



Money Market Fund Bailout Update; First Look: New Asset-Backed Commercial Paper Liquidity Facility

Update Regarding the Treasury's Temporary Money Market Guaranty Plan

Our client alert dated September 21, 2008 (<http://www.mofa.com/news/updates/files/080921FirstLook.pdf>) reported on actions taken by the U.S. Department of the Treasury (the "Treasury") to establish a temporary guaranty program for the U.S. money market mutual fund industry (the "Guaranty Program"). Further to that announcement, on September 21, 2008, the Treasury issued a press release announcing that the Treasury is continuing to develop the specific details of the announced Guaranty Program and that, while such details are being finalized, the Treasury wanted to set forth the following:

- All money market mutual funds that are regulated under Rule 2a-7 of the Investment Company Act of 1940 and are publicly offered and registered with the Securities and Exchange Commission will be eligible to participate in the Guaranty Program.
- Eligible funds include both taxable and tax-exempt money market funds. On September 22, 2008, the Internal Revenue Service issued Notice 2008-81 that confirms that participation in the Guaranty Program will not be treated as a federal guaranty that would otherwise jeopardize the tax-exempt treatment of payments by tax-exempt money market funds.
- The Guaranty Program will be designed to provide coverage to shareholders for amounts held by them in such funds as of the close of business on September 19, 2008.
- Further details on other aspects of the Guaranty Program and the required documentation for funds to participate will be provided in the coming days.

Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility

On September 19, 2008, the Federal Reserve Board ("FRB") announced a new special lending facility, the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (the "Facility"), intended to foster liquidity in the asset-backed commercial paper ("ABCP") markets and to assist money market funds in meeting redemptions. Under the Facility, non-recourse loans will be extended at the primary credit rate to U.S. depository institutions and bank holding companies to finance their purchases of certain high-quality ABCP from Rule 2a-7 money market mutual funds. The Federal Reserve Bank of Boston will administer the Facility, which will expire on January 30, 2009, unless the Facility is extended by the FRB.

To facilitate the Facility, the FRB approved two interim rules effective September 19, 2008. The first interim rule provides a temporary limited exception from the FRB's leverage and risk-based capital rules for ABCP held by a state member bank or bank holding company as a result of its participation in the Facility. The second interim rule provides a temporary limited exception from sections 23A and 23B of the Federal Reserve Act, which establish

certain restrictions on and requirements for transactions between a bank and its affiliates. These two exceptions expire on January 30, 2009, unless extended by the FRB, and are subject to various conditions to promote safety and soundness.

In addition, to facilitate the ability of national banks to participate in the Facility, the Office of the Comptroller of the Currency adopted on an interim basis, effective September 19, 2008 until January 30, 2009, an exemption from its risk-based capital guidelines for ABCP held by a national bank as a result of its participation in the Facility.

For additional information about this Facility, please see the Frequently Asked Questions issued by the FRB: <http://www.frbdiscountwindow.org/mmmf.cfm?hdrID=14>.

Contacts

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