Federated Hermes

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

June 9, 2022

Commissioner Hester Peirce
Securities and Exchange Commission
100 F Street, NW
Washington, DC 20549

VIA OVERNIGHT MAIL

Dear Commissioner Peirce:

Thank you for joining us on our call last Friday. We very much appreciate having the opportunity to discuss the very important topic of preserving money market funds ("MMFs") for the benefit of investors, issuers and markets. We also wanted to take this opportunity to follow-up on several issues discussed at our meeting.

MMFs continue to provide investors, issuers and markets with a short-term, diversified, high-quality investment option other than bank deposits or so-called stable coins, despite constant central bank pressure to eliminate the utility of MMFs, thereby "regulating them out of existence", a concept considered by the Federal Reserve in 2010.[1] Former Federal Reserve Bank President Rosengren, a long-standing critic of MMFs, stated, and we quote in our April 11, 2022 comment letter that his "personal preference would be not to have prime money market funds."[2] In pushing their false narrative as to the role MMFs have in short-term funding markets and, specifically, the impact MMFs had on the market turmoil experienced in the Liquidity Crisis, central banks continue to ignore not only the lack of any data supporting its assertions that MMFs played a role in the March 2020 Liquidity Crisis, but also the dramatic reduction in size of the prime MMF universe after the SEC's 2014 amendments.

We fully agree with your position that it would have been beneficial to see how MMFs would have fared in the Liquidity Crisis without any extraordinary market intervention. Doing so would have avoided all of the needless time and effort spent correcting the false narrative spread

[1] Z. Pozsar, T. Adrian, A. Ashcroft & H. Boesky, *Shadow Banking*, Federal Reserve Bank of New York Staff Reports No. 458, at 6 (July 2010). As originally published, at page 6 the Staff Report read: "whether shadow banks should have access to official backstops permanently, or be regulated out of existence." Available in its original 2010 form at https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr458_July_2010_version.pdf. The Staff Report was subsequently revised in February 2012 to delete this sentence: https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr458.pdf.

[2] Eric Rosengren, President, Federal Reserve Bank of Boston, Financial Stability Factors and the Severity of the Current Recession, Robert Glauber Lecture, Harvard Kennedy School Institute of Politics, at minute 101:08-104:40 (Nov. 10, 2020), available at https://iop.harvard.edu/forum/financial-stability-factors-and-severity-currentrecession.

by central banks regarding MMFs. Data supports that nearly all MMFs had ample liquidity to operate as intended if the improper linkage of liquidity levels and potential imposition of fees and gates had not been in place. This is why it is so important to investors, issuers and markets to simply correct the problem at hand – remove the improper linkage.

We also discussed the documented evidence that Boards, when deemed appropriate in exercising their fiduciary duty, will in fact make a difficult decision to implement either a gate or liquidity fee. As we noted in our response, contrary to this assumption, there is documented evidence (Putnam) that boards are not loathe to implement temporary fees and gates when doing so is in the best interest of a MMF and its shareholders.[3] The repeated concerns included in the Proposal that directors would not, in accordance with their fiduciary duty, implement a liquidity fee if doing so was in the best interest of the fund and its shareholders not only calls into question the U.S. fund governance model but is incredibly offensive to boards that discharged their duties faithfully and spent countless hours working with MMF advisors to ensure that U.S. MMFs successfully maneuvered through the Liquidity Crisis. Moreover, as we discussed, MMFs that did access emergency programs during the Liquidity Crisis did pay a penalty rate of 1%.

It is important to remember that there is a demonstrable difference between historical issues experienced within MMFs and those experienced during the global pandemic. The MMF industry and the broader markets have survived many issues including issuers with structural deficiencies (inverse floaters/Orange County, SIV's) and issuers with credit deficiencies (Integrated Resources, Mortgage and Realty Trust, Bear Stearns, Mercury Finance) with minimal impact on the broader markets. The external crises however which were thrust upon MMFs, where MMFs were neither the cause nor exacerbated market stress (2008 Financial Crisis and 2020 Liquidity Crisis), were market-wide stresses, and in the case of 2020 disruptions in multiple markets followed by a complete freezing of the short-term funding markets when investors sought safety in the face of lockdowns associated with the pandemic.

