FACT SHEET

Money Market Fund Reforms

The Commission adopted amendments to certain rules that govern money market funds under the Investment Company Act of 1940. The amendments are designed to improve the resilience and transparency of money market funds by:

- Increasing minimum liquidity requirements to provide a more substantial buffer in the event of rapid redemptions;
- Removing provisions from the current rule that permit a money market fund to temporarily suspend redemptions and removing the regulatory tie between the imposition of liquidity fees and a fund's liquidity level;
- Requiring certain money market funds to implement a liquidity fee framework that will better allocate the costs of providing liquidity to redeeming investors; and
- Enhancing certain reporting requirements to improve the Commission's ability to monitor and assess money market fund data.

Why This Matters

Money market funds are managed with the goal of providing principal stability and access to liquidity by investing in high-quality, short-term debt securities whose value does not fluctuate significantly in normal market conditions. These characteristics have made money market funds popular cash management vehicles for both retail and institutional investors and an important source of short-term financing for businesses, banks, and governments.

In March 2020, economic concerns about the impact of the COVID-19 pandemic led investors to reallocate their assets into cash and short-term government securities. Prime and tax-exempt money market funds, particularly institutional funds, experienced large outflows, which contributed to stress on short-term funding markets. The amendments are designed to address concerns about prime and tax-exempt money market funds highlighted by these events and to improve the resilience and transparency of money market funds more generally.

What's Required

Increase of the Minimum Daily and Weekly Liquidity Requirements

The amendments will increase the minimum liquidity requirements for money market funds to at least 25 percent of a fund's total assets in daily liquid assets and at least 50 percent of a fund's total assets in weekly liquid assets. These amendments will provide a more substantial buffer that will better equip money market funds to manage significant and rapid investor redemptions in stressed market conditions while maintaining funds' flexibility to invest in diverse assets during normal market conditions.

Removal of Temporary Redemption Gates and the Tie Between the Weekly Liquid Asset Threshold and Liquidity Fees

The amendments will remove money market funds' ability to impose temporary gates to suspend redemptions. They will also remove the regulatory tie that permits money market funds to impose liquidity fees if their weekly liquid assets fall below a certain threshold. These changes will reduce the risk of investor runs on money market funds during periods of market stress.

Liquidity Fee Requirement

The amendments will require institutional prime and institutional tax-exempt money market funds to impose mandatory liquidity fees when a fund experiences daily net redemptions that exceed 5 percent of net assets, unless the fund's liquidity costs are *de minimis*. In addition, non-government money market funds must impose a discretionary liquidity fee if the fund's board (or its delegate) determines that a fee is in the best interest of the fund. The amended liquidity fee framework is designed to protect remaining shareholders from dilution and to more fairly allocate costs so that redeeming shareholders bear the costs of redeeming from the fund when liquidity in underlying short-term funding markets is costly.

Other Amendments

Under the amendments, retail and government money market funds may handle a negative interest rate environment either by converting from a stable share price to a floating share price or by reducing the number of shares outstanding to maintain a stable net asset value per share, subject to certain board determinations and disclosures to investors.

The amendments will also modify certain reporting forms to reflect the amendments to the regulatory framework for money market funds. The modifications to the reporting requirements will improve transparency and facilitate Commission monitoring of money market funds. In addition, the Commission adopted amendments to Form PF, the confidential reporting form for certain SEC-registered investment advisers to private funds, to require additional information regarding the liquidity funds they advise that is generally aligned with the amended reporting for money market funds. These amendments were proposed by the Commission in January 2022.

What's Next

The rule amendments will become effective 60 days after publication in the Federal Register. The reporting form amendments will become effective June 11, 2024. The Commission is adopting a tiered approach to the transition periods for the other final amendments. The Commission has provided for a six-month transition period for funds to comply with certain amendments, including the minimum portfolio liquidity requirements and the discretionary liquidity fee provision. Funds will have twelve months after the effective date to comply with the amended rule's mandatory liquidity fee provision.