c)(3) and 3(c)(11) of the ICA.”<sup>10</sup>

Based on the market turmoil from 2007 through 2009 and the work done by the PWG, among others, the SEC adopted amendments to Rule 2a-7 to strengthen the resilience of MMMFs.<sup>11</sup> The OCC’s proposed changes to the STIF Rule are informed by the SEC’s revisions to Rule 2a-7, but differ in certain respects in light of the differences between the money market mutual fund as an investment product and the STIF, e.g., a bank’s fiduciary responsibility to a STIF and requirements limiting STIF participation to eligible accounts under the OCC’s fiduciary account regulation at 12 CFR Part 9.

## **II. Description of Proposed Changes to the STIF Rule.**

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<sup>9</sup> The PWG is comprised of the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Securities and Exchange Commission, and the Chairman of the Commodity Futures Trading Commission.

<sup>10</sup> Report of the President’s Working Group on Financial Markets, Money Market Fund Reform Options, p. 35 (Oct. 2010), see <http://www.treasury.gov/press-center/press-releases/Documents/10.21%20PWG%20Report%20Final.pdf>. See also Financial Stability Oversight Council 2011 Annual Report, p. 13 (July 2011) available at <http://www.treasury.gov/initiatives/fsoc/Documents/FSOCAR2011.pdf>.

<sup>11</sup> See Money Market Fund Reform, 75 FR 10060 (Mar. 4, 2010).

The proposed changes to the STIF Rule would enhance protections provided to STIF participants and reduce risks to banks that administer STIFs. The proposed changes add new requirements or amend existing requirements that a CIF must meet to be considered a STIF and value assets on an amortized cost basis. The OCC believes many banks that offer STIFs are already engaged in the risk mitigation efforts set forth in this proposed rule.

The proposed changes do not affect the obligation that STIFs meet the CIF requirements described in 12 CFR Part 9, which allows national banks to maintain and invest fiduciary assets, consistent with applicable law. Applicable law is defined as the law of a state or other jurisdiction governing a national bank's fiduciary relationships, any applicable Federal law governing those relationships (e.g., ERISA, federal tax, and securities laws), the terms of the instrument governing a fiduciary relationship, or any court order pertaining to the relationship.<sup>12</sup> Also, national banks managing CIFs are required to adopt and follow written policies and procedures that are adequate to maintain their fiduciary activities in compliance with applicable law.<sup>13</sup> Additionally, the STIF Rule requires a STIF's bank manager, at least once during each calendar year, to conduct a review of all assets of each fiduciary account for which the bank has investment discretion to evaluate whether they are appropriate, individually and collectively, for the account.<sup>14</sup> These examples of CIF requirements applicable to STIFs are not exclusive.

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<sup>12</sup> 12 CFR 9.2(b).

<sup>13</sup> 12 CFR 9.5.

<sup>14</sup> 12 CFR 9.6(c).

Other requirements apply, and a bank must comply with all applicable requirements of 12 CFR Part 9 when acting as a fiduciary for a CIF.

Banks administering a STIF would need to revise the written plan required by 12 CFR 9.18(b)(1) if this proposal is adopted as a final rule.

A. Section 9.18(b)(4)(iii)(A)

STIFs typically maintain stable NAVs in order to meet the expectations of the fund's bank managers and participating fiduciary accounts.<sup>15</sup> To the extent a bank fiduciary offers a STIF with a fund objective of maintaining a stable NAV, participating accounts and the OCC expect those STIFs to maintain a stable NAV using amortized cost. The proposal would require a Plan to have as a primary objective that the STIF operate with a stable NAV of \$1.00 per participating interest.<sup>16</sup>

B. Section 9.18(b)(4)(iii)(B)

The current STIF Rule requires the bank managing the STIF<sup>17</sup> to maintain a dollar-weighted average portfolio maturity of 90 days or less. The current STIF Rule restricts the weighted average maturity of the STIF's portfolio in order to limit the exposure of participating fiduciary accounts to certain risks, including interest rate risk. The proposed rule would change the maturity limits to further reduce such risks. First, the proposal would reduce the maximum weighted average portfolio maturity permitted

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<sup>15</sup> For example, many STIF plan participants (e.g., pensions) have policies, procedures, and operational systems that presume a stable NAV.

<sup>16</sup> The OCC would expect banks to normalize and treat stable NAVs operating at a multiple of a \$1.00 (e.g., \$10 NAV) or fraction of \$1.00 (e.g., \$0.5) as operating with a NAV of \$1.00 per participating interest.

