STATEMENT OF BASIS AND PURPOSE

Amendment to Chapter 9 of the Rules Under the Colorado Securities Act
Colorado Division of Securities
[October 14, 2016]

Pursuant to the authority found in the Colorado Securities Act (the "Act"), sections 11-51-101, *et seq.*, C.R.S., including parts 3 and 7 of the Act, the Securities Commissioner amends Rules 51-9.1 and 51-9.2 and adopts Rules 51-9.3, 51-9.4, 51-9.5, and 51-9.6, effective on October 14, 2016.

Based on § 11-51-901, et seq., and § 24-75-704, the Securities Division to have oversight of local government investment pool trust funds ("LGIPs") in Colorado. Rule 51-9.1 was initially enacted to assure that LGIPs were in substantial compliance with all the requirements of SEC Reg. § 270.2a-7, found at 17 CFR 270.2a-7 ("Rule 2a-7"). Generally speaking, this regulation applies to money market funds and requires these funds to restrict their underlying holdings to investments that have more conservative maturities and credit ratings. Following the failure of the Reserve Fund, a money market fund, the SEC re-examined Rule 2a7, and proposed amending the rule in substantial ways to address issues that resulted from the Reserve Fund failure. On September 17, 2015, the SEC adopted final amendments to Rule 2a-7. LGIPs fundamentally differ from money market funds in that LGIPs are operated for the exclusive benefit of local government entities. Much of the new Rule 2a-7 is in fact inapplicable to, and inconsistent with, the proper functioning of LGIPs in Colorado.

The general purposes of changing and adopting Rules 51-9.1-9.6 is to replace the requirement of compliance by LGIPs with Rule 2a-7, with these rules. The rules allow LGIPs to maintain a stable net asset value per share of $1.00 while providing a reliable source of liquidity for pool participants. The purpose of the new rules is to provide guidance for managing these investment pools in a manner that provides local government participants with investment options that, when prudently managed, provide safety of principal and liquidity. These rules will require local government investment pool trust funds to continue to file quarterly reports, adopt written policies and procedures for maintaining low risk and highly liquid assets, and keep and maintain certain books and records.

The last set of requirements imposed by the SEC's amendments to Rule 2a-7 become effective on October 14, 2016. The failure to adopt these emergency rules would cause LGIPs currently operating in the State of Colorado to be in substantial violation of Rule 2a-7, and by extension, current Rule 51-9.1. To remedy such violation, the LGIPs would have to expend significant resources. Adoption of these emergency rules would bring the LGIPs in compliance with the rules, at a minimal, or no, cost to the LGIPs, and therefore minimize, or eliminate, any negative effects on local government participants.

Based on the foregoing, the Securities Commissioner finds that the adoption of Rules 51-9.1-51-9.5 is necessary and appropriate in the public interest and is consistent with the purposes and provisions of the Act. The Securities Commissioner further finds that the immediate adoption of the rule is imperatively necessary for the preservation of public welfare. Finally, the Securities Commissioner finds that the record demonstrates the need for this rule, the rule is clearly and simply stated, proper statutory authority exists for the rule, the rule does not conflict with any other rules or statutes governing the Division of Securities, and the rule is coordinated with the federal acts and statutes and the rules and regulations promulgated thereunder to which references are made to the extent coordination with them is consistent with the purposes and provisions of the Act.

This general statement of basis and purpose is incorporated by reference in the rule adopted by the Securities Commissioner on October 13, 2016. The rule will become effective on October 14, 2016.

DATED this _13th_ day of October, 2016.

Gerald Rome
Securities Commissioner