

April 12, 2022

Via Electronic Mail

Vanessa Countryman, Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

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

Dear Ms. Countryman:

The Healthy Markets Association<sup>1</sup> writes to offer comments on the Commission's above-referenced proposal to yet again revise the rules for the operation of money market funds.<sup>2</sup>

The Proposal begins by explaining that:

The combination of limited principal volatility, diversification of portfolio securities, payment of short-term yields, and liquidity has made money market funds popular cash management vehicles for both retail and institutional investors. Money market funds also provide an important source of short-term financing for businesses, banks, and Federal, state, municipal, and Tribal governments.<sup>3</sup>

Unfortunately, the Proposal, if adopted, would fundamentally undermine these benefits for both investors and the businesses and governments that receive funding from them.

We begin by noting that the marketplace for institutional prime and tax exempt money funds has shrunk dramatically in recent years. Significant assets flowed out of these products, and many asset managers ceased offering them.<sup>4</sup> The Proposal would likely continue, if not accelerate, that trend.

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<sup>1</sup> Healthy Markets Association ("HMA") is a not-for-profit member organization of public pension funds, investment advisers, broker-dealers, exchanges, and market data firms focused on reducing conflicts of interest and improving the transparency, efficiency, and fairness of the capital markets. As a result, HMA members would be directly impacted by the Proposal. To learn more about HMA or our members, please see our website at <http://healthymarkets.org/about>.

<sup>2</sup> *Money Market Fund Reforms*, SEC, 87 Fed. Reg. 7248 (Feb. 8, 2022), available at <https://www.govinfo.gov/content/pkg/FR-2022-02-08/pdf/2021-27532.pdf> ("Proposal").

<sup>3</sup> Proposal, at 7249.

<sup>4</sup> See, e.g., Letter from Colin Robertson, Northern Trust Asset Management, to Vanessa Countryman, SEC, Mar. 24, 2022, available at <https://www.sec.gov/comments/s7-22-21/s72221-20121090-273263.pdf> ("Northern Trust Asset Mgmt Letter").

While some elements of the Proposal may arguably promote the stability and utility of money market funds, other elements are likely to dramatically reduce the attractiveness of the product to investors or fund sponsors. Ultimately, the Proposal would replace one significant, regulatorily imposed, anti-investor product feature (i.e., fee and gate triggers) with another (i.e., swing pricing).

## Use of Money Market Funds

The utility of money funds for investors and borrowers, as well as the financial feasibility of offering funds by sponsors, is a function of many things, including regulation and the Federal Reserve.

Investors in money market funds use them as cash equivalents. Whether institutional or retail access to their invested capital is essential for all money market fund investors.<sup>5</sup> For example, many corporate treasurers use money market funds as cash management vehicles, with regular inflows and outflows associated with balancing revenues with operating expenses (e.g., payrolls). Similarly, retail investors often rely on money market funds as sweeps of available cash for short-term yield in their brokerage accounts, or as part of longer-term allocations of cash. Other times, these funds are used to store value while saving for large purchases, such as for a down payment for a home. In all instances, investors' timely access to capital at a predictable, known value is critical. We were not surprised that the 2014 Reforms drove many investors away from money market funds that could potentially impose fees and gates to government funds and bank accounts.

In addition to impacting the funds, the changes impacted banks and investors in other ways. Many retail broker-dealers switched from using money market funds as their cash sweep vehicles for their customers and instead became affiliated with banks or developed their own.<sup>6</sup> The returns on these accounts are generally much lower for investors than money market fund accounts had previously provided, with much of the difference being additional profits to the retail broker-dealer.<sup>7</sup>

More recently, many investors have begun engaging in even riskier strategies to make reasonable returns on their cash. For example, some have started to buy various cryptocurrencies and lend them out, often obtaining interest rates in the double digits.<sup>8</sup>

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<sup>5</sup> See, e.g., Northern Trust Asset Mgmt Letter.

<sup>6</sup> Deposits at banks affiliated with broker-dealers grew from \$679 billion in 2015 to \$973 in 2019, while brokered deposits grew from \$936 billion to \$1.104 trillion.

<sup>7</sup> Charles Schwab Corp., 2017 Form 10-K, at 29 (noting that "In 2017 and 2016, average interest earning assets have grown by 14% and 21%, respectively, from the prior years.").

<sup>8</sup> See, e.g., Cabital, *What is APY in Crypto and How to Calculate Your Interest*, Mar. 30, 2022, available at <https://www.cabital.com/blog/what-is-apy-in-crypto> (comparing crypto lending and "APY" to bank savings accounts).

