



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

July 28, 2022

Associate Director Sarah ten Siethoff
Securities and Exchange Commission
100 F Street, NW
Washington, DC 20549

VIA EMAIL & OVERNIGHT MAIL

Dear Ms. ten Siethoff:

We would like to thank you and your team for meeting with us last Friday. We very much appreciate having the opportunity to discuss the important topic of preserving U.S. Government money market funds (“MMFs”), an important investment option for U.S. investors and an important source of low-cost funding for the U.S. Treasury.

We agree with your goal of having contingency tools in place should we ever encounter a negative rate environment and other circumstances that might require notification to intermediaries of significant events that could impact the ability of intermediaries to process transactions. We also agree with your position that any such contingency tools should be easily explainable to, and understood by, all investors. We believe we can address the concerns raised by the by the Securities and Exchange Commission (the “SEC”) and the SEC Staff on RDM and are hopeful that the SEC will include the use of RDM as a permissible contingency tool in a negative rate environment.

We remain very concerned that the SEC’s proposal to mandate U.S. Government MMFs move to a four-digit NAV in a negative rate environment will lead to a loss of at least \$1 trillion in investments into U.S. Government MMFs via sweep accounts and potentially an additional \$1 trillion in investments into U.S. Government MMFs made as position trades, which are entered into the cash sweep system manually and reflect investor funds relating to special items (i.e. mass-tort settlements, M&A, stimulus money, securities lending and custody).

This combined \$2 trillion in current government funding will most likely shift into bank deposit accounts or other less transparent products and will greatly impact the market for and reduce investor access to short-term U.S. Government securities. In addition, there would likely be systemic implications for the liquidity and functioning of this critical market, inclusive of the impact on the market for repurchase agreements using U.S. Government securities as collateral. The use of a properly disclosed reverse-distribution mechanism (“RDM”) can both accomplish the goals set forth by the SEC and prevent the negative consequences to US investors and markets.

We are in the process of preparing a letter that will include additional information on several points we discussed, including examples of potential plain English disclosures on the use of RDM, which can be utilized in a Government MMFs prospectus, posted on its website, and included in a shareholder notice. The utilization of all three disclosure points, prospectus, website posting, and shareholder communication, crafted in plain-English, should minimize the potential for investor confusion, especially given that in a negative rate environment investors will be experiencing similar negative returns in their U.S. deposit accounts.

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In discussing the legacy system limitations inherent in the utilization of U.S. Government MMFs as sweep vehicles by many intermediaries, and banks in particular, you asked how we could ensure that the intermediaries would pass on any investor communication they might receive to their underlying investors. We have reviewed, and can confirm, that our intermediaries are required under the terms of our distribution agreements to pass on any required regulatory communication that we request to their underlying investors. We further believe such contractual requirements are industry standard. In our formal response we will include an excerpt of the contractual language obliging intermediaries to pass on investor communications.

After reviewing our forthcoming submission, should the SEC require more information on how to best ensure appropriate contingency tools are in place for a negative rate environment, we urge the SEC to take additional time to ensure proper consideration of the options available given the ramifications should the SEC's proposal be adopted as drafted. As rates continue to rise, and the risk of a near-term shift to negative interest rate becomes more remote, taking additional time and removing this portion of the proposal from any final rule would in our view be the most prudent course of action.

We very much appreciate your continued consideration on the use of RDM in a negative rate environment and we will continue to make ourselves available for any further follow-up question or discussions as you deem appropriate.

Sincerely,



Peter Germain
Chief Legal Officer