

How To Determine The Eligibility Of Money Market Fund Investments Under Rule 2a-7

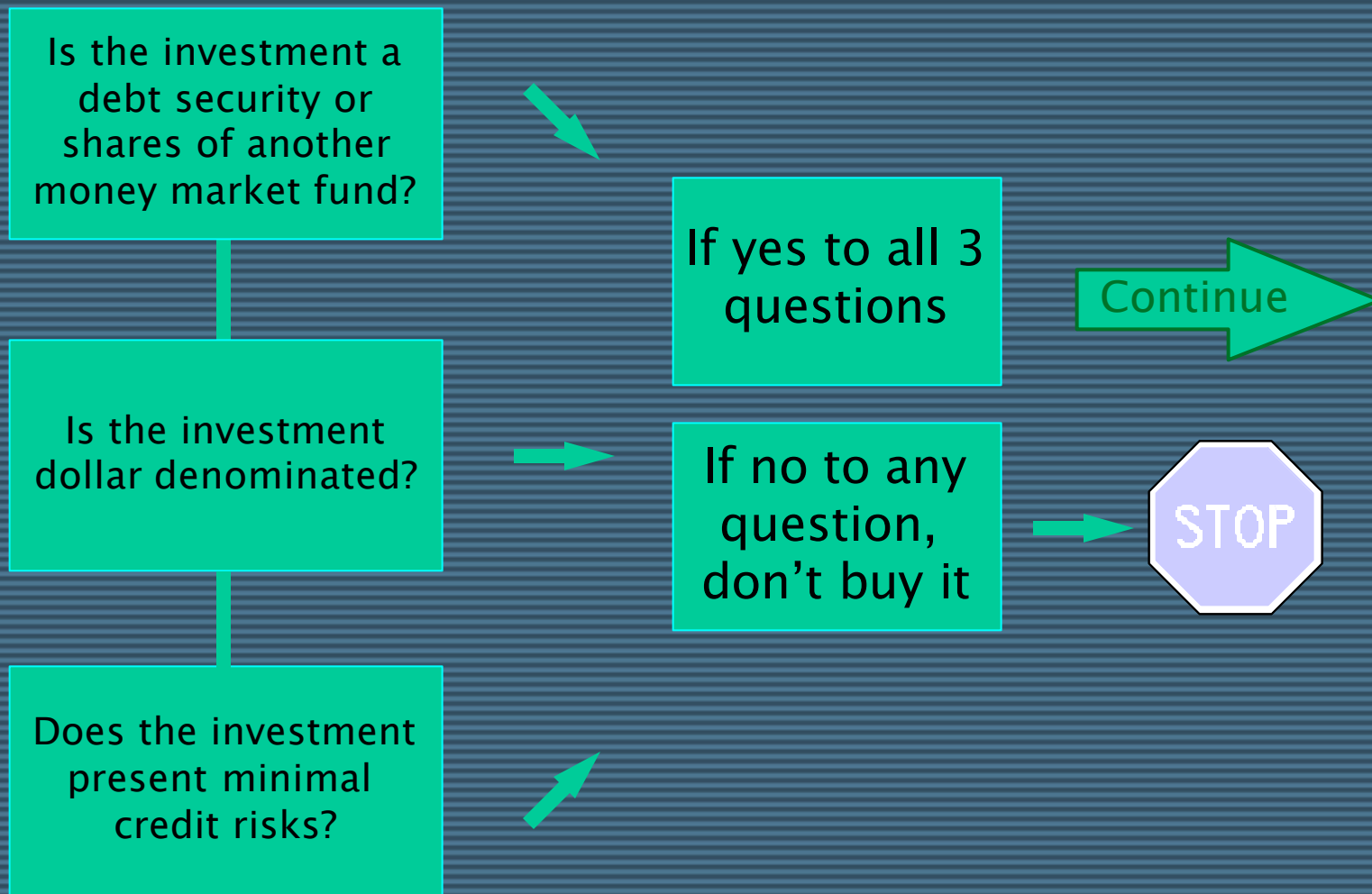
April 25, 2000

Pamela Wilson

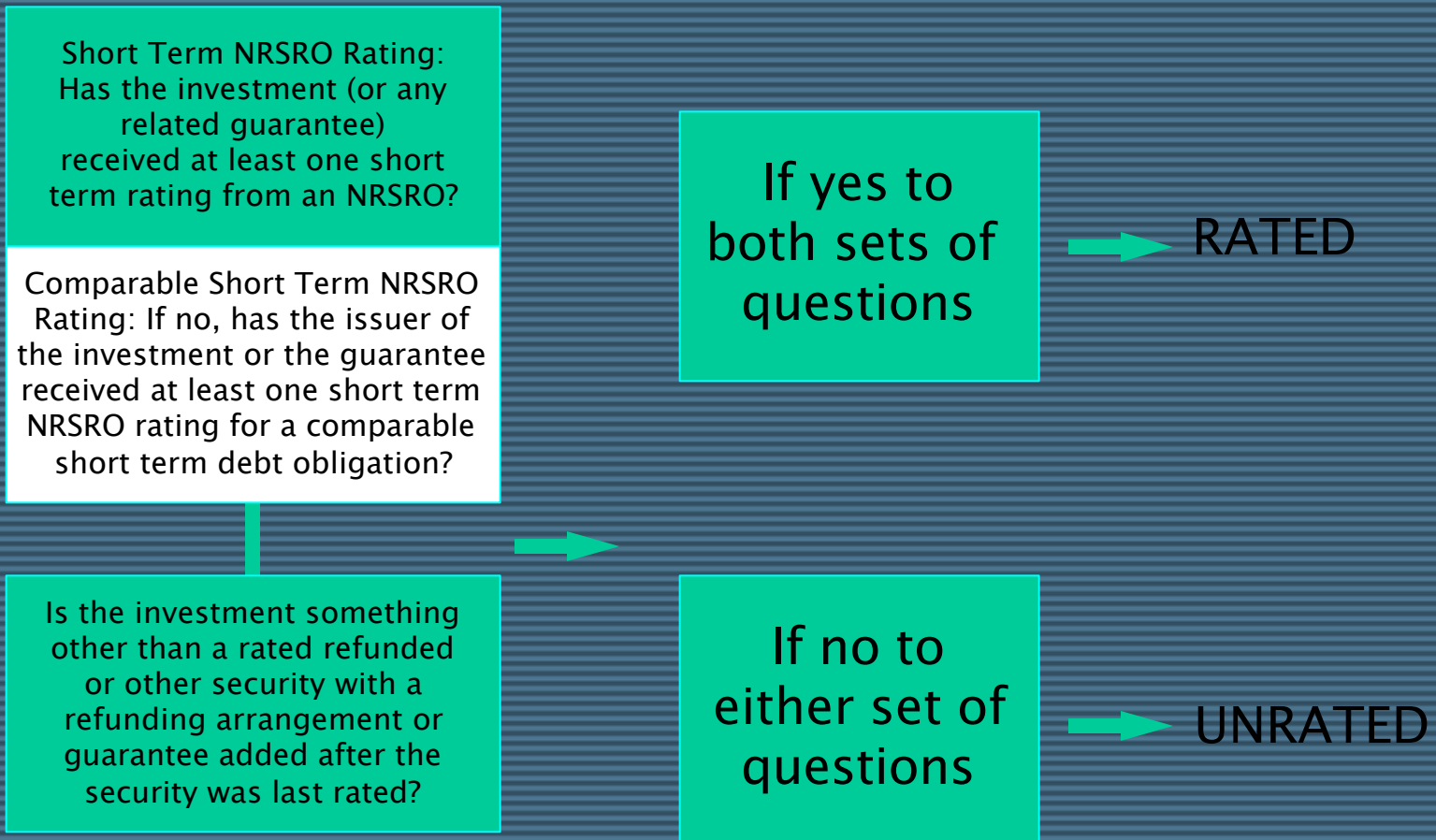
HALE AND DORR LLP

HALE AND DORR LLP

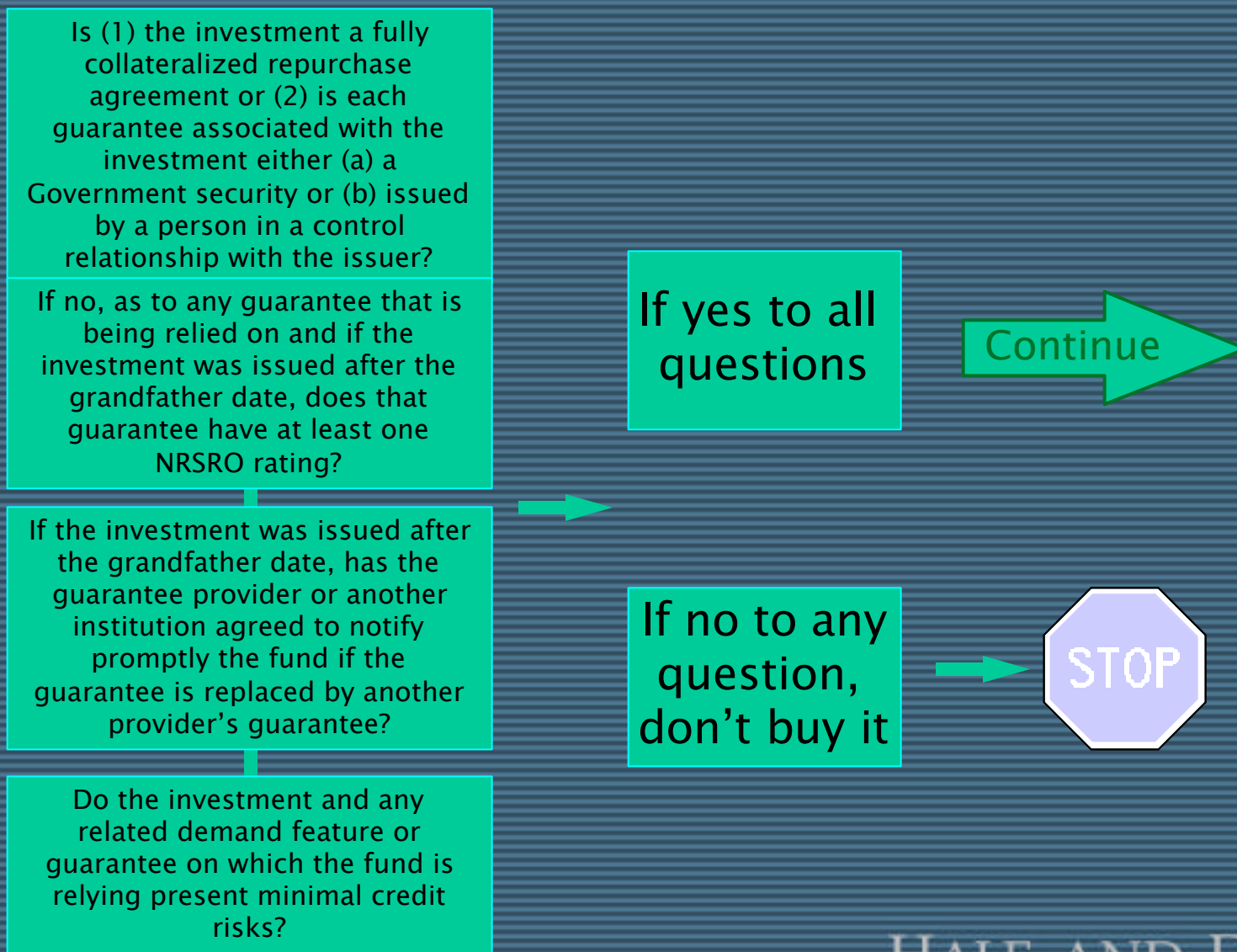
Threshold Eligibility Questions



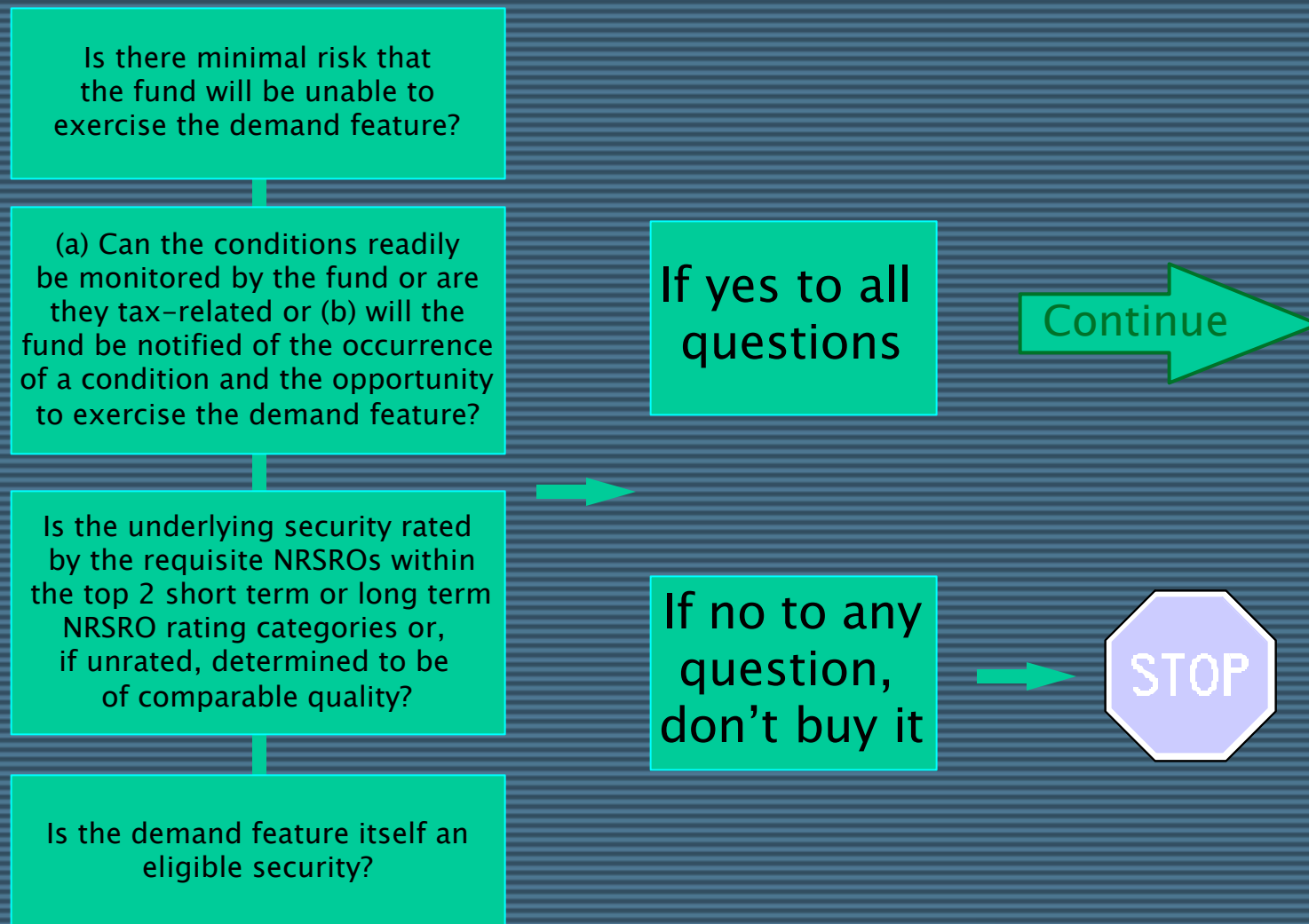
Deciding Whether an Investment Is Rated or Unrated



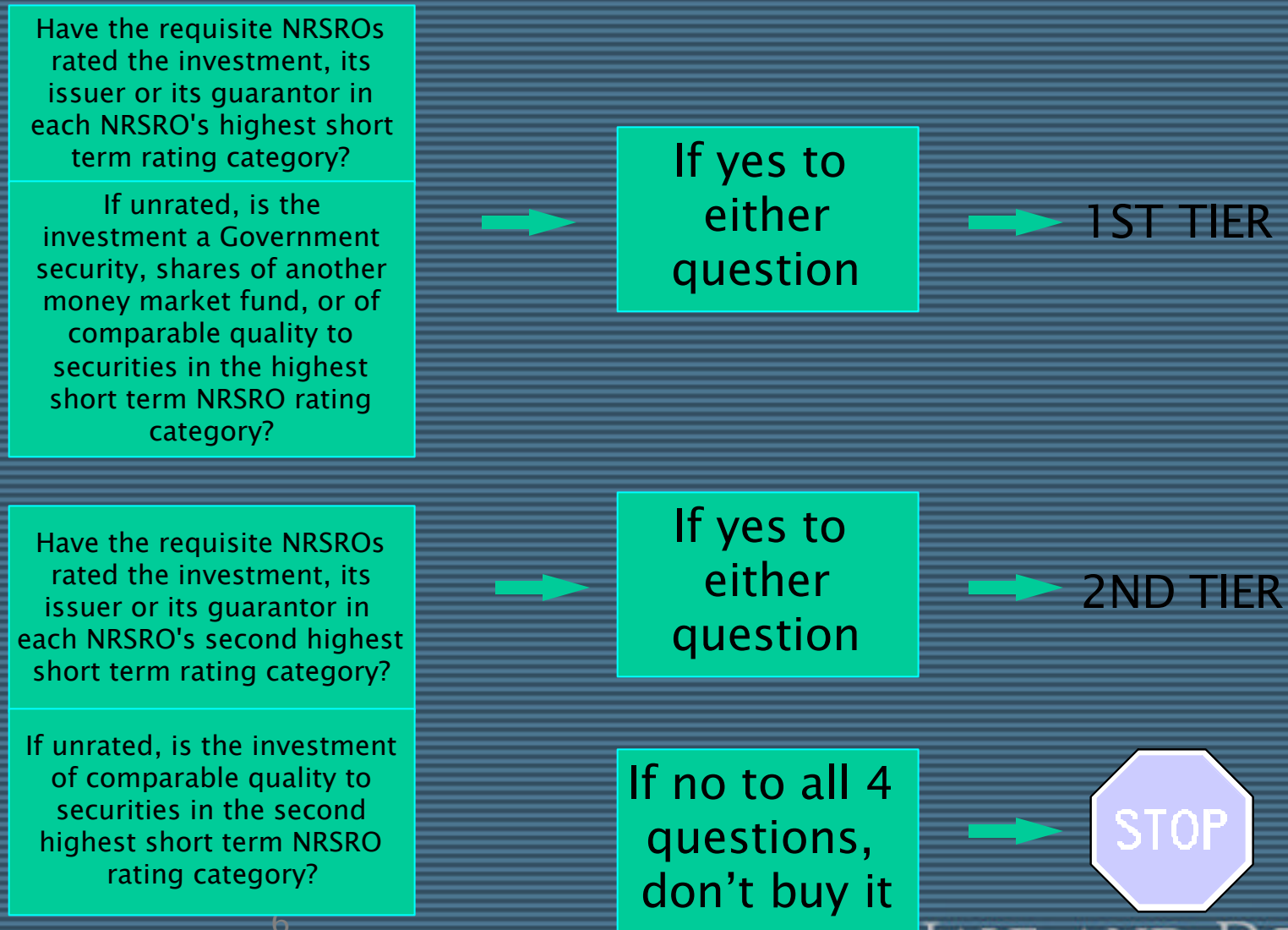
Deciding Eligibility of Investments with Guarantees or Demand Features



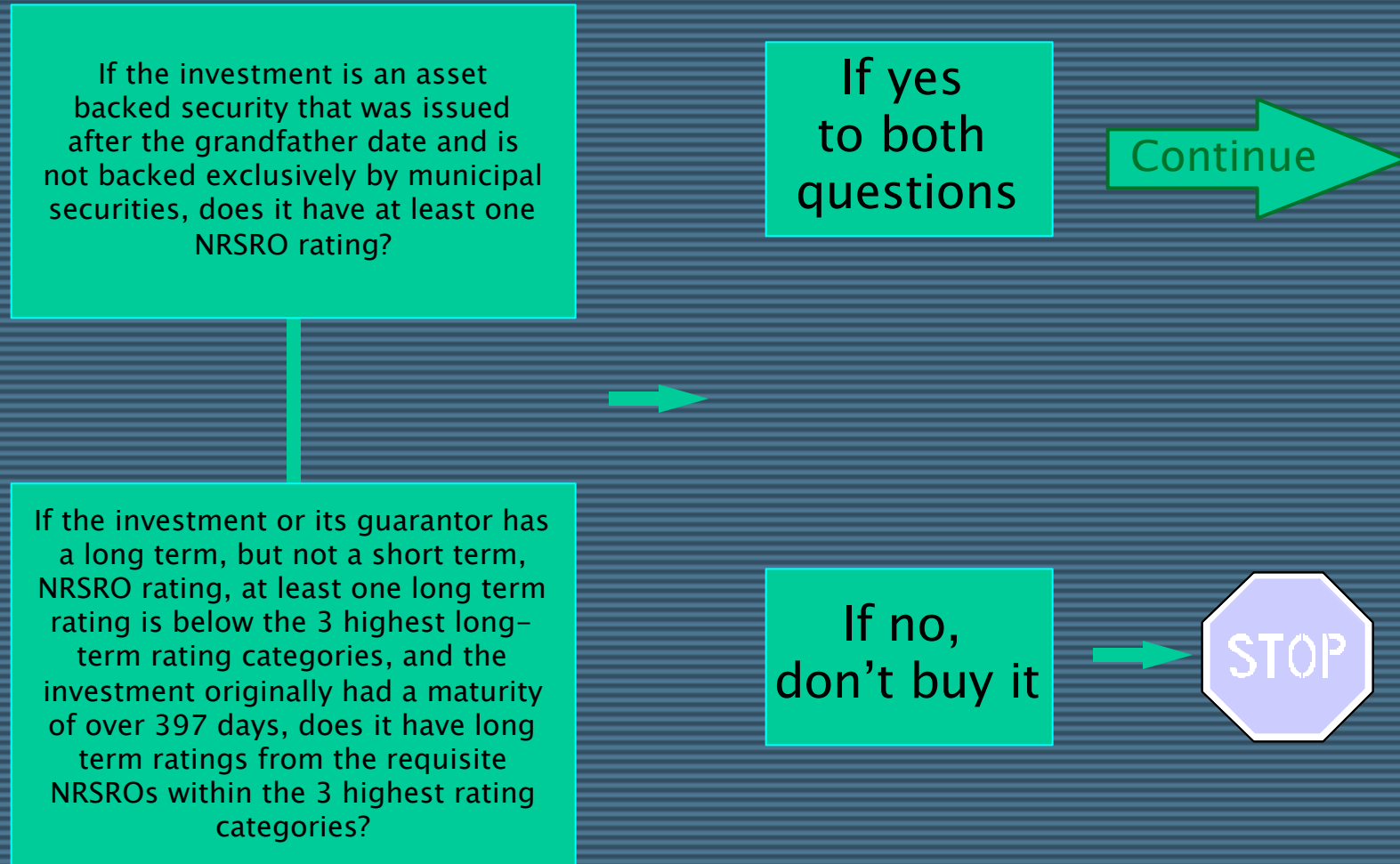
Deciding Eligibility of Investments with Conditional Demand Features*



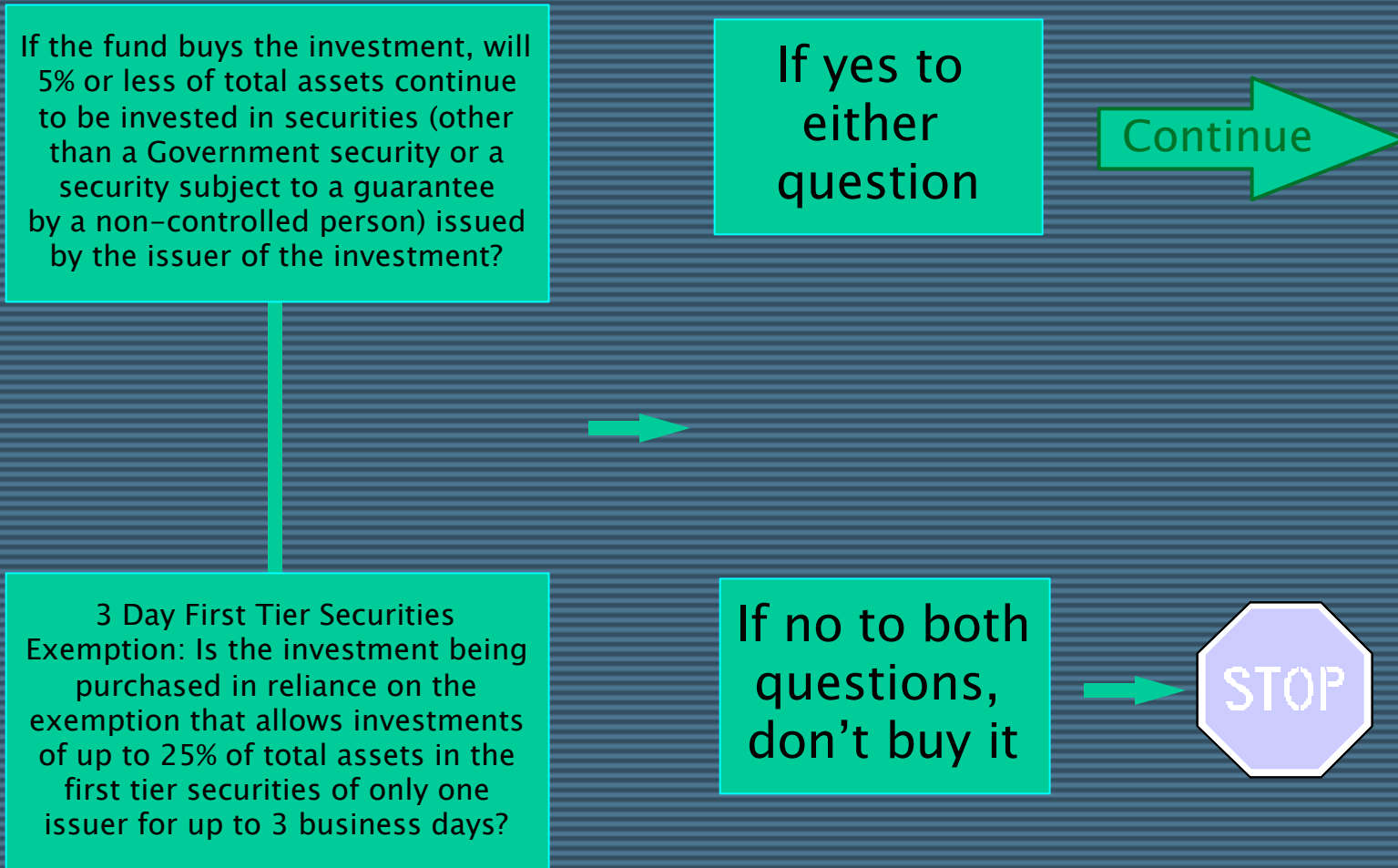
Deciding Whether an Investment is First Tier or Second Tier



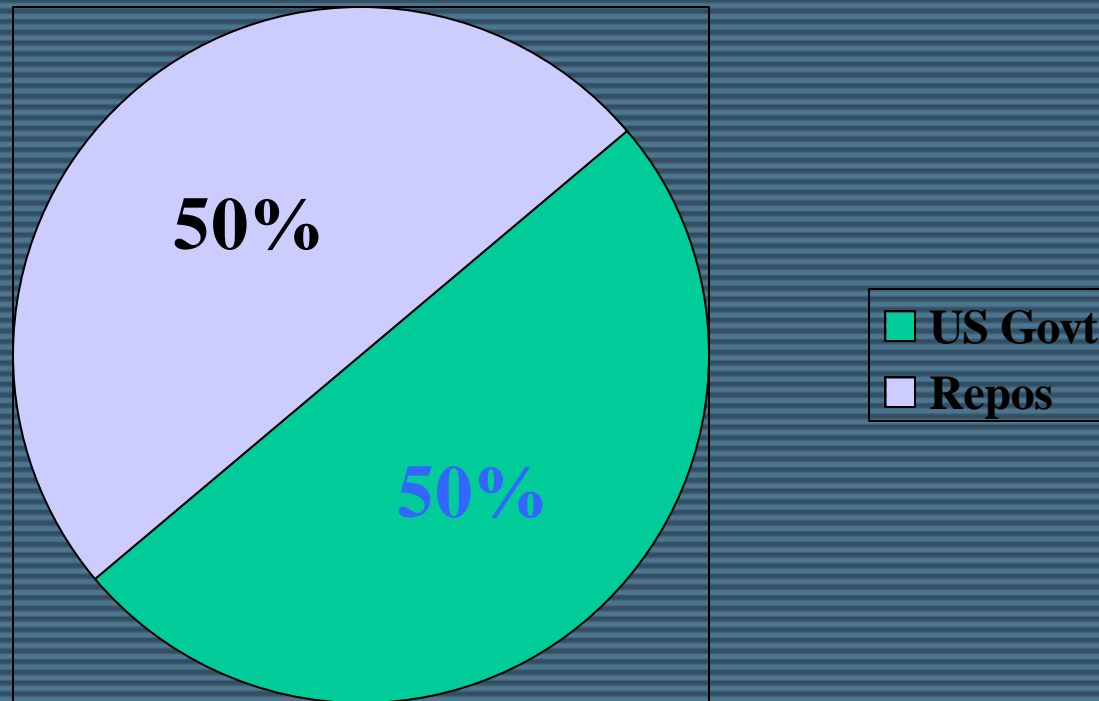
Special Credit Eligibility Determinations



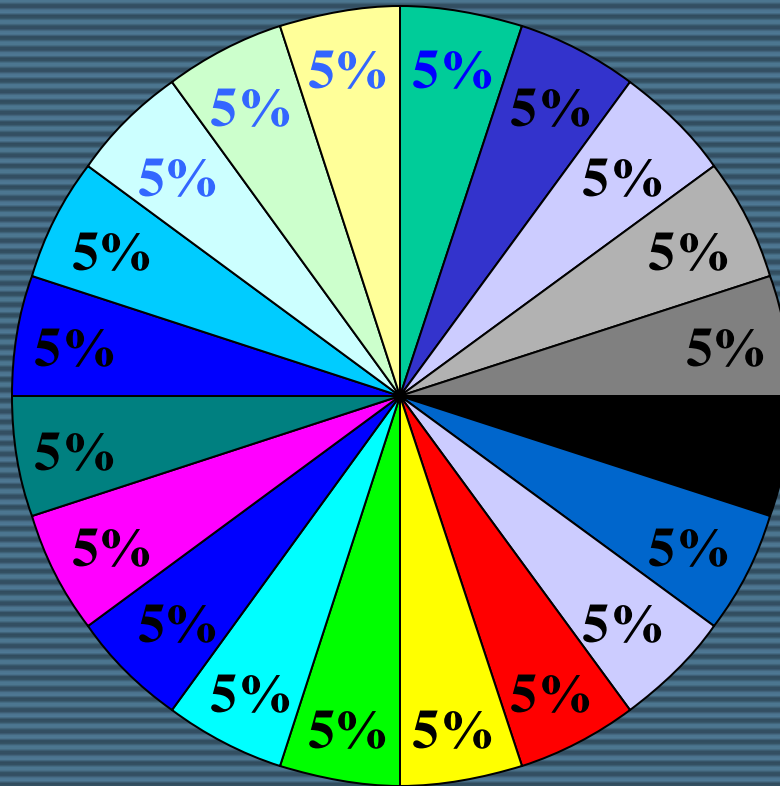
Diversification of First Tier Securities Taxable and National Tax Free Funds



Example 1 of SEC Diversification



Example 2 of SEC Diversification (all first tier issuers)

