

**MEMO# 35647**

March 14, 2024

# **Tax Implications of Reverse Distribution Mechanism (RDM) for Money Market Funds**

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TO: Money Market Funds Advisory Committee

Tax Committee RE: Tax Implications of Reverse Distribution Mechanism (RDM) for Money Market Funds

The attached memorandum summarizes the tax implications for a stable-NAV money market fund that uses 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 shareholders.

A fund's use of RDM effectively has been conditioned by the SEC on the fund's board determination that adopting RDM "is in the best interests of the fund and its shareholders." The SEC directs fund boards "to devote particular attention to questions concerning the applicable tax rules."

The memorandum proposes that the industry facilitate shareholder use of the "NAV method" of tax accounting for gains and losses on money market fund shares resulting from RDM. The IRS approved the NAV method for use by money market fund shareholders in 2016 regulations. The mutual fund and brokerage industries would need to provide shareholders with information required to apply the NAV method. Please review the memorandum at your convenience, share it with colleagues in your firm who may be involved in money market fund reform, or providing information to shareholders, and provide me with any feedback you have, at [michael.horn@ici.org](mailto:michael.horn@ici.org) or (202) 326-5832.

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