

MEMO# 35595

January 23, 2024

DRAFT Memorandum for Your Review Regarding Proposal to Address Money Market Funds Experiencing Negative Yields

[35595]

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TO: Money Market Funds Advisory Committee
Tax Committee RE: DRAFT Memorandum for Your Review Regarding Proposal to Address
Money Market Funds Experiencing Negative Yields

This attached draft memorandum for your review summarizes an approach for addressing tax issues that would arise if a stable-NAV money market fund used the reverse distribution mechanism (RDM) in a negative yield environment. RDM allows a fund to prevent NAV declines attributable to negative yields by instead reducing daily the number of shares outstanding—thereby preserving the fund's stable NAV. The reduction in shares creates an economic loss for which tax reporting considerations must be resolved.

A fund's use of RDM effectively has been conditioned by the SEC on a determination by the fund's board that adopting RDM "is in the best interests of the fund and its shareholders." More specifically, fund boards are directed by the SEC, among other things, "to devote particular attention to questions concerning the applicable tax rules."

Under the proposal advanced in the draft memorandum, the industry would facilitate shareholders' use of a gain/loss accounting method (the "NAV method") that the IRS approved for use by all money market funds in regulations finalized in 2016. The issues raised by this memorandum will be discussed in greater detail at the February Tax Committee meeting (and with other committees). Please review the draft memorandum at your convenience. Input from all stakeholders is necessary to determine whether this approach, or another, is the most effective and administrable way to assist money market funds shareholders in meeting tax-related obligations in the event of negative yields.

Please feel free to contact me at katie.sunderland@ici.org or 202-326-5826 with your thoughts on this approach.

Katie Sunderland
Associate General Counsel

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