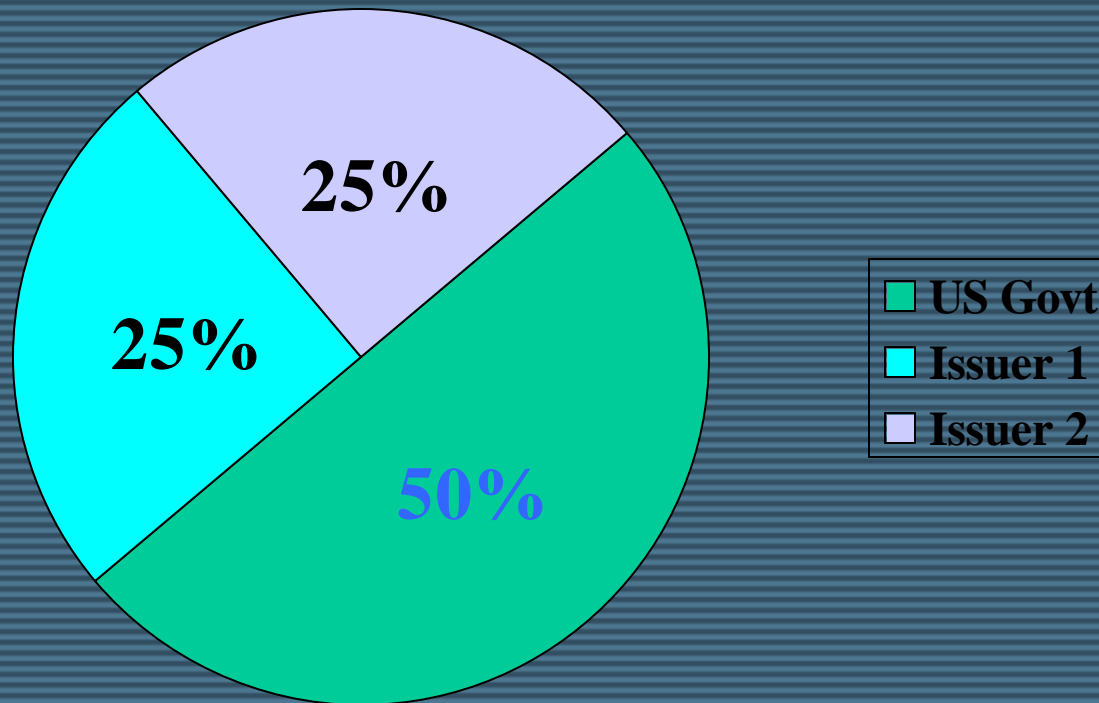


SEC vs. Tax Diversification

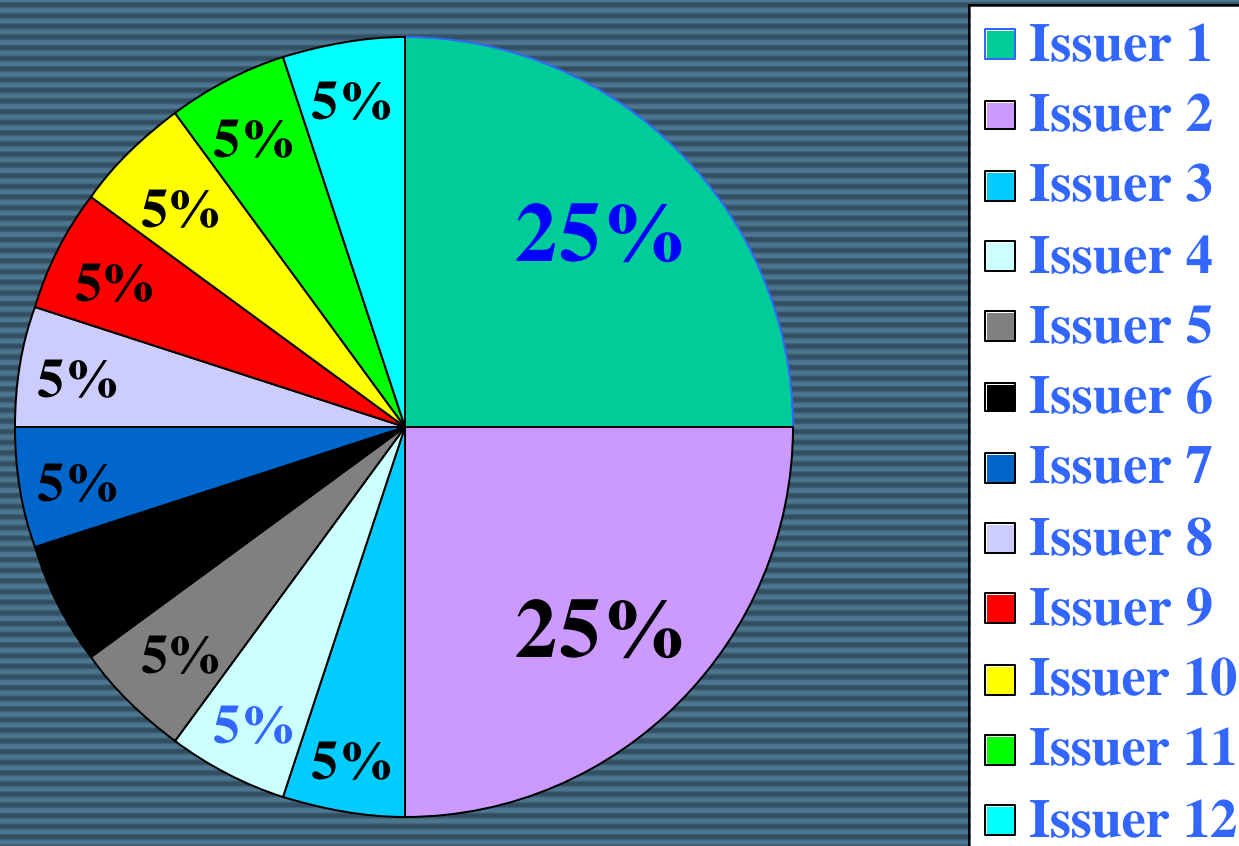
Repurchase agreements

- SEC: the issuer of the underlying security (e.g. U.S. government) of a fully collateralized repo is the issuer of the repo
- Tax: the repo counterparty is the issuer of a fully collateralized or other repo

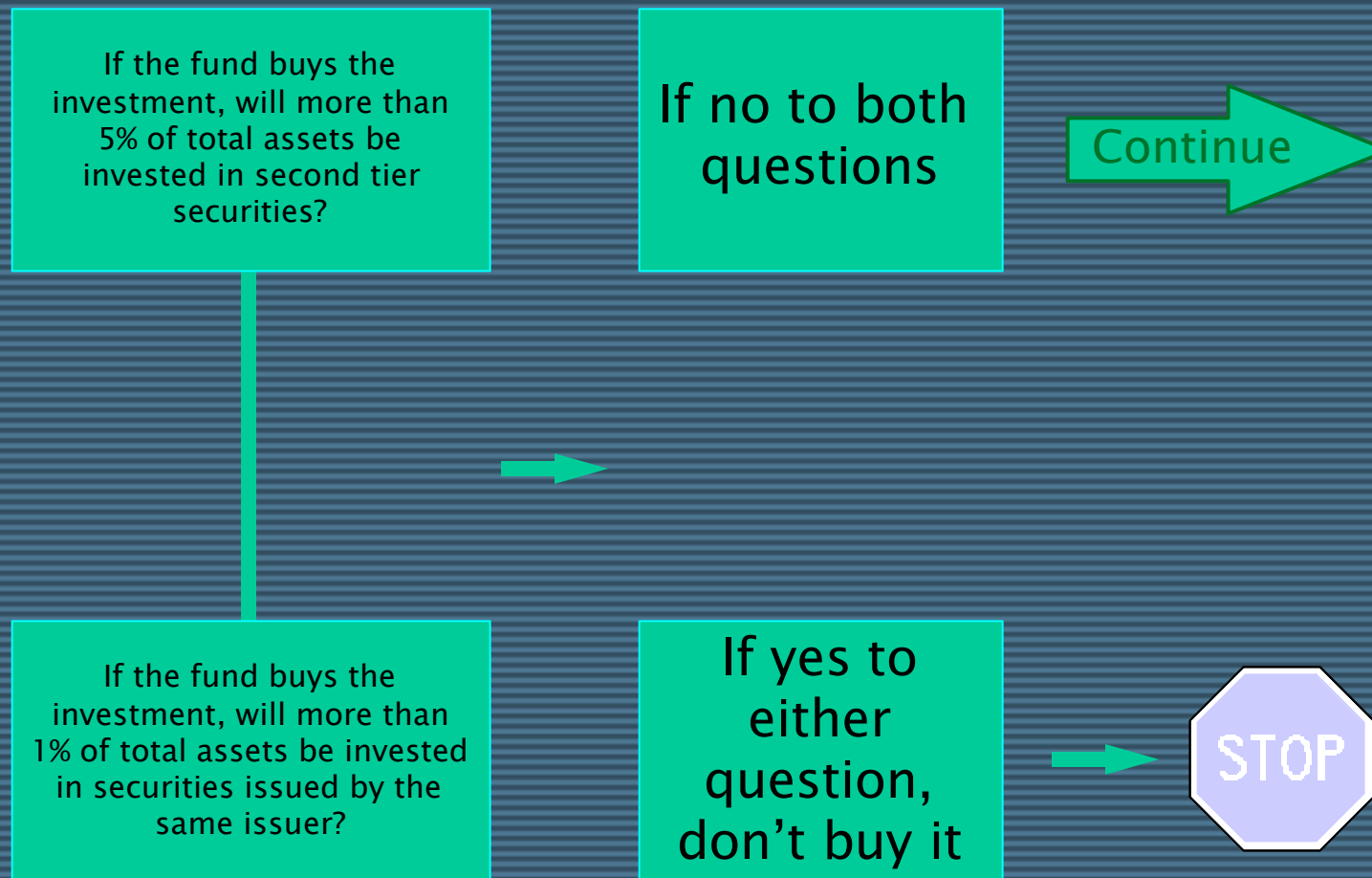
Example 1 of Tax Diversification



Example 2 of Tax Diversification



Diversification of Second Tier Securities



Guarantees or Demand Features that the Fund is Relying On

If the fund buys the investment, will more than 10% of total assets be invested in securities issued by or subject to demand features or guarantees provided by any one institution?

If yes, (a) is the demand feature or guarantee provided by a person (other than the issuer) in a control relationship with the issuer or (b) will this and other investments that exceed the 10% limit together be more than 25% of total assets?

If the fund buys the investment, will more than 5% of total assets be invested in second tier securities issued, or securities subject to second tier demand features or guarantees provided, by any one institution?

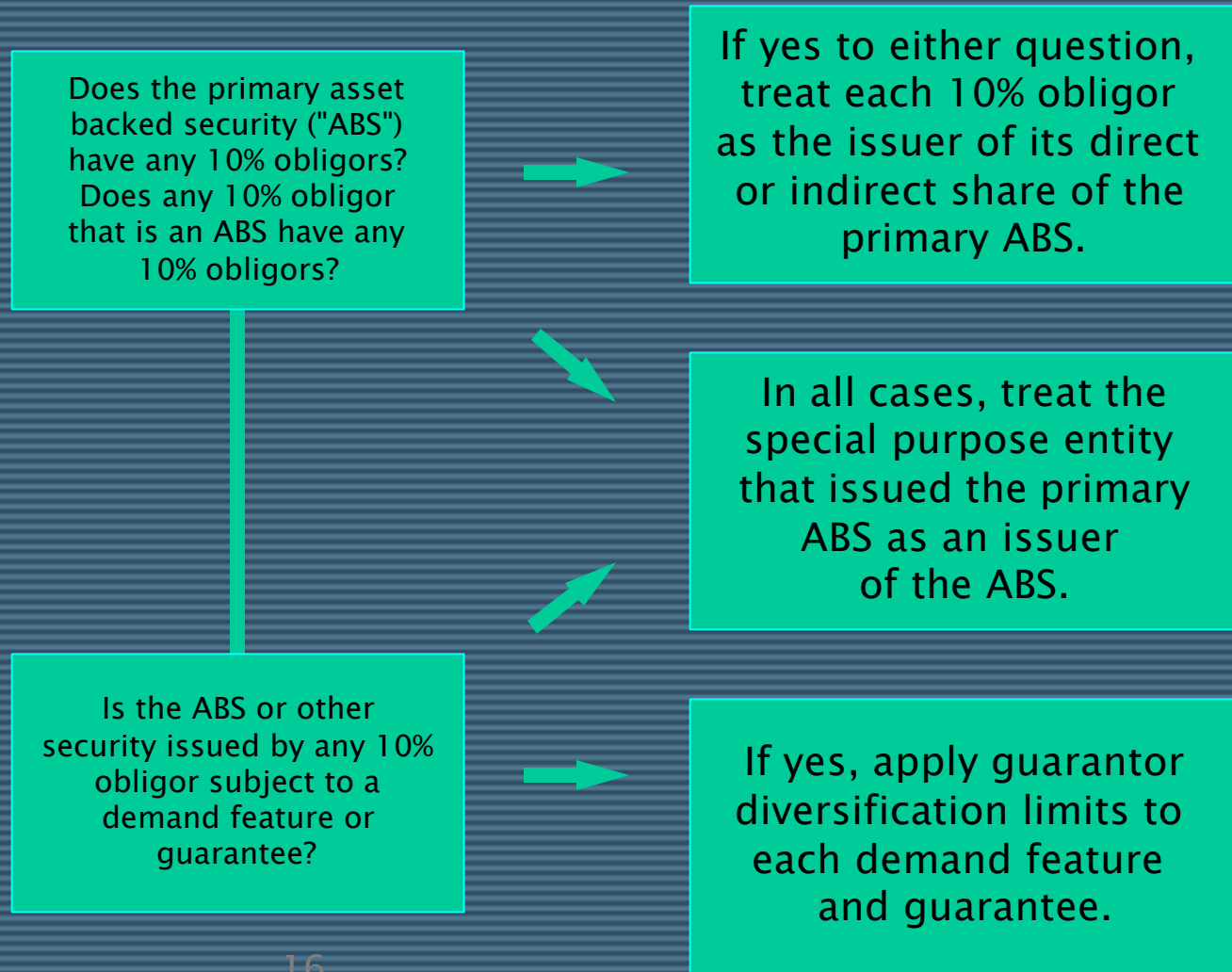
If no to both sets of questions

Continue

If yes to either set of questions, don't buy it

STOP

Determining the Issuer of Asset Backed Securities



Determining the Maturity of Securities

Type of Security

Maturity of Security

Variable rate government security



Period until next interest rate reset

Floating rate government security or short term floating rate security



One day

Short term variable rate security



Earlier of period until next interest rate reset or demand date

Long term floating rate security with demand feature



Period until next demand date

Long term variable rate security with demand feature



Longer of period until next interest rate reset or demand date

Determining the Maturity of Securities

Type of Security

Maturity of Security

Repurchase agreement



Earlier of period until repurchase date or demand notice period

Securities loan



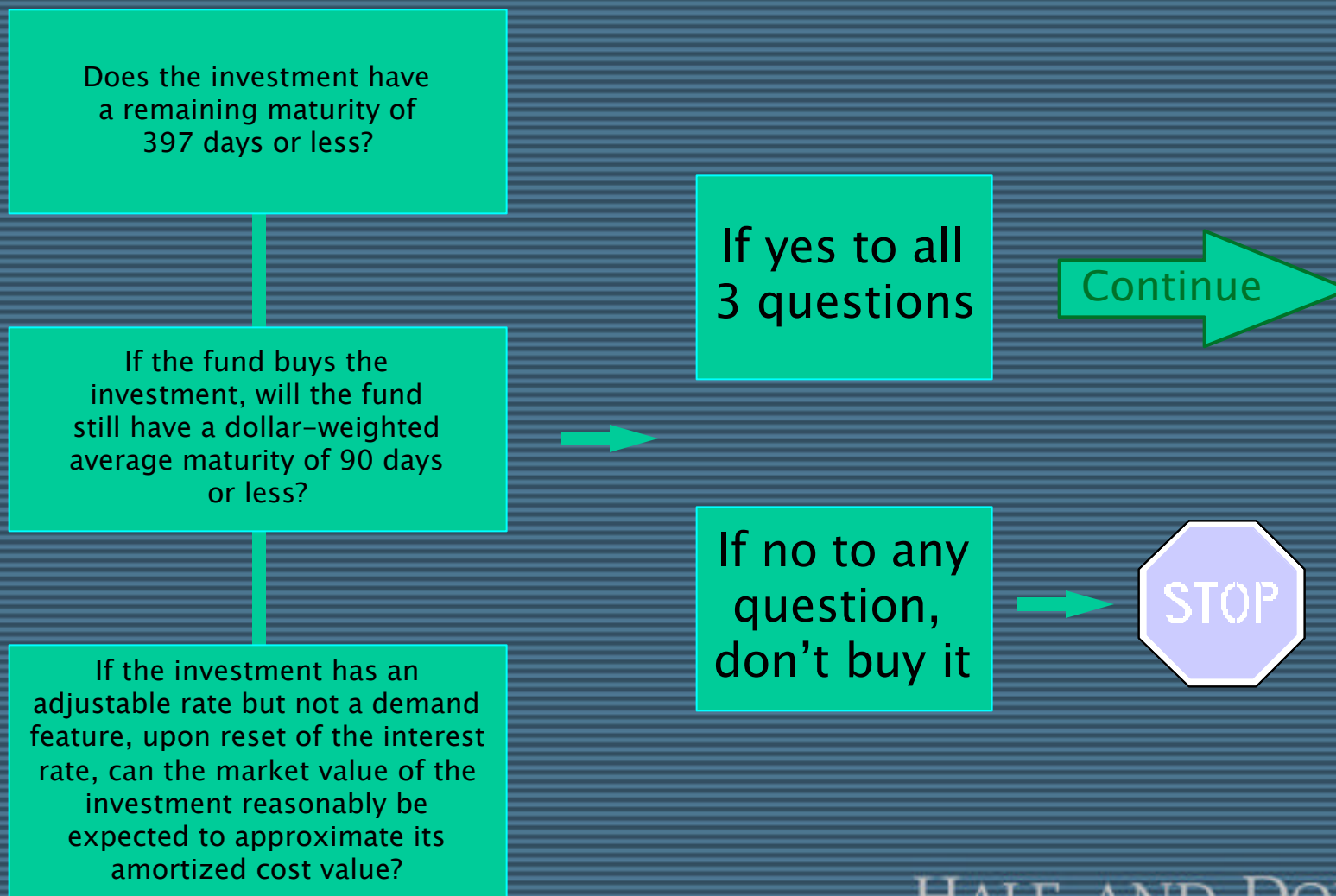
Earlier of period until due date or demand notice period

Money market fund shares



Earlier of 7 days or shorter contractual redemption period

Determining Compliance with Maturity Limits



Example 1: Taxable Fund

Possible investment--commercial paper with the following features:

- Is not rated, but issued by Esprit Corp., a company with 3 short term ratings: A-1/P-1/F-2
- Principal and interest are payable in U.S. dollars
- Interest rate is 30-day U.S. LIBOR and resets every 30 days

Example 1: Taxable Fund

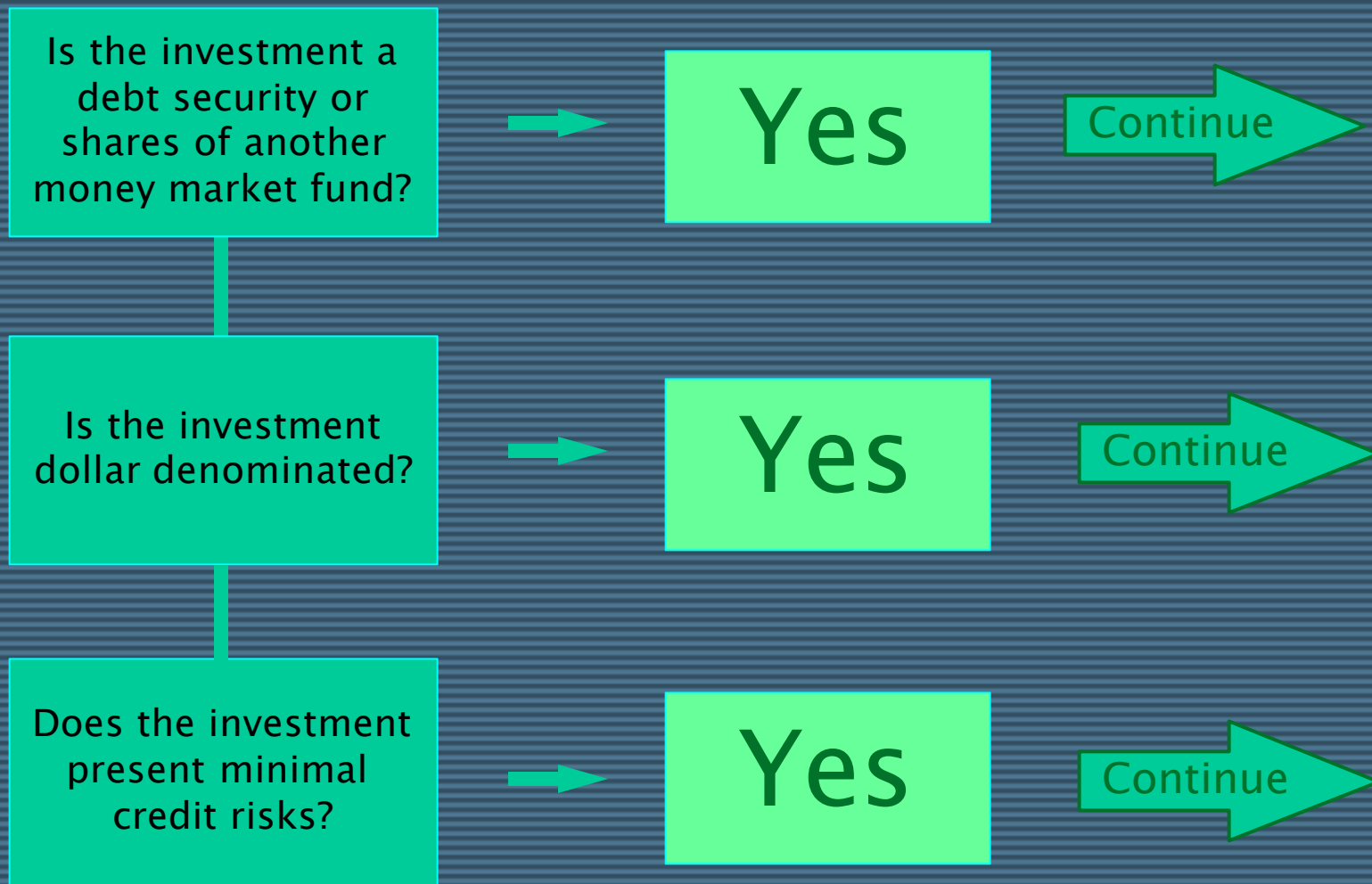
Commercial paper characteristics:

- A maximum stated remaining maturity of 2 years, with a 30-day conditional demand feature that is:
 - Fully exercisable unless there is a downgrade in the credit rating of, a payment default by, or an insolvency proceeding against the issuer
 - Provided by Fred's Bank, which has an A-1/ P-1 rating and no known credit issues

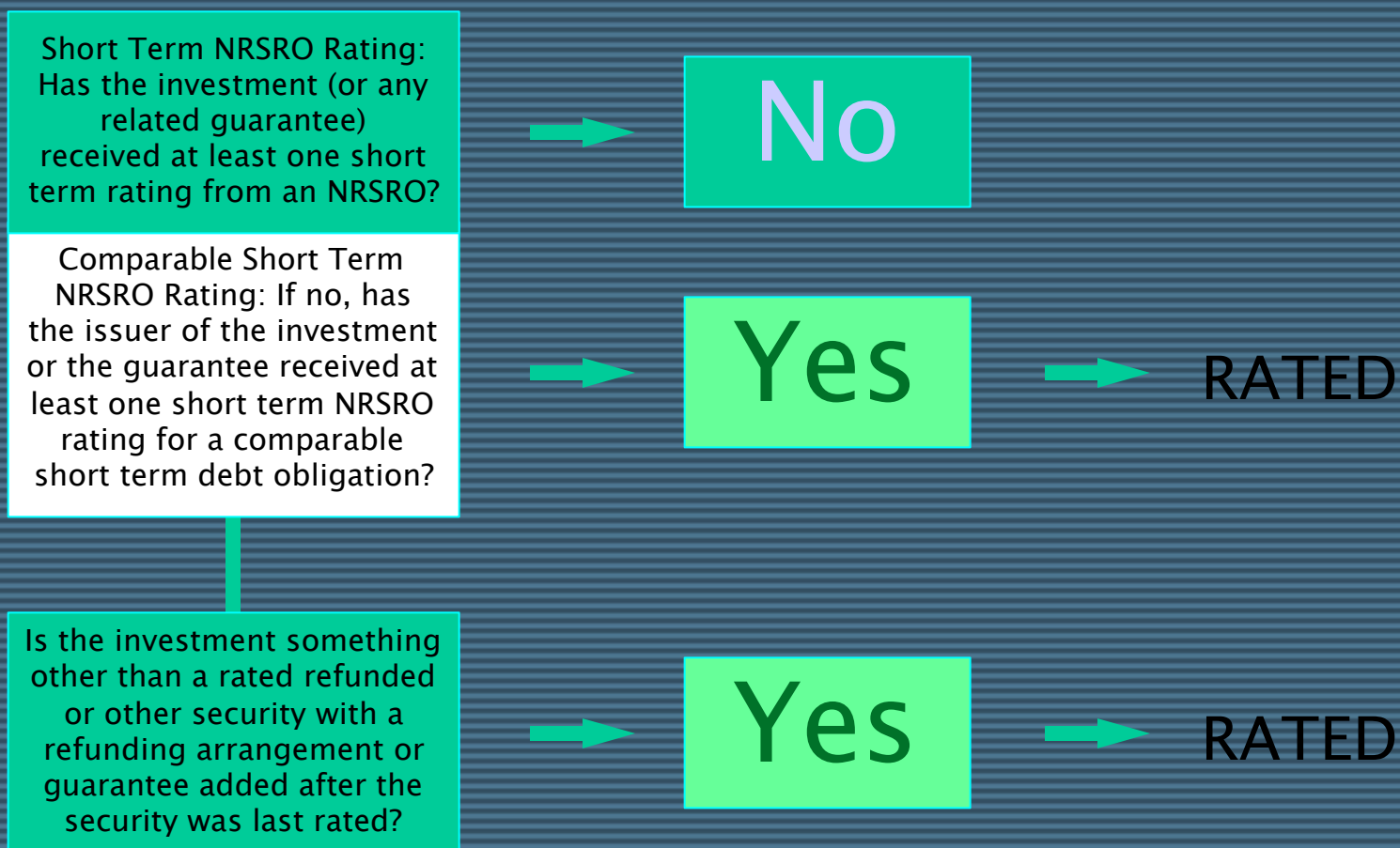
Example 1: Taxable Fund

- The fund has total assets of \$100 million
- The fund proposes to buy \$1 million of Esprit Corp.'s new commercial paper
- The fund already owns \$1 million of Esprit Corp.'s paper and \$5 million of CDs issued by Fred's Bank
- The average dollar weighted maturity of the fund before acquiring the new paper is 30 days

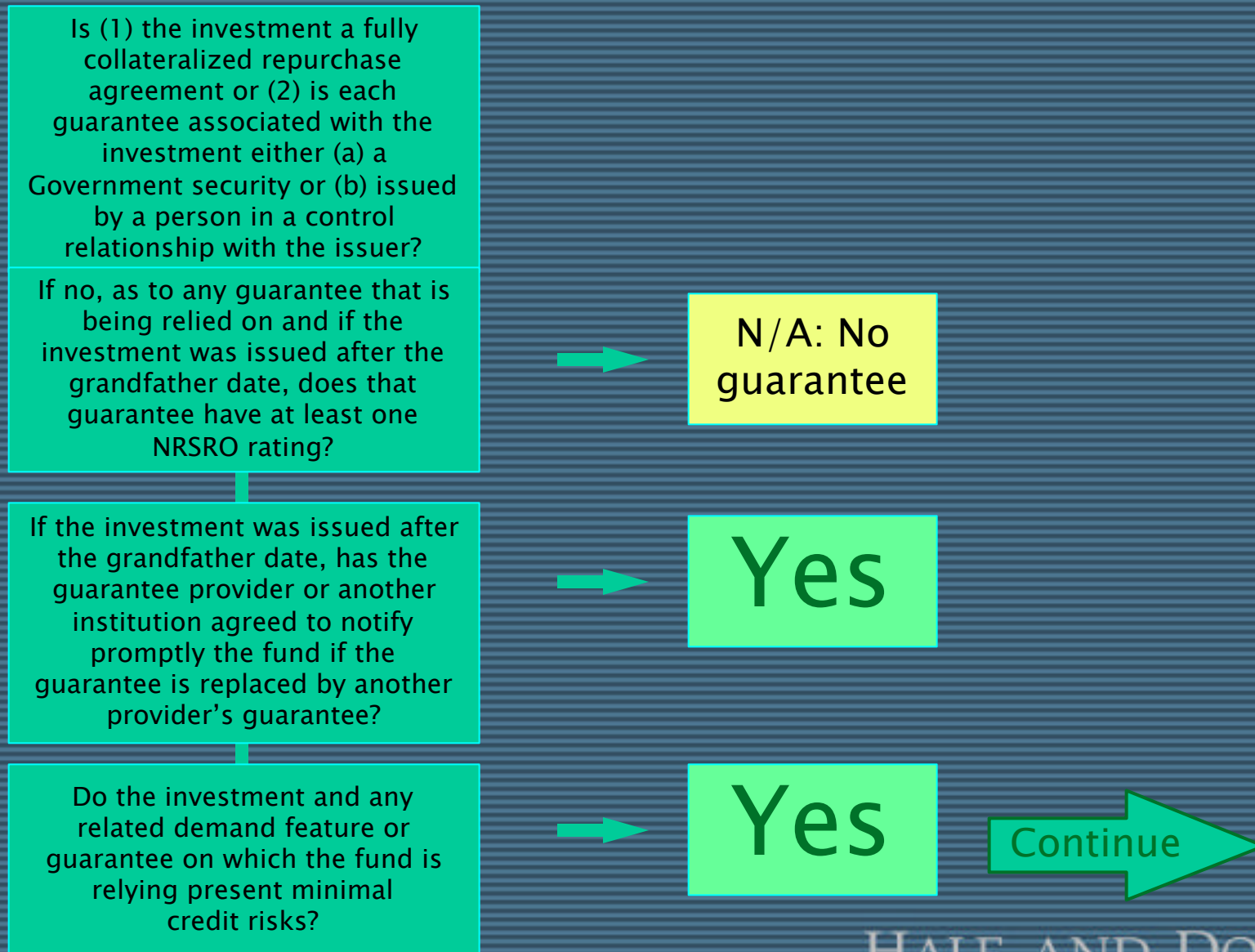
Threshold Eligibility Questions



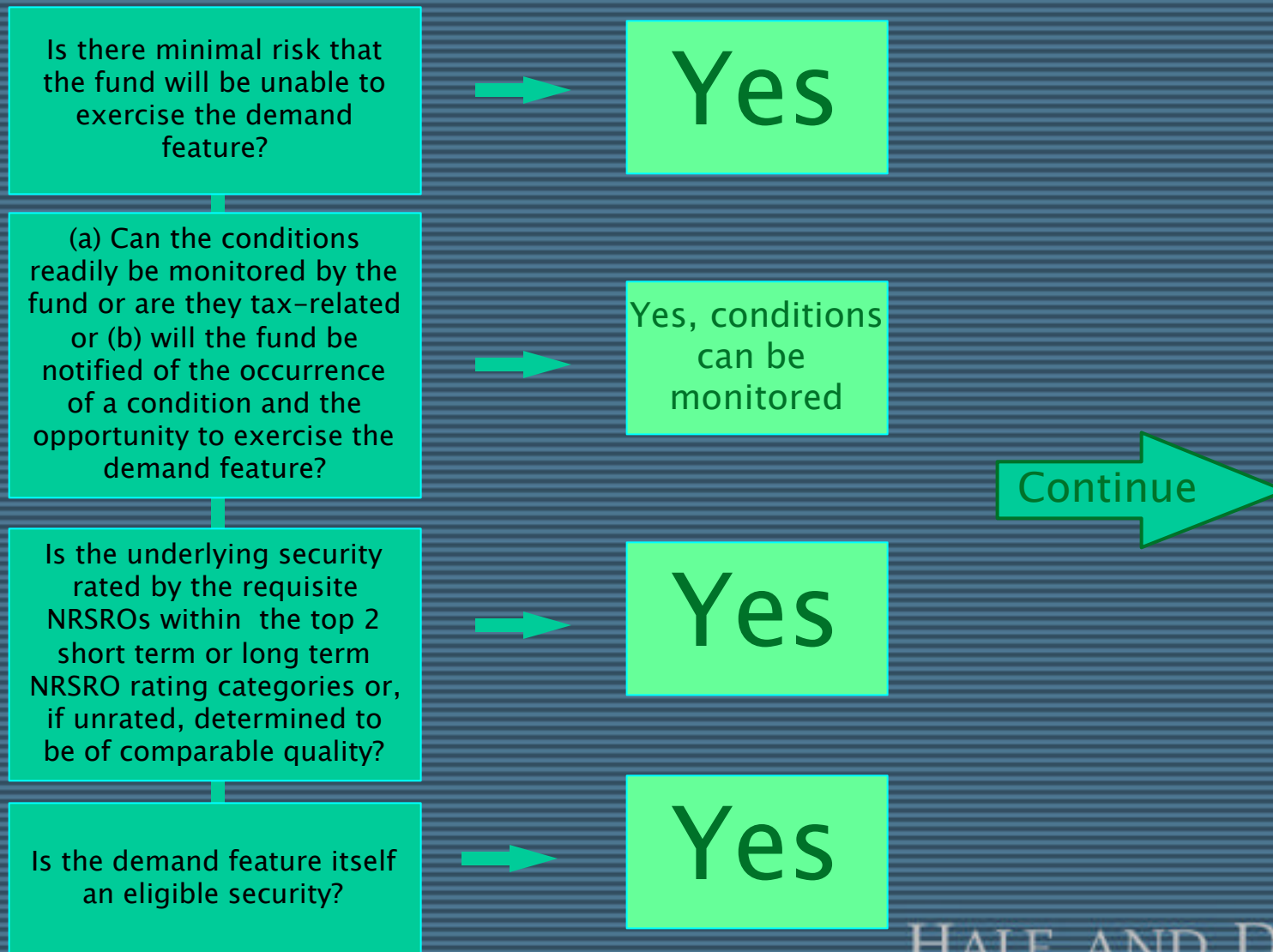
Deciding Whether an Investment is Rated or Unrated