At times, these products have been marketed as commercial alternatives to bank savings accounts and money market funds.

Given the extremely long period of time during which interest rates had been near zero, and the regulatory mandate for money market funds to invest in very high-quality, very short-term products only, it has been extremely difficult for fund sponsors to cover expenses – much less provide returns to investors.

Interestingly, in a sign of how quickly market events can intervene in the regulatory process, the Proposal – which was released in December 2021 – included a discussion of how funds should address a negative interest rate environment. Today, interest rates are rising rapidly, and the Federal Reserve is expected to continue to raise interest rates significantly in the foreseeable future. This could give rise to more use of money market funds, including prime and municipal funds, if their essential features for investors and borrowers are restored.

## Background

The Commission requires money market fund advisers to manage their market and liquidity risks directly -- by restricting the assets that can be held to only short term, high-quality assets.<sup>9</sup> Commission Rules also require significant transparency into the characteristics of money market funds' assets.<sup>10</sup>

These rules impose significant competitive disadvantages for money market funds, as these funds are expected to invest in instruments of shorter duration and generally lower risks, which typically means lower expected returns. The comparative advantage of money market funds is that they are able to avoid the burdens of explicit capital requirements or third-party insurance. Interestingly, despite the shorter duration and generally lower-risk holdings of money market funds, the net returns for investors are often somewhat greater than those provided by banks' interest-bearing accounts.

The Proposal, if adopted, would mark the third significant revision to money market fund oversight since 2010.

Following the Global Financial Crisis of 2008, in January 2010, the Commission adopted rules requiring money funds to maintain:

- at least 10 percent of assets in “cash, U.S. Treasury securities, or securities that convert into cash (e.g., mature) within one day;”

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<sup>9</sup> We appreciate that the definition of “high quality” assets may be an imprecise exercise, and that ratings from nationally recognized statistical ratings organizations have rapidly deteriorated in times of broader market stress.

<sup>10</sup> This transparency is significantly greater than typically provided for bank deposits.

- at least 30 percent of assets must be in “cash, U.S. Treasury securities, certain other government securities with remaining maturities of 60 days or less, or securities that convert into cash within one week;”<sup>11</sup>
- a maximum weighted average portfolio maturity of 60 days;
- a weighted average life of the portfolio of not more than 120 days;<sup>12</sup> and
- sufficiently liquid securities to meet foreseeable redemptions.<sup>13</sup>

Further, the 2010 Reforms further imposed minimum credit quality requirements, stress testing requirements, and monthly and other periodic disclosure requirements.<sup>14</sup>

Later that same year, a collection of leading federal financial regulators released the President’s Working Group Report on Money Market Fund Reform,<sup>15</sup> which expressed support for the 2010 Reforms, but also suggested a number of further changes to the governance and operations of money market funds, including:

- Floating net asset values;
- Private emergency liquidity facility for money market funds;
- Mandatory redemptions in kind;
- Insurance for money market funds;
- A two-tiered system for money market funds, with enhanced limits for those with stable NAV;
- A two-tiered system for money market funds, with a stable NAV for only retail money funds;
- Regulating stable NAV money funds as special purpose banks; and
- Constraining less regulated money fund substitutes.<sup>16</sup>

Despite the gentle nudge from this group, the Commission declined to take any further regulatory action. In 2012, the newly-created Financial Stability Oversight Council (a

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<sup>11</sup> *Money Market Fund Reform*, Sec. and Exch. Comm’n, 75 Fed. Reg. 10060, 10106 (Mar. 4, 2010), available at <https://www.sec.gov/rules/final/2010/ic-29132fr.pdf> (“2010 Reforms”).

<sup>12</sup> 2010 Reforms, at 10070.

<sup>13</sup> 2010 Reforms.

<sup>14</sup> 2010 Reforms.

<sup>15</sup> *President’s Working Group Report on Money Market Fund Reform*, Sec. and Exch. Comm’n, Inv. Co. Act Rel. No. 29497, available at <https://www.sec.gov/rules/other/2010/ic-29497.pdf> (“2010 PWG Report”).

