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Short-Term Investment Funds: Final Rule

To

Chief Executive Officers of All National Banks and Federal Savings Associations, Federal Branches and Agencies, Department and Division Heads, All Examining Personnel, and Other Interested Parties

The Office of the Comptroller of the Currency (OCC) published a final rule in the Federal Register on October 9, 2012, that revises the requirements imposed on U.S. banks and federal branches of foreign banks pursuant to 12 CFR 9.18(b)(4)(ii)(B), the short-term investment fund (STIF) rule.

A STIF is a type of collective investment fund (CIF) that operates pursuant to a plan that governs a bank's management and administration of the fund. For admissions to and withdrawals from the fund, a bank may value STIF assets on an amortized cost basis, provided that the STIF plan includes certain requirements, rather than marking the assets to market, which is the valuation method required for other CIFs. Currently, a STIF 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 basis the difference between the cost and the anticipated principal receipt on maturity, and (3) hold the fund's assets until maturity under usual circumstances.[1]

The final rule revises and adds to these requirements. Under the final rule, a STIF will be required to

- operate with a primary objective to maintain a stable net asset value (NAV) of $1.00 per participating interest;
- have a dollar-weighted average portfolio maturity of 60 days (revised down from 90 days);
- have a dollar-weighted average portfolio life maturity of 120 days;
- adopt (1) portfolio and issuer qualitative standards and concentration restrictions and (2) standards to address contingency funding needs;
- adopt shadow pricing procedures—one that reflects the value of a fund's assets at amortized cost and another that reflects the market value of the fund's assets—and calculate the difference on at least a weekly basis;
- adopt procedures for stress testing the STIF's ability to maintain a stable NAV and report adverse stress testing results to the managing bank's senior risk management;
- provide monthly disclosures to STIF plan participants and the OCC;
- adopt procedures that require a bank that administers a STIF to notify the OCC before or within one business day after the occurrence of one or more of six specific events;
- use mark-to-market value accounting instead of amortized cost accounting if the market value of the portfolio falls below a NAV of $0.995 per participating interest; and
- adopt procedures to take certain actions if a bank suspends or limits withdrawals and initiates liquidation of the STIF as a result of redemptions.

The final rule applies directly to national banks and federal branches of foreign banks that act in a fiduciary capacity and manage a STIF. As a result of cross-references in the rules applicable to federal savings associations, the final rule also will apply indirectly to those institutions. Based on information reported as of June 30, 2012, however, no federal savings associations were managing STIFs.

The OCC will continue to evaluate the requirements of its STIF regulations in light of future policy assessments and initiatives concerning similar types of funds, such as money market mutual funds, and will take additional actions as appropriate.

The effective date of the final rule is July 1, 2013.

Further Information

You may direct questions or comments to:
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[1] 12 CFR 9.18(b)(4)(ii)(B)

Related Link:

- Final Rule (PDF)