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SIFMA AMG Comments on Proposed Changes to Money Market Rules

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Issue: Money Market Funds

Committee: Asset Management

Securities and Exchange Commission (SEC) related to proposed amendments to rules that govern money market funds under the Investment Company Act of 1940 and related proposed amendments.

“As fiduciaries to millions of investors and clients and as investment managers to money market funds used as investment vehicles by retail and institutional investors, SIFMA’s members are committed to enhancing investor protections through reasonable regulation. Therefore, SIFMA supports the Commission’s overall objective of improving the resilience and transparency of money market funds,” Lindsey Keljo, Head of SIFMA AMG and Associate General Counsel wrote in the letter. “At the same time, however, SIFMA believes that it is essential for regulation to preserve the core, valuable cash management functions that money market funds provide to various types of investors and the financial and economic functions that money market funds provide to capital markets more broadly.”

“SIFMA remains troubled that aspects of the Proposed Rule would go too far in endangering the vitality of money market funds as a product,” Keljo continued in the letter. “SIFMA is very concerned that certain of the proposed reforms would either obstruct the operation of money market funds or alter their indispensable characteristics, harming shareholders who rely on them as a cash management tool and issuers who depend on money market funds as an important source of financing.”

The comment letter outlined general views on the following key provisions of the proposed rule:

- **SIFMA supports the removal of redemption gates from Rule 2a-7**. Our members view this policy measure as most directly and effectively addressing, in a practical manner, the issues that contributed to stresses on money market funds and the short-term funding markets in March 2020.

- **SIFMA supports incremental increased liquidity minimums and believes that incremental increased liquidity minimums, together with the removal of liquidity fees and redemption gates, sufficiently address the issues faced by money market funds in March 2020**. Our members believe incremental increased liquidity minimums to 20% daily liquid assets and 40% weekly liquid assets will provide adequate protection from dilution (if any).

- **SIFMA supports amendments to Rule 2a-7 to specify the calculations of WAM and WAL based on the percentage of each security's market value in the portfolio.** Our members agree with the Commission that such amendments will enhance the consistency of calculations for money market funds and enable the Commission to better monitor and respond to indicators of potential risk and stress in the market.

reform. Swing pricing presents significant operational impediments in implementation that impact an investor's ability to use money market funds as an effective cash management vehicle. Swing pricing is inappropriate and ineffective for money market funds for a variety of reasons.

  - To the extent the Commission continues to believe, based on data driven findings, that an additional anti-dilution mechanism is necessary for certain types of money market funds (after imposing increased liquidity minimums), the Commission should consider using fees as such mechanism. Fees provide greater transparency for redeeming investors of the liquidity costs they are incurring and impose liquidity costs directly on redeeming investors without providing a discount to subscribing investors through a downward adjustment of the fund's transaction price.

- **SIFMA does not support requiring government and retail money market funds to determine that financial intermediaries that submit orders to a money market fund have the capacity to redeem and sell the fund's shares at prices that do not correspond to a stable price per share.** SIFMA is concerned that the proposal would require cost prohibitive changes that may cause intermediaries to no longer offer government and retail money market funds to their customers. This would cause a significant decrease in the size of the government and retail money market fund sector to the detriment of the larger short-term funding markets.

- **SIFMA does not support prohibiting a money market fund from using RDM or similar mechanisms in a negative interest rate environment to maintain a stable price per share.** Prohibiting a money market fund from reducing the number of its shares outstanding restricts investor choice for stable value money market funds, negatively impacts sweep programs, and may reduce the size of the government and retail money market fund sectors in such a manner that will compromise the important role such funds play in the provision of wholesale funding liquidity.

The comment letter further expands on these views and can be found here.

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SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient

SIFMA's Asset Management Group (SIFMA AMG) brings the asset management community together to provide views on U.S. and global policy and to create industry best practices. SIFMA AMG's members represent U.S. and global asset management firms – both independent and broker-dealer affiliated – whose combined assets under management exceed $45 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds.