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April 11, 2022

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

Re: SEC Proposed Rule: Money Market Fund Reform, File No. S7-22-21

Dear Ms. Countryman:

The Institute of International Finance (IIF) and its member firms welcome the opportunity to comment on the Securities and Exchange Commission's (SEC) proposed Money Market Fund (MMF) Reforms (the "Proposal").[1] This Proposal is a significant contribution to the initiatives being undertaken at the global level by the G20, the Financial Stability Board (FSB), and the International Organization of Securities Commissions (IOSCO) to enhance the resilience of the non-bank financial intermediation (NBFI) sector while preserving its benefits. We encourage the SEC to continue its active collaboration with global standard setters to develop and implement, to the extent feasible and appropriate, coordinated approaches to MMF reforms and the NBFI sector.

We are in broad agreement with the SEC's analysis of the March 2020 market disruptions and the reasons for investors' redemption behavior. As the Proposal states, *"In March 2020, in connection with an economic shock from the onset of the COVID-19 pandemic, certain types of money market funds had significant outflows as investors sought to preserve liquidity"*. We support policy proposals that are designed to reinforce MMF liquidity when market developments may give rise to sudden and disruptive redemptions such as those that were observed in the March 2020 market turmoil. However, in addition to focusing on the MMF sector, the SEC should consider the functioning of certain underlying short-term funding markets (STFMs) and, in particular, the commercial paper (CP) market. The SEC should also consider the impact of SEC proposals on a wide range of products and market activities, including corporate cash management, treasury, and sweep accounts. During the March 2020 market turmoil, a key

[1] The Institute of International Finance is the global association of the financial industry, with more than 450 members from more than 70 countries. Its mission is to support the financial industry in the prudent management of risks; to develop sound industry practices; and to advocate for regulatory, financial, and economic policies that are in the broad interests of its members and foster global financial stability and sustainable economic growth. IIF members include commercial and investment banks, asset managers, insurance companies, sovereign wealth funds, hedge funds, central banks, and development banks.

issue observed was that some of the STFMs became one-way markets under stress and market liquidity became severely constrained.

While we share the SEC's concern about sudden, elevated levels of investor redemptions in times of stress, it is important to acknowledge and reflect in any MMF reform measure the fact that the intra-day liquidity of MMFs is a key attribute and one of the most important features that MMF investors value. Any structural change to this ease of redeemability would dramatically change the fundamental nature of MMFs and may cause investors to no longer consider these products to meet their needs. In addition, MMF reforms should not limit the important benefits of risk diversification and laddered maturity that are characteristic of many MMFs. Policy measures that would have the effect of shrinking MMF markets would not benefit the many investors who rely on MMFs as cash management vehicles and/or an important part of their investment portfolios and could have negative impacts on the underlying STFMs. The SEC should consider the potential financial stability implications of risk moving out of the MMF sector to other markets that may not be as readily interchangeable and may not be regulated to the same extent as the MMF sector.

The following is our analysis of and views on the specific measures contained in the Proposal.

Swing pricing requirements

The SEC's Proposal would require an institutional fund to adjust its current NAV per share by a swing factor that reflects spread and transaction costs if the fund has net redemptions for the pricing period. If the fund has net redemptions in excess of 4% of NAV (divided by the number of daily pricing periods), a market impact factor would also be included in the swing pricing adjustment.

We are concerned about the SEC's Proposal as it relates to swing pricing both because of its direct impacts on the markets and because it would introduce a relatively untested and unfamiliar mechanism into the markets with possible unintended consequences for funds and their investors. Even in Europe, where swing pricing is a widely used feature for many long-term open-ended funds, it is not used for MMFs. We will first outline our concerns with the SEC's swing pricing proposal and then offer some alternative proposals.

Concerns with the SEC Proposal as it relates to swing pricing

Swing pricing would negatively impact some of the important benefits of MMFs – particularly same-day liquidity. The lack of same-day liquidity would be particularly deleterious for corporate cash management, treasury, and sweep accounts. Changes to these accounts, which are essential to the operations of many governments and corporates, and the costs of moving to substitute vehicles (which are not readily interchangeable) could be particularly acute for small to medium sized companies and municipalities. The risks of investors moving out of regulated vehicles should not be overlooked. On balance, we believe that the imposition of swing pricing in the U.S. market could result in replacing relatively transient liquidity risk in times of stress with risks to the functioning of MMFs and underlying STFMs. Moreover, we believe that swing pricing would not have materially reduced redemption activity during the March 2020 market turmoil and would not have improved the resilience of MMFs during that period or going forward. Swing

pricing is a mechanism that is more focused on the relative standing of investors rather than on the funds themselves.

