Statement on Money Market Fund Reform

Chair Gary Gensler

Dec. 15, 2021

Today, the Commission is considering amendments to rules that govern money market funds. I support this proposal because, if adopted, it would enhance the resiliency of this crucial $5 trillion asset class during periods of stress.[1]

Money market funds**,** which came about in the 1970s, have come to be an important way that investors manage their cash. They also are a key source of short-term funding for businesses and governments. They often are considered by investors to be safe, liquid assets.

As Acting Director Sarah ten Siethoff noted in her presentation, in March 2020, growing concerns about the COVID-19 pandemic led many investors to move their assets from certain money market funds into cash and short-term government securities. To put it simply, there was a bit of a “dash for cash.” Prime and tax-exempt money market funds, particularly institutional funds, experienced large outflows.

The commercial paper and certificates of deposit that make up a significant part of the portfolios of prime money market funds tend to be illiquid in times of stress. We saw that particularly during the critical early months of 2020. There isn’t a lot of trading in CP and CD in good times. In stress times, it almost entirely disappears.

This contributed to stress on short-term funding markets. The outflows significantly slowed following intervention from the Federal Reserve, which established the Money Market Mutual Fund Liquidity Facility and other programs to support short-term funding markets. This intervention by the Fed prevented these funds from having an even greater impact on our financial system.

The events brought particular focus to prime money market funds, and their interrelationship with investments in commercial paper and certificates of deposit.

This wasn’t the first time we’d seen some stress in money market funds, though. There were challenges in this market in the 2008 financial crisis. The SEC sought to address structural issues in these funds through a series of reforms adopted in 2010 and 2014.

At the time, I had the honor of serving on the Financial Stability Oversight Council as Chair of the Commodity Futures Trading Commission. As the SEC was considering its rules, my fellow FSOC members at the time, including SEC Chair Mary Shapiro, Federal Reserve Chairman Ben Bernanke, and Secretary of the Treasury Timothy Geithner, were all exploring resiliency issues around money market funds.

Some of my fellow Commissioners have discussed the “first-mover advantage.” I like to use an analogy to explain runs on the system, like those we’ve seen in money market funds.

I enjoy camping. There a saying when you're in the woods. You don't have to outrun the bear; you just have to outrun one of your fellow campers. A bit gruesome, to be sure, but this sort of gets to why investors might try to cash out before the proverbial bear catches them.

And so — here we are again. The events of March 2020 suggest that more can be done to improve the resiliency of money market funds. We've heard from the President's Working Group in the prior Administration,[2] the international community,[3] the Financial Stability Oversight Council,[4] and the public (as part of an SEC request for comment[5]) around the need to enhance the resiliency of this market. This is about systemic risk. Those of us at the SEC have an obligation to the public to once again come back and see if we can shore up this system a bit more.

Today's proposal is, in part, designed to address some concerns about money market funds highlighted by these various events.

First of all, the proposal would increase the liquidity requirements for money market funds. This would provide a larger buffer in the event of rapid redemptions. This proposal is particularly important for prime money market funds, a roughly $875 billion market, about three-quarters of which are institutional money market funds with floating net asset values.

Secondly, the proposed amendments also would prevent money market funds from imposing limits on redemptions in times of stress, such as redemption fees and so-called "gates" — the ability to stop redemptions. The ability to stop or limit redemptions, which were included as part of the earlier reforms, actually may have encouraged runs on money market funds in March 2020 rather than making the system more resilient.

Specifically, the proposal would require institutional prime and institutional tax-exempt money market funds to have policies and procedures to implement swing pricing. In effect, these money market funds would be required to adjust their net asset value per share when they have net outflows. Further, in periods of high redemptions as identified in the proposal, these policies and procedures would further adjust the price to estimate the market impact of redemptions. Thus, institutional investors who cash out would bear the liquidity costs of their redemptions. Again, this is about the institutional product, not the retail product.

Finally, the proposal would amend certain reporting requirements to improve the transparency of money market funds.

So, we're at it again — grappling with how to build greater resiliency into money market funds. Together, these amendments are designed to reduce the likelihood of runs on money market funds during periods of stress. Public input will be critical here. The economics will be critical here. Given the broad reach of short-term funding markets, these proposals speak to our three-part mission, and specifically to our remit to maintain fair, *orderly*, and efficient markets. I'm pleased to support today's proposal and, subject to Commission approval, look forward to the public's feedback.

I'd like to extend my gratitude to the members of the SEC staff who worked on this rule, including:

- Sarah ten Siethoff, Brian Johnson, Angela Mokodean, Viktoria Baklanova, Blair Burnett, David Driscoll, Adam Lovell, James Maclean, Thoreau Bartmann, Penelope Saltzman, Keri Riemer, Alexis Cunningham, Isaac Kuznits, and Trevor Tatum in the Division of Investment Management;
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[1] *See* Division of Investment Management Analytics Office, “Money Market Fund Statistics” (period ending July 2021), *available at* https://www.sec.gov/files/mmf-statistics-2021-07.pdf.

[2] *See* “President’s Working Group on Financial Markets Releases Report on Money Market Funds” (Dec. 22, 2020), *available at* https://home.treasury.gov/news/press-releases/sm1219.

[3] *See* “FSB publishes final report with policy proposals to enhance money market fund resilience” (Oct. 11, 2021), *available at* https://www.fsb.org/2021/10/fsb-publishes-final-report-with-policy-proposals-to-enhance-money-market-fund-resilience/ to-enhance-money-market-fund-resilience/ Thirdly, the proposal would address the price at which investors in institutional prime and tax-exempt funds can redeem when the fund experiences net redemptions. These particular funds have floating net asset values.

[4] *See* Gary Gensler, “Money Market Funds Statement” (June 11, 2021), *available at* https://www.sec.gov/news/public-statement/gensler-fsoc-money-market-funds-2021-06-11.

[5] *See* “SEC Requests Comment on Potential Money Market Fund Reform Options Highlights in President’s Working Group Report” (Feb. 4, 2021), *available at* https://www.sec.gov/news/press-release/2021-25.