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April 11, 2022

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Money Market Fund Reforms (File No. S7-22-21)

Dear Ms. Murphy:

CFA Institute[1] appreciates the opportunity to respond to the U.S. Securities and Exchange Commission's (the "SEC" or the "Commission") rule proposal, *Money Market Fund Reforms* (the "Proposal").[2] CFA Institute speaks on behalf of its members and advocates for investor protection and market integrity before standard setters, regulatory authorities, and legislative bodies worldwide. We focus on issues affecting the profession of financial analysis and investment management, education, and competencies for investment professionals, and on issues of fairness, transparency, and accountability of global financial markets.

Executive Summary

CFA Institute supports the Commission' Proposals to remove language encouraging money market funds to erect redemption gates and liquidity fees as a means of lessening investor concerns about access to money invested in money market mutual funds ("Money Funds"). We also support the Proposal to introduce swing pricing as a means of mitigating dilution resulting from first-mover and large-scale redemptions in institutional prime and tax-exempt funds ("Institutional Funds"). While we support higher daily liquid assets ("DLA") and weekly liquid assets ("WLA") levels to help absorb large-scale redemptions, we believe smaller increases, to 15% to 20% for DLA and 35% to 40%, for WLA is sufficient.

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[1] CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow. There are more than 180,000 CFA® charterholders worldwide in more than 160 markets. CFA Institute has nine offices worldwide and there are 160 local societies.

[2] https://www.sec.gov/rules/proposed/2021/ic-34441.pdf

We also support the Proposal that stable net asset value funds (“SNAV”) should transition into floating NAV funds (“FNAV”) when fund yields turn negative. We also recommend that those same funds should be permitted to re-transition into SNAV funds when yields become positive again. We believe it would be significantly more efficient and with more consistent results if either fund service providers or SEC examiners determine whether those service providers can manage the transition of SNAV funds to floating share prices in periods with negative yields. In either case, the SEC should act as a repository for data on which service providers can or cannot manage such transitions and for funds authorized to use the transition mechanism. Appropriate and timely disclosures should be made to fund investors. Finally, we ask for clarity as to whether the Commission would still require swing pricing during the period in which a fund is operating under a FNAV due to negative yield.

We further recommend that the SEC conduct a study and publicly report on the repayment performance of money market instruments over the period between the start of the global financial crisis in 2007 and the beginning of 2020, with specific attention given to the frequency and magnitude of defaults in all of these instruments. If, as expected, these instruments rarely default, we recommend that the SEC promote the findings to ease investor concern about the credit quality of these instruments.

General Comments

The SEC’s multiple attempts to reform money market funds is to a large extent the result of an issue summarized on page 94 of the Proposal, which says, “…markets can become illiquid very rapidly in response to events that fund managers may not anticipate. The failure of a single fund to anticipate such conditions may lead to a run affecting all or many funds."

The Proposal aims to address this concern by presenting a series of reforms. Provisions to remove language in Rule 2a-7 giving fund boards authority to implement redemption barriers and liquidity fees if a fund’s investment in WLA falls below the regulatory minimum of 30%[3] is the first such step in this effort. The change is needed, the Commission contends, because institutional investors concluded they could not take the chance that fund boards would opt to protect their funds and remaining shareowners by erecting gates to halt or slow redemptions, thus blocking such investors ability to exit.

Comparison of 2008 and 2020

As reported in the Proposal, Institutional Fund firms said their clients expressed more concern about losing access to their money market funds than they were about the price at which they could redeem their shares. This dynamic was evident during the height of market turmoil in March 2020 when investors in public prime Institutional Funds redeemed shares at an average rate that was four times faster than retail investors. Table 2 in the Proposal provides this evidence in industry redemption data for the week ended 21 March 2020.

[3] See Footnote 75, p. 29.

This situation is different from what prompted money market fund investors' panic in 2008. At that time, various types of financial institutions[4] were exposed to mortgage-related assets. Counterparties could not discern the magnitude of exposures at individual institutions, including banks. To help remedy the situation, the Federal Reserve stepped in as the central counterparty for interbank overnight lending.

Making matters worse, a small decline in asset values had the potential to wipe out what little equity capital many banks and other financial institutions had standing between them and insolvency. Reserve Primary Fund, a pioneer in the money market fund industry, provides a useful example of this condition. After writing off 1.2% of its portfolio invested in bankrupt Lehman Brothers, the fund became the target of mass redemptions amounting to more than half its assets under management.[5] The problem was compounded by the fact that the run was due to the toxicity of the fund's holdings and that its breaking of the buck came just six months after the demise of Bear, Stearns & Co., and 14 months after BNP Paribas was forced to halt redemptions from three of its money market funds, both over doubts related to the value of asset-backed investments in the fund's portfolio. With these factors as recent background, investors were rightly worried about the composition and credit quality of counterparties' portfolios.

