Statement

Statement on Proposed Amendments to Money Market Fund Rules

Commissioner Caroline A. Crenshaw

Dec. 15, 2021

Thank you to the staff in the Division of Investment Management, the Office of the General Counsel, and Division of Economic and Risk Analysis for their thoughtful work to advance today's proposal and for their steadfast commitment to improving the resilience and transparency of money market funds.

Money market funds are popular cash management vehicles for both retail and institutional investors largely as a result of their limited principal volatility, diversification of portfolio securities, payment of short-term yields, and liquidity. Money market funds also provide an important source of short-term financing for businesses, banks, and Federal, state, municipal, and Tribal governments.

However, money market funds can be vulnerable to liquidity runs during times of market stress.[1] While the Commission has taken action on several occasions over the past decade or so with the goal of addressing the various sources of risks that can contribute to liquidity runs,[2] our experience during March 2020, when prime institutional money market funds experienced heavy redemptions amid growing economic concerns relating to the COVID-19 pandemic, demonstrated that risks remain and we need to consider whether further action is appropriate.

Today's proposed amendments thoughtfully seek to address vulnerabilities in this market. Among other changes to money market funds, the proposal would remove the liquidity fee and redemption gate provisions in the existing rule in order to reduce investors' incentive to engage in preemptive redemptions during times of stress. This change could also better enable funds to use their daily and weekly liquid assets to meet redemptions in times of stress. The proposal also would require funds to increase their minimum daily liquid assets from 10% to 25% and their minimum weekly liquid assets from 30% to 50%. These adjustments are designed to provide a more substantial buffer in the event of rapid redemptions. The proposal also would improve the availability of information about money market funds in order to put the Commission and investors in a better position to monitor funds' activities and evaluate the impact of market stress on those funds.

In addition to the changes just highlighted, the proposal also requires institutional prime and institutional tax-exempt money market funds to implement swing pricing policies and procedures to help ensure that redeeming investors bear the liquidity costs of their decisions to redeem. Swing pricing, like the other proposed changes, is designed to reduce investors' incentives to run during times of market stress. I am pleased that we are including swing pricing and initiating a discussion, though it is certainly an idea that deserves careful consideration. The proposal is thorough and asks many questions to help inform the Commission's understanding of how swing

pricing might operate in practice. I am looking forward to hearing commenter's views on all these questions. However, I am particularly interested in commenter's views and analysis on how we can best operationalize swing pricing requirements from a regulatory perspective and how funds will implement their swing pricing policies and procedures. Is there a way we should be thinking about guarding against excessive levels of variability in the application of swing factors across money market funds, and should we be concerned about the amount of discretion funds and swing pricing administrators might use when determining their swing factors? And, finally, how will investors respond to swing pricing generally and during market stresses?

I look forward to reviewing the comment letters and working with the staff as we move toward a final rule. Thank you and thank you again to the staff, the Chair's office, and my fellow Commissioners.

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[1] In 2007-2008, some prime money market funds were exposed to substantial losses from their holdings. One money market fund "broke the buck" and suspended redemptions, and many fund sponsors provided financial support to their funds. These events led to a run primarily on institutional prime money market funds and contributed to severe dislocations in short-term credit markets. In March 2020, in the midst of growing economic concerns relating to the COVID-19 pandemic, prime money market funds experienced heavy redemptions. One institutional prime fund's weekly liquid assets fell below the 30% minimum threshold set forth in rule 2a-7. These heavy asset flows placed stress on short-term funding markets.

[2] After the 2008 financial crisis, the SEC adopted a number of amendments to its money market fund regulations in 2010 and 2014. In 2010, the Commission adopted amendments to rule 2a-7 that, among other things, required that money market funds maintain liquidity buffers in the form of specified levels of daily and weekly liquid assets. *See* Money Market Fund Reform, Investment Company Act Release No. 29132 (Feb. 23, 2010) [75 FR 10060 (Mar. 4, 2010)]. In 2014, the Commission further amended the rules that govern money market funds. In these amendments, the Commission, among other things, provided the boards of directors of non-government money market funds with new tools to stem heavy redemptions by giving them discretion to impose a liquidity fee or temporary suspension of redemptions (*i.e.*, a gate) if a fund's weekly liquid assets fall below 30%. Additionally, the 2014 amendments required institutional non-government money market funds to transact at a floating NAV. *See* Money Market Fund Reform; Amendments to Form PF, Investment Company Act Release No. 31166 (July 23, 2014) [79 FR 47735 (Aug. 14, 2014)].