<sup>17</sup> The current STIF Rule incorporates this and other measures through requirements that the Plan include provisions requiring the bank administering the STIF to effectuate the measures with respect to the STIF. The revisions proposed herein incorporate additional measures through requirements that the Plan include provisions requiring the STIF to observe certain restrictions and adopt certain procedures. In either case, it is effectively the bank administering the STIF that generally performs these measures, and for convenience purposes, the Supplementary Information section herein will describe it that way.

by the rule from 90 days or less to 60 days or less. Second, it would establish a new maturity test that would limit the portion of a STIF's portfolio that could be held in longer term variable- or floating-rate securities.

1. Dollar-weighted Average Portfolio Maturity

The proposal would amend the "dollar-weighted average portfolio maturity"<sup>18</sup> requirement of the STIF Rule to 60 days or less. Currently, banks managing STIFs must maintain a dollar-weighted average portfolio maturity of 90 days or less.<sup>19</sup> Securities that have shorter periods remaining until maturity generally exhibit a lower level of price volatility in response to interest rate and credit spread fluctuations and, thus, provide a greater assurance that the STIF will continue to maintain a stable value.

Having a portfolio weighted towards securities with longer maturities poses greater risks to participating accounts in a STIF. For example, a longer dollar-weighted average maturity period increases a STIF's exposure to interest rate risk. Additionally, longer maturity periods amplify the effect of widening credit spreads on a STIF. Finally, a STIF holding securities with longer maturity periods generally is exposed to greater liquidity risk because: (1) fewer securities mature and return principal on a daily or weekly basis to be available for possible fiduciary account withdrawals, and (2) the fund may experience greater difficulty in liquidating these securities in a short period of time at a reasonable price.

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<sup>18</sup> Generally, "dollar-weighted average portfolio maturity" means the average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio. Dollar-weighted average portfolio maturity measures the price sensitivity of fixed-income portfolios to interest rate changes.

<sup>19</sup> 12 CFR 9.18(b)(4)(ii)(B)(1).

STIFs with a shorter portfolio maturity period would be better able to withstand increases in interest rates and credit spreads without material deviation from amortized cost. Furthermore, in the event distress in the short-term instrument market triggers increasing rates of withdrawals from STIFs, the STIFs would be better positioned to withstand such withdrawals as a greater portion of their portfolios mature and return principal on a daily or weekly basis and would have greater ability to liquidate a portion of their portfolio at a reasonable price.

Question 1: What are the estimates of the effects, if any, on STIF portfolios and participating accounts from reducing the maximum dollar-weighted average portfolio maturity permitted by the rule from 90 to 60 days? The OCC seeks commenters' specific information about the risk sensitivities associated with current STIF portfolios, including the current and month-end dollar-weighted average maturity of these funds since 2008.

2. Weighted Average Portfolio Life Maturity

The proposal would add a new maturity requirement for STIFs, which would limit the dollar-weighted average portfolio life maturity to 120 days or less. The dollar-weighted average portfolio life maturity would be measured without regard to a security's interest rate reset dates and, thus, would limit the extent to which a STIF could invest in longer term securities that may expose it to increased liquidity and credit risk.

To determine compliance with the dollar-weighted average portfolio maturity requirement of the current STIF Rule, banks generally treat the maturity of a portfolio security as the period remaining until the date on which the principal must unconditionally be repaid according to its terms (its final "legal" maturity) or, in the case of a security called for redemption, the date on which the redemption payment must

be made. However, banks treat certain types of securities, such as certain floating or adjustable-rate securities, as having shorter maturities equal to the time remaining to the next interest rate reset date.<sup>20</sup> As a result, STIFs may treat longer term adjustable-rate securities as short-term securities. While adjustable-rate securities held in these funds do tend to protect a STIF against changes in interest rates, they do not fully protect against credit and liquidity risk to the portfolio.

The traditional dollar-weighted average portfolio maturity measurement in the current STIF Rule does not require a STIF to limit these risks. For this reason, the proposal would impose a new dollar-weighted average portfolio life maturity limitation on the structure of a STIF to capture credit and liquidity risk not encompassed by the dollar-weighted average portfolio maturity restriction. The proposal would require that STIFs maintain a dollar-weighted average portfolio life maturity of 120 days or less, which would provide a reasonable balance between strengthening the resilience of STIFs to credit and liquidity risk while not unduly restricting the bank's ability to invest the STIF's fiduciary assets in a diversified portfolio of short-term, high quality debt securities.