Six years later, the SEC adopted Section (c)(2) of Rule 2a-7 to "stem heavy redemptions and avoid the type of contagion that occurred during the financial crisis."[6] It included the current authority granted to fund boards to invoke redemption gates and charge redeeming investors a liquidity fee.

Unlike 2008, however, the 2020 crisis was not a credit crisis caused by the bankruptcy of a select issuer leading to the breaking of the buck for an iconic Money Fund and putting the entire Money Fund industry under regulatory and investor suspicion. Rather, the 2020 credit dislocations were based on concerns for economy-wide failures produced by mandated halts to business, all in response to the Covid-19 pandemic. While not concerned about the default of any particular creditor, or problems with any particular type of instrument or category of issuer, investors in Institutional Funds were nevertheless fearful that the gates adopted in the 2014 reforms would block access to their invested funds. As noted in the Proposal, investors expressed more concern about being locked out than about "losing a few pennies" on the dollar.[7] By comparison, retail prime funds incurred net redemptions at just a fraction of the levels experienced by Institutional prime funds during the week ended 21 March 2020 at the height of the market panic.

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[4] Commercial banks, investment banks, savings banks and savings and loans, government-sponsored enterprises, money market funds, bond funds, and insurance companies all invested heavily in mortgage-related assets. Those assets included mortgage-backed securities, collateralized mortgage obligations, mortgage loans, and loans against mortgage-related assets.

[5] "Reserve Primary: Fools Rush In Where Wise Men Fear to Tread!," 2015, Ozgur Akay, Mark D. Griffiths, and Drew B. Winters, published in the Journal of Investment Management, Vol. 13, No. 1, pp. 10-26.

[6] See https://federalregister.gov/citation/79-FR-47958, p. 13.

[7] See Footnote 75, p. 29.

This points to a contrast of perspectives for retail and institutional investors regarding their need for access to their funds.

Retail investors, for instance, often use Money Funds as either a short-term investment vehicle or as a checking account, or both. Their withdrawals, therefore, are typically used to make relatively small payments such as mortgage payments or to pay school tuitions. A delay in access is a manageable occurrence.

By comparison, institutional investors need their funds to fulfill potential large obligations including tax payments, payroll, near-term debt payments, payments to suppliers, or delivery of sales tax receipts to local governments. These payments may amount to a significant percentage of the funds such institutions have invested in money market funds at any one time. Delay in payment, then, could have devastating effects on continuity of their businesses through such issues as defaults on debts, lawsuits, and reputational harm with creditors, suppliers, and employees.

In light of what institutional investors may face if they lose access to their funds, their actions in March 2020 were somewhat predictable.

Purpose of Current Proposals

The SEC's current Proposal seeks to remedy the difficulties created by the 2014 rules. It does so, first, by removing the regulatory language giving fund boards authority to impose temporary redemption gates and liquidity fees, eliminating institutional investor concerns about access to their money. Its second reform requires Institutional Funds to adopt and implement swing pricing, a complex mechanism to adjust a fund's NAV to ensure redeeming shareowners pay the estimated liquidity costs they create when redeeming their shares at the same time large numbers of other shareowners seek to do the same. The third reform seeks to bolster DLA and WLA minimums to absorb redemptions when funds are stripped of the authority to use temporary gates and liquidity fees to manage redemptions. Other reforms involve disclosure requirements and preparing for the possibility of funds' negative yields, including converting stable NAV funds to floating prices for their shares.

Before commenting on these Proposals more fully, we would like to address the Commission's focus on dilution of investors who do not seek to redeem their shares when others are fleeing ("Remaining Shareowners").

Dealing with Dilution

The Commission's mission to ensure market integrity and to help protect investors from unfair trading is a key reason it has directed focus toward the dilution of Remaining Shareowners. Current rules have allowed early movers to redeem Money Fund shares early in a building crisis at prices that have not yet reflected then-current market values for many of the securities held in money fund portfolios. CFA Institute strongly supports fair and accurate pricing of financial assets and, where possible, applying current market values to holdings for purposes as diverse as financial reporting and ensuring market structure integrity. Consequently, we support the Commission's efforts in this regard.

The effects produced by the market timing described above are valuable to investors in two ways. First, it has given first movers access to their assets when fund managers have high-quality and short-term assets they can liquidate quickly. Second, it has allowed first movers to redeem at stale prices that are higher than prices available for portfolio securities at the time of sale. This creates a perceived discount for Remaining Shareowners. And, it has the potential to create problems should investor fear about dilution of their share values lead to investor runs that put key parts of the financial system and short-term funding markets in jeopardy of failure.

