



Federated Hermes, Inc.
1001 Liberty Avenue
Pittsburgh, PA 15222-3779

April 11, 2022

U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: Proposed Amendments to Rule 2a-7

Ladies and Gentlemen:

I am writing on behalf of the Federated Hermes Funds Board of Trustees to comment on the proposal to amend Rule 2a-7 under the Investment Company Act of 1940 (the 1940 Act) governing money market funds. The Board has concerns about the elimination of our ability to impose liquidity fees and/or redemption gates under Rule 2a-7. As discussed in further detail below, we disagree with any assertion that a money market fund's board could or would not impose a liquidity fee or a redemption gate if it determined that doing so was in the interests of a fund.

Our Board, including its Independent Trustees, understands the important role that we play and our various responsibilities to ensure that the interests of shareholders are properly protected. We are given a host of special responsibilities under the 1940 Act as part of our oversight of the Funds. These substantial responsibilities under the 1940 Act are in addition to (and part of) our fundamental duties as fiduciaries. Moreover, the SEC and courts have acknowledged that independent directors play an important "watchdog" function to look out for fund interests. The Board, including its Independent Trustees, takes these duties and responsibilities very seriously. As such, we are writing to express our dismay over language in the proposing release raising questions as to whether a money market fund's board could or would determine to impose a liquidity fee or a redemption gate if necessary to protect shareholders, citing specifically the events of March 2020. See, pages 33, 37, and 45 of Release No. IC-34441, File No. S7-22-21. In our view, the SEC and its staff have provided no basis for the assertion that fund boards could not or would not take action to protect shareholders from material dilution or other unfair results in money market funds.

We are also writing to express our support for the approach recommended by Federated Hermes in its letter dated September 13, 2021 which, as described below, favors granting a board discretion to impose liquidity fees and/or redemption gates on money market funds. This recommendation would differ from the current approach in Rule 2a-7 which links the imposition of fees and gates to the weekly liquid assets of a fund. We believe that a discretionary approach, as described below and in Federated Hermes' letter, is superior to the current approach and to the proposal, which would eliminate the ability of a board, under Rule 2a-7, to impose liquidity fees and/or redemption gates. This letter also includes the Board's perspective regarding the events

of March 2020 which seem to, in substantial part, serve as a justification for the proposed elimination of the fees and gates provisions from Rule 2a-7.

With respect to the Board's support for Federated Hermes' proposal, as noted above, on September 13, 2021, Federated Hermes submitted a comment letter outlining a proposal for discretionary liquidity fees and redemption gates. We favor the approach outlined in that letter over "swing pricing" as proposed by the SEC. Swing pricing, as we understand it, though routinely used in some non-U.S. markets for fluctuating NAV funds, has never been used with respect to money market funds. Such a significant change in applying a completely new regime to institutional prime and tax-exempt money market funds is an unwarranted and risky "roll of the dice" and could put the viability of these products, highly valued by our shareholders, at risk. As a result, we endorse the approach recommended by Federated Hermes which gives discretion to a board and specifies information to be provided to the board in determining whether imposition of a liquidity fee or a redemption gate is warranted by circumstances. Specifically, the letter proposed:

In Determining whether to impose either a discretionary fee or a gate, the board of directors has a duty to request and the adviser has a duty to provide such information as it deems reasonably necessary to make its decision including, but not limited to:

- (a) current and expected market conditions;
- (b) current market-based net asset value per share calculation;
- (c) capital stock activity (gross and net purchases and redemptions);
- (d) review of shareholder information relative to expected purchases and redemptions ("Know Your Customer");
- (e) Daily and Weekly Liquid Asset levels;
- (f) information about current credit quality of portfolio holdings;
- (g) credit spreads and liquidity conditions prevailing in relevant markets, including estimated transaction costs;
- (h) results of recent Stress Testing required under this rule; and
- (i) the availability and costs of alternative liquidity sources.

The Federated Hermes proposal also maintained the current rule's cap on liquidity fees at 2%. As such, a board's ability to impose a liquidity fee under the rule would continue to be limited. It is also our understanding and expectation that, depending on the circumstances precipitating the imposition of a liquidity fee, it is likely that the fee imposed would be lower, reflective of the actual costs of liquidity.

We believe this approach strikes the appropriate balance of using current, relevant information and professional judgment applied at the moment of impact, rather than the formulaic swing pricing regime proposed. Perhaps most importantly, this approach gives a money market fund's board the ability to do its job – to act as fiduciaries and look out for the interests of funds and shareholders in a dynamic situation.

Finally, as indicated above, we observed that the SEC's proposing release suggests that the fact that money market funds did not impose liquidity fees or redemption gates in March 2020 is indicative that such mechanisms failed to achieve their objectives when originally adopted.

It is our Board's understanding that the reason that no fee or gate was imposed was due to the fact that few funds in our industry fell below the liquidity thresholds that would have required consideration of liquidity fees and redemption gates. It is also clear that the events of March 2020 did not compel such action.

Specifically, in our case, the Funds in question had ample daily and weekly liquid assets to meet redemptions going into the crisis and had increased the amounts above the required level. Like others in the industry, the Board was informed that our Funds maintained their weekly liquidity above the 30% threshold so as not to potentially trigger further redemptions. As disruptions in other markets resulting from investor reaction to the COVID-19 lockdowns finally reached the money markets, it is our understanding that a further problem was that markets were essentially frozen and that there were few bids for non-U.S. government portfolio securities. Fortunately, before the time for considering a redemption gate or liquidity fee, the Fed, appropriately and consistent with their legislative mandate, took action to unfreeze the market. In other words, the problems of March 2020 were exacerbated by the flaws in the 2014 amendments linking consideration of fees and gates to liquidity levels limiting a fund's adviser's ability to use the fund's most liquid assets for fear of triggering more redemptions.

Make no mistake, we take our responsibilities to prevent material dilution or other unfair results seriously. If imposing liquidity fees or redemption gates would have solved the problems of March 2020, we would have worked with the adviser to our Funds to impose them. In sum, while the Board supports the de-linking of liquidity fees and redemption gates from liquidity levels, we oppose removal of these tools from the Board's tool kit, thus preserving the ability to use them on a discretionary basis when and if necessary.

We appreciate your consideration of these comments.

Yours truly,

/s/ John Collins

John Collins
Chair
Federated Hermes Funds Board of Trustees