The impact of a limit on the dollar-weighted average life of a portfolio would be on those STIFs that hold certain longer term floating-rate securities. For example, under the current STIF Rule, a STIF with a portfolio comprising 50 percent of overnight repurchase agreements and 50 percent of two-year government agency floating-rate obligations that reset daily based on the federal funds rate would have a dollar-weighted average portfolio maturity of one day. In contrast, by applying a measurement that does

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<sup>20</sup> See *infra* note 22 and accompanying text.

not recognize resets, the portfolio would have a dollar-weighted average portfolio life maturity of 365.5 days (i.e., half of the portfolio has a one day maturity and half has a two-year maturity), which would be considerably longer than the 120-day limit of the proposal. Thus, the dollar-weighted average portfolio life maturity limitation would provide an extra layer of protection for qualified account participants against credit and liquidity risk, particularly in volatile markets.

Question 2: What are the effects, if any, on STIF portfolios and participating accounts of limiting the portion of a fund's portfolio that may be held in longer term variable- or floating-rate securities? The OCC seeks commenters' specific information about the risk sensitivities associated with the current dollar-weighted average life maturity of these funds.

### 3. Determination of Maturity Limits

In determining the dollar-weighted average portfolio maturity of STIFs under the current rule, national banks generally apply the same methodology as required by the SEC for MMMFs pursuant to Rule 2a-7. Dollar-weighted average maturity under Rule 2a-7 is calculated, as a general rule, by treating each security's maturity as the period remaining until the date on which, in accordance with the terms of the security, the principal amount must be unconditionally paid or, in the case of a security called for redemption, the date on which the redemption payment must be made. Rule 2a-7 also provides eight exceptions to this general rule. For example, for certain types of variable-rate securities, the date of maturity may be the earlier of the date of the next interest rate reset or the period remaining until the principal can be recovered through demand. For repurchase agreements, the maturity is the date on which the repurchase is scheduled to

occur, unless the repo is subject to demand for repurchase, in which case the maturity is the notice period applicable to demand.<sup>21</sup> The proposal would include this approach in the rule text for dollar-weighted average portfolio maturity and dollar-weighted average portfolio life maturity<sup>22</sup> for ease of administration and implementation of the proposed rule's requirements.

Question 3: Is this approach for the determination of maturity limits appropriate, and if not, what alternative approach should be used?

C. Section 9.18(b)(4)(iii)(E)

To ensure that banks managing STIFs include practices designed to limit the amount of credit and liquidity risk to which participating accounts in STIFs are exposed, the proposal would require adoption of portfolio and issuer qualitative standards and concentration restrictions. The OCC would expect bank fiduciaries to identify, monitor, and manage issuer and lower quality investment concentrations and implement procedures to perform appropriate due diligence on all concentration exposures as part of the bank's risk management policies and procedures for each STIF. In addition to standards imposed by applicable law, the portfolio and issuer qualitative standards and concentration restrictions should take into consideration market events and deterioration in an issuer's financial condition.

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<sup>21</sup> See 17 CFR 270.2a-7 (d)(1) - (8).

<sup>22</sup> The SEC's Rule 2a-7 adopting release describes the new weighted average life maturity calculation as being based on the same methodology as the weighted average maturity determination, but made without reference to the set of maturity exceptions the rule permits for certain interest rate readjustments for specified types of assets under the rule. 17 CFR 270.2a-7(c)(2)(iii). The OCC is proposing the same maturity calculation, referring to it as the dollar-weighted average portfolio life maturity. The calculation bases a security's maturity on its stated final maturity date or, when relevant, the date of the next demand feature when the fund may receive payment of principal and interest (such as a put feature). See 75 FR 10072 (Mar. 4, 2010) at footnote 154 and accompanying text.

Question 4: Are defined portfolio concentration limits necessary in order for STIF managers and STIF participants to ensure that a fund has reduced its credit exposure to a specific issuer? Commenters who assert that portfolio concentration limits are necessary should provide details regarding the percent limits for specific issuers or classes of issuers.

D. Section 9.18(b)(4)(iii)(F)

Many banks process STIF withdrawal requests within a short time frame, often on the same day that the withdrawal request is received, which necessitates sufficient liquidity to meet such requests. By holding illiquid securities, a STIF exposes itself to the risk that it will be unable to satisfy withdrawal requests promptly without selling illiquid securities at a loss that, in turn, could impair its ability to maintain a stable NAV. Moreover, illiquid securities are generally subject to greater price volatility, exposing the STIF to greater risk that its mark-to-market value will deviate from its amortized cost value. To address this concern, the proposal would require adoption of standards that include provisions to address contingency funding needs.