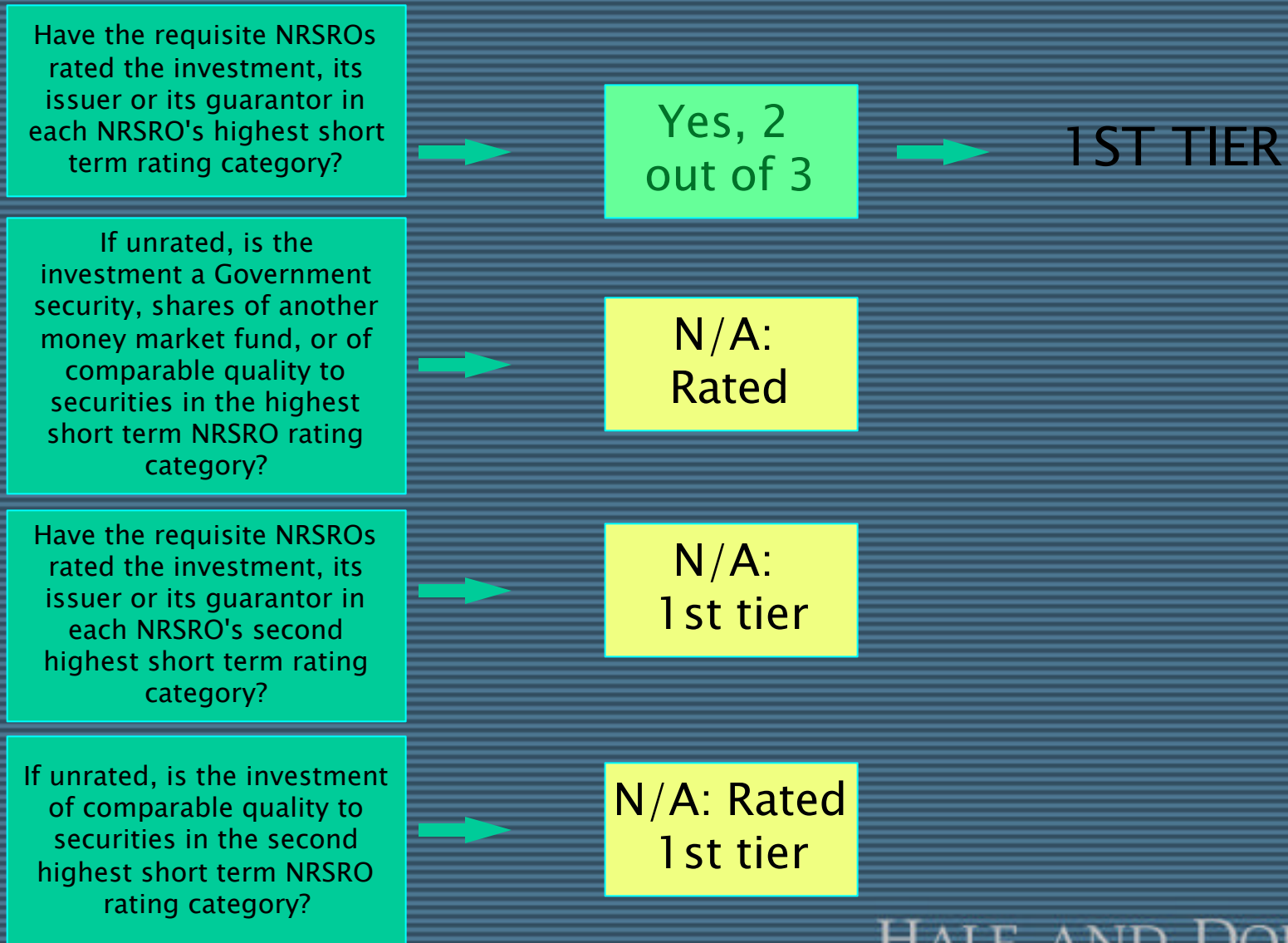
Deciding Eligibility of Investments with Guarantees or Demand Features



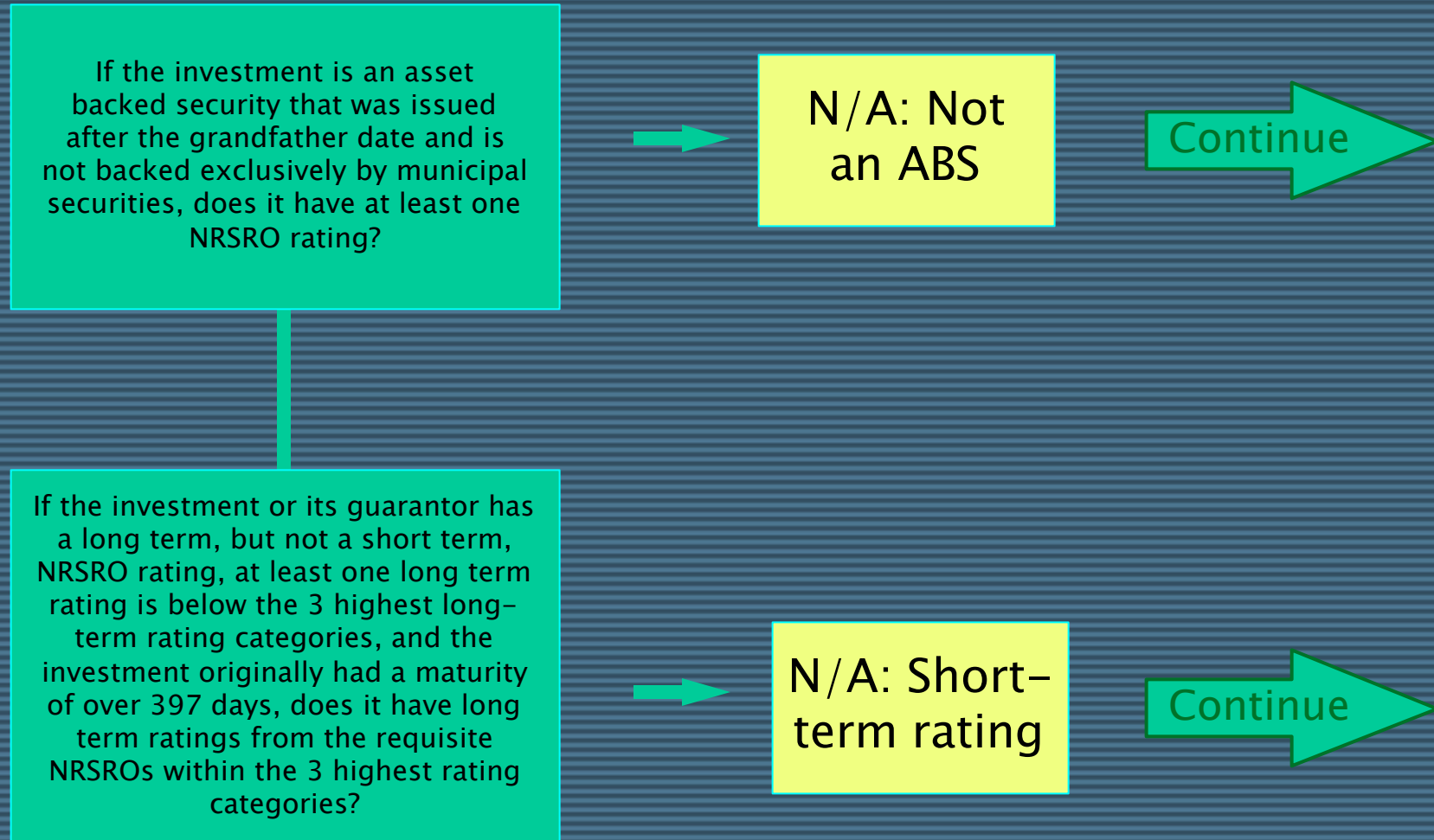
Deciding Eligibility of Investments with Conditional Demand Features



Deciding Whether an Investment is First Tier or Second Tier



Special Credit Eligibility Determinations



Diversification of First Tier Securities Taxable and National Tax Free Funds

If the fund buys the investment, will 5% or less of total assets continue to be invested in securities (other than a Government security or a security subject to a guarantee by a non-controlled person) issued by the issuer of the investment?

Yes, issuer is only 2% of total assets

Continue

3 Day First Tier Securities Exemption: Is the investment being purchased in reliance on the exemption that allows investments of up to 25% of total assets in the first tier securities of only one issuer for up to 3 business days?

N/A: Only 2% of assets

Guarantees or Demand Features that the Fund is Relying On

If the fund buys the investment, will more than 10% of total assets be invested in securities issued by or subject to demand features or guarantees provided by any one institution?



No, Fred's Bank = only 6% of assets



If yes, (a) is the demand feature or guarantee provided by a person (other than the issuer) in a control relationship with the issuer or (b) will this and other investments that exceed the 10% limit together be more than 25% of total assets?



N/A: Only 6% of assets

If the fund buys the investment, will more than 5% of total assets be invested in second tier securities issued, or securities subject to second tier demand features or guarantees provided, by any one institution?



N/A: all 1st tier

Determining the Maturity of Securities

Type of Security

Maturity of Security

Variable rate government security



Period until next interest rate reset

Floating rate government security or short term floating rate security



One day

Short term variable rate security

Earlier of period until next interest rate reset or demand date

Long term floating rate security with demand feature



Period until next demand date

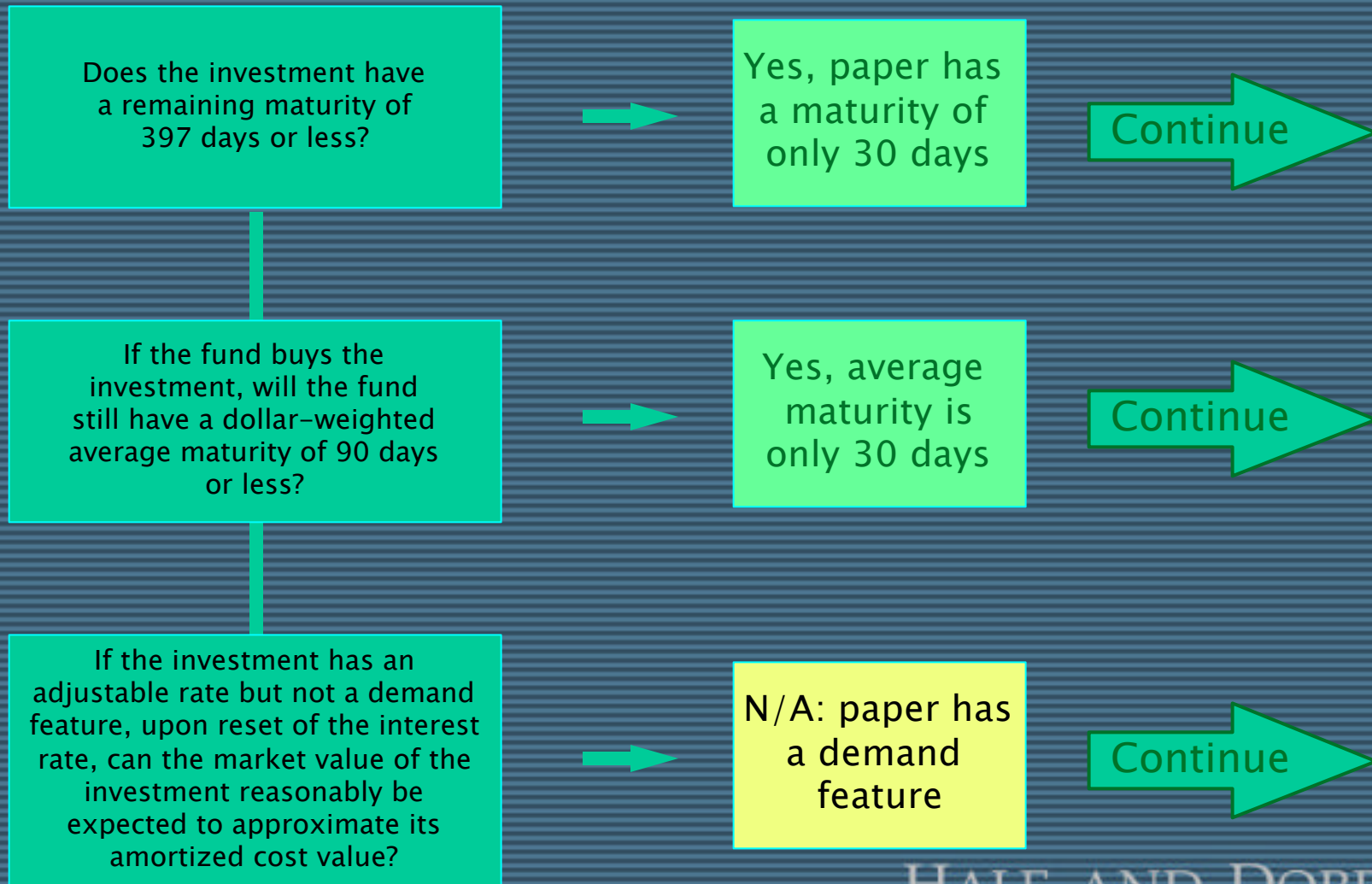


Long term variable rate security with demand feature



Longer of period until next interest rate reset or demand date

Determining Compliance with Maturity Limits



Eligibility Conclusion

Taxable fund can buy up to \$4 million of Esprit Corp. variable rate commercial paper with conditional demand feature from Fred's Bank

Example 2: Taxable Fund

Same paper as in Example 1, except:

- Interest rate floats with daily changes in 30-day U.S. LIBOR
- Paper has only 2 short term ratings: A-1 and P-2
- Demand feature is unconditional
- Terms of paper require notice to fund if another demand feature provider is substituted for Fred's Bank

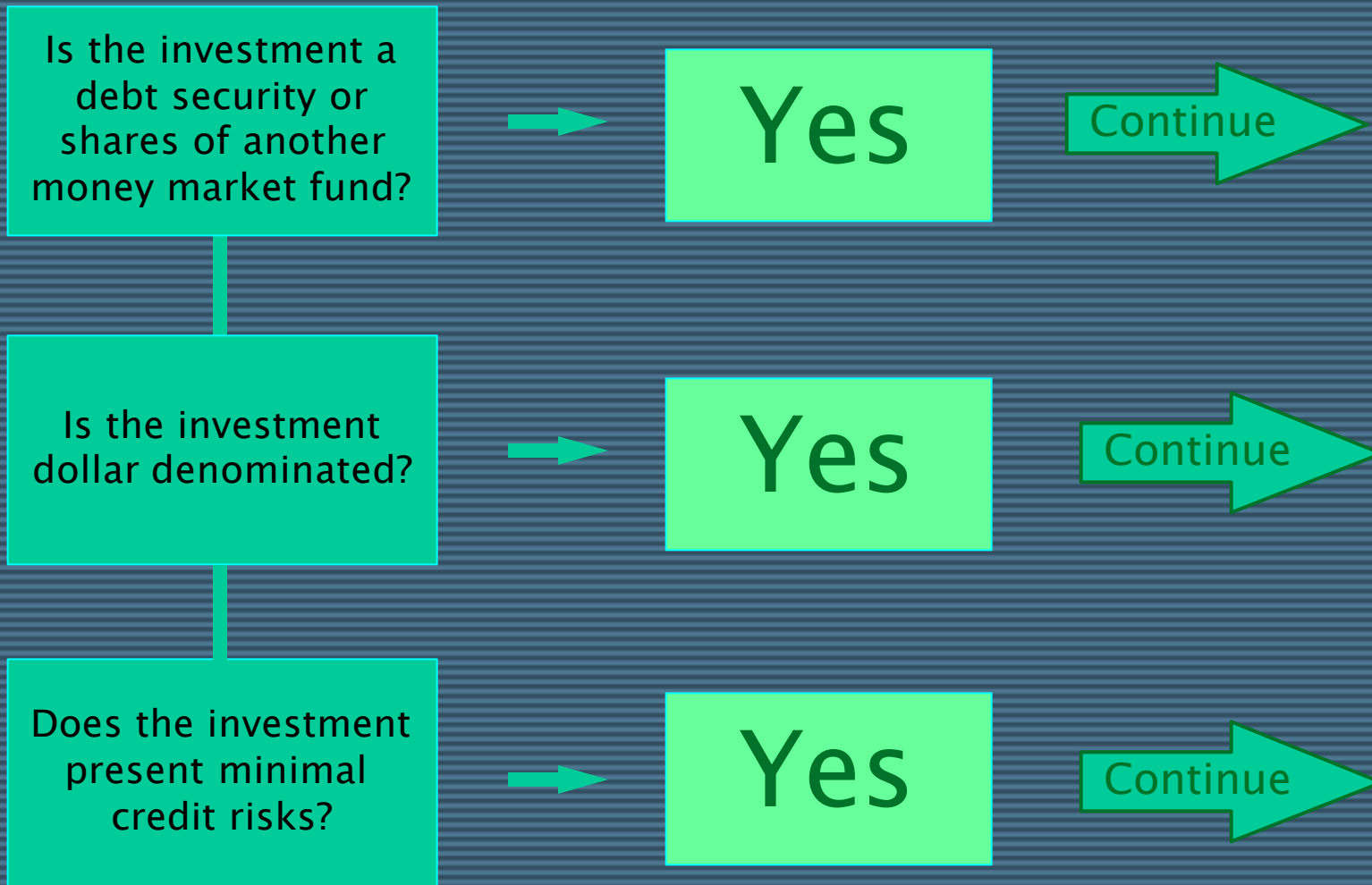
Example 2: Taxable Fund

- Fred's Bank does not control, is not controlled by and is not under common control with Esprit Corp.
- Fund already has 4% of total assets in securities issued by Fred's Bank and 6% of assets in securities guaranteed by Fred's Bank

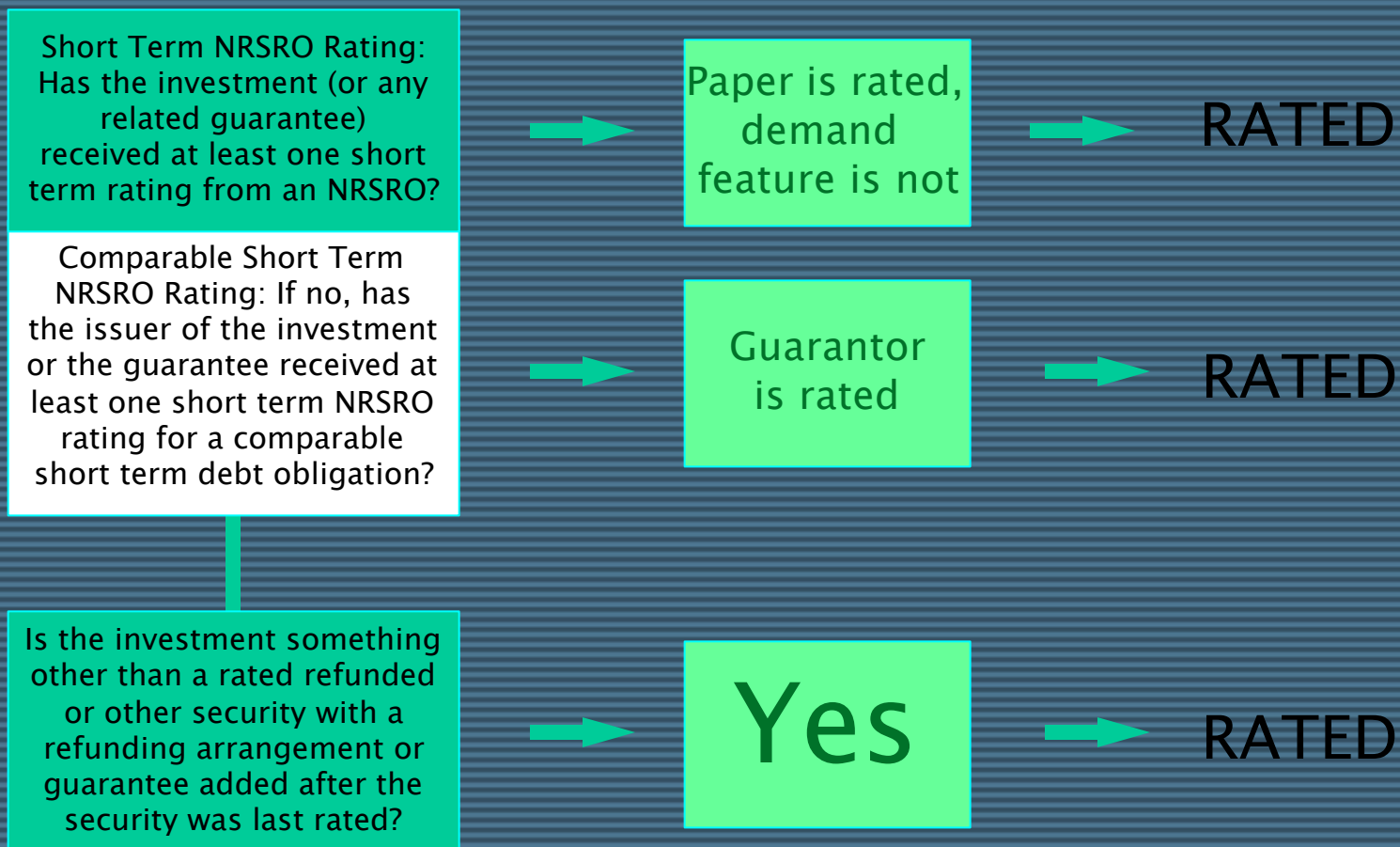
Example 2: Taxable Fund

- Fund does not have more than 10% of assets in securities issued or guaranteed by any other person
- Fund does not own any other securities issued or guaranteed by Esprit Corp.

Threshold Eligibility Questions



Deciding Whether an Investment is Rated or Unrated



Deciding Eligibility of Investments with Guarantees or Demand Features

Is (1) the investment a fully collateralized repurchase agreement or (2) is each guarantee associated with the investment either (a) a Government security or (b) issued by a person in a control relationship with the issuer?



No

If no, as to any guarantee that is being relied on and if the investment was issued after the grandfather date, does that guarantee have at least one NRSRO rating?



Yes

If the investment was issued after the grandfather date, has the guarantee provider or another institution agreed to notify promptly the fund if the guarantee is replaced by another provider's guarantee?



Yes

Do the investment and any related demand feature or guarantee on which the fund is relying present minimal credit risks?