<sup>16</sup> 2010 PWG Report.

slightly different collection of financial regulators) released Proposed Recommendations Regarding Money Market Mutual Fund Reforms.<sup>17</sup>

The 2012 FSOC Report sought comment on essentially three alternative recommendations:

- 1) Floating Net Asset Value;
- 2) Stable NAV with NAV Buffer and “Minimum Balance at Risk”; and
- 3) Stable NAV with NAV Buffer and Other Measures.<sup>18</sup>

The 2012 FSOC Report explicitly threatened direct FSOC intervention, if the Commission didn’t take action.<sup>19</sup> Facing intense pressure from the FSOC and politicians, a divided Commission adopted more changes to money market funds in 2014.<sup>20</sup>

The 2014 Reforms fundamentally changed the money market fund industry in a number of ways. Most notably, it imposed fees (but permitted a stable share price) for any prime or tax-exempt fund whose shareholders are limited to natural persons; and a floating share price or fees and gates for any prime or tax-exempt fund whose shareholders are not so limited.<sup>21</sup> It essentially left government funds alone.

In a prediction that would prove remarkably prescient in March 2020, Democratic Commissioner Kara Stein objected to the 2014 Reforms, in part out of concerns that explicitly linking fees and gates to the weekly liquidity threshold might itself precipitate destabilizing, pre-emptive redemptions.<sup>22</sup>

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<sup>17</sup> Financial Stability Oversight Council, *Proposed Recommendations Regarding Money Market Mutual Fund Reforms*, Nov. 2012, available at <https://www.treasury.gov/initiatives/fsoc/Documents/Proposed%20Recommendations%20Regarding%20Money%20Market%20Mutual%20Fund%20Reform%20-%20November%202013.%202012.pdf> (“2012 FSOC Report”).

<sup>18</sup> 2012 FSOC Report, at 6.

<sup>19</sup> 2012 FSOC Report, at 5.

<sup>20</sup> *Money Market Fund Reform; Amendments to Form PF*, Sec. and Exch. Comm’n, 79 Fed. Reg. 47736 (Aug. 14, 2014), available at <https://www.govinfo.gov/content/pkg/FR-2014-08-14/pdf/2014-17747.pdf> (“2014 Reforms”).

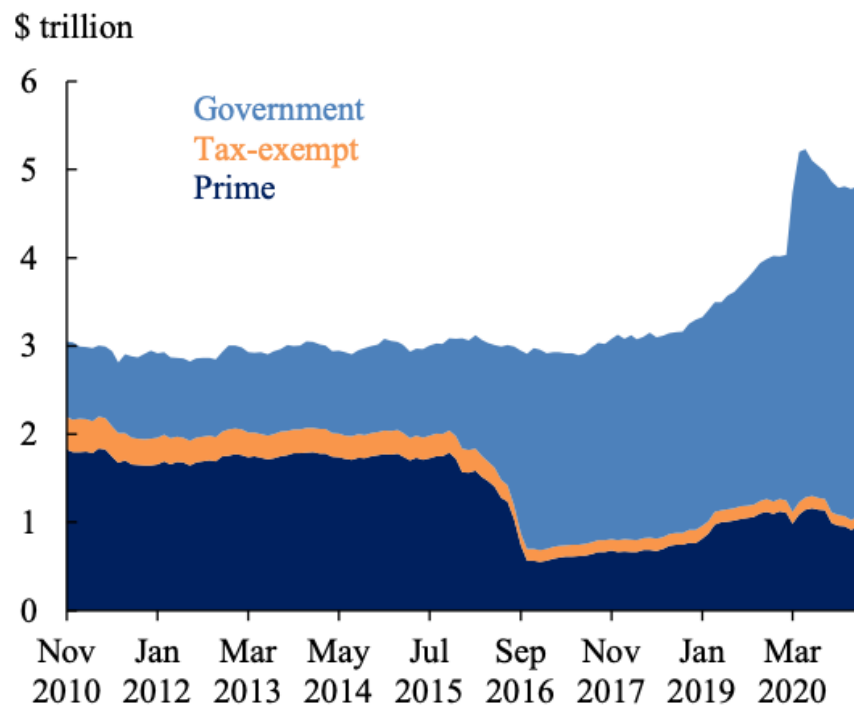
<sup>21</sup> At the time, SEC Chair Mary Jo White justified the distinction between “retail” and “institutional” money funds by explaining that “While the costs of a floating NAV can be justified against the demonstrable run risk in institutional prime funds, a different balance must be struck for retail and government funds.” Statement of Hon. Mary Jo. White, SEC, July 23, 2014, available at <https://www.sec.gov/news/public-statement/2014-07-23-open-meeting-statment-mjw>.

<sup>22</sup> Statement of Hon. Kara M. Stein, July 23, 2014, available at <https://www.sec.gov/news/public-statement/2014-07-23-open-meeting-statement-kms> (“Ultimately, despite the rule’s efforts to mitigate the risks posed by gates, I believe the incentives to avoid them will remain powerful. I fear these incentives may result in a greater chance of fire sales during times of stress,

Nevertheless, the changes were adopted, and the implementation date was set for October 14, 2016.