E. Section 9.18(b)(4)(iii)(G)

The proposal would require a bank managing a STIF to adopt shadow pricing procedures.<sup>23</sup> These procedures require the bank to calculate the extent of the difference, if any, between the mark-to-market NAV per participating interest using available market quotations (or an appropriate substitute that reflects current market conditions) from the STIF's amortized cost value per participating interest. In the event the difference exceeds

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<sup>23</sup> Shadow pricing is the process of maintaining two sets of valuation records—one that reflects the value of a fund's assets at amortized cost and the other that reflects the market value of the fund's assets.

\$0.005 per participating interest,<sup>24</sup> the bank must take action to reduce dilution of participating interests or other unfair results to participating accounts in the STIF, such as ceasing fiduciary account withdrawals. The shadow pricing procedures must occur at least on a calendar week basis and more frequently as determined by the bank when market conditions warrant.

Question 5: Does the proposal differ from banks' current pricing practices? If so, how? Question 6: Is the proposed weekly shadow pricing frequency appropriate? Question 7: Would another reporting frequency be more appropriate and, if so, what frequency and why?

F. Section 9.18(b)(4)(iii)(H)

The proposal would require a bank managing a STIF to adopt procedures for stress testing the fund's ability to maintain a stable NAV for participating interests. The proposal would require the stress tests be conducted at such intervals as an independent risk manager or a committee responsible for the STIF's oversight determines to be appropriate and reasonable in light of current market conditions, but in no case shall the interval be longer than a calendar month-end basis. The independent risk manager or committee members must be independent from the STIF's investment management. The stress testing would be based upon hypothetical events (specified by the bank) that include, but are not limited to, a change in short-term interest rates; an increase in participating account withdrawals; a downgrade of or default on portfolio securities; and the widening or narrowing of spreads between yields on an appropriate benchmark the

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<sup>24</sup> The proposal contemplates a stable NAV of \$1.00. If a STIF has a stable NAV that is different than \$1.00 it must adjust the reference value accordingly.

fund has selected for overnight interest rates and commercial paper and other types of securities held by the fund.

The proposal provides a bank with flexibility to specify the scenarios or assumptions on which the stress tests are based, as appropriate to the risk exposures of each STIF. Banks managing STIFs should, for example, consider procedures that require the fund to test for the concurrence of multiple hypothetical events, e.g., where there is a simultaneous increase in interest rates and substantial withdrawals.<sup>25</sup>

The proposal also would require a stress test report be provided to the independent risk manager or the committee responsible for the STIF's oversight. The report would include: (1) the date(s) on which the testing was performed; (2) the magnitude of each hypothetical event that would cause the difference between the STIF's mark-to-market NAV calculated using available market quotations (or appropriate substitutes which reflect current market conditions) and its NAV per participating interest calculated using amortized cost to exceed \$0.005; and (3) an assessment by the bank of the STIF's ability to withstand the events (and concurrent occurrences of those events) that are reasonably likely to occur within the following year.

In addition, the proposal would require that adverse stress testing results are reported to the bank's senior risk management that is independent from the STIF's investment management.

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<sup>25</sup> Where stress testing models are relied upon, a bank should validate the models consistent with the Supervisory Guidance on Model Risk Management issued by the OCC and the Board of Governors of the Federal Reserve System. See OCC Bulletin 2011-12 (Apr. 4, 2011).

The proposed stress testing procedures would provide banks with a better understanding of the risks to which STIFs are exposed and would give banks additional information that can be used for managing those risks.

Question 8: Is the proposed requirement that a STIF adopt procedures for stress testing the fund's ability to maintain a stable NAV for participating interests appropriate?

Why so or why not? Question 9: In particular, is the proposed monthly stress testing frequency appropriate? Commenters who assert that another frequency would be more appropriate should identify the alternative and provide a supporting rationale.

G. Section 9.18(b)(4)(iii)(I)

The proposal would require banks managing STIFs to disclose information about fund level portfolio holdings to STIF participants and to the OCC within five business days after each calendar month-end. Specifically, the bank would be required to disclose the STIF's total assets under management (securities and other assets including cash, minus liabilities); the fund's mark-to-market and amortized cost NAVs, both with and without capital support agreements; the dollar-weighted average portfolio maturity; and dollar-weighted average portfolio life maturity as of the last business day of the prior calendar month. The current STIF Rule does not contain a similar disclosure requirement.

