MEMO# 33444

April 20, 2021

ICI Files Comment Letter to SEC on PWG's Report Regarding Money Market Funds

[33444]

April 12, 2021 TO: ICI Members
Investment Company Directors
ICI Global Members
Money Market Funds Advisory Committee SUBJECTS: Money Market Funds RE: ICI Files Comment Letter to SEC on PWG's Report Regarding Money Market Funds

As you know, the SEC has published a request for public comment on potential reform measures to improve the resilience of money market funds as highlighted in a December Report of the President's Working Group on Financial Markets (PWG).[1] The Report provides background on money market funds, 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 money market funds and broader short-term funding markets.

ICI has filed a comment letter today, which is attached and briefly summarized below.

We have divided the ten reform options into three categories:

1. **Reforms that could advance the goals of reform**—options with the most potential for addressing policymakers' concerns while preserving key characteristics of money market funds;
2. **Reforms that do not advance the goals of reform and do not preserve the key characteristics of money market funds**—options with significant drawbacks, ranging from potential detrimental impacts on money market funds, their investors, and the market to regulatory, structural, and operational barriers to implement; and
3. **Reforms that are unlikely to address policymakers' goals of reform**.

Reforms that could advance the goals of reform

- *Removal of tie between money market fund liquidity and fee and gate thresholds*. We support the reform that would remove the tie between the 30 percent and 10 percent weekly liquid asset thresholds and the imposition of fees and gates. The regulatory tie between liquidity and fee and gate thresholds made money market funds more susceptible to financial market stress in March 2020 and would likely do so again in future periods of stress. ICI's data supports the conclusion that this regulatory tie was likely a dominant trigger for redemptions as opposed to the conditions of the funds. (**Section 3.1.1**)

  - *Modifications to redemption fee considerations*. Although we support delinking fees and gates from liquidity thresholds, we believe that a more nuanced approach to fees should be considered. Redemption fees can be an appropriate tool for money market funds but should only be triggered when a fund is facing unusual circumstances, such as a period of heavy redemptions associated with stress in the financial markets at large. To make this powerful tool even more useful to fund boards (and therefore more likely to advance the goals of reform), we recommend a regulatory approach to fees that is separate from that of gates. (**Section 3.1.1.1**)

- *Money market fund liquidity management changes*. We believe an increase in the weekly liquid asset requirement—consistent with what most funds already maintain as a matter of conservative liquidity management—could make money market funds more resilient. We do not support creating a new category of liquid assets or imposing penalties on sponsors that fall below the weekly liquid asset threshold. (**Section 3.1.2**)

Reforms that do not advance the goals of reform and do not preserve the key characteristics of money market funds

- *Swing pricing*. We do not support swing pricing for money market funds. Swing pricing is not necessary for money market funds because they already have the ability to impose liquidity fees, which serve a similar purpose and are a more appropriate tool for money market funds. Swing pricing also would likely strip money market funds of their defining characteristics (such as multiple daily net asset value (NAV) strikes per day and same-day settlement), impose excess costs to overcome unnecessary and complex structural challenges, introduce complex tax reporting issues, and cause confusion among investors in periods of stress. Indeed, we do not believe that there are any potential benefits to employing swing pricing as a tool for money market funds that serve the PWG's overarching goals for reform. (**Section 3.2.1**)

- *Capital buffers*. We oppose a reform that would require money market funds or their advisers to maintain capital against money market fund assets. The likeliest impact of a capital buffer requirement would be to impel money market fund sponsors to exit the business, depriving investors, issuers, and the economy of the benefits these funds provide. (**Section 3.2.2**)

- *Sponsor support requirements*. We oppose a reform that would establish a regulatory framework governing when a sponsor would be required to provide sponsor support. This reform option suffers from many of the same drawbacks as imposing capital buffer requirements on fund advisers. (**Section 3.2.3**)

- *Minimum balance at risk (MBR)*. We oppose an MBR, which would make a portion of each shareholder's recent balances in a money market fund available for redemption only with a time delay to ensure that redeeming investors still remain partially invested in the fund over a certain time period. We believe the likeliest impact of an

MBR requirement would be to drive investors as well as intermediaries away from money market funds. (**Section 3.2.4**)

- *Liquidity exchange bank membership.* We oppose a reform that would require prime and tax-exempt money market funds to be members of a private liquidity exchange bank. Over ten years ago, ICI, with assistance from its members, outside counsel, and consultants, spent about 18 months developing a preliminary framework for a private liquidity facility, including how it could be structured, capitalized, governed, and operated. There were many drawbacks, limitations, and challenges to creating such a facility that we described in our framework and that are noted in the PWG Report. Each of these impediments remains today. (**Section 3.2.5**)

Reforms that are unlikely to advance the goals of reform

- *Floating NAVs for all prime and tax-exempt money market funds*. We oppose requiring retail prime money market funds and retail tax-exempt money market funds to float their NAVs. Floating the NAV for retail money market funds is not necessary and more generally, it does not reduce risk in any meaningful way. Floating NAVs also could eliminate key benefits for retail investors and introduce tax reporting issues. (**Section 3.3.1**)

- *Countercyclical weekly liquid asset requirements*. A countercyclical weekly liquid asset requirement would not improve the usability of weekly liquid assets. Current rules do not preclude funds from using weekly liquid assets to meet redemptions or prohibit funds from falling below the 30 percent threshold. Still, in March 2020, money market funds were not able to use their weekly liquid assets to meet redemptions because investors feared the mere possibility of fees or gates. (**Section 3.3.2**)

- *Reform of conditions for imposing redemption gates*. Rather than reforming conditions for imposing redemption gates (such as requiring funds to obtain permission from the SEC or lowering the weekly liquid asset threshold at which gates could be imposed), gates should be limited to extraordinary circumstances that present a significant risk of a run on a fund and potential harm to shareholders, such as those contemplated under Rule 22e-3 under the Investment Company Act. (**Section 3.3.3**)

ICI Research Results on March 2020 Events

- *ICI research results—March 2020 events*. Prime money market funds did not pullback significantly from the commercial paper market (*i.e.,* did not selllarge quantities of commercial paper and/or significantly reduce purchases of newly-issued commercial paper) in the first half of March 2020. In the aggregate, prime money market funds remained fairly steady purchasers of newly-issued commercial paper—although these purchases were more heavily weighted toward overnight commercial paper. In addition, prime money market funds sold only small amounts of commercial paper and certificates of deposit (CDs) in the secondary market before March 18. Experiences varied across different types of prime money market funds. Public institutional prime money market funds’ sales of commercial paper and CDs were remarkably limited, given their outflows. Further, retail prime sold only small amounts of commercial paper and CDs, while nonpublic institutional money market funds in aggregate sold *no* commercial paper or CDs before March 18. Public institutional prime and retail prime money market funds sold commercial paper and CDs that were ultimately pledged to the MMLF after it was announced but did so primarily to raise and keep weekly liquidity asset levels well above the 30 percent regulatory threshold, which was being viewed by investors as a redemption trigger due to the SEC's 2014 reforms. (**Section 4**)

We discuss each of these reforms and ICI's research in greater detail in the letter.

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Attachment

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.