

Tax-exempt Money Market Funds—Temporary Treasury Program to Support Money Market Funds—No Violation of Restrictions Against Federal Guarantees of Tax-exempt Bonds Under Section 149(b)

Notice 2008-81

SECTION 1. Purpose

This Notice relates to a program being provided by the United States Department of the Treasury (the “Treasury Department”) in response to the credit market instability to make available certain funds from its Exchange Stabilization Fund on a temporary basis upon prescribed terms and conditions (as described further below, the “Program”), to money market funds that are regulated under the Security and Exchange Commission’s Rule 2a-7, 17 C.F.R. 270.2a-7, under the Investment Company Act of 1940 (“Rule 2a-7”) to enable money market funds to maintain stable \$1.00 per share net asset values. The Program is available to both money market funds holding assets subject to Federal income taxation and to money market funds holding assets that include State and local governmental debt obligations the interest on which is excludable from gross income (“tax-exempt bonds”) under § 103 of the Internal Revenue Code, as amended (the “Code”). (Except as noted, section references herein are to the Code.) Money market funds that hold a sufficient portion of their total assets in tax-exempt bonds to be eligible to pay exempt interest dividends under § 852(b)(5) are referred to herein as “tax-exempt money market funds.” This Notice provides guidance to the effect that the Program will not result in any violation of the restrictions against federal guarantees of tax-exempt bonds with respect to the tax-exempt bond assets of tax-exempt money market funds which would impair the tax-exempt status of dividends received by their shareholders.

SECTION 2. Background

2.1. The Program. In general, under the Program, the Treasury Department plans to make available its Exchange Stabilization Fund on a temporary basis to assist participating money market funds in maintaining \$1.00 per share net asset values and in paying their shareholders \$1.00 per share upon liquidation of shares. The Program will be limited to assets in money market funds as of the close of business on September 19, 2008, and to investors of record as of that date. Participating money market funds are required to make premium payments to participate in the Program. Payments to a money market fund under the Program are tied to the per share net asset value of the money market fund itself. Payments to a money market fund under the Program are not tied to the terms or performance of any particular assets held by the money market fund, such as tax-exempt bond assets held by a tax-exempt money market fund. The general description of certain aspects of the Program herein is subject fully to the specific terms,

conditions, maximum size limitations, and other limitations to be set forth in the operative legal documents for the Program.

2.2. The Restrictions Against Federal Guarantees of Tax-exempt Bonds.

Section 149(b) provides generally that, subject to certain specific exceptions, the interest on State or local governmental bonds is not excludable from gross income under § 103(a) if the bonds are federally guaranteed. Section 149(b)(2) provides generally that a bond is federally guaranteed if: (A) the payment of principal or interest with respect to such bond is guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof); (B) such bond is issued as part of an issue and five (5) percent or more of the proceeds of such issue is to be (i) used in making loans the payment of principal or interest with respect to which are to be guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof), or (ii) invested (directly or indirectly) in federally insured deposits or accounts; or (C) the payment of principal or interest on such bond is otherwise indirectly guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof).

SECTION 3. Scope and Application

3.1 No Violation of Restrictions Against Federal Guarantees of Tax-exempt Bonds. The Treasury Department and the Internal Revenue Service ("IRS") will not assert that the Program causes any violation of the restrictions against Federal guarantees of tax-exempt bonds under § 149(b) with respect to any tax-exempt bond assets held by tax-exempt money market funds participating in the Program. In addition, the Treasury Department and the IRS will not assert that the Program impairs the ability either of a money market fund participating in the Program to designate exempt interest dividends under § 852(b)(5) or of the shareholders of such a fund to claim the benefits of tax exemption with respect to such exempt interest dividends under § 852(b)(5)(B).

3.2 No Inferences on Law. This Notice provides administrative relief in furtherance of public policy to promote stability in the market for money market funds. Except with respect to the administrative relief expressly provided in this Notice, no inference should be drawn from this Notice regarding any other Federal tax issues affecting tax-exempt bonds, money market funds, or any other security. In addition, this Notice is not intended to address any other Federal tax issue implicated in the described transactions under the Program.

SECTION 4. Effective Date

This Notice is effective on September 22, 2008.