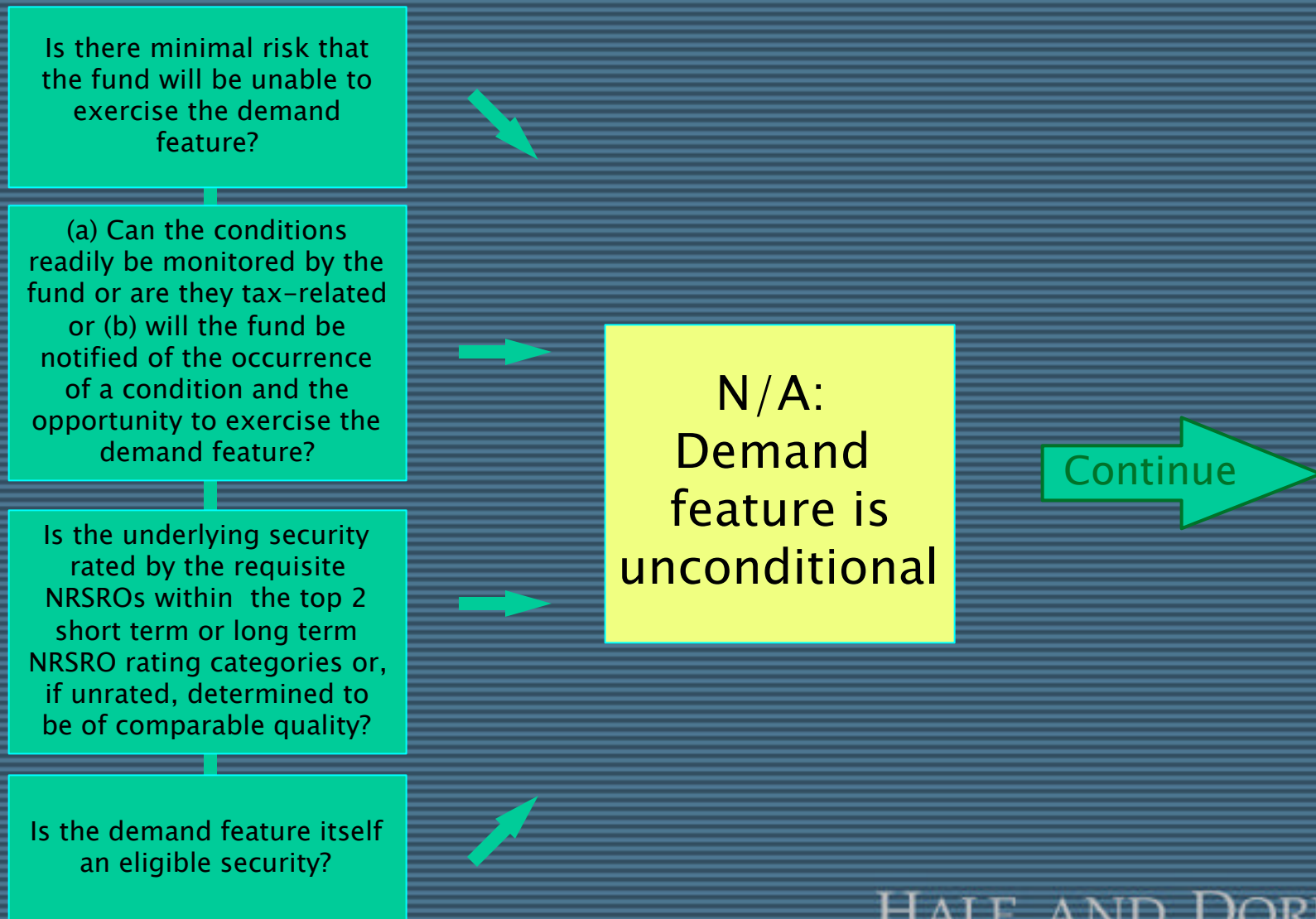


Yes

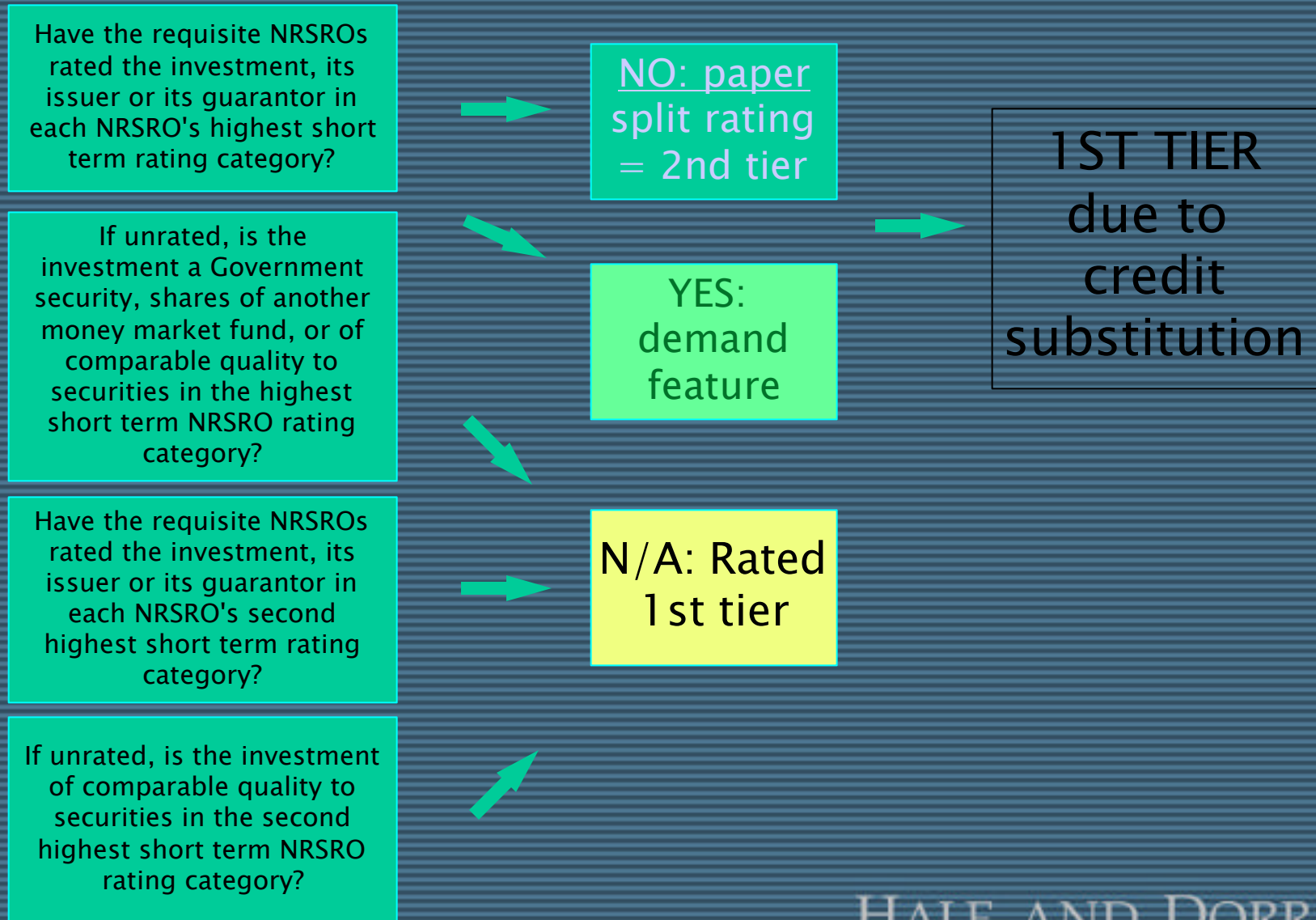


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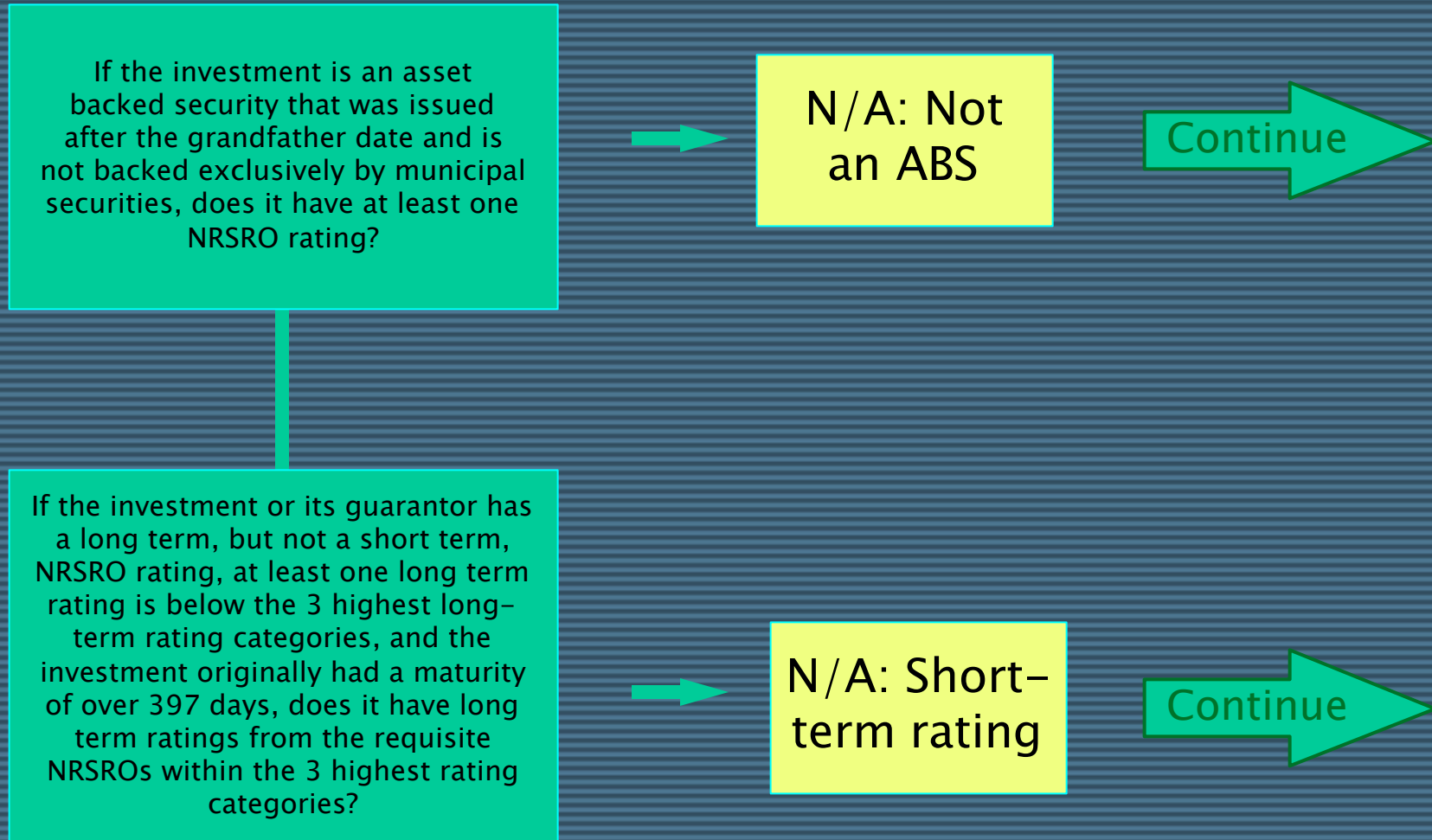
Deciding Eligibility of Investments with Conditional Demand Features



Deciding Whether an Investment is First Tier or Second Tier



Special Credit Eligibility Determinations



Diversification of First Tier Securities Taxable and National Tax Free Funds

If the fund buys the investment, will 5% or less of total assets continue to be invested in securities (other than a Government security or a security subject to a guarantee by a non-controlled person) issued by the issuer of the investment?



N/A: Credit
Substitution

Continue



3 Day First Tier Securities
Exemption: Is the investment being
purchased in reliance on the
exemption that allows investments
of up to 25% of total assets in the
first tier securities of only one
issuer for up to 3 business days?



N/A: Credit
Substitution

Guarantees or Demand Features that the Fund is Relying On

If the fund buys the investment, will more than 10% of total assets be invested in securities issued by or subject to demand features or guarantees provided by any one institution?



Yes, Fred's Bank = 11% of assets



If yes, (a) is the demand feature or guarantee provided by a person (other than the issuer) in a control relationship with the issuer or (b) will this and other investments that exceed the 10% limit together be more than 25% of total assets?



No, Fred's Bank is not affiliated and = only 11% of assets

If the fund buys the investment, will more than 5% of total assets be invested in second tier securities issued, or securities subject to second tier demand features or guarantees provided, by any one institution?



N/A: 1st tier guarantor

Determining the Maturity of Securities

Type of Security

Maturity of Security

Variable rate government security



Period until next interest rate reset

Floating rate government security or short term floating rate security



One day

Short term variable rate security

Earlier of period until next interest rate reset or demand date

Long term variable rate security with demand feature



Longer of period until next interest rate reset or demand date

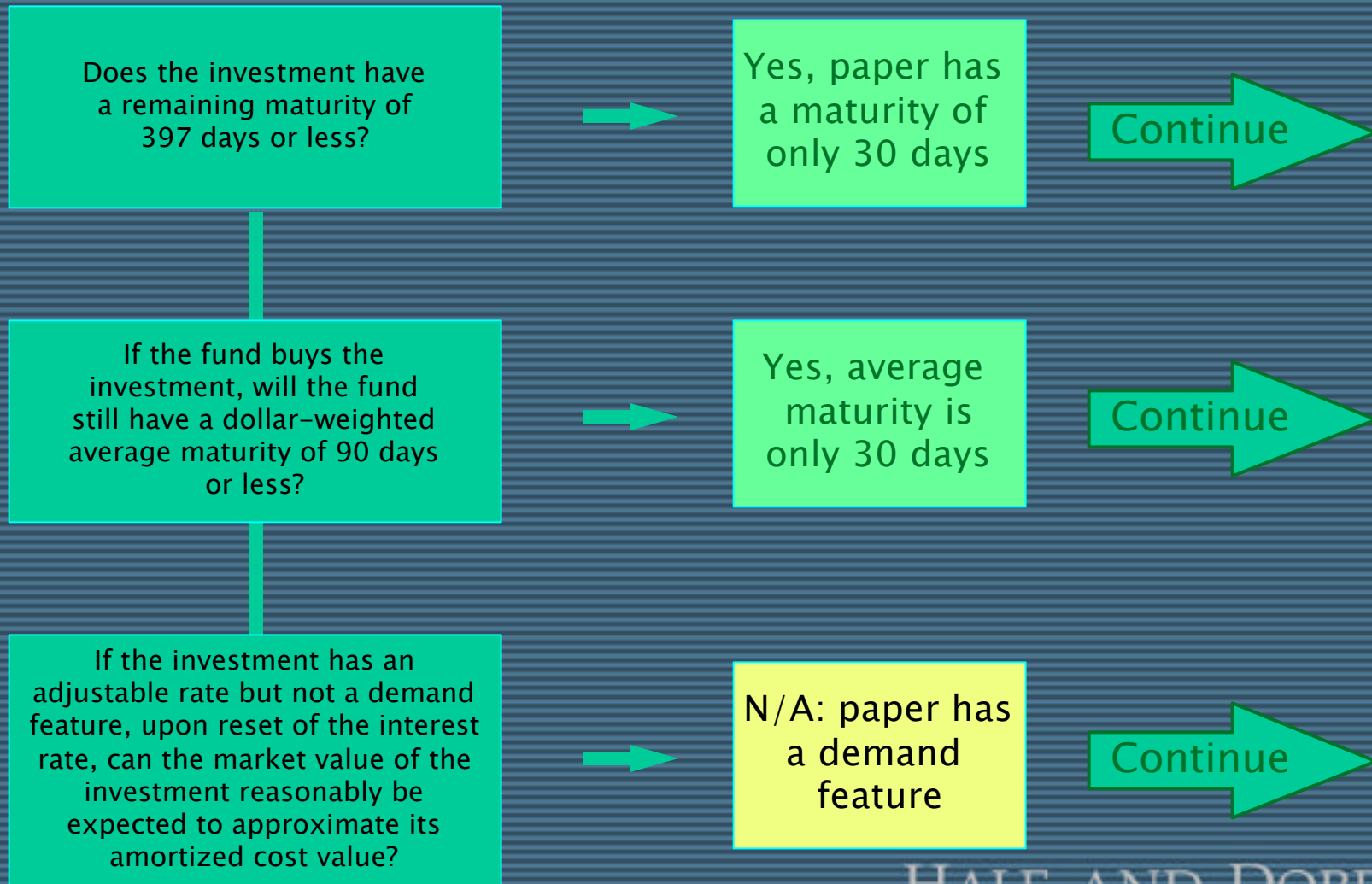


Long term floating rate security with demand feature



Period until next demand date

Determining Compliance with Maturity Limits



Eligibility Conclusion

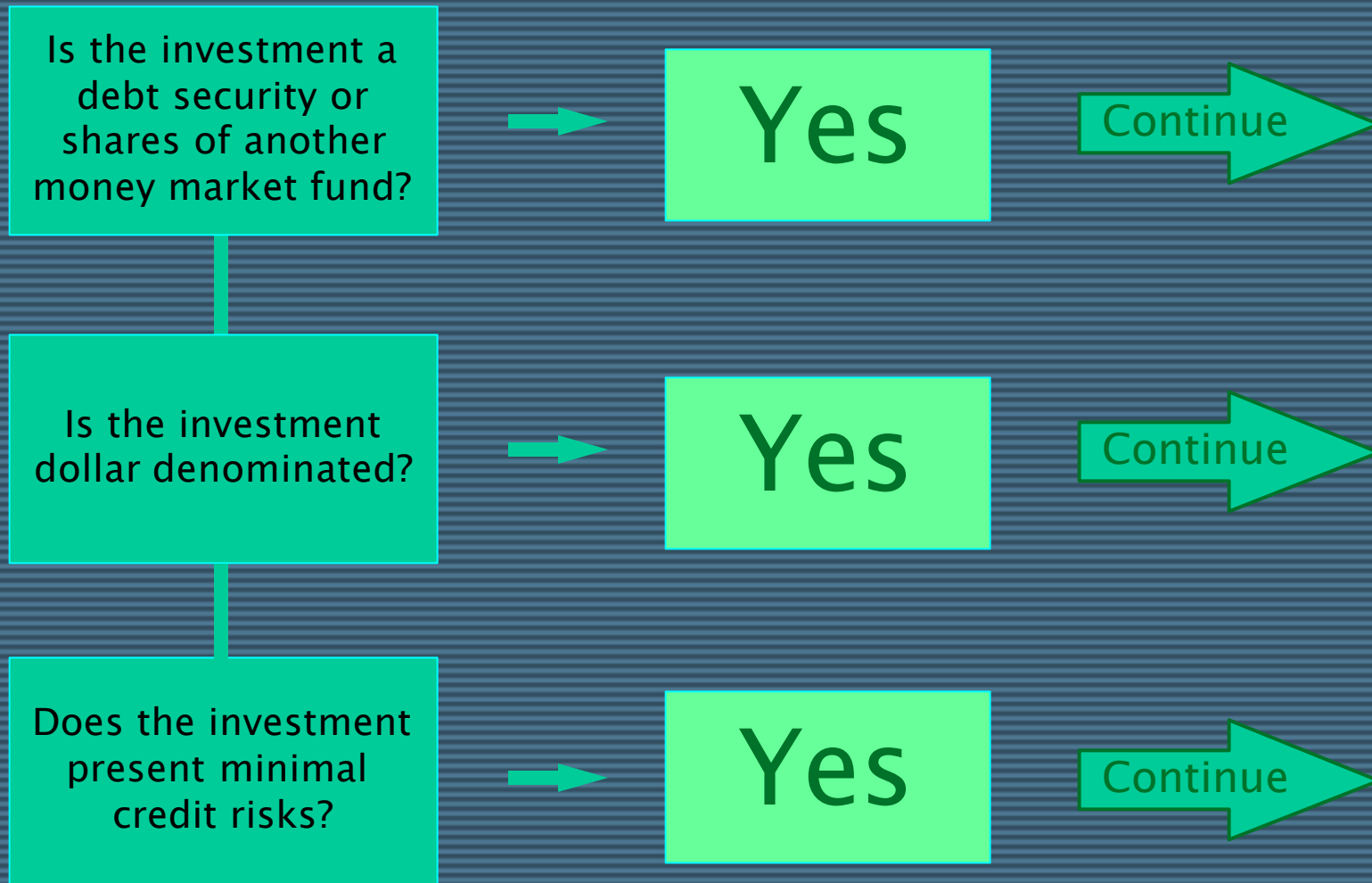
Taxable fund can buy up to \$15 million of Esprit Corp. floating rate commercial paper with unconditional demand feature from Fred's Bank

Example 3: Taxable Fund

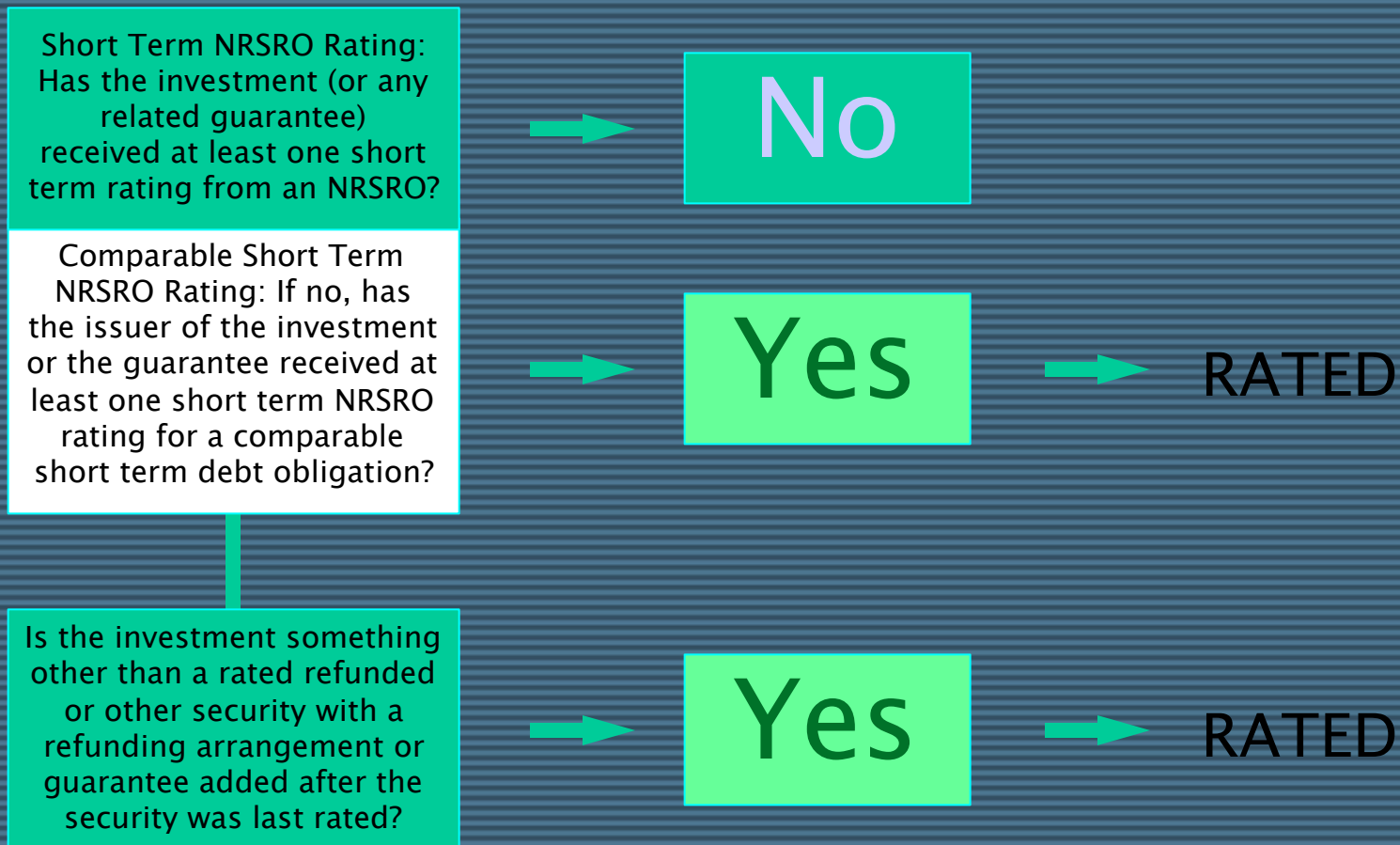
Same paper as in Example 1, except:

- Issuer has only 2 short term ratings:
A-1 and P-2
- Paper has no demand feature or guarantee
- Fund owns no Esprit Corp. paper yet but plans to invest not more than 10% of assets in paper for up to 3 business days

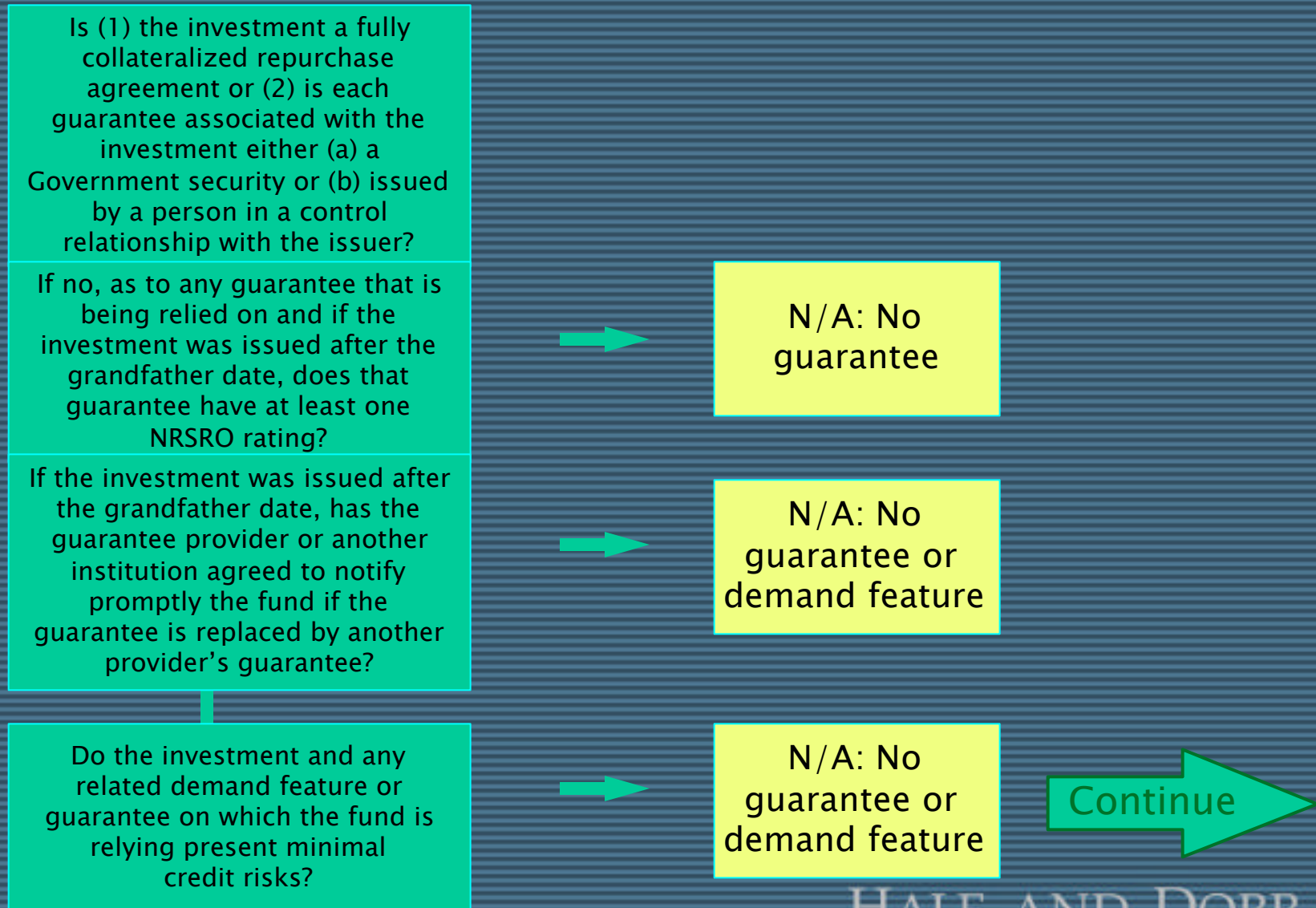
Threshold Eligibility Questions



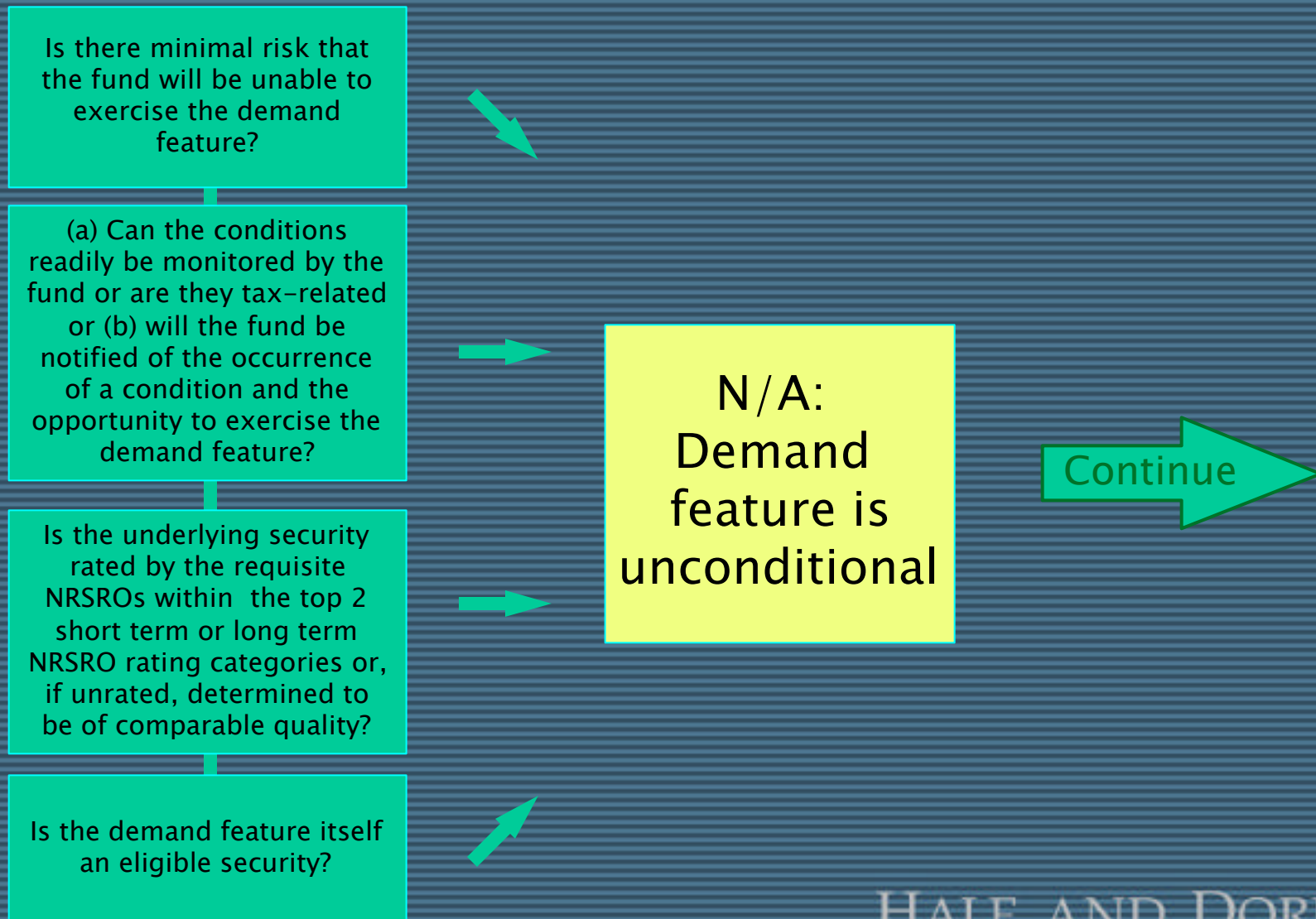
Deciding Whether an Investment is Rated or Unrated



Deciding Eligibility of Investments with Guarantees or Demand Features



Deciding Eligibility of Investments with Conditional Demand Features



Deciding Whether an Investment is First Tier or Second Tier

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's highest short term rating category?



NO: split rating is not 1st tier

If unrated, is the investment a Government security, shares of another money market fund, or of comparable quality to securities in the highest short term NRSRO rating category?



N/A:
Rated

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's second highest short term rating category?



Yes



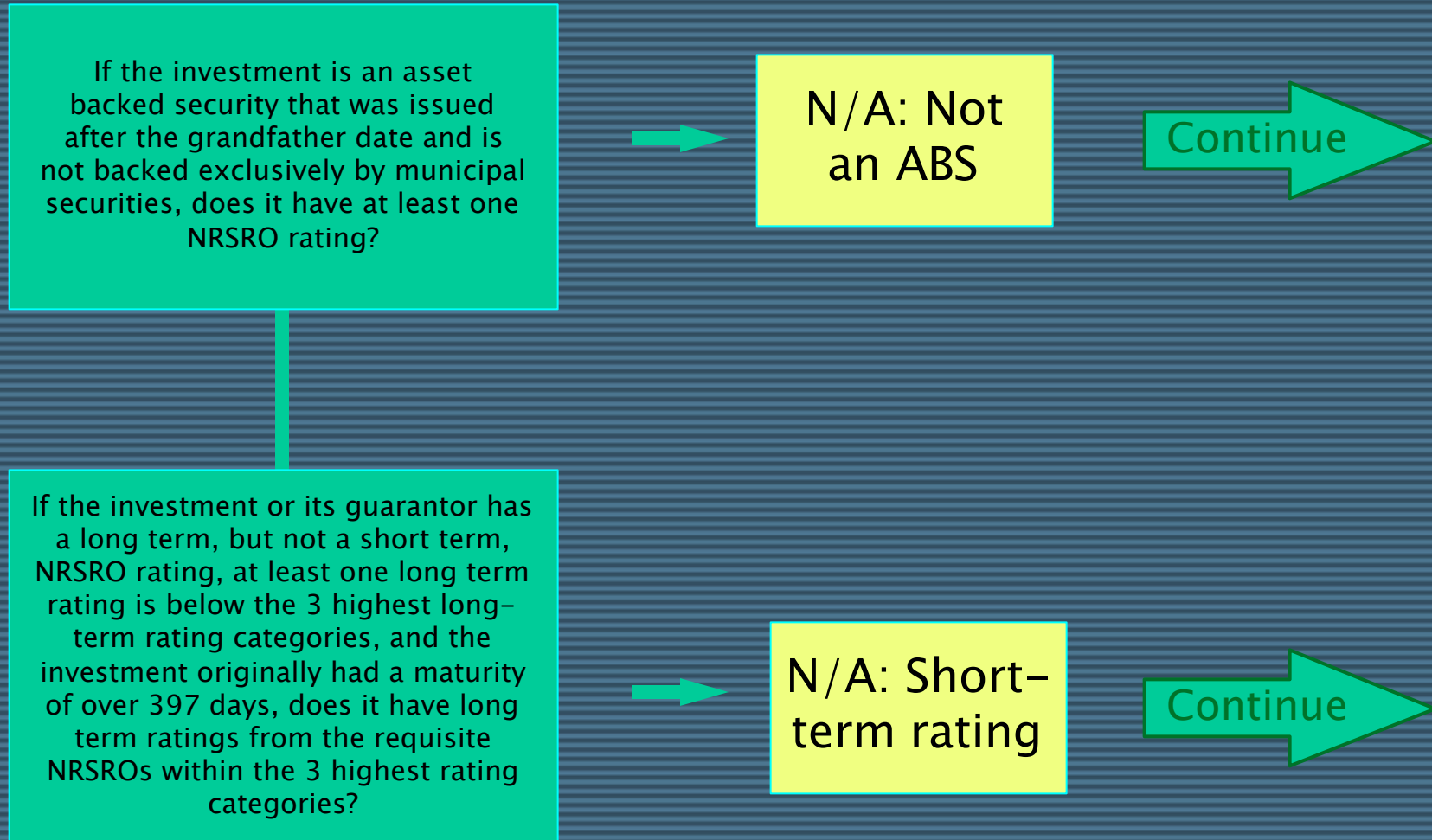
2ND TIER

If unrated, is the investment of comparable quality to securities in the second highest short term NRSRO rating category?



N/A:
Rated

Special Credit Eligibility Determinations



Diversification of First Tier Securities Taxable and National Tax Free Funds

If the fund buys the investment, will 5% or less of total assets continue to be invested in securities (other than a Government security or a security subject to a guarantee by a non-controlled person) issued by the issuer of the investment?



