

Statement

Statement on Proposed Money Market Fund Reforms



Commissioner Elad L. Roisman

Dec. 15, 2021

Money market funds are one of the most widely used financial products within the Commission's regulatory purview. Everyday Americans invest in them; large institutions do too, including corporate treasurers, state and municipal treasurers, as well as a multitude of pooled investment vehicles. Beyond their utility to end-users, money market funds play an important role in our fixed income markets as buyers of ultra-short and short-term debt. In such a far-reaching and interconnected ecosystem, one thing is certain: whatever changes we make to one part of the system will ripple through and affect other parts as well.

The work of the SEC staff reflects an appreciation for the importance and complexity of money market funds. Throughout the Spring of 2020, our staff engaged with money fund managers as well as many other participants in the treasury, municipal, and commercial paper markets to understand, in real time, the market developments related to Covid-19. They poured over the data we have on all of these markets to understand the dynamics of their interconnection.^[1] They also worked with other federal agencies and international regulators to share observations and collaborate on possible changes to make to our money market fund regime.^[2] And, of course, our staff has been attentive to feedback that members of the public have provided to our agency following requests for comment.^[3]

I want to thank our rulemaking team from the Division of Investment Management and our colleagues in the Division of Economic and Risk Analysis for bringing to bear all of this experience in the proposal they have prepared for us today.^[4] Ultimately, I cannot support it, for reasons that I will explain. But, I think it is important to point out its many positive attributes as well as what I see as its shortcomings.

The proposal eliminates the current requirement for non-government money market funds that their boards consider implementing redemption gates when the funds' weekly liquid assets fall below the required threshold. We heard repeatedly at the onset of Covid-19 (and as market participants provided feedback thereafter) that this requirement, which was part of our 2014 amendments, exacerbated institutional investors' incentives to redeem their shares.^[5] The possibility that investors might not be able to immediately access their funds was so undesirable that they wanted to avoid it altogether, and they watched information about their funds' portfolio liquidity to see if weekly liquid assets got close to 30%. The proposal responds to this identified market dynamic by eliminating our 2014 requirement that boards consider gates if weekly liquid assets in a portfolio fall below the required threshold. I believe this represents a positive example of retrospective review that the Commission should seek to emulate in other policy undertakings.

It is less clear to me that we should prohibit the use of gates altogether, as the proposal contemplates doing, or that we should eliminate the current requirement for boards to consider charging liquidity fees to redeeming investors when the fund's liquidity drops. However, these are reasonable ideas to consider, and the release asks helpful questions on each proposed action.

The release also does a good job of exploring several other measures that could reduce run risk for money market funds. In particular, it describes several possible new fee structures intended to diminish the first mover advantage investors may see in redeeming early if they sense impending market turmoil. One of these alternatives is a detailed swing pricing regime,^[6] which the proposal contemplates applying to all institutional non-government funds when they experience a certain level of net redemptions. Other potential liquidity fee structures have been considered as alternatives set forth in the proposal's Economic Analysis.^[7] The proposal asks several questions to get feedback from the public on each potential structure and its possible implications. I encourage commenters to consider the merits of each and share their viewpoints with the Commission.

I have strong reservations about the proposal requiring that *all* institutional non-government money market funds use a *uniform approach* to charge fees to redeeming investors. Whether it would be the proposed swing pricing framework or one of the alternative liquidity fee frameworks, I am not persuaded that one-size-fits-all is a prudent approach. From what we have seen, investors have different needs for liquidity and different risk tolerances; they may well prefer different fee frameworks. Intermediaries who serve fund investors may also have preferences. We should propose rules that offer money market funds some options for which anti-run measures they can implement. I appreciate that the proposal asks some questions about this and would be interested in market participants' feedback—not only which fee structures they prefer, but also whether the Commission should offer money funds some choice.

I also have reservations about the proposed increases to required liquidity thresholds for all money market funds. The proposal would raise the daily liquid asset threshold by 150% (from 10% to 25%), and the weekly liquid asset threshold would increase by 67% (from 30% to 50%).^[8] Most funds already maintain thresholds that are higher than our current requirements, so it is not clear to me why we need to mandate these increases—especially for retail funds, from which we have *not* seen heavy redemptions. It is concerning that we would introduce such drastic changes without a clear reason to do so, especially when other aspects of this proposal would already bring dramatic changes to the operation (and possibly the desirability) of non-government funds.

I am interested in feedback from the public on whether funds' incentives to maintain high levels of liquidity would decrease if we remove the regulatory tie between gates and fees, as proposed. The proposal also introduces a new requirement for fund boards to be notified if liquidity levels drop certain amounts below the required thresholds;^[9] new public filing requirements would be triggered as well. Would either or both of these new requirements be enough to counteract any new incentive for funds to lower their liquidity levels beyond the thresholds we currently require?

