

MEMO# 33011

December 29, 2020

PWG Issues Report on Money Market Fund Reform; SEC Requests Comment

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December 29, 2020 TO: ICI Members

Investment Company Directors

Money Market Funds Advisory Committee SUBJECTS: Money Market Funds RE: PWG Issues Report on Money Market Fund Reform; SEC Requests Comment

Last week, the President's Working Group on Financial Markets (PWG)[\[1\]](#) issued a [Report](#) relating to the March market events caused by the COVID-19 pandemic and potential reform options for money market funds (MMFs). The Report, which is meant to facilitate discussion, first provides background on MMFs, including the SEC's 2010 and 2014 regulatory reforms, and the events in certain short-term funding markets in March 2020. The Report then discusses various measures that policy makers could consider to improve the resilience of US prime and tax-exempt MMFs and broader short-term funding markets.

The PWG, which is not endorsing any given measure at this time, notes that the various policy reforms, individually and in combination, should be evaluated in terms of their ability to effectively advance the overarching goals of reform. That is:

- First, would they effectively address the MMF structural vulnerabilities that contributed to stress in short-term funding markets?
- Second, would they improve the resilience and functioning of short-term funding markets?
- Third, would they reduce the likelihood that official sector interventions and taxpayer support will be needed to halt future MMF runs or address stresses in short-term funding markets more generally?

The Report describes several specific policy options, and briefly discusses the potential benefits and drawbacks of each option:

- Removal of tie between MMF liquidity and fee and gate thresholds;
- Reform of conditions for imposing redemption gates;
- Minimum balance at risk (e.g., making a portion of each shareholder's MMF balances available for redemption only with a time delay to ensure that redeeming investors

still remain partially invested in the fund over a certain period of time);

- MMF liquidity management changes; (e.g., creating an additional category for assets with slightly longer maturities (e.g., biweekly liquid assets))
- Countercyclical weekly liquid asset (WLA) requirements (e.g., allowing minimum WLA requirements to automatically decline in certain circumstances, such as when net redemptions are large or when the SEC provides temporary relief from WLA requirements);
- Floating NAVs for all prime and tax-exempt MMFs;
- Swing pricing requirement (e.g., allowing a fund to impose the costs stemming from redemptions directly on redeeming investors by adjusting the fund's NAV downward when net redemptions exceed a threshold);
- Capital buffer requirements (e.g., requiring a fund to provide dedicated resources within or alongside a fund to absorb losses and fluctuations in the value of a fund's portfolio);
- Require liquidity exchange bank ("LEB") membership (e.g., requiring prime and tax-exempt MMFs to be members of a private LEB that would provide a liquidity backstop during periods of market stress); and
- New requirements governing sponsor support (e.g., establishing a regulatory framework that governs when a sponsor would be required to provide support).

In response to the Report, Dalia Blass, director of the SEC's Division of Investment Management, issued a public [statement](#). Her statement notes:

"The Report concludes that the events of March 2020 show that more work is needed to reduce the risk that structural vulnerabilities in prime and tax-exempt money market funds will exacerbate or lead to stresses in short-term funding markets. The Report discusses various reform measures that policy makers could consider to improve the resilience of prime and tax-exempt money market funds and broader short-term funding markets. As noted in the Report, many of the measures discussed could be implemented by the Commission under its existing statutory authority, while others may require longer-term structural changes and coordinated action by multiple agencies. The Report does not endorse specific recommendations for future reforms. Instead, it is meant to provide context and facilitate discussion by outlining potential reform options."

She also notes that feedback backed by data would be helpful to the Division in evaluating what, if any, recommendations the Division might make to the Commission in this area, as well as feedback on other topics stakeholders believe are relevant to further MMF reform, including other approaches for improving the resilience of MMFs and short-term funding markets generally.

Comments to the Report should be communicated to the Division through the following address: IM_MMFPWG@sec.gov and insert "PWG MMF" in the subject line. The Division anticipates making submissions public.

Jane G. Heinrichs
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endnotes

[\[1\]](#) The PWG is chaired by the Secretary of the Treasury and includes the Chair of the Board of Governors of the Federal Reserve System, the Chair of the SEC, and the Chair of the CFTC.

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