STATEMENT OF BASIS AND PURPOSE

Amendment to Chapter 9 of the Rules under the Colorado Securities Act
Colorado Division of Securities

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 proposes amendments to Rules 51-9.1 and 51-9.2 and the adoption of Rules 51-9.3, 51-9.4, 51-9.5, 51-9.6, and 51-9.7.

Pursuant to §§ 11-51-901, et seq., and 24-75-704, the Securities Division has oversight over Colorado-based local government investment pool trust funds ("LGIPs"). Rule 51-9.1 et seq. was initially enacted to ensure 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"). The original primary purpose of Rule 2a-7 was to restrict the type of assets money market funds were entitled to hold to assets with conservative maturities and adequate credit ratings. Following the failure of the Reserve Fund ("Reserve Fund"), a money market fund, in September, 2008, the SEC re-examined Rule 2a-7, and proposed substantial amendments thereto, in order to limit the probability of future money market funds' failures and related risks . 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 Colorado local government entities. As such, many of the new provisions of Rule 2a-7 are inapplicable to, and inconsistent with the proper functioning of, LGIPs.

Proposed Rules 51-9.1-9.7 ("proposed rules") would replace the requirement of compliance by LGIPs with Rule 2a-7 with a new set of rules that is specifically designed to address LGIPs. The proposed rules would provide guidance to LGIPs for managing their investments in a manner that provides local government participants with reliable, safe, and highly liquid investment options, allow LGIPs to maintain a stable net asset value per share of $1.00, and require LGIPs to adhere to certain accounting standards. The proposed rules are written to provide some latitude to LGIPs so as to provide local government participants with investment options while still maintaining safety of principal and liquidity. The proposed rules would continue to require LGIPs 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 Securities Commissioner finds that the adoption of Rules 51-9.1-9.7 is necessary and appropriate in the public interest, and is consistent with the purpose and provisions of the Act. The Securities Commissioner further 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 December 14th, 2016. The rule will become effective on February 14, 2017.

DATED this 14th day of December, 2016.

Gerald Rome
Securities Commissioner