

Rule 2a7 (Money Market Funds)

The Securities and Exchange Commission implemented rule 2a7 in order to establish safer investment funds that are commonly known as money-market funds. They have established liquidity requirements of a minimum of 10% of assets that can be converted into cash in one day and minimum 30% of assets that can be converted into cash within five business days. No more than 5% of assets can be held in investments that take more than a week to convert into cash.

“2a7-like” Local Government Investment Pools

Local Government Investment Pools (LGIPs) that operate in much the same way as 2a7 funds exist in many states including Florida. One such fund is offered by the State Board of Administration (SBA). Known as Florida Prime, this fund has an investment manager who purchases and sells securities in accordance with rules set forth in F.S. Chapter 215.47(9). The fund specifically requires the same minimum liquidity requirements listed above in Rule 2a7. There are additional pools available, such as the Florida Municipal Investment Trust that are also 2a7-like, providing the same liquidity protections as the SBA.

Benefits of broader 2a7-like options

To maximize returns in the current market it would be beneficial to allow for more 2a7-like funds than the SBA Florida Prime pool. This could allow for greater diversification and optimization. Currently, the town investment policy allows for up to 100% of investments to be held in the SBA.

As you may recall, in November 2007 a panic resulted in withdrawal of \$14 billion (nearly half) over a period of approximately 2 weeks before withdrawals were suspended by the SBA. One week later withdrawals were later allowed again with a withdrawal penalty of 2%.

For this reason, staff would recommend that the board consider **broadening the definition of this investment in Section H. Type 1. Florida Local Government Surplus Trust Fund (SBA) by renaming it to “2a7-Like Government Investment Pools”**. The town would then have the flexibility to allocate excess funds among multiple investment pools and the ability to diversify could further minimize risk. Any other mention of SBA in the policy would be interpreted as having the broadened meaning of all 2a7-like Government Investment Pools.

Other Possible Changes for Consideration

- 1) Add a section allowing for an investment manager to be selected. Staff would recommend comparing multiple proposals before making a selection.
- 2) Revise Section P, Paragraph 4 to raise the excess funds definition from >\$50,000 to >\$1,000,000 and raise the suggested minimum threshold from \$10,000 to \$500,000 to reduce the liquidity risk.