N/A: Paper is 2nd tier

Continue

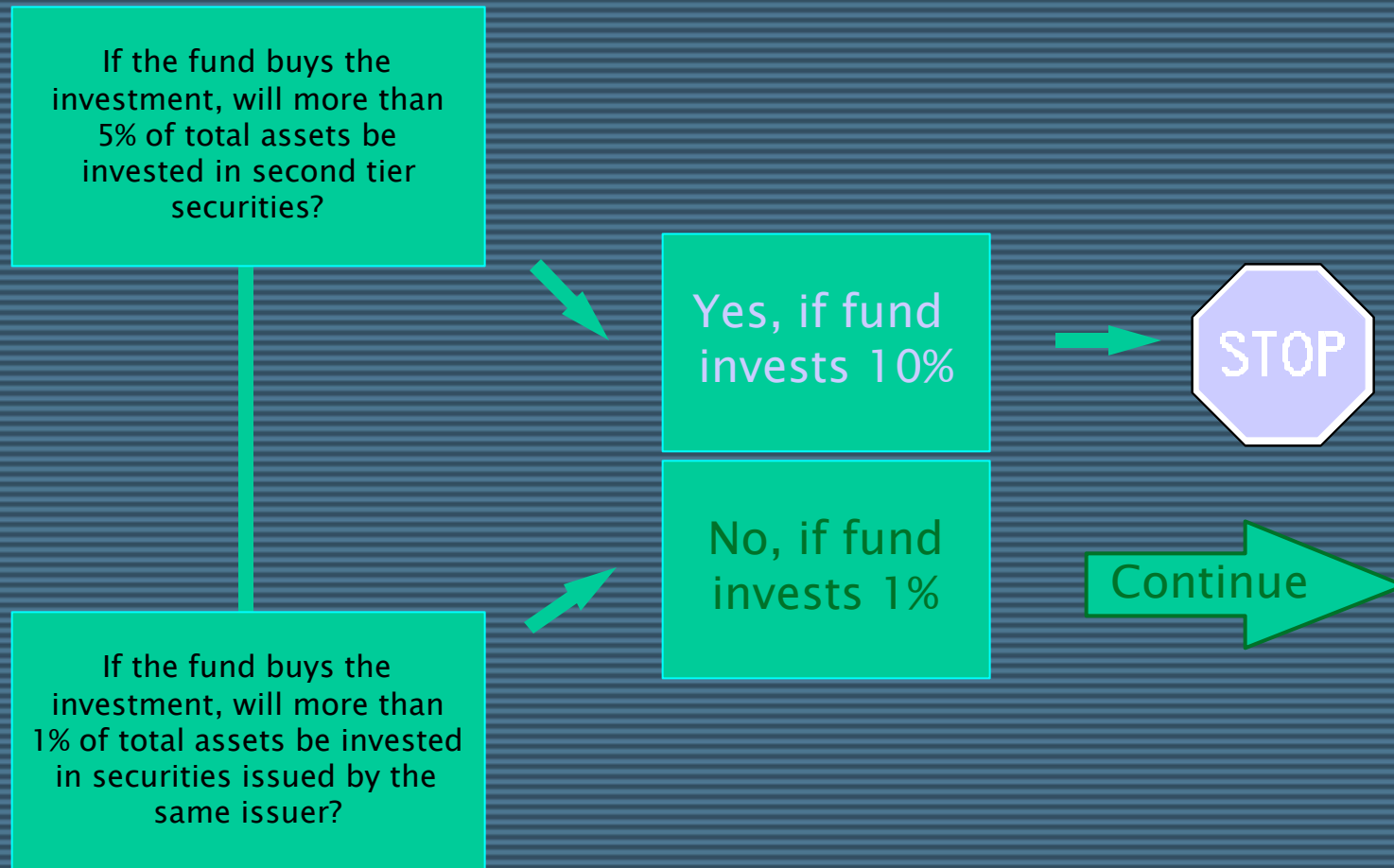


3 Day First Tier Securities Exemption: Is the investment being purchased in reliance on the exemption that allows investments of up to 25% of total assets in the first tier securities of only one issuer for up to 3 business days?



N/A: No exemption for 2nd tier paper

Diversification of Second Tier Securities



Guarantees or Demand Features that the Fund is Relying On

If the fund buys the investment, will more than 10% of total assets be invested in securities issued by or subject to demand features or guarantees provided by any one institution?

If yes, (a) is the demand feature or guarantee provided by a person (other than the issuer) in a control relationship with the issuer or (b) will this and other investments that exceed the 10% limit together be more than 25% of total assets?

If the fund buys the investment, will more than 5% of total assets be invested in second tier securities issued, or securities subject to second tier demand features or guarantees provided, by any one institution?

N/A: No demand features or guarantees

Continue

Determining the Maturity of Securities

Type of Security

Maturity of Security

Variable rate government security



Period until next interest rate reset

Floating rate government security or short term floating rate security



One day

Short term variable rate security

Earlier of period until next interest rate reset or demand date

Long term variable rate security with demand feature



Longer of period until next interest rate reset or demand date

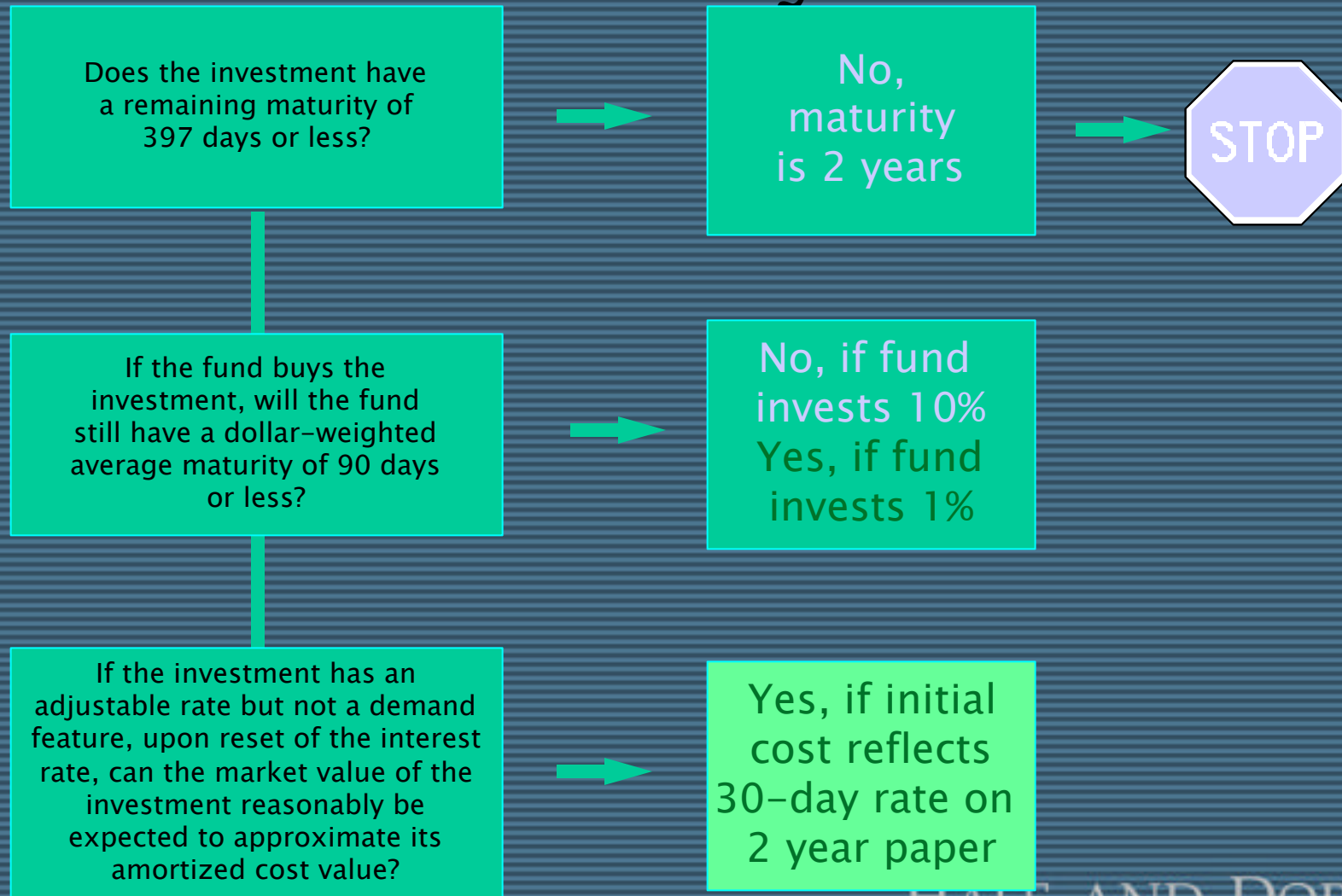


Long term variable rate security with no demand feature



Period remaining until final maturity date

Determining Compliance with Maturity Limits



Eligibility Conclusion

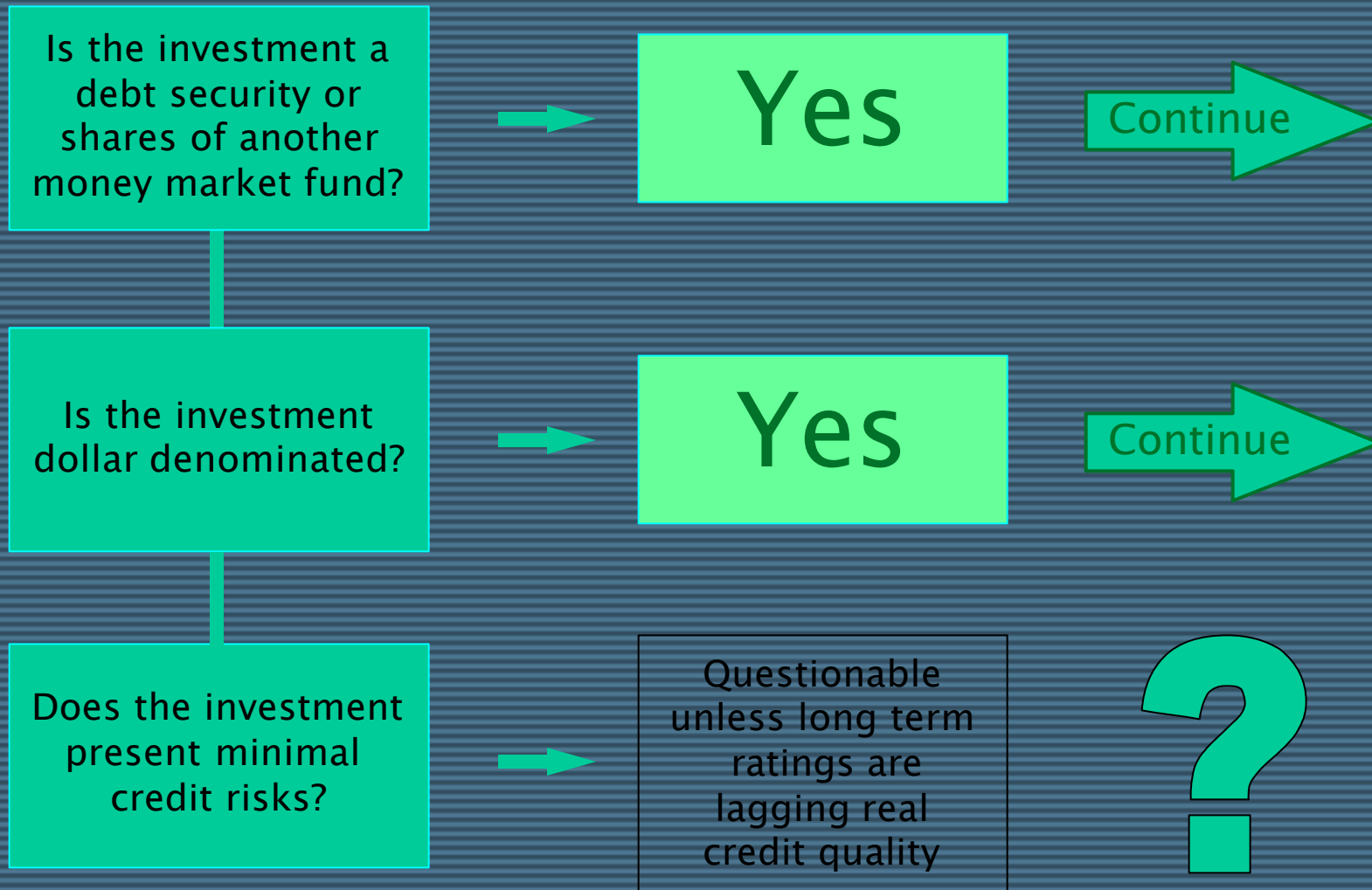
Taxable fund cannot buy more than \$1 million of Esprit Corp. second tier variable rate commercial paper with no demand feature or guarantee and cannot buy this paper until it has become a short term security (with a remaining maturity of 397 days or less)

Example 4: Taxable Fund

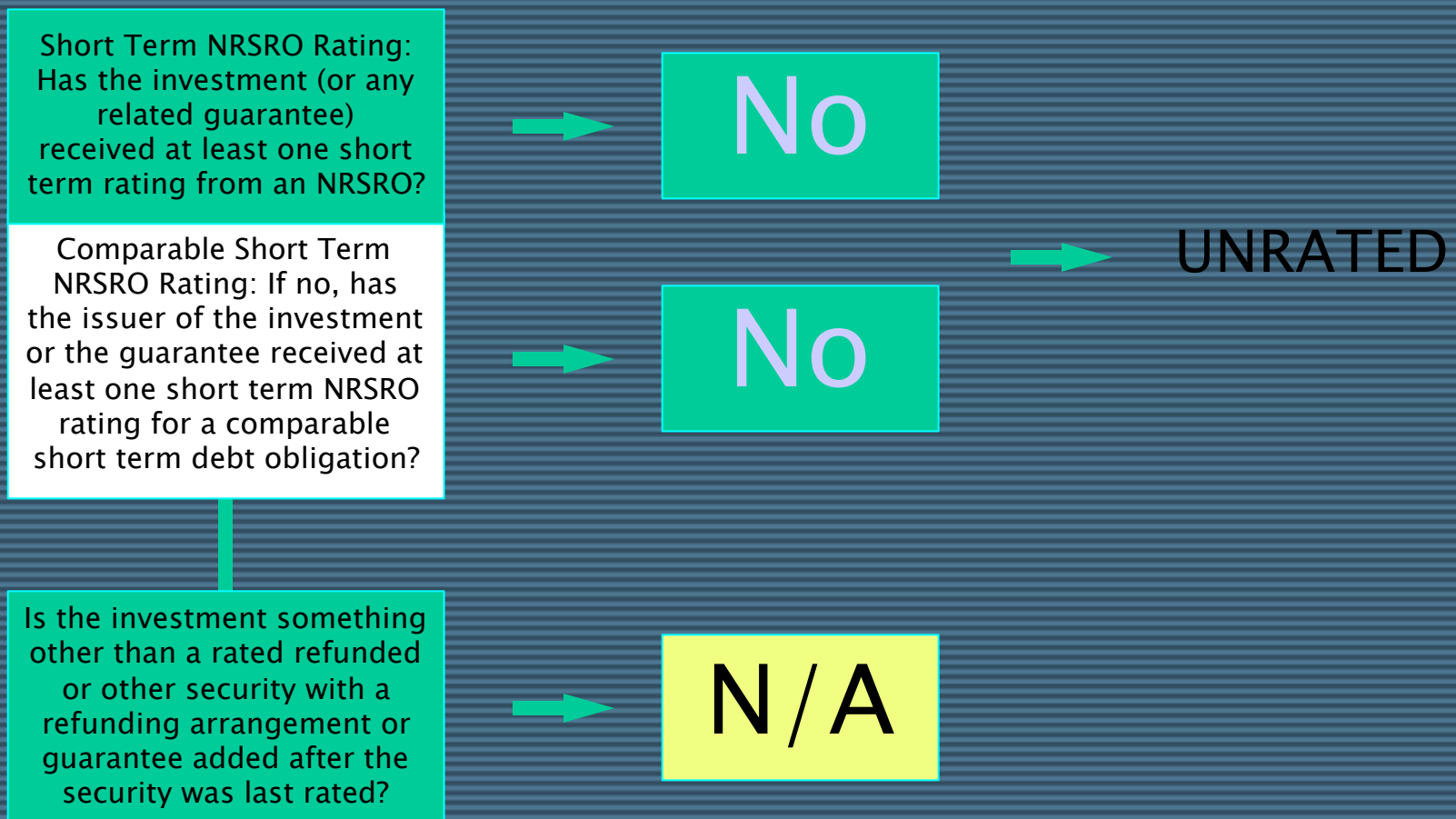
Same paper as in Example 3, except:

- Paper and issuer have no short term ratings, but paper has received long term ratings of BBB, Baa and A
- Adviser believes that paper is comparable in quality to securities rated A-2, P-2, F-2

Threshold Eligibility Questions



Deciding Whether an Investment is Rated or Unrated



Deciding Whether an Investment is First Tier or Second Tier

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's highest short term rating category?



No,
unrated

If unrated, is the investment a Government security, shares of another money market fund, or of comparable quality to securities in the highest short term NRSRO rating category?



No

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's second highest short term rating category?



No,
unrated

If unrated, is the investment of comparable quality to securities in the second highest short term NRSRO rating category?

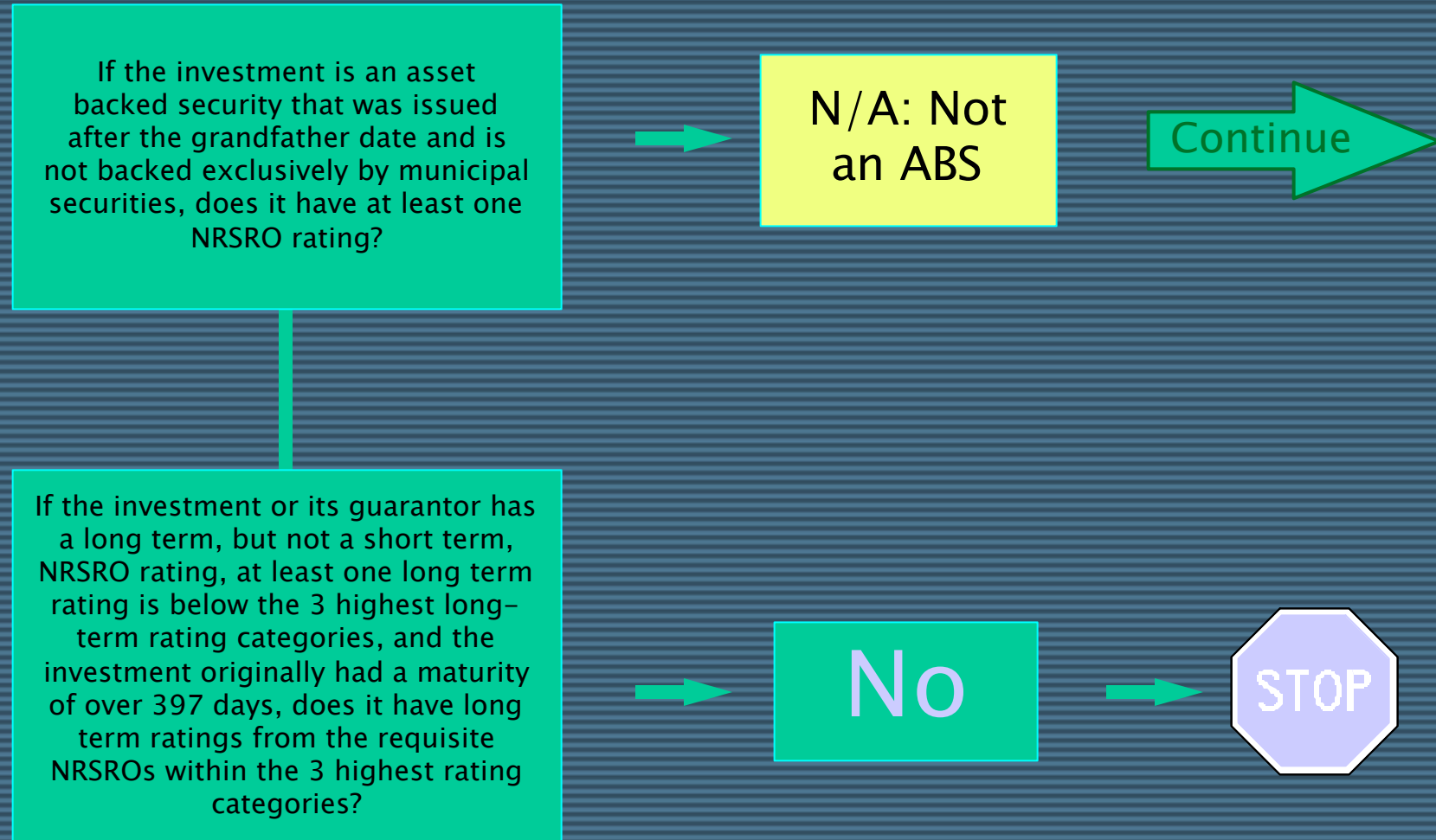


Yes



2ND TIER

Special Credit Eligibility Determinations



Eligibility Conclusion

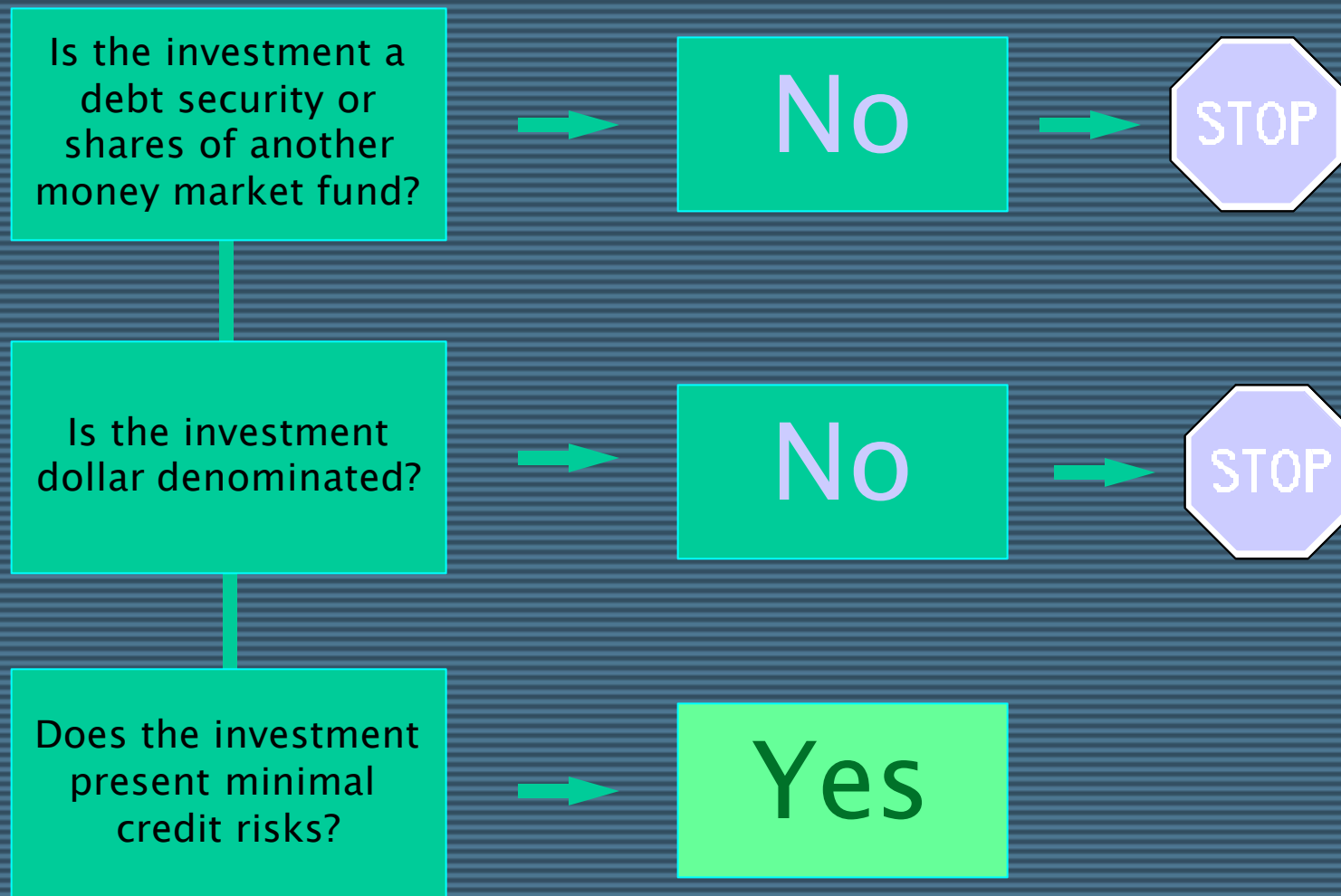
Taxable fund cannot buy Esprit Corp. commercial paper with no short term rating and ineligible long term ratings

Example 5: Taxable Fund

Possible investment in 1 year certificate of deposit with these terms:

- Issuer is a Bermuda bank with A-1/
- P-1/F-1 ratings
- Amount of interest depends on the performance of the EAFE stock index
- Principal and interest are payable in Euros

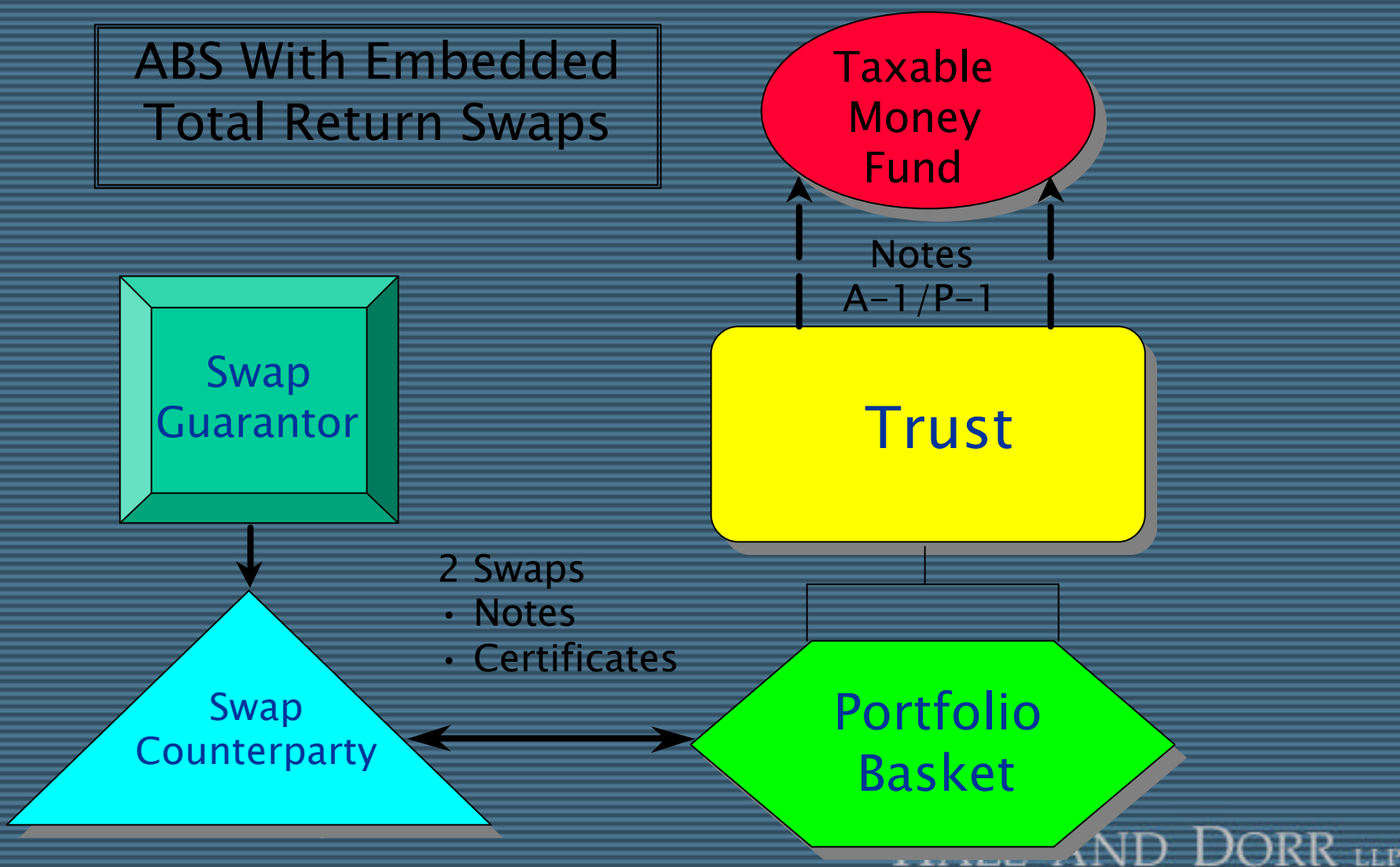
Threshold Eligibility Questions



Eligibility Conclusion

Taxable fund cannot buy Bermuda Bank CD with foreign equity rate of return and principal and interest payable in a foreign currency

Example 6: Taxable Fund



Example 6: Taxable Fund

Possible investment in asset backed notes with embedded swaps

- The notes mature 360 days after the date of issue
- A note holder can extend the maturity of the notes by 360 days by signing an agreement with the trust
- The notes do not have a demand feature

Example 6: Taxable Fund

Possible investment in asset backed notes with embedded swaps

- The notes are rated A-1/P-1
- Interest is payable quarterly in arrears
- Interest rate is 3 month LIBOR + 10 basis points and resets quarterly
- The trust has no unpledged assets so note holders must look to the swap counterparty for payment

Example 6: Taxable Fund

Possible investment in asset backed notes with embedded swaps

- The obligations of the swap counterparty are guaranteed by its parent company, which is not affiliated with the ABS sponsor
- Other short term debt of the swap counterparty and the guarantor has been rated A-1/P-1
- The trust will notify the fund of any change in the guarantor

Example 6: Taxable Fund

Possible investment in asset backed notes with embedded swaps

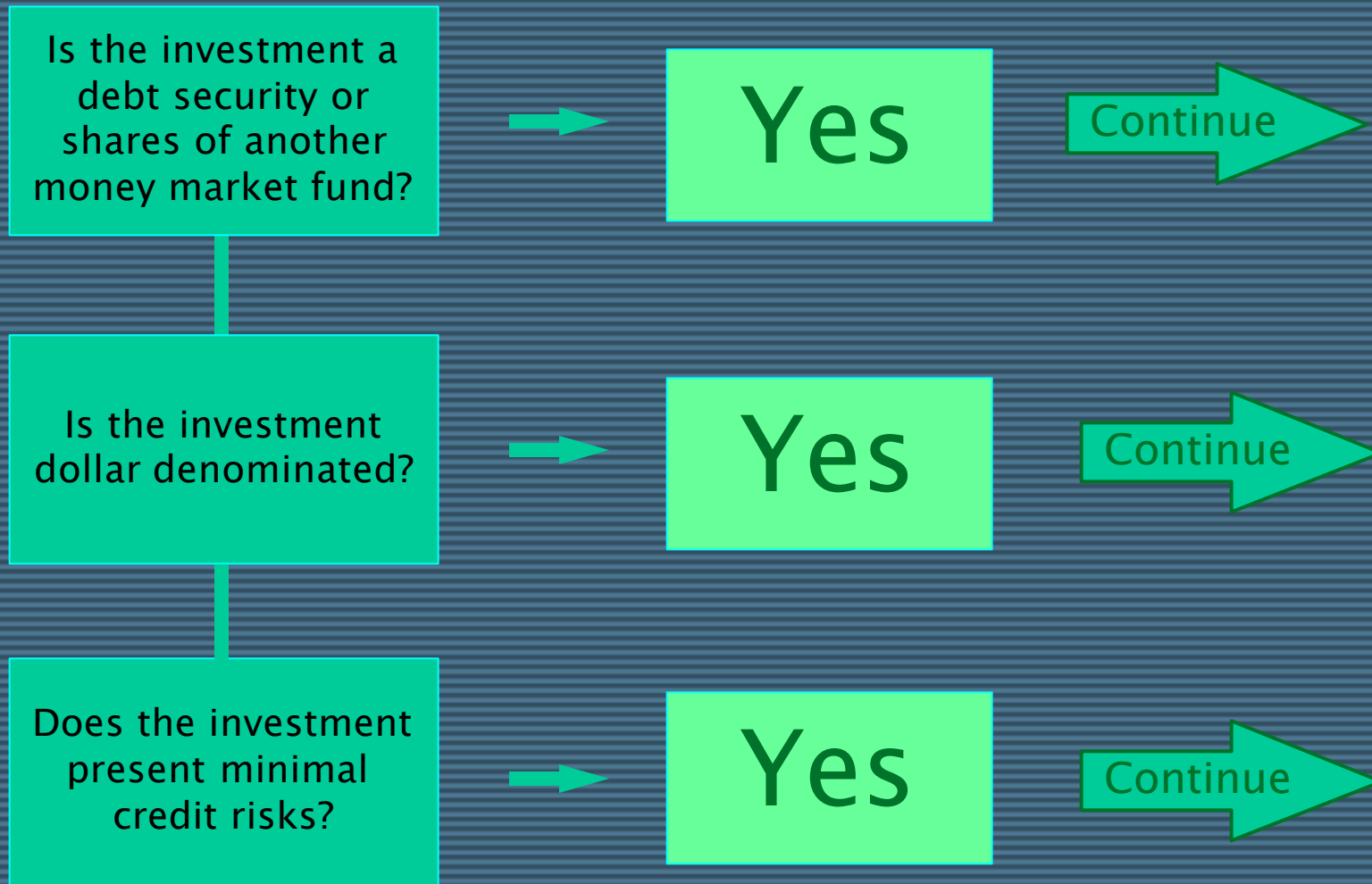
- The trust must make payments to the swap counterparty even if the counterparty does not make reciprocal payments
- If there is an early termination event, the portfolio securities basket is liquidated and note holders are paid first