Importantly, swing pricing is operationally complex for many MMFs, and for fiduciaries, including those managing trusts and retirement and pension plans, which would need to substantially revise their operational, accounting and management infrastructure. Fund administrators, transfer agents and treasury management and sweep account service providers would need to overhaul systems and programs at considerable cost. The imposition of swing pricing could have significant tax and accounting implications for investors and tax and accounting systems would need to be modified substantially. A 12-month compliance date may not provide sufficient time to accomplish all the administrative, systems and program changes that would be required if the rule is adopted as proposed, particularly for smaller funds and service providers that would be disproportionately impacted.

A T+0 settlement feature, which is critical to investors in many MMFs, would make the implementation of swing pricing very challenging as it may not permit sufficient time for price discovery in the underlying securities, which is needed to calculate an appropriate swing factor. This is especially the case during a stress period where there is no bid for the underlying assets.[2] This timing issue is magnified for MMFs that strike their net asset value (NAV) multiple times per day, as there would not be sufficient time to implement a swing factor between NAV cutoffs and the swing pricing mechanism would require many small adjustments over the course of a day.

We also believe that there would be major challenges in calibrating a swing price in a manner that internalizes transactional costs for redeeming investors, as the cost/benefit equation can change over time and shift rapidly in times of stress.

Paragraph (2)(ii)(A) of proposed rule 2a-7 states that *"the fund must adjust its current net asset value per share by a swing factor if the fund has net redemptions for the pricing period"*. The swing pricing administrator must determine whether the fund has net redemptions and determine the swing factor, which must include good faith estimates of the spread costs and other transaction costs for each security in the portfolio (i.e., a vertical slice of the portfolio). Basing the swing price on a vertical slice of the portfolio is ill-suited to MMFs, which are designed to facilitate redemptions without reliance on the sale of securities in the MMF portfolio. Rather, redemptions are funded out of daily liquid assets, which are then replenished by weekly liquid assets. Well structured and well managed MMFs with appropriate levels of liquid assets should not have to sell the underlying portfolio securities in order to meet redemptions.

Moreover, if the amount of net redemptions exceeds the 4% market impact threshold, the good faith estimates must also include an estimate of the percentage change of the market value of a vertical slice of the portfolio to meet net redemptions. The inclusion of market factors in swing pricing may create another 'bright line' which could incentivize investors to redeem preemptively to avoid additional fees. In addition, we do not believe that the 4% threshold represents a reasonable proxy for stressed market

[2] As was observed in the CP market in March 2020. This is acknowledged in SEC's "U.S. Credit Markets Interconnectedness and the Effects of the COVID-19 Economic Shock" as "frozen markets".

conditions. As the SEC noted in the Proposal, outflows from most funds during the March 2020 market turmoil were well in the double digits. In particular, the 4% threshold is far too low for funds where the NAV is struck at multiple times (e.g. if the NAV is struck three times per day, the effective threshold would be 1.33%).

Given the operational challenges and impracticality of swing pricing, we favor the consideration of appropriately calibrated liquidity fees that would apply when net redemptions reach a material level. Liquidity fees, which are already operationally feasible in many MMFs, provide the same effect of directing costs to redeeming shareholders with fewer implementation challenges and impediments. Our alternative to swing pricing, described below, employs gradated liquidity fees as funds experience increasing liquidity pressures.

Proposed alternative to swing pricing

Our alternative to a swing pricing mechanism is a liquidity fee that is triggered when certain minimum liquidity thresholds are breached and net redemptions[3] are 10% or higher. This alternative is based on the following principles:

- Objectivity, so that investors clearly understand how and when the fee would be imposed
- The use of a dual metric to prevent investors from tracking a single 'bright line' metric
- A gradated approach that increases the fee (ultimately to a maximum level) as the liquidity of the fund decreases
- Investors generally are more sensitive to gates than to fees

This alternative could be operationalized through a mechanism that is based on both a net redemptions trigger and either weekly liquid asset (WLA) thresholds or the SEC's N-CR liquidity event reporting thresholds. Under both variations, the above principles would be reflected. Setting a trigger of net redemptions of 10% or higher in both variations could appropriately ensure that the fee is only applied when the redemption levels in a fund are significant. However, both variations reflect that liquidity is a key determinant of market stress and, thus, that net redemptions should be *one* element of a dual trigger mechanism that also employs a measure of liquidity.