The validity of this latter concern was put to the test in March 2020. Interestingly, the perspectives relayed to fund managers and the SEC by money fund investors in the aftermath of the 2020 crisis as to their motivations indicated a desire for full redemption of their shares even if at a discount, above being locked out by a gate even if they eventually were to receive full value. Price dilution, in other words, was not a significant motivation for concern and did not induce investors to rush for the door.

Ultimately, dilution in value created by some investors selling securities holdings before others is an inevitable fact of financial markets and fund investments in particular. If a company is facing bankruptcy, all sales of its bonds will surely trade at ever-greater discounts to par value as more sellers seek to sell their bonds, leaving remaining investors in the bonds holding debt potentially worth a fraction of par value. The sale of even small blocks of an illiquid small-cap stock can distort the market price of its shares in the short term, leaving investors with securities that are worth less than before the selling began. Even FNAV mutual funds face potential dilution by virtue of the fact NAV takes time to adjust for rapid movements in the prices for a fund's portfolio holdings.

To help educate investors, including institutional investors in particular, we urge the Commission to study the payoff experience of issuers of commercial paper, asset-backed commercial paper, certificates of deposits, and repurchase agreements. We expect issuers in these markets paid their debts in full and on time more than 99% of the time, if not at a higher rate. If this is the case, the Commission should promote this fact to investors to help quell the urge of many investors to redeem their shares at the first sign of trouble, at least as it relates to credit quality.

Based on these factors, we make the additional following suggestions:

- All investors should be responsible for paying the costs attributable to their fund redemptions, including market liquidity costs. Every investor that redeems its fund shares, regardless of whether in stressed or normal markets, should cover the costs of commissions, custody fees, taxes, trading fees and other charges associated with portfolio security sales.
- To address institutional investors' natural urge to redeem in times of stress, the SEC should proceed with its swing pricing Proposals to ensure redeeming shareowners fully pay the costs of liquidating their shares.
- In addition, the Commission could consider extending a swing pricing requirement to retail prime and tax-exempt funds. Retail funds are not immune to run risk, even if, as experience has shown, they face substantially less run risk than do institutional funds.

Comments About Money Market Fund Proposals

Elimination of Rule 2a-7 Gates

In questions 1 through 5, the Commissions asks about the wisdom of eliminating redemption gates tied to regulatory liquidity metrics. As currently applied, Rule 2a-7 gives Funds authority to impose redemption gates if their WLA fall below the 30% regulatory minimum. DLA and WLA balances are disclosed daily on funds' websites by regulatory mandate and became a closely watched metric for institutional investors worried about preserving access to their invested funds.

At the same time, the 2a-7 gates rule encouraged fund managers to preserve their liquidity,[8] and the threat of gates did more harm than good. According to a survey of institutional investors, a large majority of those who had reduced their investments in prime money market funds suggested gates were an important factor in deciding to redeem.[9] Investors held this concern even though no fund imposed a 2a-7 gate to slow redemptions, despite institutional investors' 20.1% overall redemption rate during the week ended 20 March – compared with just 4.8% for retail prime investors.

Nevertheless, and as a consequence of the adverse incentives created by the potential gates, the Commission proposes to eliminate 2a-7 gates because of their connection with transparent WLA data on each fund. Funds will still be able to use gates authorized by Rule 22e-3 for use in orderly fund liquidation.

We support the Proposal to eliminate 2a-7 gates while retaining 22e-3 gates for liquidation. The perspective provided by institutional investors[10] that access to their funds was more important than the potential for loss of a small percentage of face value points to the negative market implications arising from the 2a-7 liquidity-linked gates. Moreover, it is our view that gates should only be used in the direst of circumstances, such as when lack of investor confidence can be seen leading to the ultimate liquidation of a fund. Use of 22e-3 gates are more appropriate for that purpose.

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[8] See p. 15 of the Proposal: "Available data suggests that managers were actively managing their portfolios to avoid having weekly liquid assets below 30% of their total assets by, in some cases, selling other portfolio securities to meet redemptions."

[9] See footnote 73 on p. 29 of the proposal (citing a comment letter from Federated Hermes Inc. The comment letter referred to a survey of 39 institutional investors, 19 of whom had reduced their prime money fund investments in March 2020. Of those 19 firms, 87% "mentioned the potential of 'redemption hurdles' as a factor in" deciding to redeem their shares.)

[10] See footnote 75, also on p. 29. Responses from both Invesco and the Investment Company Institute indicate institutional prime investors were more worried about access to their money than about "losing a few pennies."