Example 6: Taxable Fund

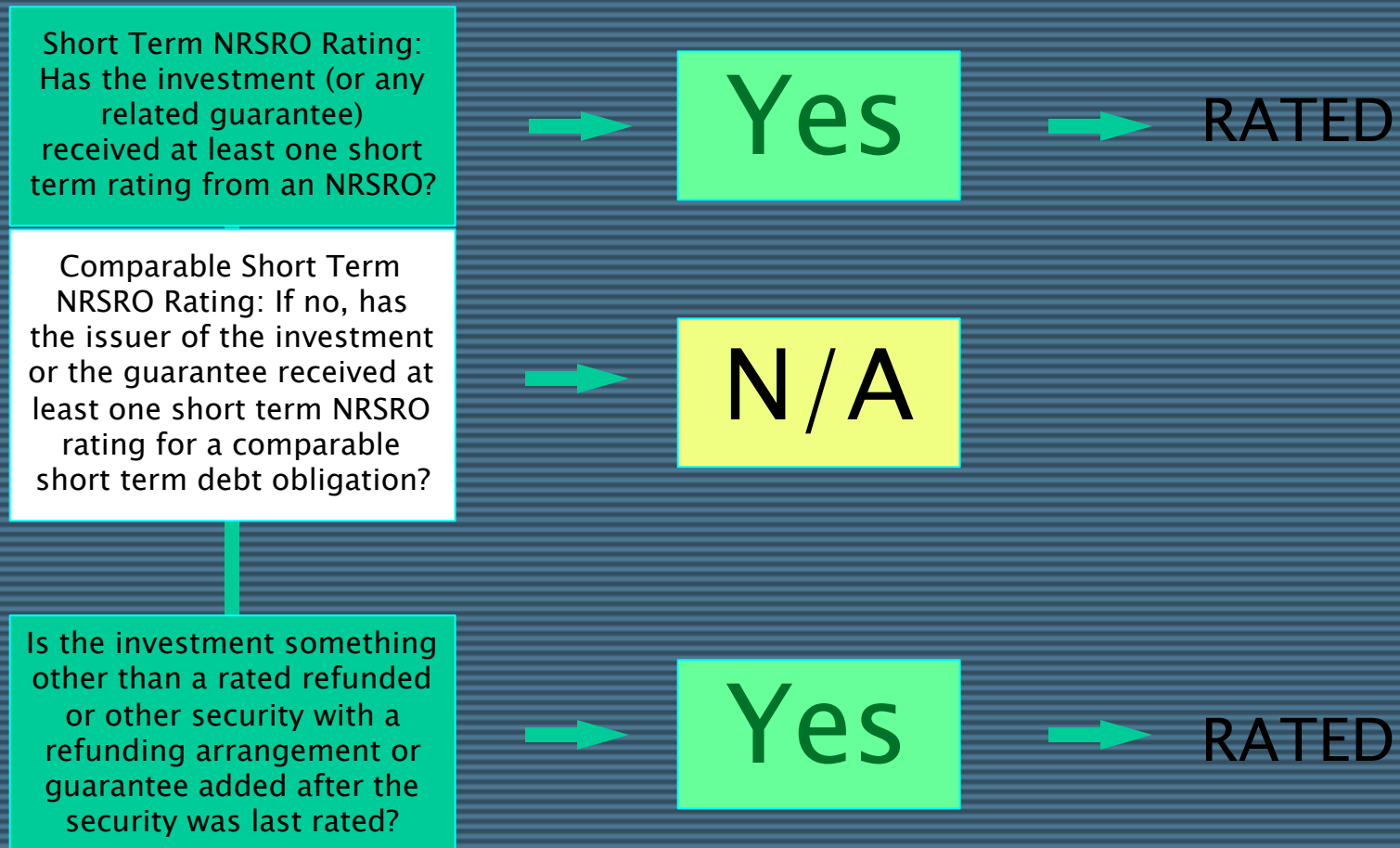
Possible investment in asset backed notes with embedded swaps

- The fund is the same as in Example 1
- The fund does not own any other securities issued by the trust or swap counterparty
- The fund has 6% of assets invested in other securities guaranteed by the guarantor
- The fund wants to buy \$4 million of the notes

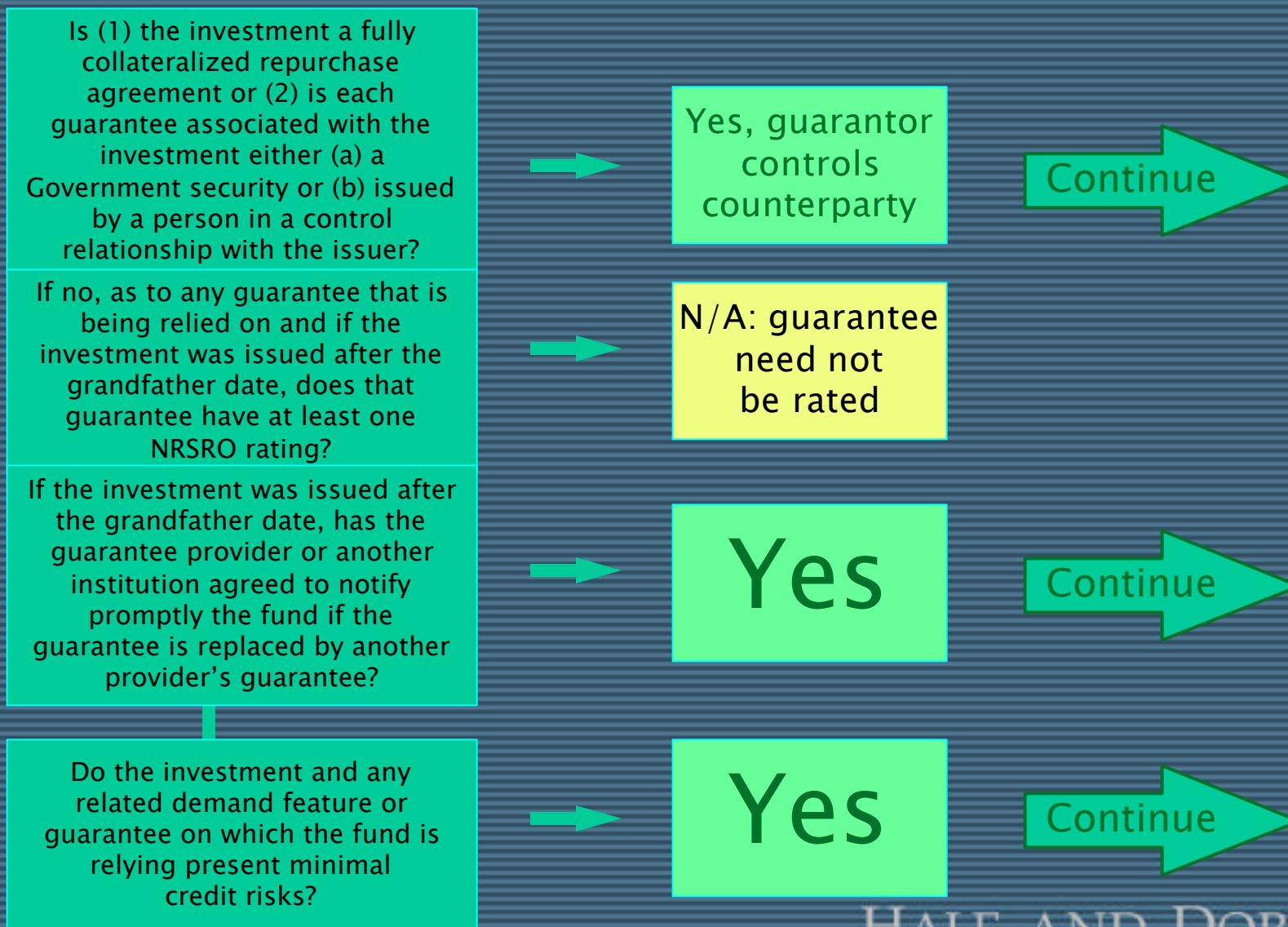
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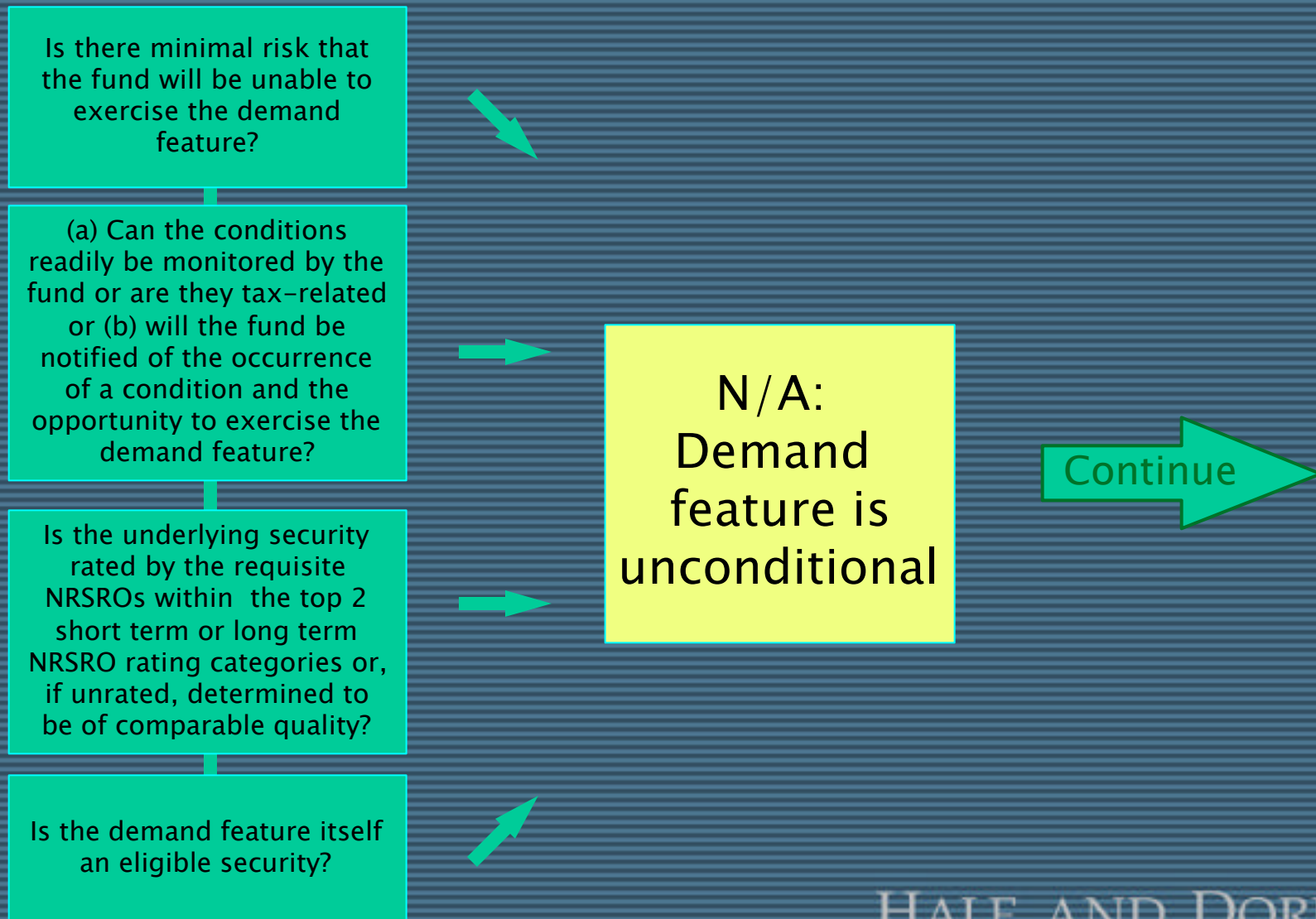
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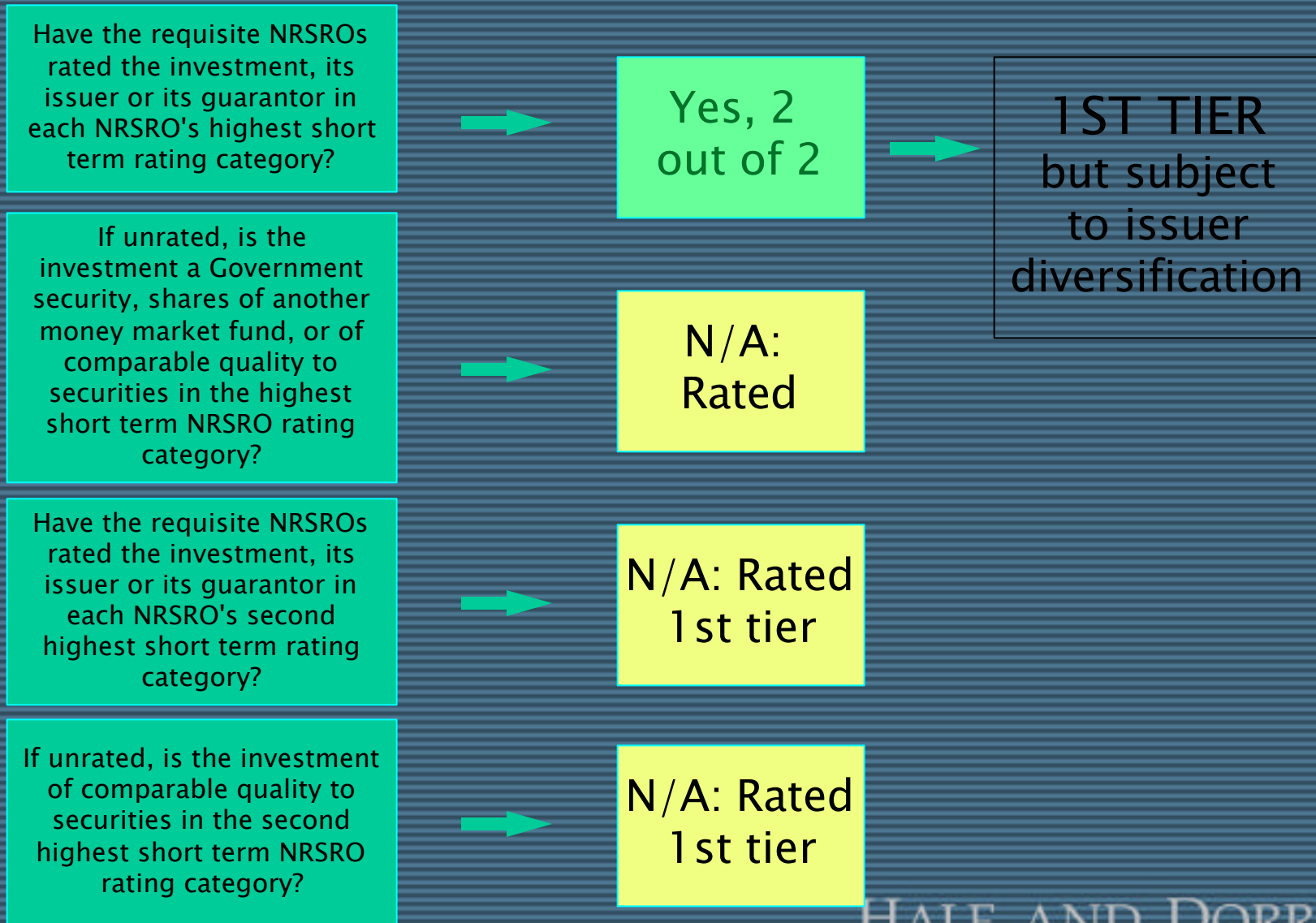
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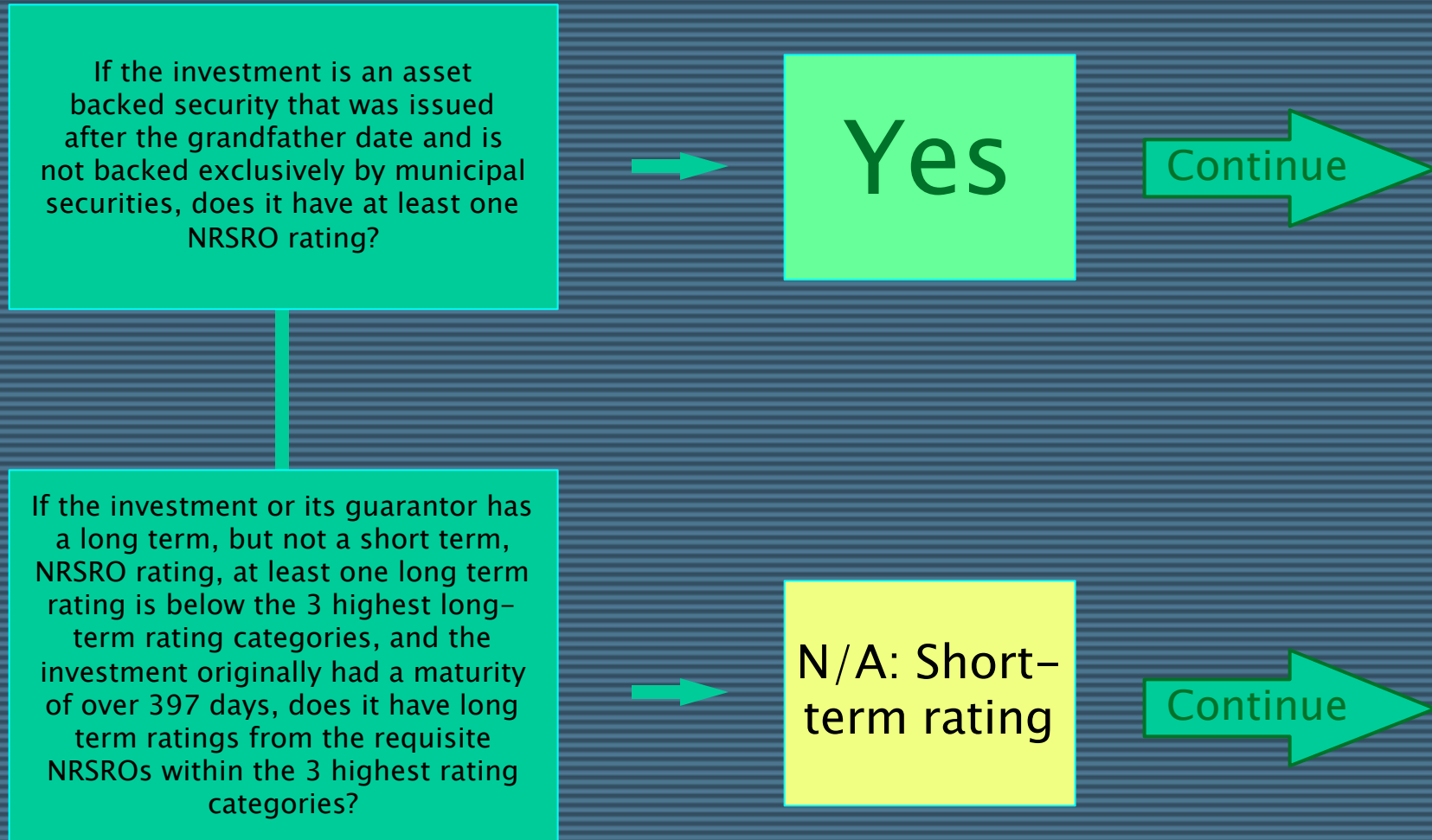
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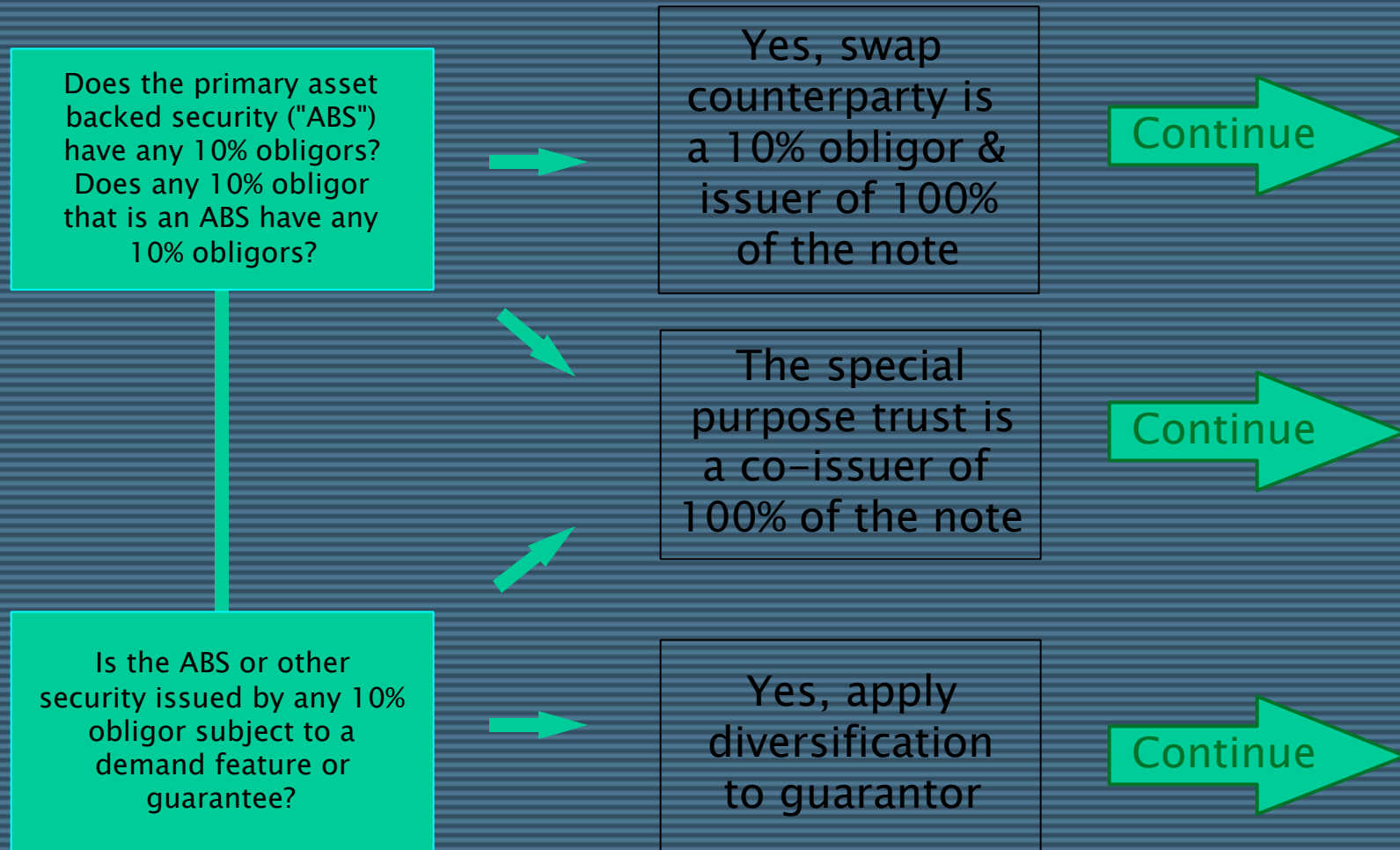
Deciding Whether an Investment is First Tier or Second Tier



Special Credit Eligibility Determinations



Determining the Issuer of Asset Backed Securities



Diversification of First Tier Securities Taxable and National Tax Free Funds

If the fund buys the investment, will 5% or less of total assets continue to be invested in securities (other than a Government security or a security subject to a guarantee by a non-controlled person) issued by the issuer of the investment?



Yes, each issuer is only 4% of total assets

Continue

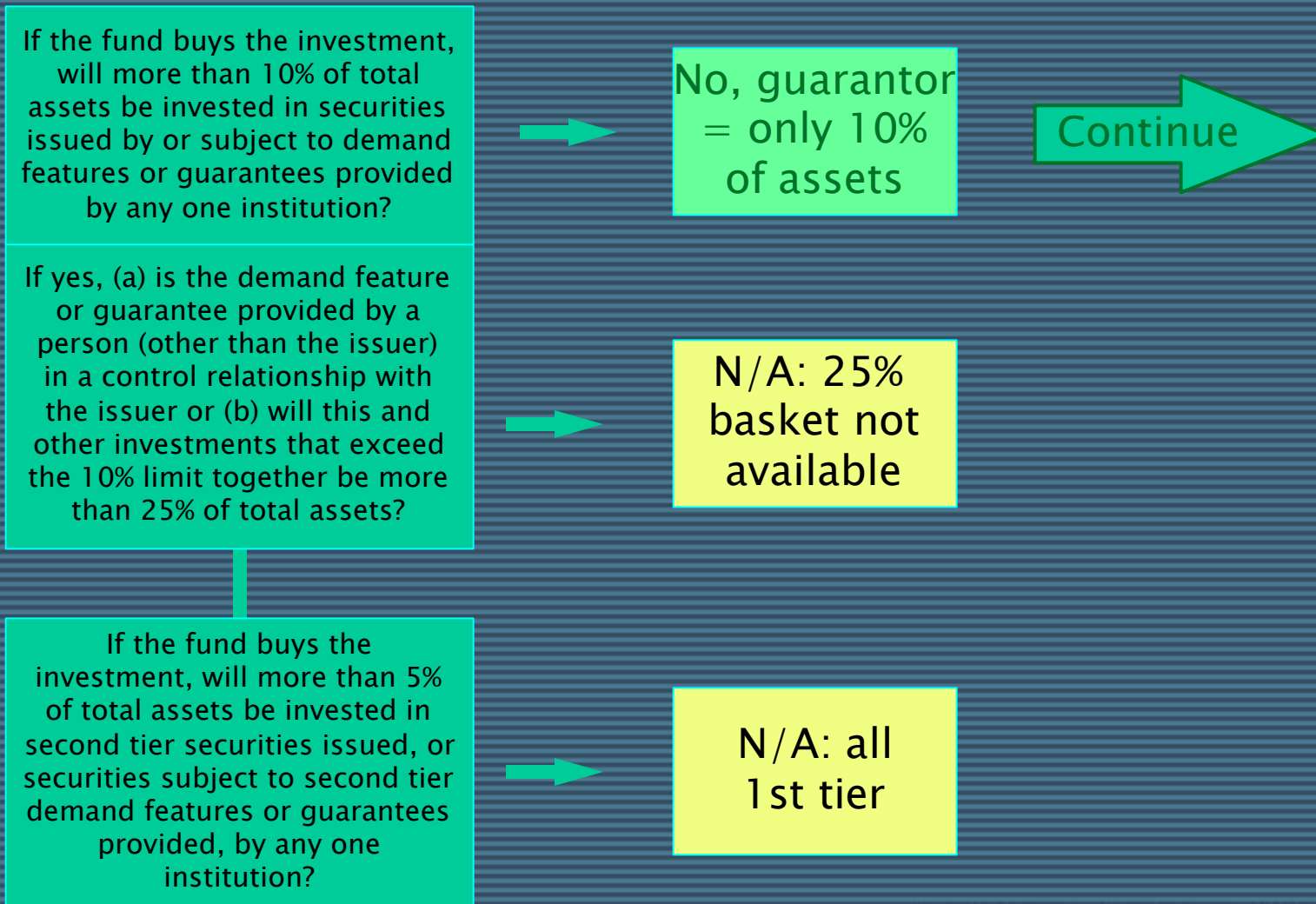


3 Day First Tier Securities Exemption: Is the investment being purchased in reliance on the exemption that allows investments of up to 25% of total assets in the first tier securities of only one issuer for up to 3 business days?