While there is no data supporting any benefits of Swing Pricing,[4] and all evidence and market intelligence notes that an unencumbered discretionary liquidity fee is the most appropriate targeted mechanism to apply the cost of liquidity to redeeming shareholders in times of market stress to avoid any material dilution. Should the Commission be unalterably wed to the concept of swing pricing, we urge the Commission to follow the approach of global policy makers and include swing pricing, along with discretionary fees, as alternative tools in a Board's tool bag,

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[3] *See, e.g.*, Diana B. Henriques, "Professional Money Fund is Closed by Putnam," NY TIMES (Sep. 18, 2008), available at https://www.nytimes.com/2008/09/19/business/19money.html; *see also* Comment Letter of Federated Investors, Inc. (May 14, 2014), available at https://www.sec.gov/comments/s7-03-13/s70313-360.pdf.

[4] See 2022 MMF Release, page 185, noting a lack of data which would support estimates of dilution that could have been recaptured or the prevalence of other sources of dilution.

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which a Board can elect to use, if deemed appropriate, to avoid any material dilution, based upon the specific facts and circumstances of the fund and the particular type of stress experienced. A highly prescriptive, "always on", swing pricing regime as proposed, will almost certainly accelerate redemptions in stressed markets.

Other than delinking, the proposals on swing pricing and RDM are not supported by any data and the imposition of these proposals without such support is arbitrary and capricious.

Finally, we have attached a copy of the letter we recently submitted to Chair Gensler following our meeting with him and the Staff on the 24th of May.

We very much appreciate your continued consideration of these very important points, and we will continue to make ourselves available for any further follow-up discussions deemed appropriate.

Sincerely,

J. Christopher Donahue
President & Chief Executive Officer

Deborah Cunningham
Chief Investment Officer Global Liquidity Markets

Attachment

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

May 26, 2022

Chairman Gary Gensler
Securities and Exchange Commission
100 F Street, NW
Washington, DC 20549

VIA OVERNIGHT MAIL

Dear Chairman Gensler:

Thank you, your team and the Staff that joined us on our call Tuesday. We very much appreciate having the opportunity to discuss the very important topic of preserving money market funds for the benefit of investors, issuers and markets.

At the outset, I made four points:

1. Swing Pricing is a plague on money market funds. It will finish off the task of regulating institutional prime funds "out of existence." One trillion was taken out during the last round of changes and the remaining 300 billion will be largely taken out with swing pricing.

2. Discretionary Fees and Gates are the best answer. Ensuring fund boards have lots of tools in the toolbox is the best response, it has been endorsed by global regulators, including the FSB. Fund boards have, and will continue to, exercise their fiduciary duty, even in stressed markets. We understand regulating speed limits for fear that some would drive too fast, but imposing swing pricing (or adopting mandatory liquidity fees) is more like putting nails and rocks on the road to make it unusable. And please recall the Fed received 1% on all the $53 billion of transactions and took no principal risk.

3. Simply fixing the mistaken linkage of 30% liquidity with fees and gates is the best thing to do and the only fix supported by data. Please do not create another threshold mistake. Fix the problem and declare victory.

4. Forget the 4 digit requirement on government mmfs because of the remote possibility of negative rates. This will simply have the effect of eliminating at least $1trillion dollars of sweeps in government funds because the clients, as before, will choose not to retool. The result will be more dollars in low yield deposit products.

I also wanted to take this opportunity to follow-up on several of the questions raised in our discussion.

In explaining the basis for your considered vote on the proposal as it relates to swing pricing, you noted that in stressed markets something should be done to assign the cost of liquidity to redeeming shareholders. We agree that in stressed markets, if there is material dilution, action should be taken by a board to properly assign the cost of liquidity to redeeming shareholders. That said, the proposal does not align with your concerns on material dilution in stressed markets. The proposal calls for a swing price to be applied in all market conditions whenever redemptions are greater than 4%. This is not appropriate. Swing pricing will serve as a new trigger for redemptions and create more problems than solutions, while serving no other purpose than the demise of institutional prime and municipal money market funds.