Elimination of Rule 2a-7 Liquidity Fees

Questions 6 through 12 address the Commission's proposal to remove 2a-7 liquidity fees from the options available to funds whose liquid holdings approach regulatory minimums. In the same manner as 2a-7 gates, no Funds turned to liquidity fees to slow the pace redemptions in March 2020. Funds sold longer-dated portfolio holdings rather than use either fees or let liquidity balances sink toward a breach of WLA minimums.

Beyond these similarities, the SEC's Proposal for ending the mandated consideration of liquidity fees differed greatly from the reasoning given for ending 2a-7 gates. Comments of industry participants about the March 2020 market turmoil suggest potential imposition of liquidity fees was not a significant factor in investors' redemption decisions in the manner they were for gates. Moreover, the Commission considered it unlikely that decisions to impose liquidity fees could be made swiftly enough to mute net outflows and therefore prevent dilution of Remaining Shareowners.

While the threat of liquidity fees did not appear to either stem net redemptions or lead to them in March 2020, there is the potential that the specter of gates preventing access hid certain redemptive actions institutional investors may have taken if they had only faced paying liquidity fees at redemption.

As to whether the Commission should modify the circumstances for imposing liquidity fees instead of abolishing their inclusion in Rule 2a-7, our view is the answer depends on whether the final rule emanating from this Proposal includes swing pricing. If swing pricing is part of the new rule, either as proposed or in some altered but familiar form, then we believe the SEC should remove the current liquidity fees. If swing pricing is rejected as a means of managing risks of dilution and redemption runs, then we believe the SEC should retain them.

In the Proposal, the Commission effectively made the case for swing pricing because gates, in particular, had increased institutional investor urgency to engage in preemptive redemptions. Regardless of whether the gates were the primary problem, what is clear is that fund boards did not use liquidity fees during the March 2020 tumult, even when they could have. If they did not use them in those dire circumstances, it is unlikely they would impose liquidity fees in the future. We are inclined to believe they would not because of the same concern about investor ire of paying extra costs to withdraw their funds when they need it most.

If, however, the Commission decides to retain the liquidity fee option contained in Sec. (c)(2)(i)(A) and (B) of Rule 2a-7, we believe it is imperative that Funds adopt policies and procedures to identify circumstances when imposition of such fees are appropriate, how the fee is calculated, and the duration of the fee's existence.

Finally, the fee should only consider the cost of liquidity. The decision to impose such a fee should be based on a host of factors, including quotes, sales, mark-to-market determinations, liquidity changes, and redemptions. And the manner in which fees are calculated and applied should be fully disclosed in relevant fund documentation.

Swing Pricing

Under the Proposal, Institutional Funds would have to apply a swing factor to redemption prices when the funds experience net redemptions that exceed the prescribed market impact threshold ("MIT").[11] No board action is needed to apply the swing factor. The MIT is defined as net redemptions exceeding 4% of a fund's NAV divided by the number of times a fund strikes its NAV during a business day, though the swing pricing administrator[12] ("SPA") could choose a smaller net redemptions threshold.

The swing factor would consider the costs funds might incur if they were to sell a vertical slice – a pro rata share of a fund's portfolio – into the market. These costs would include transaction costs such as brokerage commissions, custody fees, taxes, and related costs, but also would adjust effective NAV received by the redeeming investor for spread costs, which the SEC describes as "economically equivalent to striking the NAV at the bid price"[13] in the Proposal's Economic Analysis section.[14]

The Commission says these changes are needed to ensure costs from net redemptions are fairly allocated to those who participate in mass redemptions in times of stress either for the specific Funds, for money markets, or for markets in general as occurred in 2020 and, before that, in 2008. Through this mechanism, redeeming shareowners would pay for the cost of depleting a Fund's liquidity, and would pay these costs when the market-impact threshold is breeched. The SEC adds that this structure is needed to address funds' reluctance to impose liquidity fees when net redemptions exceed normal levels, as we saw in the market turmoil of March 2020.

For the most part, CFA Institute is not in a position to respond authoritatively to the matters addressed in questions 46 through 55 relating to how fund managers address operational matters relating to swing factors and order cut-offs, among others. The sole exception to this is question 52, in which the Commission asks if it should require all money market funds to adopt FNAV and to implement swing pricing. As noted in our letter to the SEC in 2013,[15] we have a longstanding preference for presentations of fair value in financial reporting, particularly in regard to holdings of financial instruments. In that letter, however, we recognized the comparatively muted response of retail investors to perceived declines in fund NAVs during the height of the 2008 financial crisis. This dynamic repeated itself during the March 2020 period, with total net redemptions during the week ending 20 March 2020 amounting to 4.8%. As noted in the Proposal and in footnote 6 above, retail investment managers were able to

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[11] The Proposal would exempt retail funds from mandatory application of swing-pricing due to empirical evidence from 2008 and 2020 that retail investors are not as prone to pre-emptive redemption as Institutional Funds have been shown to be. Consequently, retail prime fund managers have been more comfortable drawing upon their WLA and DLA resources to address investor redemptions.