N/A: Only 4% of assets

Guarantees or Demand Features that the Fund is Relying On



Determining the Maturity of Securities

Type of Security

Maturity of Security

Variable rate government security

→ Period until next interest rate reset

Floating rate government security or short term floating rate security

→ One day

Long term floating rate security with demand feature

Period until next demand date

Long term variable rate security with demand feature

→ Longer of period until next interest rate reset or demand date

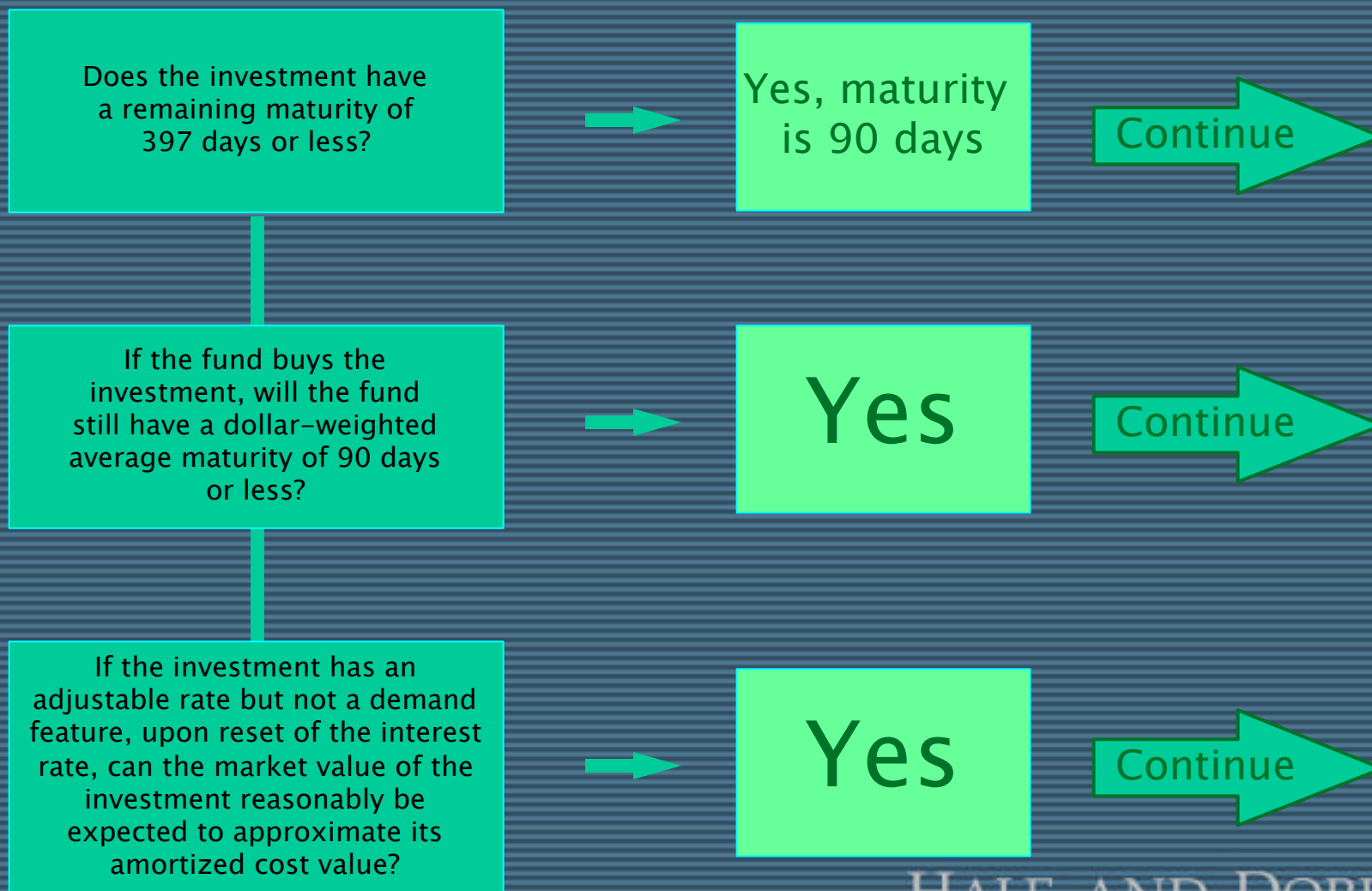


Short term variable rate security with no demand feature



Earlier of period until next interest rate reset or demand date

Determining Compliance with Maturity Limits



Eligibility Conclusion

Taxable fund can buy up to \$4 million of variable rate, asset backed notes with embedded total return swaps and no demand feature

Example 7: Tax-Free Fund

Proposed purchase of State of Prosperity one-year notes maturing on 12/31/01

- A salesperson from ABC Dealer tells you on 11/28/00 that she is taking orders on that day for the deal, which will settle on 12/5/00
- The expected ratings (to be confirmed at closing) are MIG1/F1+
- Half of the deal is taxable and the other half is tax-exempt

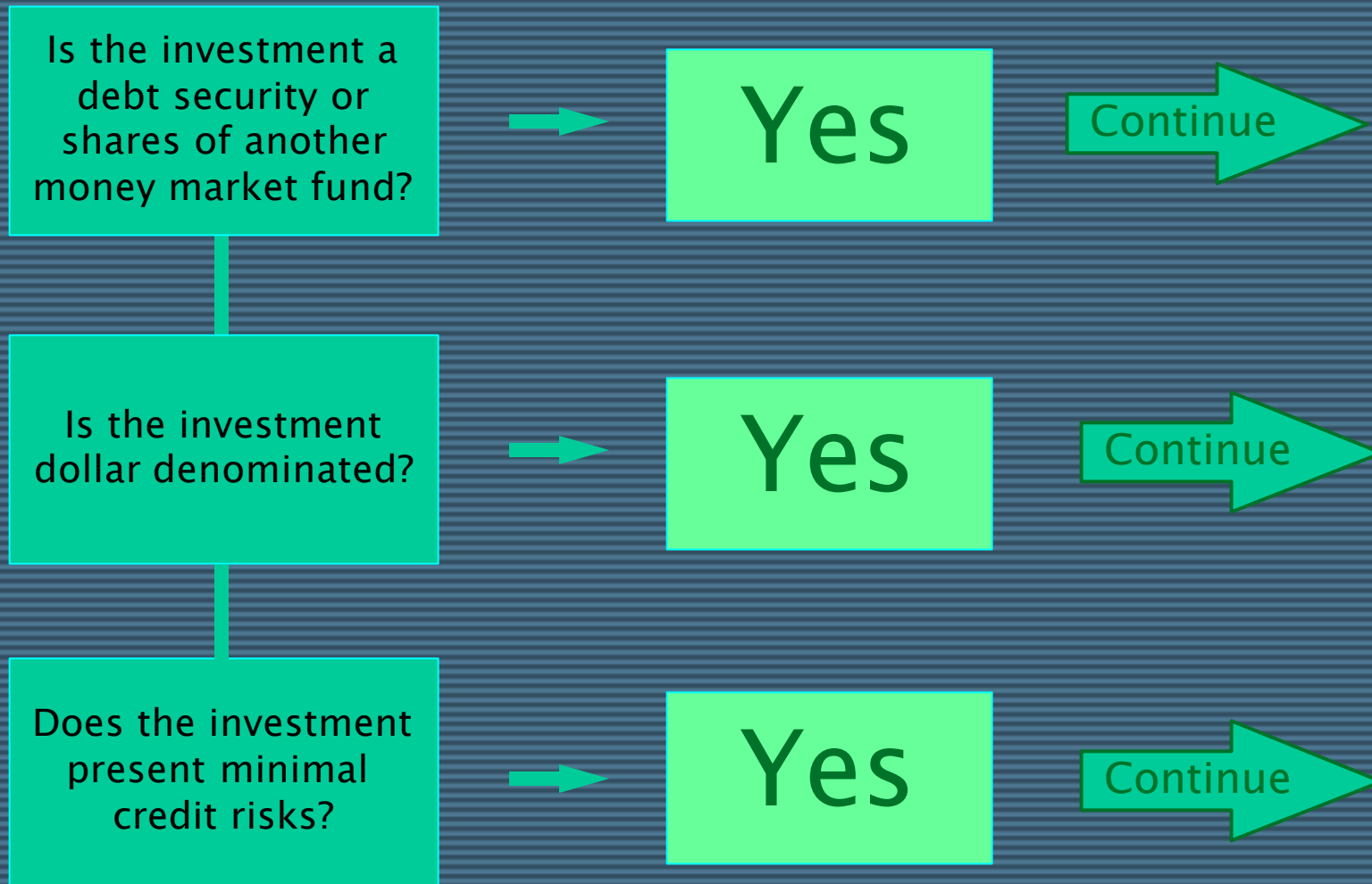
Example 7: Tax-Free Fund

- The interest rate on notes is fixed at the U.S. market rate for 1 year municipal notes of comparable quality
- Principal and interest are payable in U.S. dollars
- The notes do not have any demand feature or guarantee

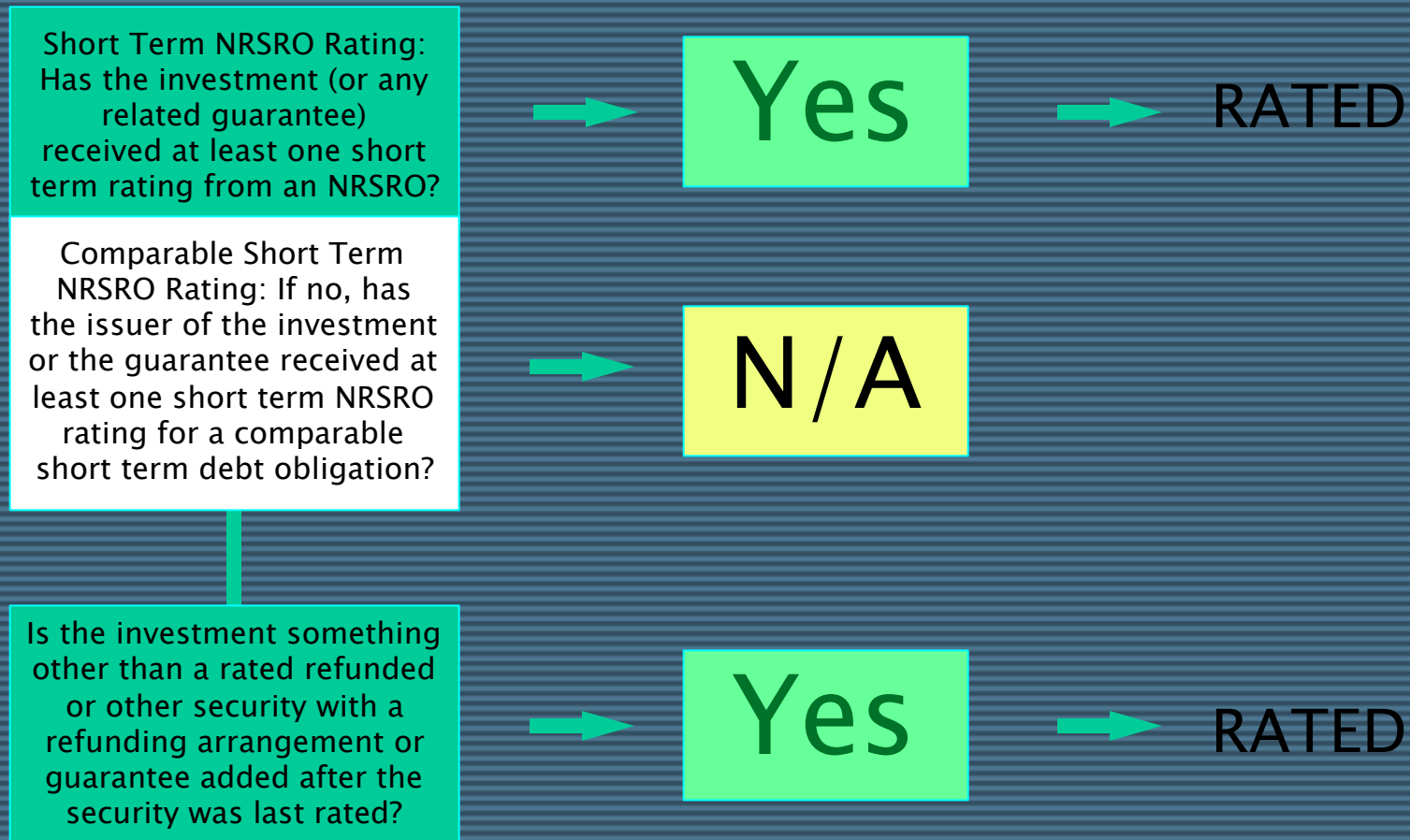
Example 7: Tax-Free Fund

- National Tax-Free Fund has an average maturity of 50 days
- National Tax-Free Fund has \$100 million of total assets and wants to invest \$2 million in the notes
- National Fund has already invested 2% of assets in Prosperity issues

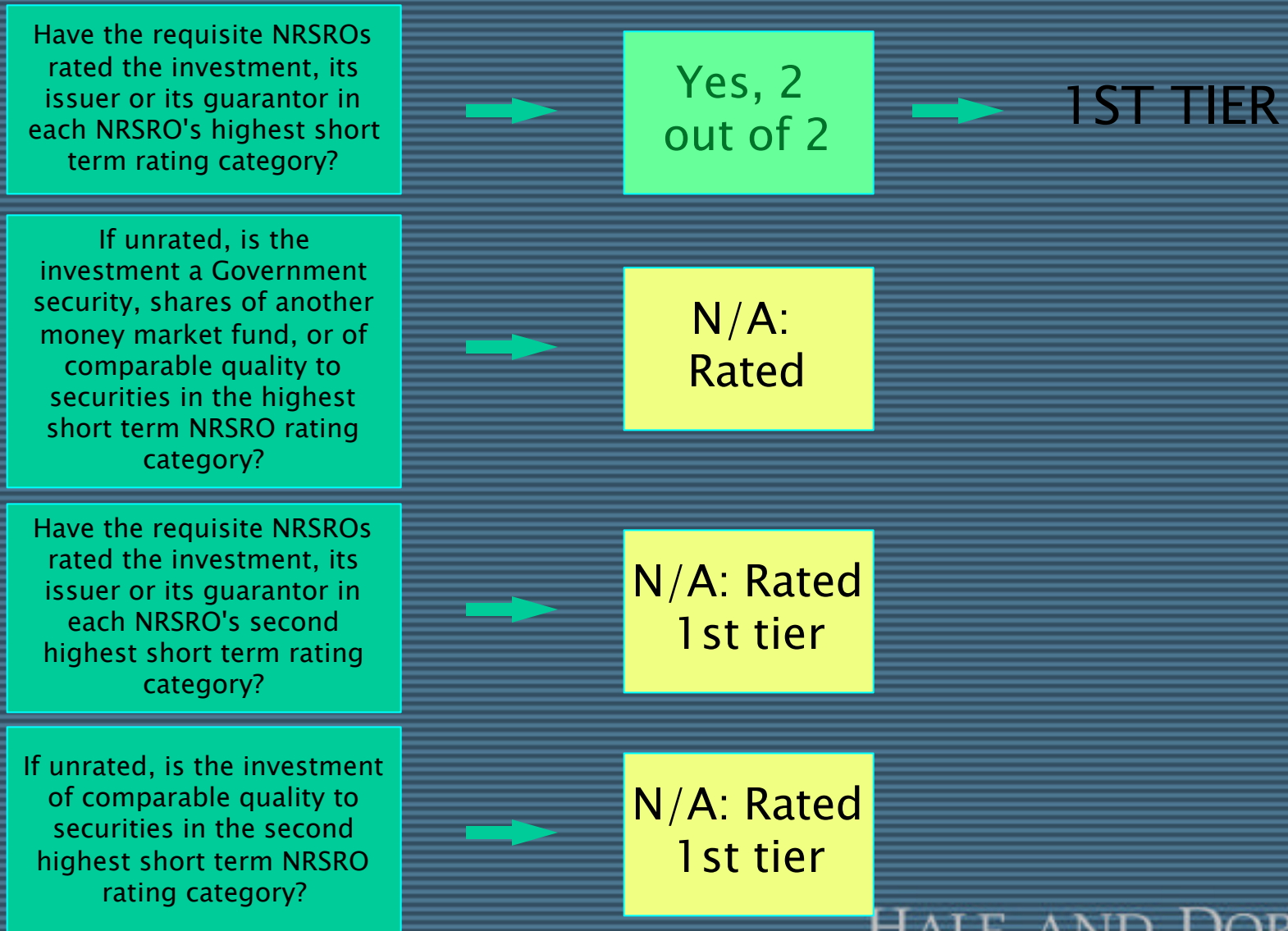
Threshold Eligibility Questions



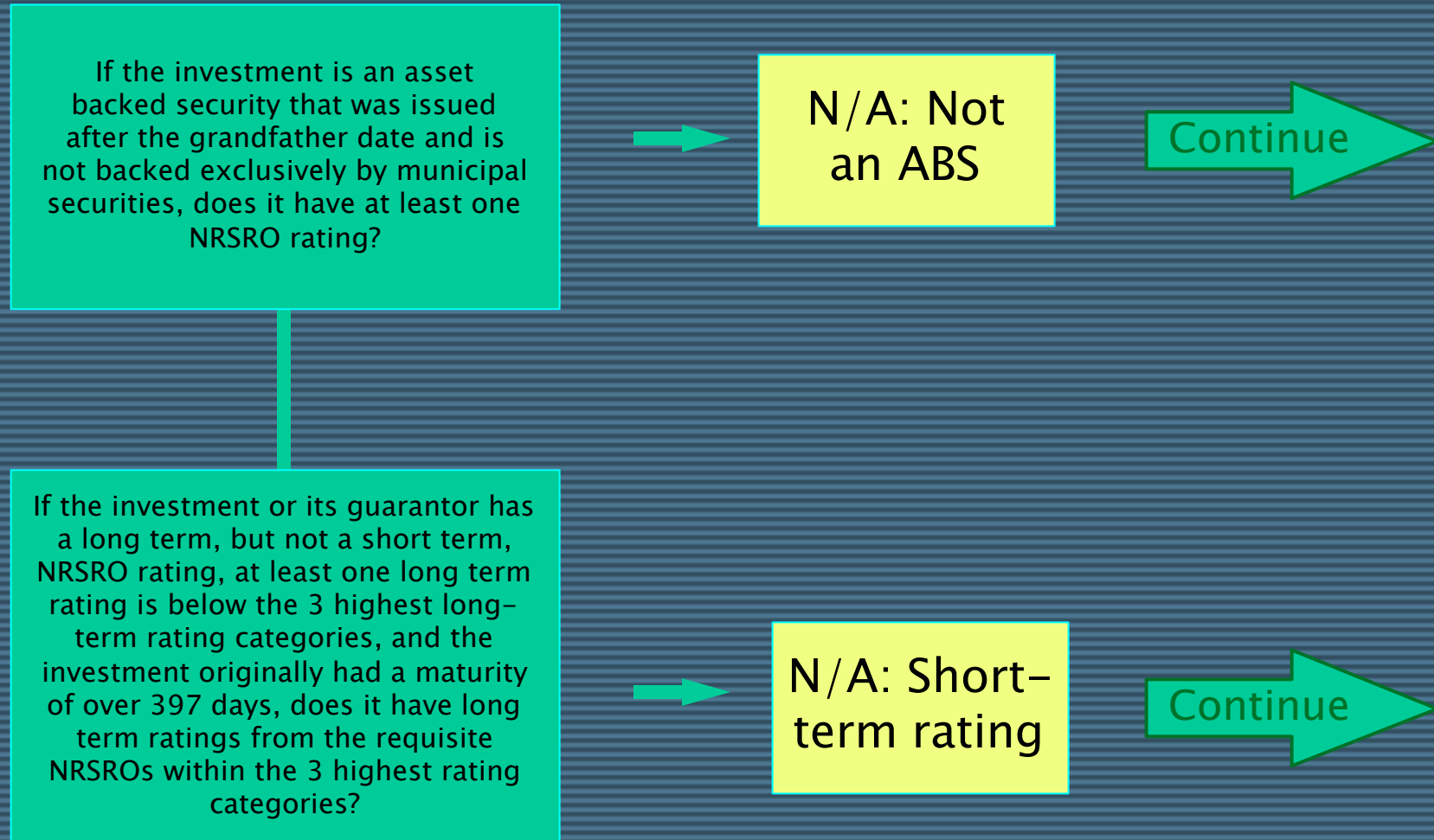
Deciding Whether an Investment is Rated or Unrated



Deciding Whether an Investment is First Tier or Second Tier



Special Credit Eligibility Determinations



Diversification of First Tier Securities Taxable and National Tax Free Funds

If the fund buys the investment, will 5% or less of total assets continue to be invested in securities (other than a Government security or a security subject to a guarantee by a non-controlled person) issued by the issuer of the investment?



Yes; issuer is only 4% of total assets

Continue

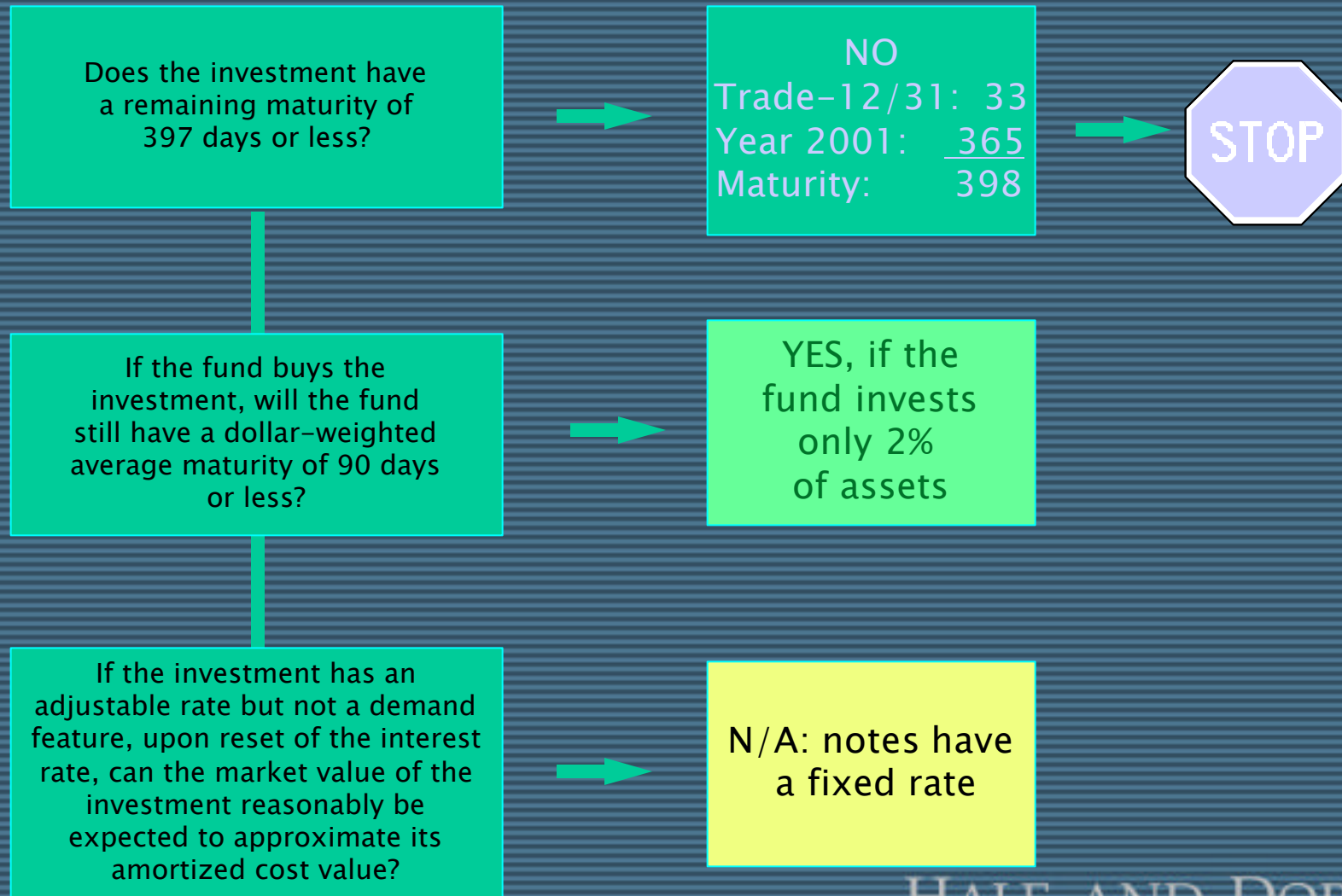


3 Day First Tier Securities Exemption: Is the investment being purchased in reliance on the exemption that allows investments of up to 25% of total assets in the first tier securities of only one issuer for up to 3 business days?



N/A: Only 4% of assets

Determining Compliance with Maturity Limits



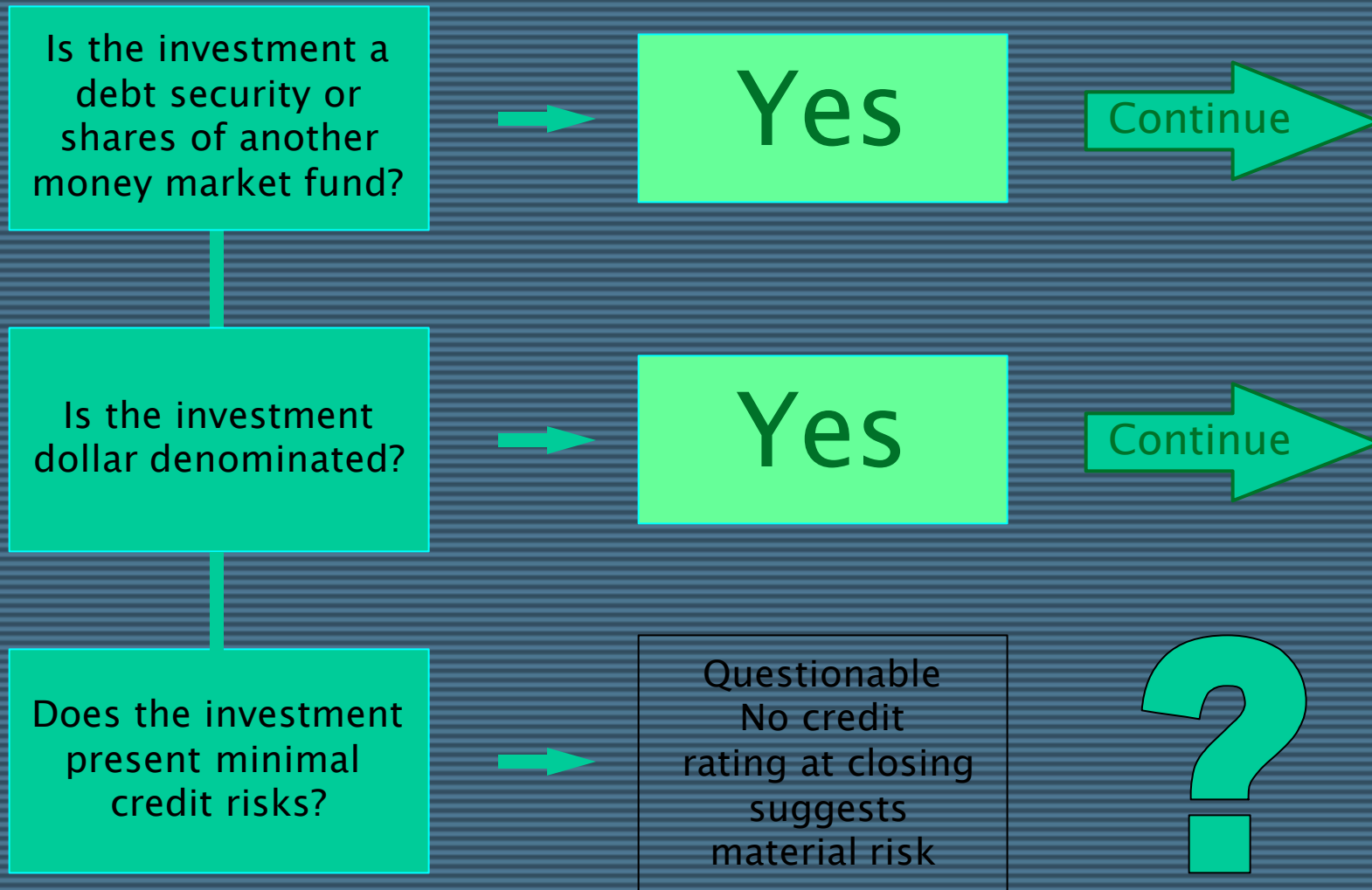
Eligibility Conclusion

Tax-free fund cannot buy State of Prosperity notes on 11/28/00, but can buy them on 11/29/00

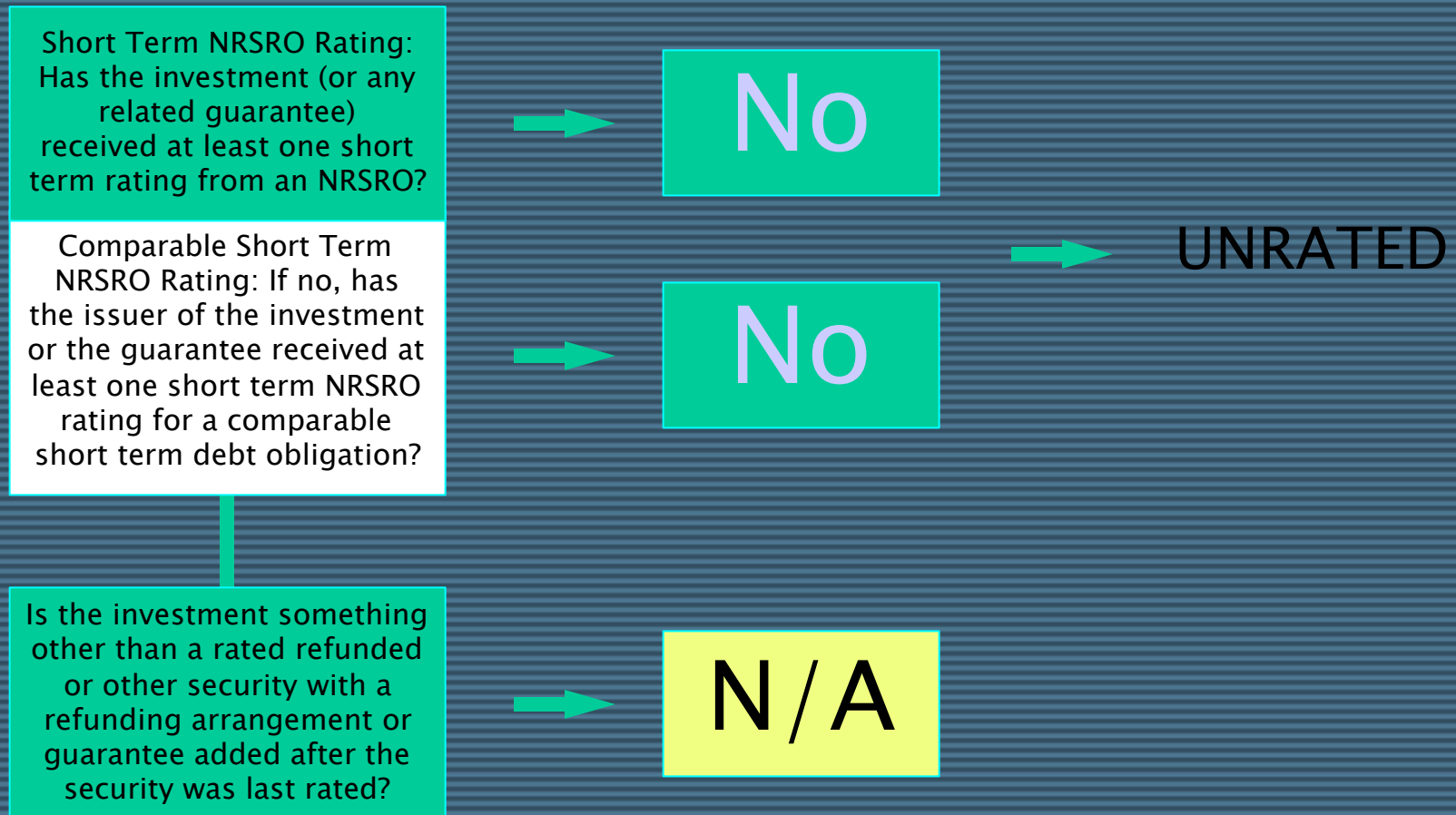
Example 8: Tax-Free Fund

- Same notes as in Example 7, except that the ratings did not come through at the closing and the notes are unrated
- State of Prosperity does not have a short term rating for other securities comparable in quality and priority to the notes
- Fund's portfolio manager says that the notes are equivalent in quality to securities rated A-1/P-1/F-1

Threshold Eligibility Questions



Deciding Whether an Investment is Rated or Unrated



Deciding Whether an Investment is First Tier or Second Tier

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's highest short term rating category?



No,
unrated

If unrated, is the investment a Government security, shares of another money market fund, or of comparable quality to securities in the highest short term NRSRO rating category?



Questionable
given no
credit rating
at closing



Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's second highest short term rating category?



