

**MEMO# 32959**

December 3, 2020

# **Reverse Distribution Mechanism and Negative Yields: Considerations and Recommended Practices - Constant NAV Money Market Funds**

[32959]

December 3, 2020 TO: ICI Members  
Investment Company Directors  
Accounting/Treasurers Committee  
Bank, Trust and Retirement Advisory Committee  
Broker/Dealer Advisory Committee  
Money Market Funds Advisory Committee  
Operations Committee  
Small Funds Committee  
Transfer Agent Advisory Committee SUBJECTS: Distribution  
Fund Accounting & Financial Reporting  
Money Market Funds  
Operations  
Recordkeeping  
Transfer Agency RE: Reverse Distribution Mechanism and Negative Yields: Considerations and Recommended Practices - Constant NAV Money Market Funds

We are pleased to announce the publication of a new white paper, [Reverse Distribution Mechanism and Negative Yields: Considerations and Recommended Practices](#). The paper's goal is to educate and inform the industry on one strategy that a fund may choose to use to address negative yields affecting constant net asset value (CNAV) money market funds but is not an endorsement of a specific approach.

## **Background**

The Federal Reserve Bank's March 2020 reduction in its target range for the federal funds rate to 0.0-0.25 percent increased the potential that some constant net asset value (CNAV) money market funds could post negative yields after accounting for expenses. In response, CNAV money market funds are exploring several actions to mitigate the pressure of negative yields by implementing fee waivers or soft closures, contributing sponsor capital to maintain a non-negative yield, or considering conversion of the CNAV money market fund to a floating NAV.

The Investment Company Institute (ICI) convened a working group of its members, intermediaries, and service providers to consider operational alternatives to address the challenge. The working group investigated alternatives to reduce or cancel full and fractional CNAV money market fund shares on a pro rata basis to offset the negative yield and enable the fund to maintain a constant NAV. Two alternatives, daily reverse stock splits and the accrual of negative yield with periodic posting to shareholder accounts, were deemed operationally unworkable due to a combination of current system capabilities, operational risks, and the cost and time needed to scale them for widespread use.

A third alternative, the Reverse Distribution Mechanism (RDM), was deemed the most operationally feasible should a CNAV money market fund need to retain a constant NAV but apply negative yield.

## **Reverse Distribution Mechanism**

RDM distributes a CNAV money market fund's negative yield by cancelling shares in shareholder accounts each day. It offsets the daily negative yield accrued (i.e., a decline in the fund's net assets) by reducing the number of fund shares outstanding, to maintain a constant NAV per share. The fund allocates the reduction in shares outstanding pro rata across all eligible shareholder accounts by posting a share cancellation transaction to each shareholder's account based on the daily negative yield factor per share. Income-eligible shares for RDM calculation are determined using the same criteria the fund uses to distribute positive income.

## **White Paper**

The white paper reflects the working group's operational insights, considerations, and identifies potential practices for any CNAV money market fund considering use of share cancellation to address negative yields. It provides a high-level overview of how RDM would apply to the intermediated fund distribution ecosystem, illustrates how CNAV money market fund attributes may affect the timing and application of RDM activity, and addresses important communication of negative yield information and transactions supporting critical reconciliation activities. The paper concludes with a considerations checklist to help funds, intermediaries, and service providers with their analysis of potential steps to be taken if RDM is pursued by a CNAV money market fund to address negative yields.

The white paper may be accessed on the ICI website [here](#).

Questions or comments on the white paper may be directed to the undersigned ([jeff.naylor@ici.org](mailto:jeff.naylor@ici.org); 202-326-5844). We hope the paper will assist the industry as it strives to achieve the best possible outcomes for fund shareholders and other stakeholders when investing in or servicing CNAV money market funds.

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