[12] Fund boards would designate an SPA as responsible for day-to-day administration of their funds' swing-pricing programs and implementation of board-approved swing-pricing policies and procedures. While the Proposal does not specify whether the SPA should be an in-house staff member or an external service provider, it does specify the board *cannot* delegate the SPA's oversight to fund advisers or officers. It does specify, however, that SPAs must be reasonably separated from management of funds' investment portfolios and must provide written reports at least annually on the adequacy, effectiveness, and any changes in their swing pricing program.

[13] Proposal, at p. 193.

[14] Proposal, at p. 188.

[15] See s70313-204.pdf (sec.gov).

handle outflows by drawing upon WLA and DLA resources. Consequently, we do not see a reason for imposing the costs and complexities of shifting from SNAV to FNAV upon retail investors, particularly in light of the very low yields these funds are paying in current low-rate environments. As described elsewhere in the Proposal, these funds would automatically and appropriate convert to FNAV structures should their yields turn negative. We discuss this issue later in this letter.

Portfolio Liquidity Regulatory Minimums

Beyond removal of liquidity fees, the Commission also proposes to raise DLA and WLA minimums to 25% and 50%, respectively, from current requirements of 10% and 30%, respectively.
In general, we agree with the idea that money market funds need higher liquidity to better withstand future market stresses. We do not agree, however, with the magnitude of the increases proposed.

This set of Proposals is linked to the proposed removal of provisions in section (c)(2) of Rule 2a-7. There, the Proposal would eliminate provisions authorizing funds with a DLA or WLA deficiency to impose fees or gates if their boards believe doing so is in the best interests of the fund. The change is intended to eliminate investor concerns that redemption gates would impede their access to invested funds.

In the Proposal, the Commission notes the new proposed minimums would not be significantly greater than the amounts of DLA and WLA funds themselves maintained without regulatory mandate. At the same time, the Commission states this change is needed because without gates or liquidity fees, funds would quickly exhaust their DLA and WLA without higher regulatory minimums.

The Proposal says additional liquidity would assure investors – and prudential regulators – that all non-government funds have liquidity sufficient to manage large and rapid redemptions while allowing funds to maintain flexibility to invest in diverse assets in normal times. The mandated liquidity increases also are needed because secondary market liquidity for instruments like commercial paper is not reliable. For example, during the March 2020 market stress, bank dealers regularly refused to bid on paper they did not underwrite and sell.

The higher proposed WLA and DLA levels also are justified by data the SEC gathered in its simulated stress testing of funds' portfolios. These tests suggested that under current rules there is a one-third chance funds would sell longer-dates assets to meet redemptions on 20% of the days in stress. Under the proposed minimums, however, it found the chance of a fund fully depleting its liquidity at least once during a week of abnormally high redemptions declines to 9%. Likewise, there is just a 2% chance of fully depleting liquidity on days 1, 2, and 5 in such a week, and a 5% chance of fully depleting its liquidity on days 3 and 4. In other words, liquidity would be sufficient after the increases to allow funds to use their available liquidity as needed to manage high redemptions. Removal of fees and gates would reduce disincentives for managers to avoid using liquidity buffers to meet redemptions.

CFA Institute View. The proposed changes are very likely to have the desired effect of making non-government funds more resilient against potentially significant redemptions. The real question is at what cost.

Implementation of these provisions would increase demand for Treasury securities and U.S. government agency instruments due to their perceived relative low risk. At the same time, further restricting the

market for private-sector instruments, and commercial paper in particular, would worsen the liquidity risk of the less-favored instruments.

We are concerned these provisions would create other problems, such as greater homogeneity of money market fund holdings. Greater homogeneity is likely to produce higher correlations among money market fund portfolios, where a market disruption in the market for these instruments could make industry-wide problems that much greater.

We also are concerned this shift would lessen the Commission's emphasis on facilitating private-sector capital formation. Regulatory changes responding to the 2008 financial crisis, for example, led to a $451.2 billion, or 65.5%, reduction in commercial paper holdings between 2007 and 2019.[16] As shown in Chart 1 in the Proposal, government money market funds picked up this slack, growing to $4 trillion in January 2021 from less than $1 trillion in AUM in November 2015.

Furthermore, we do not share the Commission's implied expectation that funds will continue to maintain WLA and DLA levels above regulatory minimums going forward. The Commission does not explain why funds did so in the past, and therefore we are unable to consider the validity of this expectation.