No,
unrated

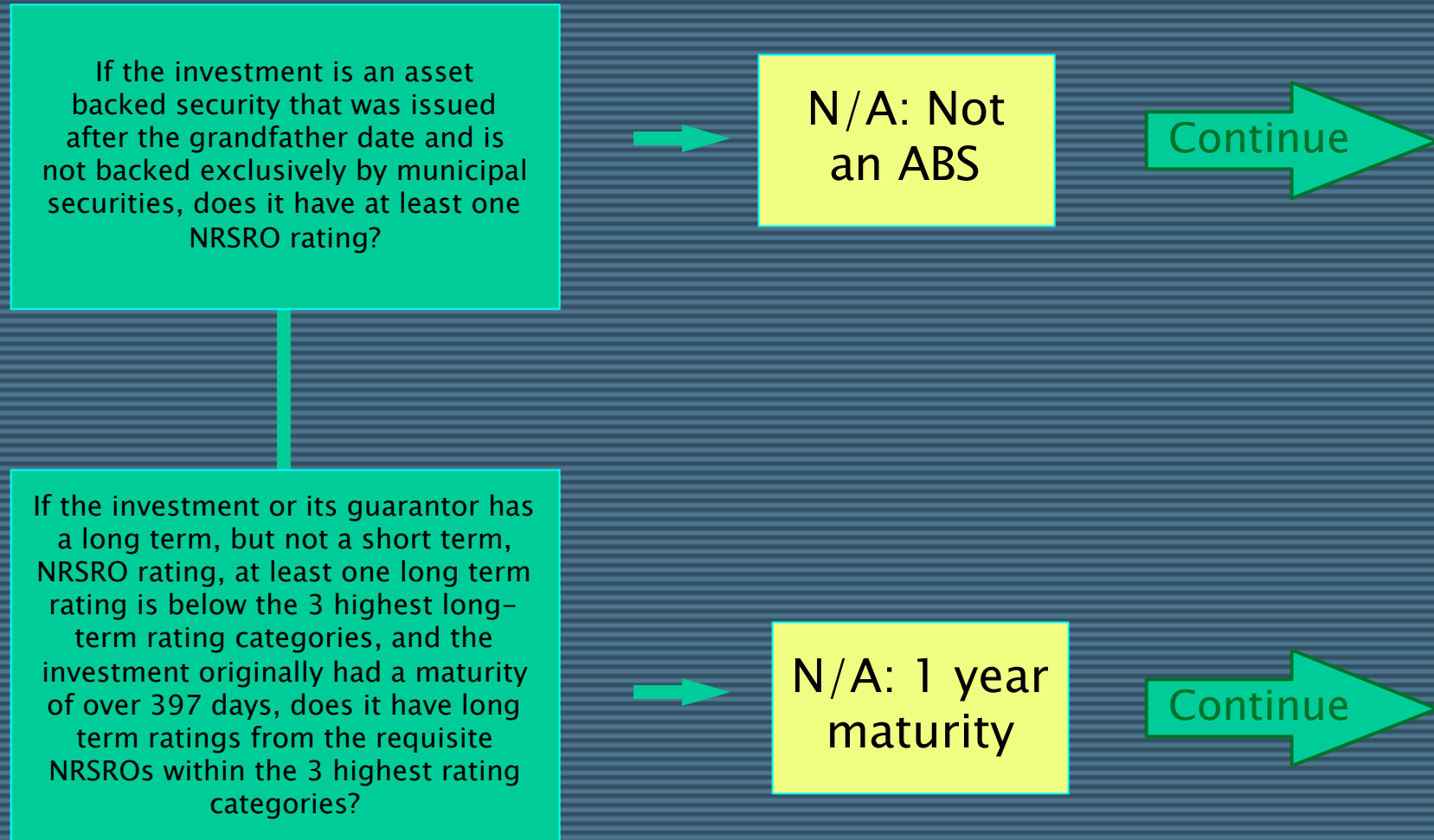
If unrated, is the investment of comparable quality to securities in the second highest short term NRSRO rating category?



Questionable
given no
credit rating
at closing



Special Credit Eligibility Determinations



Eligibility Conclusion

Tax-free fund can buy State of Prosperity notes only if it satisfactorily resolves minimal credit risk and comparable quality issues

Example 9: Tax-Free Fund

Possible investment in tax-exempt tender option bonds, which are issued by a trust holding:

- A 5-year bond issued by Total Health Hospital
- Obligation of German Bank (which has comparable short term debt rated A-1/P-1) to cover a failed remarketing
- The tender option bonds have ratings from Moody's only; these are P-1 (short) & A1 (long)

Example 9: Tax-Free Fund

- Other bonds issued by Total Health Hospital are rated A+ by S&P
- The tender option bonds are remarketed weekly, which resets the interest rate
- The trust will notify the fund of any change in the guarantor

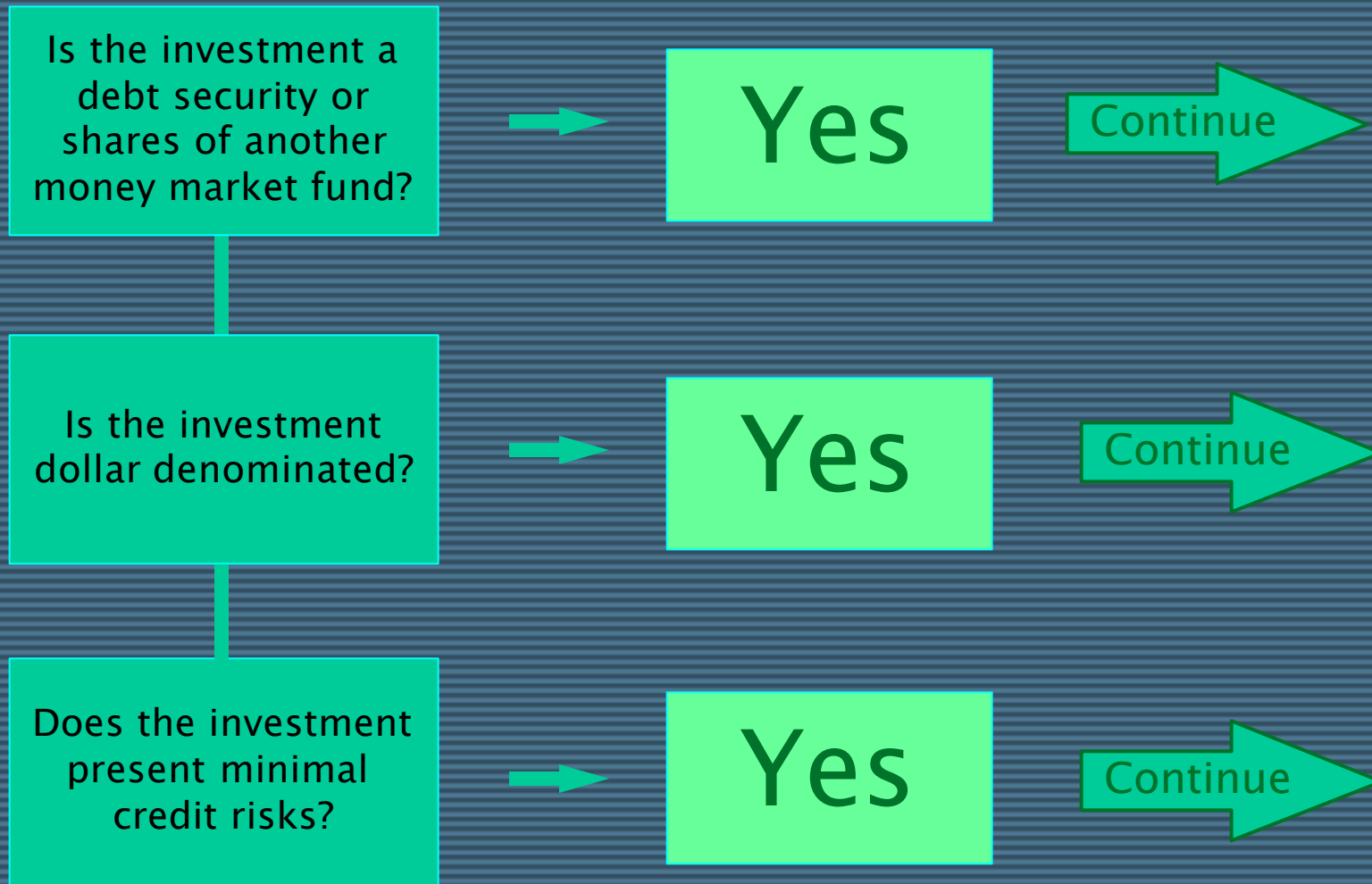
Example 9: Tax-Free Fund

- The fund is the same as in Example 6 and wants to buy \$4 million of bonds
- The fund does not own any other securities issued by the hospital but has invested 10% of assets in securities guaranteed by German Bank plus 12% in securities guaranteed by Fred's Bank

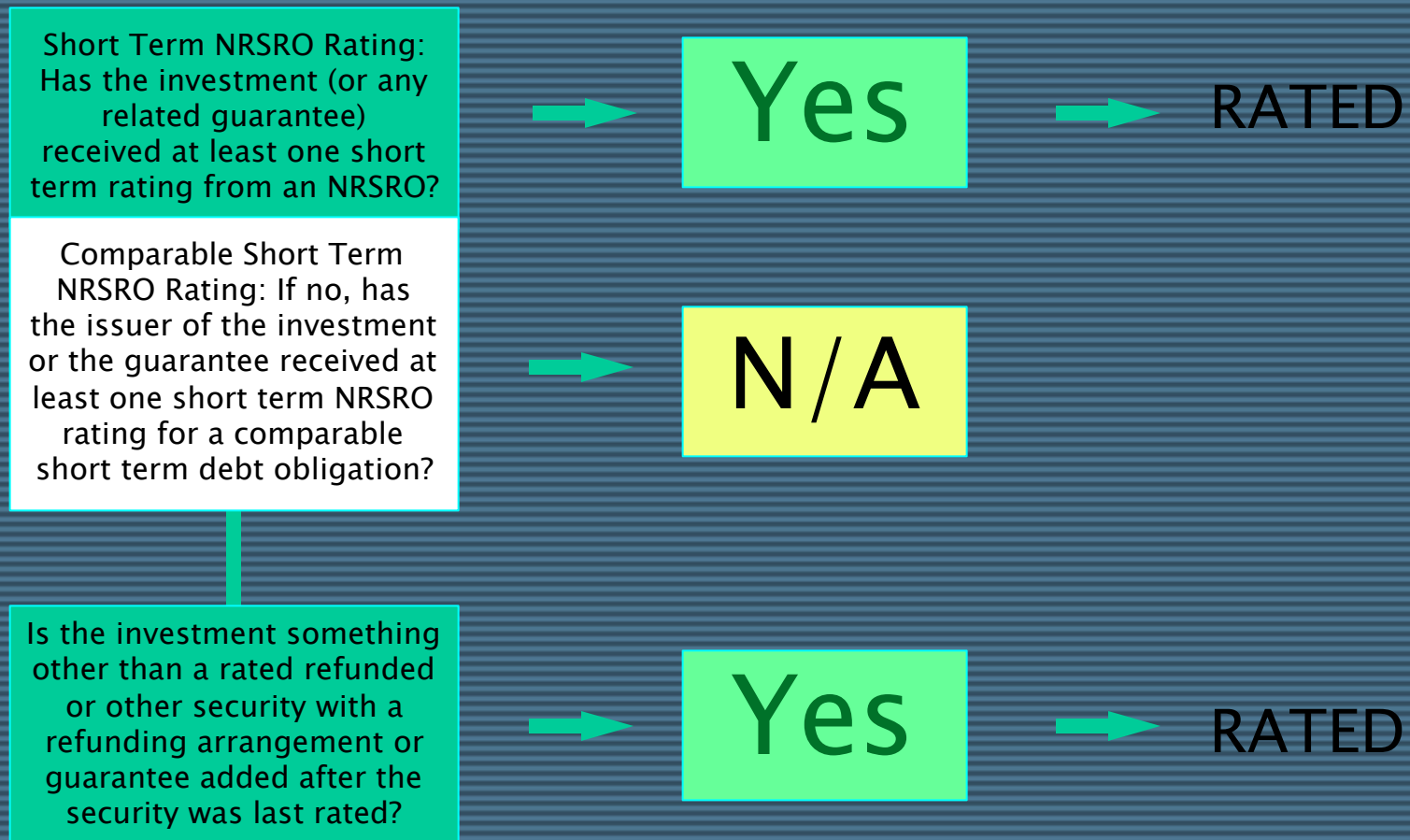
Example 9: Tax-Free Fund

- German Bank's obligation to cover a failed remarketing will terminate if any of the following occurs:
 - A payment default by the hospital
 - Bankruptcy of the hospital
 - Determination of taxability
 - Downgrade of hospital's bond ratings to below Baa3/BBB-
 - A final judgment for an amount exceeding insurance coverage by \$10 million or more against the hospital

Threshold Eligibility Questions



Deciding Whether an Investment is Rated or Unrated



Deciding Eligibility of Investments with Guarantees or Demand Features

Is (1) the investment a fully collateralized repurchase agreement or (2) is each guarantee associated with the investment either (a) a Government security or (b) issued by a person in a control relationship with the issuer?

If no, as to any guarantee that is being relied on and if the investment was issued after the grandfather date, does that guarantee have at least one NRSRO rating?

N/A: No guarantee

If the investment was issued after the grandfather date, has the guarantee provider or another institution agreed to notify promptly the fund if the guarantee is replaced by another provider's guarantee?

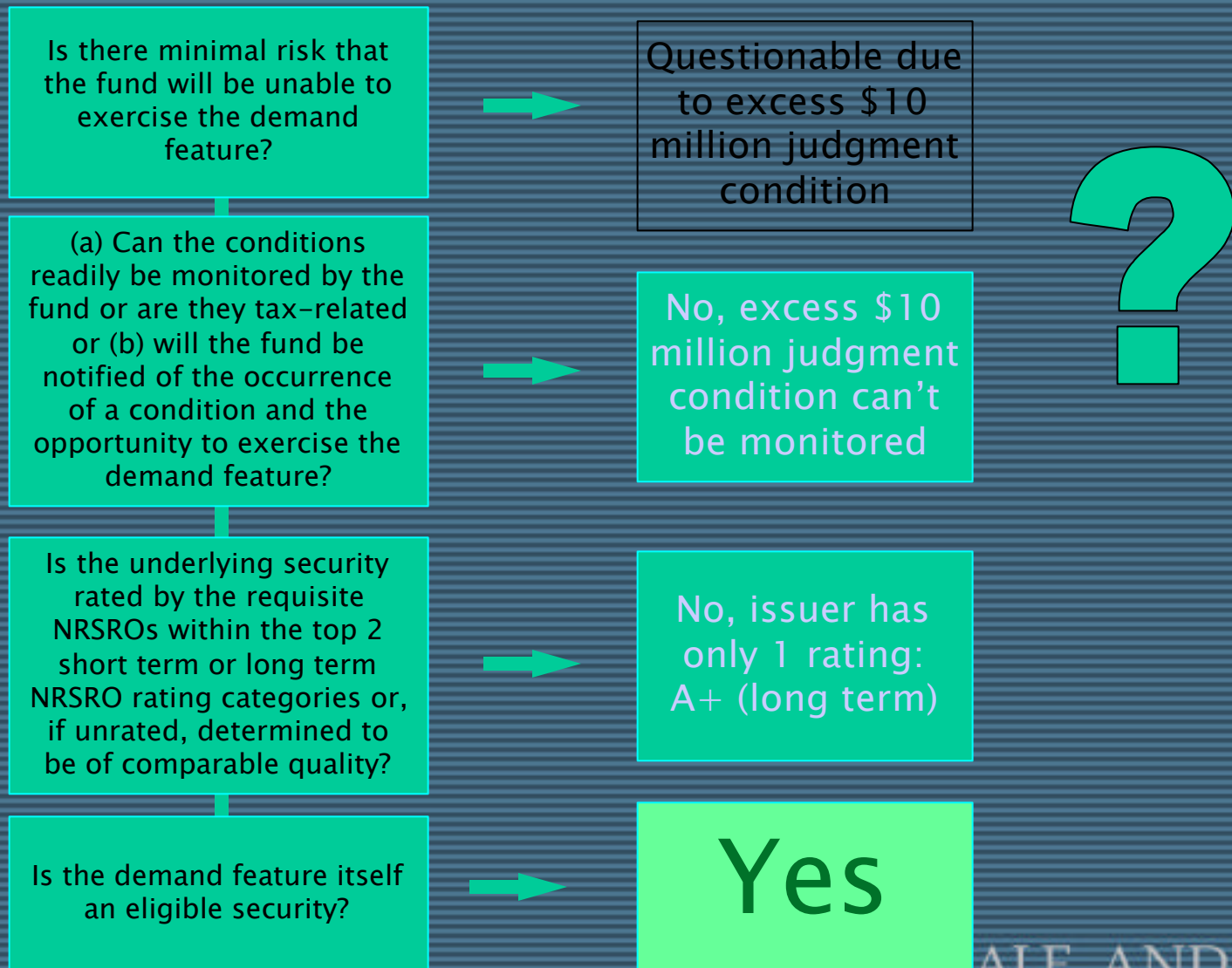
Yes

Do the investment and any related demand feature or guarantee on which the fund is relying present minimal credit risks?

Yes

Continue

Deciding Eligibility of Investments with Conditional Demand Features



Deciding Whether an Investment is First Tier or Second Tier

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's highest short term rating category?



Yes, 1 out of 1



1ST TIER

If unrated, is the investment a Government security, shares of another money market fund, or of comparable quality to securities in the highest short term NRSRO rating category?



N/A:
Rated

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's second highest short term rating category?



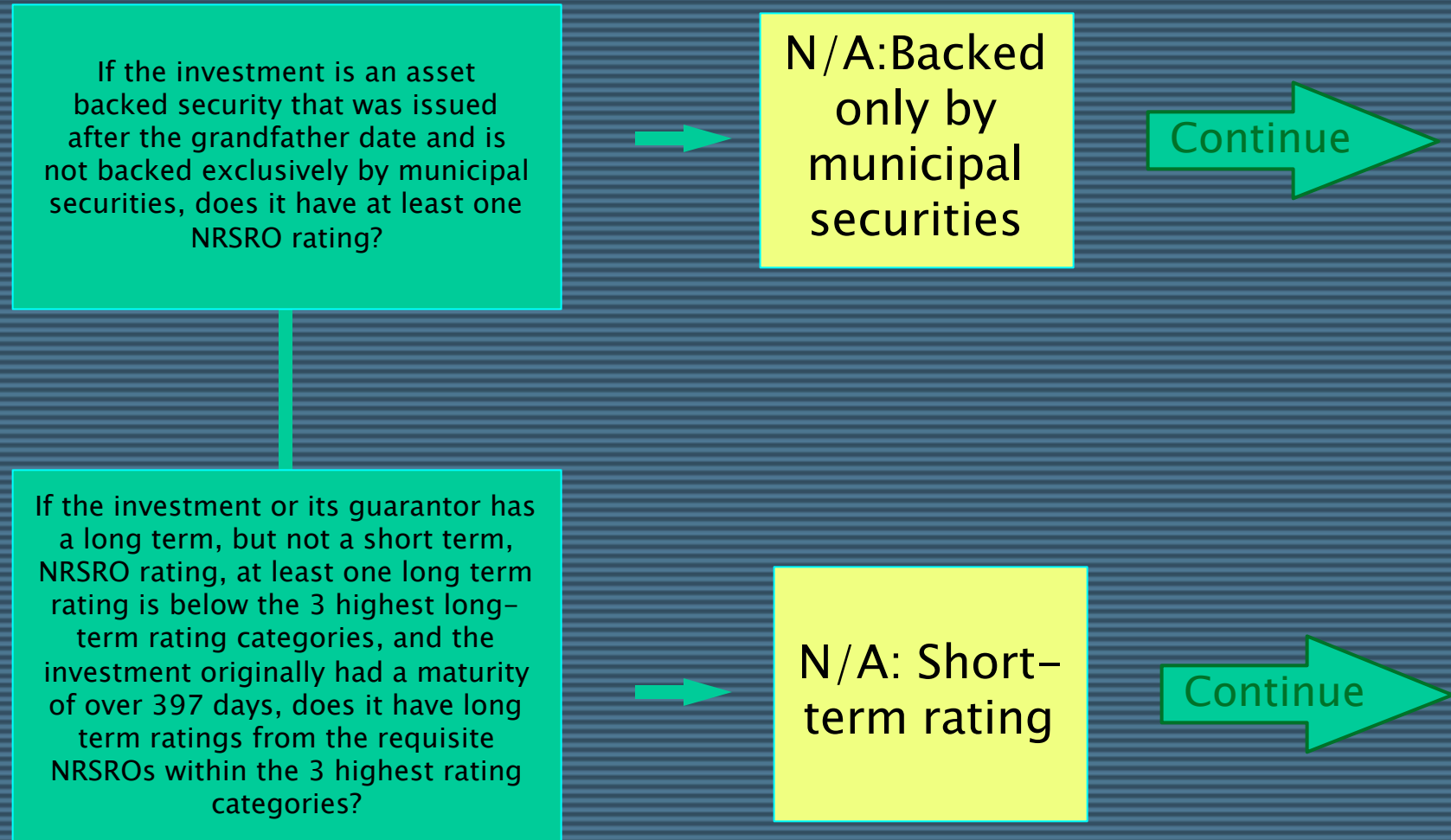
N/A: Rated
1st tier

If unrated, is the investment of comparable quality to securities in the second highest short term NRSRO rating category?

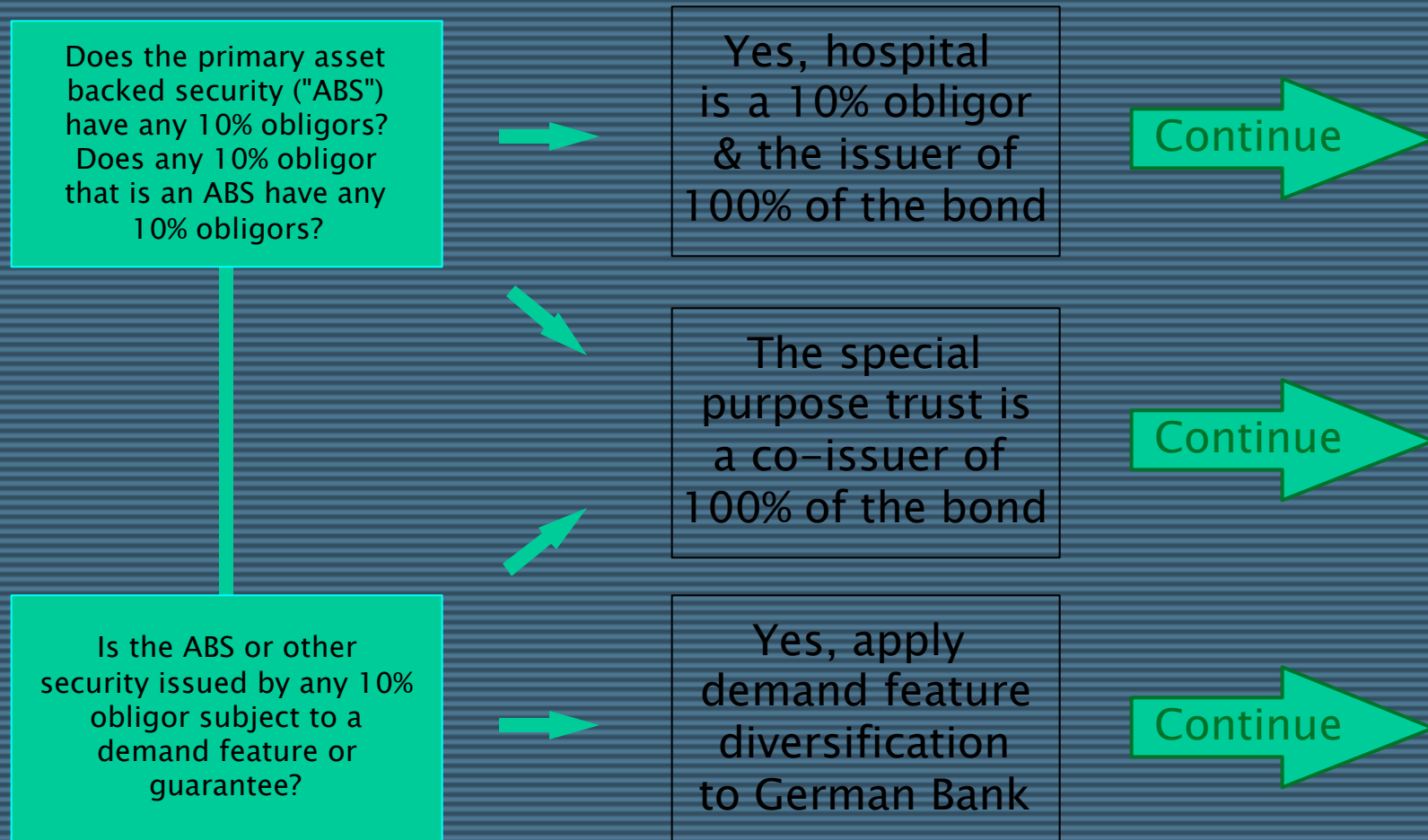


N/A: Rated
1st tier

Special Credit Eligibility Determinations



Determining the Issuer of Asset Backed Securities



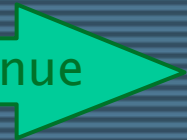
Diversification of First Tier Securities Taxable and National Tax Free Funds

If the fund buys the investment, will 5% or less of total assets continue to be invested in securities (other than a Government security or a security subject to a guarantee by a non-controlled person) issued by the issuer of the investment?



Yes; issuer is only 4% of total assets

Continue



3 Day First Tier Securities Exemption: Is the investment being purchased in reliance on the exemption that allows investments of up to 25% of total assets in the first tier securities of only one issuer for up to 3 business days?



N/A: Only 4% of assets

Guarantees or Demand Features that the Fund is Relying On

If the fund buys the investment, will more than 10% of total assets be invested in securities issued by or subject to demand features or guarantees provided by any one institution?



Yes, German Bank = 14% of assets

If yes, (a) is the demand feature or guarantee provided by a person (other than the issuer) in a control relationship with the issuer or (b) will this and other investments that exceed the 10% limit together be more than 25% of total assets?



Yes, German + Fred's Bank = 26% of assets



Continue

If the fund buys the investment, will more than 5% of total assets be invested in second tier securities issued, or securities subject to second tier demand features or guarantees provided, by any one institution?



N/A: all 1st tier

Determining the Maturity of Securities

Type of Security

Maturity of Security

Variable rate government security



Period until next interest rate reset

Floating rate government security or short term floating rate security



One day

Short term variable rate security



Earlier of period until next interest rate reset or demand date

Long term floating rate security with demand feature



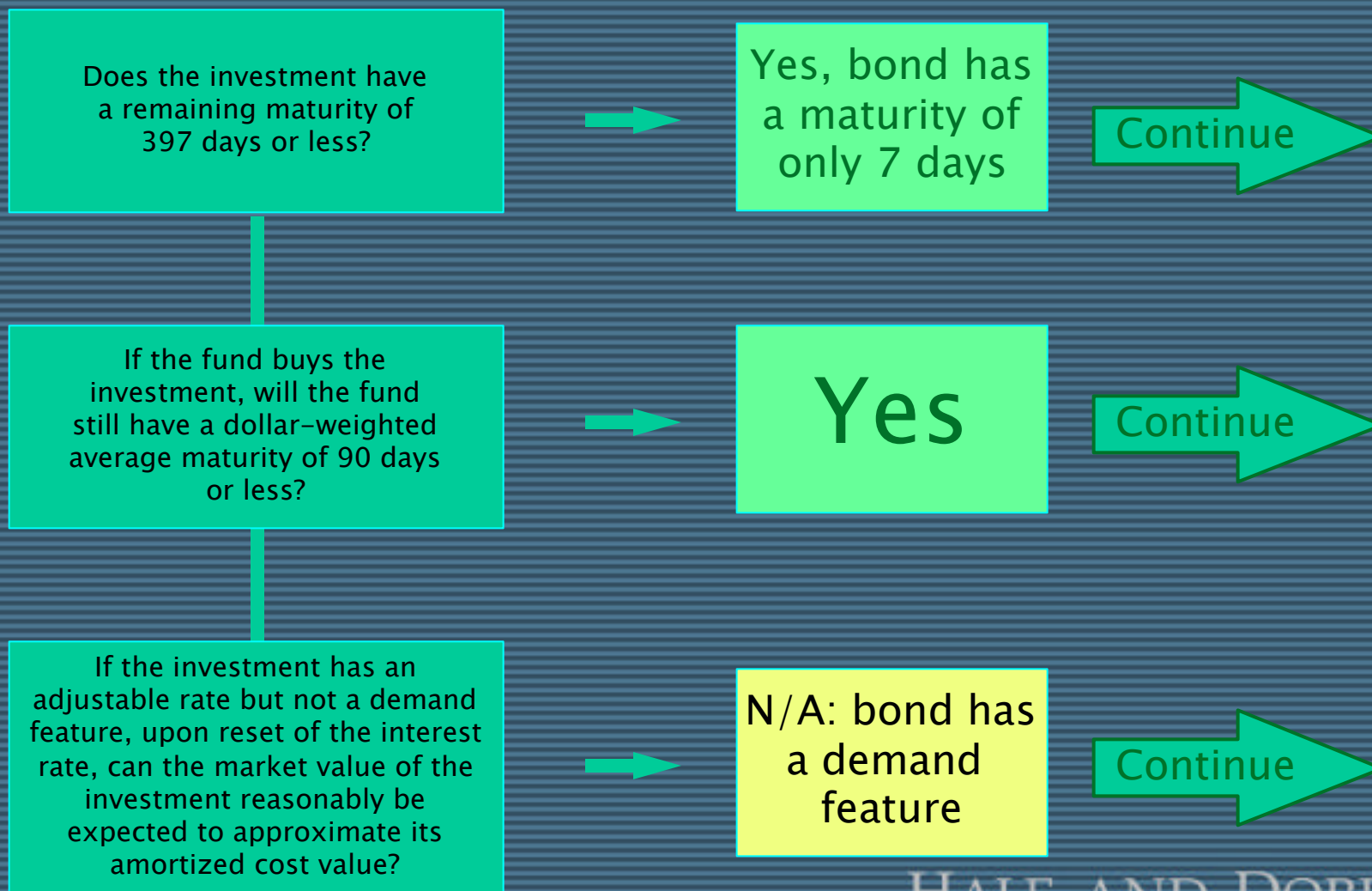
Period until next demand date

Long term variable rate security with demand feature



Longer of period until next interest rate reset or demand date

Determining Compliance with Maturity Limits



Eligibility Conclusion

Tax-free fund cannot invest more than 3% of assets in Total Health Hospital tender option bonds with German Bank as liquidity provider

Required Records

- Rule 2a-7 procedures--6 years
- Minutes recording board decisions--6 years
- Credit risk analyses, support for minimal credit risk determination & NRSRO ratings--3 years after last review
- Determinations that adjustable rate securities without demand feature will reset at amortized cost--3 years

Required Records

- For asset backed securities, information about 10% obligors--3 years
 - Identities, % of qualifying assets & % of fund's total assets
 - Any determination that an asset backed security is unlikely to have any 10% obligors
- Determinations that a fund is not relying on a demand feature or guarantee for quality, maturity or liquidity--3 years

Downgrades

- The adviser must determine whether a security still presents minimal credit risk (and take appropriate action) if:
 - A first tier security is downgraded
 - An unrated or second tier receives a below second tier short term rating from an NRSRO
- This isn't required if the security is sold within 5 business days and the board is notified

Downgrades

- If a downgrade makes more than 5% of assets issued by or subject to a demand feature from the same second tier issuer:
 - The fund must reduce its exposure to below 5% by exercising the demand feature
 - Unless the board finds that selling the security would not be in the fund's best interest

Default, Ineligibility & Insolvency

- A fund must dispose of a security as soon as practicable, absent a contrary board finding (which may reflect market conditions), if any of the following occurs
 - The issuer defaults
 - The security becomes ineligible
 - The security no longer presents minimal credit risks
 - The issuer or the provider of any demand feature or guarantor becomes insolvent

Default, Ineligibility & Insolvency

- A fund must immediately report to the SEC a default or insolvency affecting more than 1/2% of the fund's total assets, by phone, fax or e-mail, followed by a letter
- A default or event of insolvency is deemed not to have occurred if:
 - The fund has exercised a demand feature and received the principal or amortized cost value of the security
 - The guarantor is still making payments on the security

How To Determine The Eligibility Of Money Market Fund Investments Under Rule 2a-7

April 25, 2000

Pamela Wilson

HALE AND DORR LLP

HALE AND DORR LLP