

November 25, 2008

U.S. Treasury Department Continues to Support U.S. Money Market Funds

The U.S. Department of the Treasury (the “**Treasury Department**”) has demonstrated its continuing commitment to bolster investor confidence in money market funds and to restore liquidity to the short-term debt markets. On November 24, 2008, the Treasury Department announced that it would extend its Temporary Guarantee Program for Money Market Funds (the “**Temporary Guarantee Program**”) until April 30, 2009. Further, on November 20, 2008, the Treasury Department announced that it would provide support in connection with the liquidation of The Reserve Fund’s U.S. Government Fund (the “**Government Fund**”) to help it liquidate in an orderly and timely fashion and to protect its shareholders.

These actions address continuing market problems that stem from a run on money market funds that occurred during the week of September 15, 2008 as a result of the fall-out relating to the Lehman Brothers insolvency. Millions of Americans invest their retirement and other savings in money market funds, which have traditionally been considered one of the safest investment options. During that week, investor confidence in money market funds was severely shaken when the Primary Fund, a large money market fund and a sister fund of the Government Fund, “broke the buck” (i.e., its net asset value per share fell below \$1) as a result of exposures to Lehman Brothers entities.

Extension of Term of the Temporary Guarantee Program

On September 19, 2008, the Treasury Department announced the creation of the Temporary Guarantee Program, making available \$50 billion of funds to guaranty the holdings of specified money market funds on a temporary basis. The Treasury Department required qualifying money market funds to elect to participate in the program by October 8, 2008. The Treasury Department further indicated that the Temporary Guarantee Program would expire on December 18, 2008, unless it decided to extend the program. According to the Treasury Department, the Temporary Guarantee Program currently covers over \$3 trillion of assets. (For further details on the Temporary Guarantee Program, please [click here](#).)

Yesterday, the Treasury Department announced that the Temporary Guarantee Program will now expire on April 30, 2009. During the extension period, the Temporary Guarantee Program will continue to provide coverage to shareholders in participating money market funds up to amounts they held in such funds as of the close of business on September 19, 2008.

Only money market funds currently participating in the Temporary Guarantee Program and satisfying certain extension requirements (e.g., that the net asset value of the electing fund is higher than a specified threshold as of the date of extension and that the board of the fund agrees that participation in the program on an extended basis is in the best interests of the funds’ shareholders) may participate in the Temporary Guarantee Program during the extension period.

Funds electing to participate in the Temporary Guarantee Program for the extension period must submit an extension notice to the Treasury Department by December 5, 2008. Further, participating funds must also make additional premium payments to the Treasury Department calculated as follows:

- If the fund had a net asset value per share that was equal to or greater than \$0.9975 on September 19, 2008, its extension premium payment will be equal to the product of (i) 1.5 basis points and (ii) the product of \$1.00 and the sum of all covered shares of the fund determined as of September 19, 2008.
- If the fund had a net asset value per share that was less than \$0.9975 but equal to or greater than \$0.995 on September 19, 2008, its premium payment will be equal to the product of (i) 2.2 basis points and (ii) the product of \$1.00 and the sum of all covered shares of the fund determined as of September 19, 2008.

Investors cannot request extended participation in the Temporary Guarantee Program directly; rather, each fund must decide to participate in the extension, execute the requisite documentation and pay the relevant premium. If a fund elects not to participate, it may not participate in additional extensions of the program, if any.

The Secretary of the Treasury is authorized to further extend the Temporary Guarantee Program to September 18, 2009, but no decision on a further extension has been made at this point.

Treasury Department Supports Government Fund Liquidation

The Treasury Department announced last week that it would provide support in connection with the liquidation of the Government Fund.

Reacting to the news that the Primary Fund “broke the buck” in mid-September, numerous investors sought to redeem their investments in both the Primary Fund and the Government Fund (even though, according to The Reserve Fund, the Government Fund did not have any Lehman Brothers exposure). According to The Reserve Fund, at the start of the week of September 15, 2008, the Government Fund had approximately \$10 billion in total assets; by the end of that week, the Government Fund had approximately \$6 billion in redemption requests.

Given the volume of redemption requests relating to both funds, The Reserve Fund, on behalf of the Primary Fund and the Government Fund, petitioned the U.S. Securities and Exchange Commission (the “**SEC**”) for a temporary order allowing the funds (i) to suspend investor rights of redemption of their outstanding, redeemable securities and (ii) to postpone payment for shares subject to redemption requests that had not yet been honored. Determining that such a suspension was necessary to protect the funds’ investors, the SEC granted the suspension, with effect as of September 17, 2008, until “the markets are liquid to a degree that enables each fund to liquidate portfolio securities without impairing the net asset value of each fund” or the SEC otherwise decides to rescind its order.

On September 19, 2008, on the same day that the Treasury Department announced the Temporary Guarantee Program, the Board of Trustees of The Reserve Fund decided to liquidate the Government Fund as a result of the unprecedented redemptions, notwithstanding the fact that the Government Fund was accepted into the Temporary Guarantee Program.

In connection with that liquidation, the Treasury Department has agreed, in a separate letter agreement (the “**Letter Agreement**”) dated as of November 19, 2008, to act as a buyer of last resort for the Government Fund’s assets, which consist of short-term U.S. government and government-sponsored enterprise securities. The Treasury Department has estimated that its maximum potential exposure in respect of the Government Fund’s liquidation would be \$5.6 billion.

Pursuant to the terms of the Letter Agreement, the Fund has been granted a 45-day period (i.e., until January 3, 2009) (the “**Final Sale Date**”) to continue to sell its assets at or above their amortized cost. In the event any such asset has not been sold by the Final Sale Date, the Fund must deliver, not later than the second business day following the Final Sale Date, a notice to that effect to the Treasury Department. The Exchange Stabilization Fund (the “**ESF**”) will then purchase any assets unsold on the Final Sale Date (the “**Remaining Assets**”) at amortized cost, to the extent the ESF has funds to purchase such Remaining Assets. The settlement for the purchase and sale of any Remaining Assets should take place by the fifth Business Day following the Final Sale Date, unless otherwise agreed by The Reserve Fund and the Treasury Department. Under the Letter Agreement, proceeds from the sale of Remaining Assets should be distributed to the Government Fund’s shareholders within three days of receipt.

The Letter Agreement requires the Government Fund’s investment adviser and trustees to waive fees due to them that have accrued after November 19, 2008 to the extent that (a) such fees exceed the amount of income earned and received by the Government Fund after September 14, 2008 that has not been distributed, or set aside for distribution, to Government Fund shareholders and (b) Government Fund shareholders have not received distributions of at least \$1.00 per share after September 14, 2008.

The Treasury Department has indicated it is taking this action to ensure that the Government Fund is liquidated in an orderly and timely fashion. The Treasury Department does not anticipate having to take a similar action in respect of any other fund participating in the Temporary Guaranty Program because no other fund was subject to a similar SEC order.

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