Also, for each security held by the STIF, as of the last business day of the prior calendar month, the bank would be required to disclose to STIF participants and to the OCC within five business days after each calendar month-end at a security level: (1) the name of the issuer; (2) the category of investment; (3) the Committee on Uniform Securities Identification Procedures (CUSIP) number or other standard identifier; (4) the

principal amount; (5) the maturity date for purposes of calculating dollar-weighted average portfolio maturity; (6) the final legal maturity date (taking into account any maturity date extensions that may be effected at the option of the issuer) if different from the maturity date for purposes of calculating dollar-weighted average portfolio maturity; (7) the coupon or yield; and (8) the amortized cost value.

Question 10: What is the estimate of the burden, if any, associated with the proposed security level disclosures to STIF participants, specifically, whether details about every security in the fund should be disclosed? Question 11: What disclosure formats could accomplish the disclosure objective efficiently? Question 12: What would be the impacts on tax-qualified STIF participants of monthly, detailed security-level disclosures from the STIF, including how STIF participants might use the disclosed information?

H. Section 9.18(b)(4)(iii)(J)

The proposal would require a bank that manages a STIF to notify the OCC prior to or within one business day after certain events. Those events are: (1) any difference exceeding \$0.0025 between the NAV and the mark-to-market value of a STIF participating interest based on current market factors; (2) when a STIF has re-priced its NAV below \$0.995 per participating interest; (3) any withdrawal distribution-in-kind of the STIF's participating interests or segregation of portfolio participants; (4) any delays or suspensions in honoring STIF participating interest withdrawal requests; (5) any decision to formally approve the liquidation, segregation of assets or portfolios, or some other liquidation of the STIF; and (6) when a national bank, its affiliate, or any other entity provides a STIF financial support, including a cash infusion, a credit extension, a

purchase of a defaulted or illiquid asset, or any other form of financial support in order to maintain a stable NAV per participating interest.<sup>26</sup> This proposed requirement to notify the OCC prior to or within one business day after these limited specific events would permit the OCC to more effectively supervise STIFs that are experiencing liquidity or valuation stress.

To comply with this proposed requirement, a bank would have to calculate the mark-to-market value of a STIF participating interest on a daily basis.

Question 13: Is daily calculation of mark-to-market value of a STIF participating interest a feasible or appropriate frequency to permit effective monitoring and risk management by, and supervision of, STIFs experiencing liquidity or valuation stress?

I. Section 9.18(b)(4)(iii)(K)

The proposal would require banks managing a STIF to adopt procedures that in the event a STIF has re-priced its NAV below \$0.995 per participating interest, the bank managing the STIF shall calculate, redeem, and sell the STIF's participating interests at a price based on the mark-to-market NAV. Currently, the rule creates an incentive for withdrawal of participating interests if the mark-to-market NAV falls below the stable NAV because the earlier withdrawals are more likely to receive the full stable NAV payment. The proposal removes this incentive, as once the NAV is priced below \$0.995, all withdrawals of participating interests will receive the mark-to-market NAV instead of the stable NAV.

J. Section 9.18(b)(4)(iii)(L)

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<sup>26</sup> See Interagency Policy on Banks/Thriffs Providing Financial Support to Funds Advised by the Banking Organization or its Affiliates, OCC Bulletin 2004-2 Attachment (Jan. 5, 2004) (instructing banks that to avoid engaging in unsafe and unsound banking practices, banks should adopt appropriate policies and procedures governing routine or emergency transactions with bank advised investment funds).

The proposal would require a bank managing a STIF to adopt procedures for suspending redemptions and initiating liquidation of a STIF as a result of redemptions. The intent of the proposal is to reduce the vulnerability of participating accounts to the harmful effects of extraordinary levels of withdrawals, which can be accomplished to some degree by suspending withdrawals. These suspensions only would be permitted in limited circumstances when, as a result of redemption, the bank has: (1) determined that the extent of the difference between the STIF's amortized cost per participating interest and its current mark-to-market NAV per participating interest may result in material dilution of participating interests or other unfair results to participating accounts; (2) formally approved the liquidation of the STIF; and (3) facilitated the fair and orderly liquidation of the STIF to the benefit of all STIF participants.