Your specific concern regarding stressed markets is best addressed by targeted discretionary fees, if you can accept a board will do its duty. A discretionary liquidity fee, applied only in stressed markets where there is a risk of material dilution, is appropriate. A discretionary liquidity fee will not act as an accelerant for redemptions and can be calibrated at the time it is needed to most accurately apply the cost of redemptions to redeeming shareholders. I note the concern raised on regulating to the lowest common denominator, but we must also note that the cost of operating and compliance with money market fund regulations has led to a massive wave of consolidation, and we are now left with a concentrated market of only the largest financial service providers. See the enclosed list of top 25 with 99% of industry assets. The lowest common denominator analogy is not entirely appropriate for the institutional money market fund industry, especially given the complete transparency of money market funds to both regulators and investors.

Federated Hermes supports retention of gates as a tool for a board to consider and also supports the ability to apply discretionary liquidity fees. We recognize that some in the industry believe that gates, apart from a liquidation scenario, should not be retained. Our position, as discussed at length in our recent comment letter, is that it was the improper linkage of gates to liquidity levels that was problematic, and given the impossibility to predict the circumstances surrounding the next crisis, it is better to provide boards with more tools to consider in times of stress.

Additionally, our support of a discretionary liquidity fee approach, and our conviction that fund boards will implement fees in stressed markets, centers around liquidity fees being unencumbered by an improper linkage. One question posed in our discussion was why weren't liquidity fees utilized by fund boards in the liquidity crisis and one must remember current regulations only permit the imposition of liquidity fees if a funds liquidity falls below 30%. No board wanted to let liquidity fall below the required regulatory threshold, which would have exacerbated artificially high levels of redemptions, simply to be able to impose a liquidity fee. So, discretionary liquidity fees as applicable in the future are vastly different to liquidity fees as currently contemplated.

We also discussed the significant potential impact to the government mmf industry and the potential loss at least $1 trillion to government funding. While it always remains possible that a few intermediaries may choose to modify their systems to accommodate a 4 digit NAV given the

higher interest rate environment, history, and all evidence to date, confirms that intermediaries will not modify their systems and they will take the path of least resistance and cease using government mmfs for sweeps.

Finally, I note that other than delinking, the proposals on swing pricing and RDM are not supported by any data and the imposition of these proposals without such support is arbitrary and capricious.

I very much appreciate your continued consideration of these very important points and we will continue to make ourselves available for any further follow-up discussions deemed appropriate.

Sincerely,

J. Christopher Donahue
President & Chief Executive Officer

Top 25 U.S. Asset Managers: Money Market Funds

As of April 30, 2022 - Rankings of U.S. Money Market Assets Only (excludes Fund of Funds and ETFs)

Rank	Manager Name	4/22 Total Assets $MM	Market Share %
1	Fidelity	**$796,498**	18.26%
2	BlackRock	**$450,724**	10.33%
3	JPMorgan Funds	**$434,637**	9.96%
4	Goldman Sachs	**$385,075**	8.83%
5	The Vanguard Group	**$352,883**	8.09%
6	Morgan Stanley	**$270,011**	6.19%
7	**Federated**	**$262,378**	**6.02%**
8	BNY Mellon Inv Adv	**$220,838**	5.06%
9	Allspring Fds Mgmt	**$169,758**	3.89%
10	Northern Trust	**$165,322**	3.79%
11	State Street Glbl	**$155,001**	3.55%
12	Schwab	**$139,736**	3.20%
13	US Bancorp	**$122,166**	2.80%
14	Invesco	**$114,217**	2.62%
15	Franklin Templeton	**$42,743**	0.98%
16	HSBC Glbl AM USA	**$37,580**	0.86%
17	DWS Asset & Wealth	**$35,388**	0.81%
18	UBS Asset Mgmt Inc	**$34,910**	0.80%
19	Edward Jones	**$34,081**	0.78%
20	T Rowe Price	**$25,413**	0.58%
21	American Funds	**$24,655**	0.57%
22	SEI	**$15,486**	0.36%
23	RBC Global AM US	**$15,371**	0.35%
24	Wilmington Tr Inv	**$8,714**	0.20%
25	Jackson National	**$6,386**	0.15%
	Industry Totals	**$4,361,710**	**100.00%**
	Top 25 As Pct Total Industry		**99%**

Source: ISS Market Intelligence (SIMFUND)