The release asks questions on all the points I have discussed above. I hope a wide range of market participants will consider each of questions and respond with insights from their vantage point in the market. Only with robust feedback can we hope to detect possible unintended consequences and adapt this proposal so that it is workable for all market participants.^[10]

This brings me, however, to a major shortcoming I see in today's proposal. The comment period is 60 days long, falling over the course of several holidays. It coincides with comment periods for *five* other proposed Commission rules.^[11] If you include the four new proposals on which we are voting today,^[12] the public is left with hundreds of questions on which we are seeking input in this short amount of time. Unfortunately, I have very little confidence that we are allowing enough time to receive feedback from the many types of market participants whom these rules will affect.^[13]

So, while I thank the staff for their hard work on this proposal, I respectfully dissent.

[1] See SEC Staff Report on U.S. Credit Markets Interconnectedness and the Effects of the COVID-19 Economic Shock (Oct. 2020) (“SEC Staff Interconnectedness Report”) at 2, *available at* https://www.sec.gov/files/US-Credit-Markets_COVID-19_Report.pdf.

[2] See, e.g., Report of the President’s Working Group on Financial Markets, Overview of Recent Events and Potential Reform Options for Money Market Funds (Dec. 2020), *available at* <https://home.treasury.gov/system/files/136/PWG-MMF-report-final-Dec-2020.pdf>; Financial Stability Board, “Policy proposals to enhance money market fund resilience: Final report” (Oct. 11, 2021), <https://www.fsb.org/2021/10/policy-proposals-to-enhance-money-market-fund-resilience-final-report/>.

[3] See, e.g., Dalia Blass, Director, Division of Investment Management, “Staff Statement on the President’s Working Group Report on Money Market Funds” (Dec. 23, 2020), <https://www.sec.gov/news/public-statement/blasse-pwg-mmf-2020-12-23> (comments available at: <https://www.sec.gov/comments/s7-01-21/s70121.htm>).

[4] See Securities and Exchange Commission, “Money Market Fund Reforms,” Rel. No. IC-34441 (Dec. 15, 2021), <https://www.sec.gov/rules/proposed/2021/ic-34441.pdf> (hereinafter “Proposed MMF Amendments”).

[5] See *id.* (discussions in Section II.A.1 and III.C.1).

[6] See *id.* (discussions in Section II.B).

[7] See *id.* (discussion in Section III.D.4-5).

[8] See *id.* (discussion in Section II.C).

[9] See *id.* (discussion in Section II.C.2).

[10] Several Executive Orders have addressed the need for federal agencies to allow a meaningful opportunity for the public to comment on rulemakings, stating that such comment periods “should generally be at least 60 days.” See Commissioner Hester M. Peirce, “Rat Farms and Rule Comments - Statement on Comment Period Lengths” (Dec. 10, 2021), https://www.sec.gov/news/statement/peirce-rat-farms-and-rule-comments-121021#_ftn1, note 1.

[11] See Electronic Submission of Applications for Orders under the Advisers Act and the Investment Company Act, Confidential Treatment Requests for Filings on Form 13F, and Form ADV-NR; Amendments to Form 13F, Rel. No. 34-93518 (Nov. 4, 2021), <https://www.sec.gov/rules/proposed/2021/34-93518.pdf> (comments due December 20, 2021); Updated EDGAR Filing Requirements, Rel. No. 33-11005 (Nov. 4, 2021), <https://www.sec.gov/rules/proposed/2021/33-11005.pdf> (comments due December 22, 2021); Proxy Voting Advice, Rel. No. 34-93595 (Nov. 17, 2021), <https://www.sec.gov/rules/proposed/2021/34-93595.pdf> (comments due December 27, 2021); Electronic Recordkeeping Requirements for Broker-Dealers, Security-Based Swap Dealers, and Major Security-Based Swap Participants, Rel. No. 34-93614 (Nov. 18, 2021), <https://www.sec.gov/rules/proposed/2021/34-93614.pdf> (comments due January 3, 2022); Reporting of Securities Loans, Rel. No. 34-93613 (Nov. 18, 2021), <https://www.sec.gov/rules/proposed/2021/34-93613.pdf> (comments due January 7, 2022).

[12] See Securities and Exchange Commission, “Open Meeting Agenda - December 15, 2021,” <https://www.sec.gov/os/agenda-open-121521> (noting that the Commission will consider rule proposals on: (1) Rule 10b5-1 and Insider Trading; (2) Share Repurchase Disclosure Modernization; (3) Money Market Fund Reforms; and (4) Security-Based Swap Positions).

[13] While the release notes that the Commission “in its discretion, may accept and include in the public record” written comments filed after the closing date, it is not clear to me how the Commission will make determinations to exercise that discretion.

