

# Product Alert

May 26, 2016

## SEC amends Rule 2a-7 to eliminate dependency on NRSRO ratings

In September 2015, the U.S. Securities and Exchange Commission (SEC) adopted amendments to Rule 2a-7 (the primary rule governing money market funds) under the Investment Company Act of 1940 to remove references to credit ratings issued by nationally recognized statistical rating organizations (NRSROs). The SEC adopted these amendments (NRSRO Amendments) in response to a Dodd-Frank Wall Street Reform and Consumer Protection Act mandate that the SEC end reliance on NRSRO ratings in its rules.

Rule 2a-7 permits money market funds to invest only in securities that present minimal credit risk to the fund. Historically, these *Eligible Securities* have been defined in Rule 2a-7 by reference to NRSRO ratings and grouped into two categories: *First Tier* securities (those that received a short-term NRSRO rating in the highest short-term rating category for debt obligations) and *Second Tier* securities (those that received a short-term NRSRO rating in the second-highest short-term rating category for debt obligations). Rule 2a-7 placed limits on a money market fund's investment in Second Tier securities.

Under amended Rule 2a-7, the SEC revised the definition of *Eligible Security* to eliminate the reliance on NRSRO ratings to establish eligibility and, consequently, eliminated NRSRO-dependent categorization of Eligible Securities as First Tier or Second Tier securities. Rather than rely on NRSRO ratings to determine whether a security is an Eligible Security (not to mention, whether it is a First Tier or Second Tier security), money market funds will now be required to make a determination that a security presents minimal credit risks based on analysis of the capacity of the security's issuer or guarantor to meet its financial obligations. This analysis must consider specific factors, including an issuer's or guarantor's financial condition, sources of liquidity, competitive position, industry strength, and likely adaptability in response to adverse events.

Certain Wells Fargo Money Market Funds have had principal investment strategies that limit their investments exclusively to First Tier securities. In light of the NRSRO Amendments, these funds' principal investment strategies have been amended to remove this limitation, and the funds will now be permitted to selectively invest in securities that would have previously been categorized as Second Tier securities as long as those securities meet Wells Capital Management, Inc.'s, standard of minimal credit risk.

We do not believe this principal investment strategy change will result in a material change in the overall credit risk profile of the Wells Fargo Money Market Funds. Wells Capital Management's established credit analysis and portfolio construction process is well suited for assessing and managing credit risk under amended Rule 2a-7. With 14 credit analysts, our Credit Research team is one of the largest among money market fund providers and a key component of our risk management process.

It is important to note that the NRSRO amendments do not prohibit money market funds from seeking an NRSRO rating on the overall money market fund portfolio. We will continue to offer both rated and nonrated fund options in our product lineup. The rated funds will continue to be limited to investments as dictated by fund rating methodology in order to maintain a AAA rating.

As always, prudent investment of clients' assets is our top priority. If you have any questions regarding the Wells Fargo Money Market Funds, please contact the Institutional Sales Desk at **1-888-253-6584**.

---

*Carefully consider a fund's investment objectives, risks, charges, and expenses before investing. For a current prospectus and, if available, a summary prospectus, containing this and other information, visit [wellsfargofunds.com](http://wellsfargofunds.com). Read it carefully before investing.*

*An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in a money market fund.*

Wells Fargo Asset Management (WFAM) is a trade name used by the asset management businesses of Wells Fargo & Company. Wells Fargo Funds Management, LLC, a wholly owned subsidiary of Wells Fargo & Company, provides investment advisory and administrative services for Wells Fargo Funds. Other affiliates of Wells Fargo & Company provide subadvisory and other services for the funds. The funds are distributed by **Wells Fargo Funds Distributor, LLC**, Member FINRA, an affiliate of Wells Fargo & Company.  
243455 05-16

**NOT FDIC INSURED ■ NO BANK GUARANTEE ■ MAY LOSE VALUE**