

**MEMO# 33095**

February 8, 2021

## **SEC Issues Request for Comment on PWG's Report on MMFs**

[33095]

February 8, 2021 TO: ICI Members

Investment Company Directors

Money Market Funds Advisory Committee SUBJECTS: Money Market Funds RE: SEC Issues Request for Comment on PWG's Report on MMFs

Last week, the SEC published a [request](#) for public comment on potential reform measures to improve the resilience of money market funds (MMFs) as highlighted in a December [Report](#) of the President's Working Group on Financial Markets (PWG).<sup>[1]</sup> The Report 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.

### **Background**

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:

- Would they effectively address the MMF structural vulnerabilities that contributed to stress in short-term funding markets?
- Would they improve the resilience and functioning of short-term funding markets?
- 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 ten specific policy options, and briefly discusses the potential benefits and drawbacks of each option:

1. Removal of tie between MMF liquidity and fee and gate thresholds;
2. Reform of conditions for imposing redemption gates;
3. 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);

4. MMF liquidity management changes (e.g., creating an additional category for assets with slightly longer maturities (e.g., biweekly liquid assets) or increasing the weekly liquid asset (WLA) threshold);
5. Countercyclical 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);
6. Floating NAVs for all prime and tax-exempt MMFs;
7. 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);
8. 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);
9. 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
10. New requirements governing sponsor support (e.g., establishing a regulatory framework that governs when a sponsor would be required to provide support).

## **Request for Comment**

Although the PWG did not specifically ask for comment,[\[2\]](#) the SEC has now published a request for comment on the Report. According to the request, comments will enable the Commission and other relevant financial regulators to consider more comprehensively the potential policy measures the Report identifies and help inform possible MMF reforms. Following the comment period, the SEC anticipates conducting discussions with various stakeholders, interested persons, and regulators to discuss the options in the Report and the comments it receives. Specifically, the SEC requests comment on:

- The potential policy measures described in the Report both individually and in combination.
- The effectiveness of previously-enacted MMF reforms, and the effectiveness of implementing policy measures described in the Report in addition to, or in place of, previously-enacted reforms.
- The potential impact of the measures on MMF investors, fund managers, issuers of short-term debt, and other stakeholders.
- Other topics commenters believe are relevant to further MMF reform, including other approaches for improving the resilience of MMFs and short-term funding markets generally.

The SEC encourages commenters to submit empirical data and other information in support of their comments. Comments are due 60 days after the SEC's request is published in the Federal Register.

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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.

[2] The day after the PWG issued its Report, Dalia Blass, director of the SEC's Division of Investment Management issued a public [statement](#) requesting feedback backed by data that the Division could use in evaluating what, if any recommendations it might make to the Commission to improve the resilience of MMFs and the short-term funding markets generally.

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