In the first variation, the liquidity fees would be imposed when the WLA[4] of the fund breaches the following thresholds:

1. If the WLA is less than 30% but greater than 20% and net redemptions are 10% or higher, a fee of 25 basis points would be applied to all redemptions
2. If the WLA is less than 20% but greater than 10%, a fee of 1% (100 bps) would be applied to all redemptions
3. If the WLA is below 10%, a fee of 2% (200 bps) would be applied to all redemptions

[4] The tests are based on WLA, rather than DLA, in recognition of the fact that not all funds have a DLA requirement.
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In the second variation, at 50% of the WLA (i.e. 25%) or the DLA (i.e. 12.5%, if applicable) and when daily net redemptions are 10% or higher, a 1% fee would be applied. A second threshold for application of a 2% fee would be triggered at 25% of the WLA (i.e. 12.5%) or 25% of the DLA (i.e. 6.25%, if applicable).

The fact that our proposal incorporates a fee that is triggered by the WLA and net redemptions while our comments support the removal of the regulatory threshold for the imposition of gates reflects the fact that, while conceptually we support the de-linking of *both* fees and gates, there is a need for some form of liquidity trigger in order to provide objectivity and certainty for investors about when fees would be imposed. The inclusion of net redemptions in the dual trigger provides a level of opacity that should act to forestall pre-emptive investor redemptions. Furthermore, we understand that, in the March 2020 market turmoil, investors primarily were concerned about the prospect of gates dropping abruptly.[5]

We believe that our alternative improves upon the swing pricing mechanism in the Proposal as it preserves same-day liquidity for investors and creates fewer operational issues for MMFs and fiduciaries, which ultimately benefits investors.

We would appreciate an opportunity to discuss this proposal with SEC staff, as we believe strongly that it is a preferable alternative to swing pricing for U.S. institutional funds.

Removal of gates

We agree with the analysis in the Proposal that *"based on the experience in March 2020, we are concerned that redemption gates may not be an effective tool for money market funds to stem heavy redemptions in times of stress due to money market fund investors' – who typically invest in money market funds for cash management purposes – general sensitivity to being unable to access their investments for a period of time and tendency to redeem from such funds preemptively if they fear a gate may be imposed."*. Hence, we strongly support the SEC proposal to allow the suspension of redemptions only to facilitate an orderly liquidation of the fund. Locking in investor funds when liquidity drops to a threshold level can act as a 'bright line' cliff that strongly incents investors to redeem prior to the imposition of the gate. As a result, funds are incentivized to hold liquidity in excess of requirements, further constraining market liquidity.

Portfolio liquidity requirements

We are in favor of an increase in the DLA to 20%.We believe that the imposition of liquidity buffers beyond the 30% level for the WLA and the 20% level for the DLA would substantially increase the costs of MMFs and, thus, could render MMFs less able to perform their important roles as a vehicle for investors to manage their cash and liquidity and funding a wide range of market participants with different credit risk profiles and risk appetites. Returns to MMF investors could be negatively impacted by the costs of establishing and maintaining the buffer.

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[5] To the extent that investors were focused on fees, the imposition of a relatively large 2% fee as soon as the 30% WLA level was breached also raised concerns.

At a minimum, any higher minimum liquidity requirements should be calibrated taking into account the specific characteristics of the MMFs and should be supported by robust economic analysis that is available for stakeholder review and comment. We note that this would be consistent with the suggestion put forward by the European Securities and Market Authority (ESMA), which is researching the appropriate calibration of liquidity requirements.[6]

Amendments Related to Potential Negative Interest Rates

The Proposal related to potential negative interest rates would require government and retail MMFs to determine that financial intermediaries that submit orders have the capacity to redeem and sell the fund's shares at prices based on the current net asset value per share that do not correspond to a stable price per share. We do not believe that this certification requirement is an appropriate role for fund providers and the Proposal does not advance any standards for determining whether an intermediary possesses this capacity (e.g., would manual adjustments constitute sufficient capacity).

We appreciate the opportunity to comment on the SEC's Proposal. We would appreciate an opportunity to elaborate on this response and, in particular, on our alternative proposals for a liquidity fee arrangement in lieu of the swing pricing mechanism provided in the Proposal.

Respectfully submitted,

[6] ESMA 2022. "ESMA opinion on the review of the Money Market Fund Regulation"