It also not certain the higher liquidity minimums will have more than a marginal effect in preventing a future liquidity crisis, based on information gathered by the Commission and by respondents to the Commission's 2021 "Request for Comment on Potential Money Market Fund Reform Measures in President's Working Group Report." As noted above, respondents suggested investors were more concerned about access to their invested funds if firms erected redemption barriers.[17]

Nor is it improbable that fund managers would respond to the Proposals' significant increases in regulatory minimums – a 150% increase for DLA; 60% for WLA – by managing to the minimums going forward, rather than keeping balances greater than the minimums. After all, if the Proposal's gate and swing-pricing provisions are ultimately adopted, Money Funds' customers would no longer have to worry about redemption barriers blocking access to their money. Instead, funds will have greater flexibility to use their DLA and WLA balances to manage redemptions. Indeed, the Commission itself sees funds more likely to use their liquidity resources in the future to address higher-than normal redemptions.

Rather than increasing DLA to 25% and WLA to 50%, we offer three proposals. First, we encourage the Commission to conduct a market-wide pilot program testing the viability of 15%-20% DLA and 35%-40% WLA during the period between removal of the gates provisions in Rule 2a-7 and prior to the introduction of higher liquidity minimums. While these minimums would be lower than levels deemed responsible in the Commission's stress-tests, the real-life outcomes in 2020 suggest a large portion of the panic in the prime Institutional Fund market was related to gates. The combination of swing pricing

[16] Federal Reserve Z.1 data. Via BlackRock - Lessons from Covid 19: U.S. Short-Term Money Markets.
[17] See, in particular, footnote 75 in the Proposal, from Invesco: "investors were less concerned about the price of their shares and more concerned about not having access to their shares…"

and the elimination of the threat of gates may effectively address institutional investors' inclination for mass preemptive redemptions without the need for significantly higher liquidity minimums.

Second, we recommend including commercial paper with the highest ratings and maturities up to 30 days to satisfy DLA and WLA regulatory minimums. This would promote capital formation, albeit only for the highest rated and likely large, incumbent issuers. Nevertheless, creating greater money market fund demand for such instruments should enhance liquidity for buyers and sellers of these instruments.

And finally, we do not support an increase in DLA and WLA requirements of the magnitude proposed for retail funds. Depending on WLA percentages, retail prime funds' redemptions ranged between 1% and 32% of prime Institutional Funds withdrawals, and less than one-quarter of total prime Institutional Fund redemptions during the week ended 20 March.[18] After two ten-standard deviation events in less than 12 years where the liquidity needs of retail prime funds did not pose a systemic threat, it is clear liquidity provisions in this segment are a function of the way each group uses their cash. Retail investors rarely need significant sums of money on short notice in the way that institutional enterprises do. We would, however, support increased DLA and WLA to the levels proposed above, namely to 15%-20% for DLA, and 35%-40% for WLA.

Consequences for Falling Below Regulatory Minimum Liquidity

CFA Institute supports the SEC's proposal to retain the approach currently mandated in Sec. (d)(4) of Rule 2a-7 that requires funds with a DLA or WLA deficiency to acquire only assets that cure or prevent deficiencies in either those regulatory minimums. The rule does not and would not impose penalties for failing to maintain these minimums.

While we believe fund managers should notify their boards when a fund experiences a liquidity event, defined as falling below 50% of the regulatory DLA or WLA minimums, we believe the mandate should commence much sooner. Disclosure at this level should be just one part of a policy of on-going communications between funds' managers and fund boards that should begin when the fund breaches these regulatory liquidity minimums. In-depth discussions should occur the day after a fund's breach of regulatory minimums by 25% is not reversed overnight and should include information about (1) when the breach occurred; (2) what caused it; (3) which portfolios and investors are affected; (4) how they are affected; (5) the manager reporting the event; and (6) when and how the manager expects to remedy the deficiency. These discussions should occur regularly thereafter until the breach is fully remedied.

As a matter of best practice, fund managers and boards should have policies stipulating similar ongoing discussions upon the occurrence of any change that materially threatens a fund's ongoing operations.

Finally, we do not support requiring money market funds of any type to maintain a regulatory minimum balance at all times as is considered in Question 78. This, we fear, would create a dynamic similar to the threat created by mandated redemption gates in March 2020. Investors may see such a provision as a bright line rule that could limit access to their invested funds.

[18] See Table 2 in the Proposal, found on page 20.

Negative Rates Amendments

The SEC proposes to require all SNAV funds that experience negative yields to convert to FNAV. SNAV funds would not be permitted to use amortized cost or penny-rounding to determine their NAVs in such circumstances, and boards would have to consider such transitions if there is a 50 bp deviation between the market-based value of the portfolio and the SNAV price, typically set at $1 per share.