The OCC understands that suspending withdrawals may impose hardships on fiduciary accounts for which the ability to redeem participations is an important consideration. Accordingly, the proposed requirement is limited to permitting suspension in extraordinary circumstances when there is significant risk of extraordinary withdrawal activity to the detriment of other participating accounts.

### **III. General Request for Comments.**

In addition to the specific requests for comment outlined in this Supplementary Information section, the OCC is interested in receiving comments on all aspects of this proposed rule.

### **IV. Community Bank Comment Request.**

The OCC also invites comments on the impact of this proposal on community banks. The OCC recognizes that community banks operate with more limited resources

than larger institutions and may present a different risk profile. Question 14: How would the proposal impact community banks' current resources and available personnel with the requisite expertise? Question 15: How could the goals of the proposal be achieved for community banks through an alternative approach?

## **V. Solicitation of Comments on Use of Plain Language**

Section 722 of the Gramm-Leach-Bliley Act, Pub. L. 106-102, sec. 722, 113 Stat. 1338, 1471 (Nov. 12, 1999), requires the OCC to use plain language in all proposed and final rules published after January 1, 2000. The OCC invites your comments on how to make this proposal easier to understand. For example:

- Question 16: Have we organized the material to suit your needs? If not, how could this material be better organized?
- Question 17: Are the requirements in the proposed regulation clearly stated? If not, how could the regulation be more clearly stated?
- Question 18: Does the proposed regulation contain language or jargon that is not clear? If so, which language requires clarification?
- Question 19: Would a different format (grouping and order of sections, use of headings, paragraphing) make the regulation easier to understand? If so, what changes to the format would make the regulation easier to understand?
- Question 20: What else could we do to make the regulation easier to understand?

## **VI. Regulatory Analysis**

### **A. Paperwork Reduction Act Analysis**

## Request for Comment on Proposed Information Collection

In accordance with section 3512 of the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3521), the OCC may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The information collection requirements contained in this notice of proposed rulemaking have been submitted to OMB for review and approval under section 3506 of the PRA and § 1320.11 of OMB's implementing regulations (5 CFR Part 1320) as an amendment to the OCC's existing collection for Fiduciary Activities (OMB Control No. 1557-0140). The information collection requirements are found in §§ 9.18(b)(4)(iii)(E)-(L).

### Comments are invited on:

(a) Whether the collection of information is necessary for the proper performance of the OCC's functions, including whether the information has practical utility;

(b) The accuracy of the estimate of the burden of the information collection, including the validity of the methodology and assumptions used;

(c) Ways to enhance the quality, utility, and clarity of the information to be collected;

(d) Ways to minimize the burden of information collection on respondents, including through the use of automated collection techniques or other forms of information technology; and

(e) Estimates of capital or startup costs and costs of operation, maintenance, and purchase of services to provide information.

All comments will become a matter of public record. Comments should be addressed to: Communications Division, Office of the Comptroller of the Currency, Public Information Room, Mailstop 2-3, Attention: 1557-0140, 250 E Street, SW., Washington, DC 20219. In addition, comments may be sent by fax to 202-874-5274, or by electronic mail to [regs.comments@occ.treas.gov](mailto:regs.comments@occ.treas.gov). You may personally inspect and photocopy comments at the OCC, 250 E Street, SW., Washington, DC 20219. For security reasons, the OCC requires that visitors make an appointment to inspect comments. You may do so by calling 202-874-4700. Upon arrival, visitors will be required to present valid government-issued photo identification and submit to security screening in order to inspect and photocopy comments.

Additionally, please send a copy of your comments by mail to: OCC Desk Officer, 1557-140, U.S. Office of Management and Budget, 725 17th Street, NW., #10235, Washington, DC 20503, or by fax to (202) 395-6974.

Proposed Information Collection

Title of Information Collection: Fiduciary Activities.

Frequency of Response: On occasion.

Affected Public: Businesses or other for-profit.

Respondents: National banks and Federal branches and agencies of foreign banks.

OMB Control No.: 1557-0140.

Abstract: The rule would allow an institution to value a STIF's assets on a cost basis, rather than mark-to-market value for admissions and withdrawals if the written plan requires the STIF to adopt certain procedures and standards. These procedures and standards include: portfolio and issuer qualitative standards and restrictions; liquidity

standards; shadow pricing procedures; procedures for stress testing the ability to maintain a stable NAV and the testing itself; procedures to make certain disclosures for each security held and issuance of the disclosures; procedures to require notification to OCC regarding certain events; procedures regarding re-pricing events; and procedures for suspending redemptions and initiating liquidation of a STIF.

