The Asset Management Industry
SERVING INDIVIDUAL INVESTORS
INVESTMENT COMPANY INSTITUTE

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ICI Comment Letter on SEC's Proposed Money Market Fund Reforms

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TO: ICI Members
Investment Company Directors
ICI Global Members
Money Market Funds Advisory Committee SUBJECTS: Money Market Funds RE: ICI Comment Letter on SEC's Proposed Money Market Fund Reforms

Last year, the Securities and Exchange Commission, in a 3-2 party-line vote, proposed amendments to Rule 2a-7 and other rules that govern money market funds under the Investment Company Act of 1940.

ICI's comment letter is attached and includes the following comments and recommendations:

- Amendments to remove liquidity fee and redemption gate provisions. We agree that the regulatory tie between liquidity thresholds and fee and gate thresholds made money market funds more susceptible to financial stress in March 2020 and could likely do so again in future periods of stress. ICI data indicates, and our members report, that the possibility of a gate especially caused investors in March 2020 to redeem heavily when a fund started approaching 30 percent weekly liquid assets—a level that only had significance because of the bright line drawn by the regulatory tie rather than actual difficulties in the fund's ability to meet redemptions. An ICI analysis also shows that this regulatory tie, and the heightened level of redemptions it caused during March 2020, would rapidly overwhelm the available weekly liquid assets of a typical institutional prime money market fund in about two weeks. But, without the tie, the analysis demonstrates that, even with very substantial redemptions, this same fund would have stabilized at more than 20 percent of its assets in weekly liquid assets more than five weeks into the crisis, showing that the fund would have been able to continue to satisfy redemption requests without assistance. With a higher level of weekly liquid assets (such as 40 percent), even with very substantial weekly outflows, weekly liquid assets in institutional prime money market fund would have stabilized at about 30 percent of fund assets in a few weeks. (Section 1.1)
- Proposed swing pricing requirement. We strongly disagree with the proposed swing pricing requirement (and the related proposed disclosure and reporting requirements).

Swing pricing fails to reflect how money market funds are managed, would not advance the SEC's goals of enhancing money market fund resiliency and by extension financial stability, would likely strip money market funds of features that are key to investors (such as multiple daily net asset value (NAV) strikes per day and same-day settlement), and would impose excessive costs to overcome unnecessary and complex structural challenges. Indeed, swing pricing will fundamentally alter the product and its appeal to investors, cause fund sponsors to stop offering the product, and is neither supported by the data nor necessary. Rather, the evidence indicates—and the SEC has admitted—that the SEC's 2014 amendments that tied the liquidity thresholds with the option of gates and the possibility of a 2 percent liquidity fee was a mistake that contributed very significantly, perhaps predominantly, to the stresses prime institutional money market funds experienced in March 2020. Nevertheless, if the SEC chooses to ignore the evidence and insists on imposing an anti-dilution mechanism (ADM) on certain money market funds, the SEC could modify and leverage the existing fee framework. Similar to retail money market funds, and as supported by data, however, nonpublic institutional prime money market funds do not need special provisions as demonstrated by their lower levels of redemptions in periods of stress. (Section 1.2)

- Amendments to portfolio liquidity requirements. As economic analysis shows, a modest increase in the daily and weekly liquid asset requirements—consistent with what most public prime money market funds already maintain as a matter of conservative liquidity risk management—and importantly in combination with the amendments to remove the current liquidity fee and redemption gate provisions—would bolster the resiliency of money market funds sufficiently to avoid another March 2020 like event. To this end, we recommend the SEC increase daily and weekly liquid asset requirements to 20 percent and 40 percent, respectively. We also generally support a requirement that would require a fund to notify its board upon a "liquidity threshold event," provided the definition of such event is adjusted to require board notification when daily liquid assets and weekly liquid assets go below 10 percent and 20 percent, respectively (half of our proposed liquidity levels). (Section 1.3)
- Proposed amendments to liquidity metrics in stress testing. We support the SEC's proposal that would no longer require funds to test their ability to maintain 10 percent weekly liquid assets under the specified hypothetical stress events described in Rule 2a-7 and instead require funds to test whether they are able to maintain sufficient minimum liquidity under each specified hypothetical event. (Section 1.4)
- Amendments related to potential negative interest rates. We strongly oppose a requirement that government and retail money market funds must determine that each financial intermediary has the capacity to redeem and sell securities issued by a fund at a floating NAV per share or prohibit the financial intermediary from purchasing the fund's shares in nominee name. Imposing this requirement on these funds is neither necessary nor relevant to the redemption pressures experienced by other money market funds in March 2020, would be prohibitively expensive for many financial intermediaries, and may drastically reduce these important funds for the short-term funding needs of investors and the direct financing for governments, businesses, and financial institutions. (Section 1.5) Further, the proposed provision to prohibit reverse distribution mechanisms (RDM) or reverse stock splits should not be included in the final amendments because such tools should be available to funds to use in a negative interest rate environment. RDM and reverse stock splits should be permitted to preserve many investors' preference for a stable NAV money market fund investment. (Section 1.5.2)

- Amendments to specify the calculation of weighted average maturity (WAM) and weighted average life (WAL). We support the SEC's proposal to require that money market funds calculate WAM and WAL based on the percentage of a security's market value in the portfolio. (Section 1.6)
- Amendments to reporting requirements. We do not support a proposed new requirement that would require a money market fund to file a report on Form N CR when a liquidity threshold event occurs unless such reports are filed confidentially (and remain confidential) with the SEC. Since investors can already see liquidity levels on funds' public websites, these disclosures on Form N-CR may needlessly increase investor sensitivity to liquidity levels. (Section 1.7.1) Given the sheer volume of new information and the increased frequency of certain data points proposed for Form N-MFP, five business days is insufficient time to prepare the necessary detailed filing and urge the SEC to extend the filing period to seven business days. We also have concerns regarding proposed new class-level information and the level of proposed information in Part C of Form N-MFP. (Section 1.7.2)
- Compliance dates. The SEC should provide at least two years (rather than the proposed 12-month compliance period) following issuance of final SEC rules to allow the industry to complete the broad client service and operational requirements necessary to successfully implement any new reforms that will dramatically change the industry. A 12-month compliance period (rather than a 6-month period) also is necessary to transition to any increased liquidity requirements and the new reporting requirements. (Section 2)
- PWG Report Reform Options. We support the SEC's decision not to include other reform options discussed in the PWG Report, such as minimum balance at risk, capital buffers, and liquidity exchange bank membership. The likeliest impact of any of these options would be to decrease the utility and attractiveness of these products to investors and cause fund sponsors to exit the industry. (Section 3)

Jane G. Heinrichs
Associate General Counsel