In preparation for such a potential change, the Commission would require government and retail funds to confirm they and their service providers, including specifically underwriters and transfer agents, can redeem and sell such funds' shares with floating prices. The Proposal would require records be kept on which intermediaries were identified as capable and incapable of transitioning to the execution of transactions with floating share prices.

CFA Institute View. CFA Institute supports the Proposal's provisions to require SNAV funds to transition to floating share prices if gross yields turn negative. All the other potential mechanisms to address such circumstances, such as reverse stock splits or reverse distribution mechanisms – which maintain the stable price but reduce the number of shares investors own – are likely to confuse investors.

While we agree that funds need to assure themselves and their investors of the ability of service providers and internal processes to handle floating share values, we disagree in the manner in which the SEC proposes to address these determinations. As proposed, each fund would have to design and execute its own due diligence on each service provider. A service provider in this scenario is therefore likely to have many funds looking to conduct the same type of due diligence on their abilities to deal with such circumstances. We do not believe this would be an efficient way of achieving this goal.

We encourage the Commission to consider alternatives such as having service providers test their own capabilities and report their findings to the SEC for posting on its website. Alternatively, SEC and bank examiners could make such determinations for each service provider and post their findings on the SEC's website. Firms and their boards providing false or inaccurate assurances of capabilities would face significant sanction from the SEC in their money market-related businesses.

The Proposal also asks whether investors would redeem their money market fund holdings under circumstances where their funds have negative yields. The SEC also wants to know where investors might go after leaving money market funds. It is likely that investors would face negative yields if they were to move their funds to short-term time deposits, government money market funds, or even direct investments in short-term securities. If there are few options available to them, investors might be expected to move their money to bank deposits, if for no other reason than such deposits' explicit and implicit guarantees from the federal government.

Finally, the Proposal is unclear as to the whether an SNAV fund that must transition to a FNAV because of negative yields would be allowed to transition back to an SNAV when yields turn positive again. While we are generally supportive of funds using FNAVs for many funds, we nevertheless believe funds should be allowed to return to SNAV form when yields turns positive. Otherwise, investors may see the original transition as part of an effort by financial regulators to achieve a policy goal of forcing an FNAV structure

on investors through interest rate policy. This should the subject of a further policy consult if that were the objective.

WAL/WAM calculations

The SEC proposes to require funds to calculate weighted-average life ("WAL") and weighted-average maturity ("WAM") on the basis of each security's market value within a fund's portfolio. This, it contends, will enhance consistency of calculation of WAL and WAM, and allow the SEC to better monitor and respond to risk indications.

Consistency and comparability are important qualities that permit direct comparisons of different funds and even fund structures. By creating a consistent calculation methodology for these instruments, standardized WAL and WAM calculations will allow investors more easily and efficiently to analyze the risk and earnings potential of a fund's portfolio relative to others. It also will cause the least operational friction for fund managers and sponsors.

The Proposal asks whether using amortized cost to determine WAL and WAM might be a better alternative of market values. The key concern in this context is not so much the benefits of amortized cost as much as it is the difficulty of determining market values for largely non-marketable securities. As was noted in the Proposal, funds looking to sell commercial paper in March 2020 often had to return to the dealer who sold the securities in the first place. Without an active bidding market for these securities, the values given to these securities are not likely based on actual transaction prices. Indeed, the Proposal does not mention the source of market prices that the majority of the Money Fund industry uses. It is entirely possible that these "market" values are provided by dealers who have based their valuations on, among other factors, amortized cost. Typically, the only true market value available for some of these instruments is derived when the buyer agrees to a price with the dealer at origination. Consequently, amortized cost may be as valid a basis for calculating WAM/WAL as one based on market value for these securities.

Ultimately, though, it is consistency in calculation and the benefits that produces investment comparability that makes market value the methodology the SEC should mandate for calculating WAL and WAM.

Reporting Requirements

Finally, we generally approve of the Form N-1A disclosures relating to swing pricing covered in questions 60 through 65. In particular:

- Institutional Funds should report how often a swing factor was applied together with the magnitude of those applications, the date of the applications, and why the SPA felt it necessary to apply a swing factor.
- Funds should not have to report in Form N-MFP the median, high, and low swing factors applied in each reporting period. The actual applications are sufficiently informative.
- Funds should report to shareowners and investors, at least, on matters such as reason for an SPA's decision to apply a lower MIT.

- Institutional Funds should (1) report their adjusted NAV, because investors need the current NAV, net of costs and adjustments; and (2) should provide this information on their websites as this is the best place for investors to look for this information.
- Funds should report on series- and class-level NAVs in their Forms N-MFP to make investors aware of the NAV applicable to the specific series and/or class of fund shares they can buy or already own.