Estimated Burden for the Amendment to the Collection:

Estimated Number of Respondents: 15 respondents administering 34 funds.

Estimated Burden per Fund: 846 hours.

Estimated Total Annual Burden: 28,764 hours.

B. Regulatory Flexibility Act Analysis

Pursuant to section 605(b) of the Regulatory Flexibility Act, 5 U.S.C. 605(b) (RFA), the regulatory flexibility analysis otherwise required under section 603 of the RFA is not required if the agency certifies that the proposed rule will not, if promulgated, have a significant economic impact on a substantial number of small entities (defined for purposes of the RFA to include banks and federal branches and agencies with assets less than or equal to \$175 million and trust companies with assets less than or equal to \$ 7 million) and publishes its certification and a short, explanatory statement in the Federal Register along with its proposed rule.

The Proposed Rule would have no impact on any small national banks or federal branches and agencies or trust companies, as defined by the RFA. No small national banks or federal branches and agencies report management of STIFs on their required regulatory reports as of December 31, 2011. Therefore, the OCC certifies that the

Proposed Rule would not, if promulgated, have a significant economic impact on a substantial number of small entities.

C. OCC Unfunded Mandates Reform Act of 1995 Determination

Section 202 of the Unfunded Mandates Reform Act of 1995 (2 U.S.C. 1532), requires the OCC to prepare a budgetary impact statement before promulgating a rule that includes a Federal mandate that may result in the expenditure by State, local, and tribal governments, in the aggregate, or by the private sector, of \$100 million or more in any one year (adjusted annually for inflation). The OCC has determined that this proposed rule will not result in expenditures by State, local, and tribal governments, or the private sector, of \$100 million or more in any one year. Accordingly, the OCC has not prepared a budgetary impact statement.

**List of Subjects in 12 CFR Part 9**

Estates, Investments, National banks, Reporting and recordkeeping requirements, Trusts and trustees.

For the reasons set forth in the preamble, chapter I of title 12 of the Code of Federal Regulations is proposed to be amended as follows:

**PART 9 – FIDUCIARY ACTIVITIES OF NATIONAL BANKS**

1. The authority citation for part 9 continues to read as follows:

**Authority:** 12 U.S.C. 24(Seventh), 92a, and 93a; 12 U.S.C. 78q, 78q-1, and 78w.

2. Section 9.18 is amended by revising paragraph (b)(4)(ii) and by adding paragraph (b)(4)(iii) to read as follows:

**§ 9.18 Collective investment funds.**

\* \* \* \* \*

(b) \* \* \*

(4) \* \* \*

(ii) General Method of Valuation. Except as provided in paragraph (b)(4)(iii) of this section, a bank shall value each fund asset at mark-to-market value as of the date set for valuation, unless the bank cannot readily ascertain mark-to-market value, in which case the bank shall use a fair value determined in good faith.

(iii) Short-term investment funds (STIFs) Method of Valuation. A bank may value a STIF's assets on a cost basis, rather than mark-to-market value as provided in paragraph (b)(4)(ii) of this section, for purposes of admissions and withdrawals, if the Plan includes appropriate provisions, consistent with this part, requiring the STIF to:

- (A) Operate with a stable net asset value of \$1.00 per participating interest as a primary fund objective;
- (B) Maintain a dollar-weighted average portfolio maturity of 60 days or less and a dollar-weighted average portfolio life maturity of 120 days or less as determined in the same manner as is required by the Securities and Exchange Commission pursuant to Rule 2a-7 for money market mutual funds (17 CFR 270.2a-7);
- (C) Accrue on a straight-line or amortized basis the difference between the cost and anticipated principal receipt on maturity;
- (D) Hold the STIF's assets until maturity under usual circumstances;
- (E) Adopt portfolio and issuer qualitative standards and concentration restrictions;
- (F) Adopt liquidity standards that include provisions to address contingency funding needs;
- (G) Adopt shadow pricing procedures that:

(1) Require the bank to calculate the extent of difference, if any, of the mark-to-market net asset value per participating interest using available market quotations (or an appropriate substitute that reflects current market conditions) from the STIF's amortized cost price per participating interest, at least on a calendar week basis and more frequently as determined by the bank when market conditions warrant; and

(2) Require the bank, in the event the difference calculated pursuant to this subparagraph exceeds \$0.005 per participating interest, to take action to reduce dilution of participating interests or other unfair results to participating accounts in the STIF;

(H) Adopt procedures for stress testing the STIF's ability to maintain a stable net asset value per participating interest that shall provide for:

(1) The periodic stress testing, at least on a calendar month basis and at such intervals as an independent risk manager or a committee responsible for the STIF's oversight that consists of members independent from the STIF's investment management determines appropriate and reasonable in light of current market conditions;

(2) Stress testing based upon hypothetical events that include, but are not limited to, a change in short-term interest rates, an increase in participant account withdrawals, a downgrade of or default on portfolio securities, and the widening or narrowing of spreads between yields on an appropriate benchmark the STIF has selected for overnight interest rates and commercial paper and other types of securities held by the STIF;

(3) A stress testing report on the results of such testing to be provided to the independent risk manager or the committee responsible for the STIF's oversight that consists of members independent from the STIF's investment management that shall include: the date(s) on which the testing was performed; the magnitude of each hypothetical event

that would cause the difference between the STIF's mark-to-market net asset value calculated using available market quotations (or appropriate substitutes which reflect current market conditions) and its net asset value per participating interest calculated using amortized cost to exceed \$0.005; and an assessment by the bank of the STIF's ability to withstand the events (and concurrent occurrences of those events) that are reasonably likely to occur within the following year; and

(4) Reporting adverse stress testing results to the bank's senior risk management that is independent from the STIF's investment management.

(I) Adopt procedures that require a bank to disclose to STIF participants and to the OCC's Asset Management Group, Credit & Market Risk Division, Comptroller of the Currency, 250 E St., SW., Washington, DC 20219-0001, within five business days after each calendar month-end, the fund's total assets under management (securities and other assets including cash, minus liabilities); the fund's mark-to-market and amortized cost net asset values both with and without capital support agreements; the dollar-weighted average portfolio maturity; the dollar-weighted average portfolio life maturity of the STIF as of the last business day of the prior calendar month; and for each security held by the STIF as of the last business day of the prior calendar month:

(1) The name of the issuer;

(2) The category of investment;

(3) The Committee on Uniform Securities Identification Procedures (CUSIP) number or other standard identifier;

(4) The principal amount;

- (5) The maturity date for purposes of calculating dollar-weighted average portfolio maturity;
- (6) The final legal maturity date (taking into account any maturity date extensions that may be effected at the option of the issuer) if different from the maturity date for purposes of calculating dollar-weighted average portfolio maturity;
- (7) The coupon or yield; and
- (8) The amortized cost value;
- (J) Adopt procedures that require a bank that administers a STIF to notify the Asset Management Group, Credit & Market Risk Division, Comptroller of the Currency, 250 E St., SW., Washington, DC 20219-0001 prior to or within one business day thereafter of the following:
  - (1) Any difference exceeding \$0.0025 between the net asset value and the mark-to-market value of a STIF participating interest as calculated using the method set forth in paragraph (b)(4)(iii)(G)(1) of this section;
  - (2) When a STIF has re-priced its net asset value below \$0.995 per participating interest;
  - (3) Any withdrawal distribution-in-kind of the STIF's participating interests or segregation of portfolio participants;
  - (4) Any delays or suspensions in honoring STIF participating interest withdrawal requests;
  - (5) Any decision to formally approve the liquidation, segregation of assets or portfolios, or some other liquidation of the STIF; or
  - (6) In those situations when a bank, its affiliate, or any other entity provides a STIF financial support, including a cash infusion, a credit extension, a purchase of a defaulted

or illiquid asset, or any other form of financial support in order to maintain a stable net asset value per participating interest;

(K) Adopt procedures that in the event a STIF has re-priced its net asset value below \$0.995 per participating interest, the bank administering the STIF shall calculate, redeem, and sell the STIF's participating interests at a price based on the mark-to-market net asset value; and

(L) Adopt procedures that, in the event a bank suspends or limits withdrawals and initiates liquidation of the STIF as a result of redemptions, require the bank to:

(1) Determine that the extent of the difference between the STIF's amortized cost per participating interest and its mark-to-market net asset value per participating interest may result in material dilution of participating interests or other unfair results to participating accounts;

(2) Formally approve the liquidation of the STIF; and

(3) Facilitate the fair and orderly liquidation of the STIF to the benefit of all STIF participants.

\* \* \* \* \*

**DATED:** April 2, 2012

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John Walsh  
Acting Comptroller of the Currency

[FR Doc. 2012-8467 Filed 04/06/2012 at 8:45 am; Publication Date: 04/09/2012]