Form N-CR. In its Proposals to amend reporting liquidity events in Form N-CR, the SEC includes the following:

- Funds would have to file a Form N-CR to report when either DLA or WLA decline to 50% below regulatory minimums – i.e., to 12.% for DLA and 25% for WLA;
- The N-CR disclosures would have to provide i) when the fund fell below either the DLA or WLA threshold; ii) the percentage of assets invested in both DLA and WLA; and iii) a brief description of facts and circumstances leading to the liquidity threshold event;
- Filing on the DLA or WLA deficiency within one business day of a liquidity event, and filing of the description of facts and circumstances up to four business days after the breach;
- File Form N-CR in a custom XML language to make the information use useful to investors and the SEC

CFA Institute supports a requirement that funds file Forms N-CR when they have breaches of regulatory liquidity minimums and include the information and timing in a format described in the bullet points above. The information will provide context to investors that can help them with their investment decisions. Such filings are valuable to investors and regulators for different reasons.

What is peculiar about this provision in the Proposal is that funds are required already to post daily their DLA and WLA levels on their websites. Consequently, the breach of a 50% threshold is likely already factored into the analyses of most active investors. These proposed disclosure amendments would likewise provide important news to less-active and perhaps less sophisticated investors who have shown themselves in a couple of recent financial crises less likely to make a dash to redeem than institutional investors.

Therefore, we do not see this mandated reporting causing funds to maintain DLA and WLA above prescribed regulatory minimums. See our discussion above on our views of funds maintaining liquidity balances in excess of regulatory minimums.

Nor would we support confidential reporting of this Form N-CR disclosures. For one, institutional investors who are most sensitive to changes in liquidity levels already have access to daily updates on funds' websites. Secondly, investors who are less prone to preemptive redemptions still need to understand what is happening with the investment funds. While less prone to redeem, they should have the option to change their minds and redeem if they see the information in the proposed disclosure sufficiently unsettling.

We also do not support a suggestion that these disclosures should be initially reported confidentially before their public release. In our view, funds must alert their boards to potential and/or pending

breaches of regulatory liquidity minimums well in advance of public disclosure. The board should have time to consider strategies to avert a breach, if possible, and/or what to do if they cannot halt a rise in redemption demands. Beyond these advance warnings, however, we do not believe staggered disclosures have any use in this context and might harm market integrity.

Form N-MFP.

Amendments to Form N-MFP would require information about the composition and concentration of money market fund shareowners, including the names and percentage of ownership for each person beneficially owning 5% or more of a fund's shares. The Proposal notes the 5% threshold coincides with analyses funds already must perform each year. The disclosures would require Institutional Funds to provide information about shareowners by type.

In Part D of the form, firms would have to report on the amount of portfolio securities sold or disposed of during the latest reporting period. This would include disclosures about the investment categories of securities sold or disposed of during the period.

While CFA Institute does not support disclosure of the names of specific investors, we are generally supportive of these disclosures, so long as the SEC does not increase regulatory limitations on what money market funds can hold. Such restrictions would reduce diversity in investment strategies, portfolios, and instruments, leading to greater correlations and increased systemic risk.

As to whether funds should have to report liquidity, NAV, and flow data on their websites at the end of each business day, we are uncertain about the relationship between costs and benefits. In general, we are supportive of disclosure of relevant information.

Conclusion

We believe that the options presented in this proposal provide thoughtful mechanisms for addressing many of the concerns relating to money market funds. CFA Institute supports the Commission' Proposals to remove language encouraging money market funds to erect redemption gates and liquidity fees as a means of lessening investor concerns about access to money invested in money market mutual funds. We also support the Proposal to introduce swing pricing to mitigate dilution resulting from first-mover and large-scale redemptions in institutional prime and tax-exempt funds. While we support higher daily liquid assets ("DLA") and weekly liquid assets ("WLA") levels to help absorb large-scale redemptions, we believe smaller increases, to 15% to 20% for DLA and 35% to 40%, for WLA are sufficient.

We also support the Proposal that stable net asset value funds ("SNAV") should transition into floating NAV funds ("FNAV") when fund yields turn negative, and recommend those same funds be permitted to re-transition into SNAV funds when yields become positive again. We believe fund service providers or SEC examiners should determine whether those service providers can manage the transition of SNAV funds to floating share prices in periods with negative yields. In either case, the SEC should act as a repository for this data on service providers for the benefit of funds which should have to make

appropriate and timely disclosures to fund investors. Finally, we recommend the SEC study and publicly report on the repayment performance of money market instruments in periods of market stress in 2007 and 2020.

Should you have any questions about our positions, please do not hesitate to contact Stephen Deane at

Sincerely,

/s/ Paul Andrews

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/s/ Stephen Deane

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