As the Commission’s staff explained last year, in the months between the rule’s adoption and its effective date, prime funds shrunk dramatically, while government funds received hundreds of billions in new capital.<sup>23</sup> Interestingly, the overall level of money market fund assets stayed relatively stable at about \$3 trillion dollars for the entire period from 2010 through 2018 – despite this massive shift in composition.<sup>24</sup> As a practical matter, hundreds of billions of dollars that formerly had been purchasing high-quality, short-term corporate debt, switched over to buying government securities. In fact, as shown in Figure 1 of the 2021 SEC Staff Report, over a few months of 2016 -- and as a direct result of the implementation of the Commission’s 2014 Reforms -- nearly \$900 billion came out of prime money market funds.

**Figure 1: Prime MMF net assets dropped in March 2020, while government MMF assets grew substantiall**



Source: Form N-MFP

and a spread of the panic to other parts of our financial system, while also denying both investors and issuers access to capital.”).

<sup>23</sup> Viktoria Baklanova, Isaac Kuznits, and Trevor Tatum, *Prime MMFs at the Onset of the Pandemic: Asset Flows, Liquidity Buffers, and NAVs*, Sec. and Exch. Comm’n, at 1, Apr. 15, 2021, available at <https://www.sec.gov/files/prime-mmfs-at-onset-of-pandemic.pdf> (“2021 SEC Staff Report”).

<sup>24</sup> Data excludes funds used as cash management tools for other mutual funds.

This could have led to massive funding disruptions for those who had been relying upon prime funds for funding. Nevertheless, at the time, regulators did not publicly express any concerns regarding the funding stability for those who had been depending on prime funds. Luckily, those companies and municipalities, as well as the markets overall, appeared to experience only minimal disruptions. The Proposal appears to inexplicably ignore this experience of the SEC-created massive outflows from prime funds in 2016.

At the time the Commission adopted the 2014 Reforms, the agency noted that there were 559 money market funds registered with the agency, and their holdings were approximately \$3.0 trillion.<sup>25</sup> The slight majority of these assets were in prime funds.

That is no longer the market. There are not only a lot fewer prime funds, but they have ½ as much in assets. Meanwhile, government fund assets have nearly tripled. At the end of February 2022, there was approximately \$824 billion held in 64 prime funds, and about half of those assets were in non-public institutional funds, which are used by fund companies to manage their other funds' cash. Meanwhile, there was a whopping \$4.1 trillion held in 187 government funds.<sup>26</sup>

## March 2020

The Proposal seems to be largely inspired as a response to market events in March 2020.<sup>27</sup>

In March 2020, prime money market funds recorded net outflows of \$125 billion, representing about 11 percent of their assets, while government money market funds and bank accounts experienced much, much greater net inflows.<sup>28</sup> For example, over just the two weeks surrounding the pandemic shutdown (March 11th to March 25th), government fund assets increased by nearly \$600 billion.<sup>29</sup>

Importantly, however, as the Commission staff has already explained, not all prime money market funds (or investors) reacted the same way.<sup>30</sup> Funds with weekly liquid

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<sup>25</sup> 2014 Reforms, at 47737.

<sup>26</sup> Money Market Fund Statistics, Division of Inv. Mgmt Analytics Office, SEC, Mar. 15, 2022, available at [https://www.sec.gov/files/mmf-statistics-2022-02\\_1.pdf](https://www.sec.gov/files/mmf-statistics-2022-02_1.pdf).

<sup>27</sup> The phrase “March 2020” appears 109 times in the Proposal, including in the second paragraph of the Introduction.

<sup>28</sup> 2021 SEC Staff Report, at 3.

<sup>29</sup> Investment Co. Institute, *Money Market Mutual Fund Assets*, available at <https://ici.org/research/stats/mmf> (viewed Apr. 12, 2021).

<sup>30</sup> See, e.g., Proposal, at 7256 (“Based on available evidence, even though no money market fund imposed a fee or gate, the possibility of the imposition of a fee or gate appears to have contributed to incentives for investors to redeem and for money market fund managers to maintain weekly liquid asset levels above the threshold, rather than use those assets to meet redemptions.”); see also, Investment Company Institute, *Report of the COVID-19 Market Impact Working Group, Experiences of US Money*



assets closer to the fees and gates thresholds experienced disproportionately high redemptions,<sup>31</sup> as did funds that were sponsored by advisers owned by systemically significant banks, and advisers with less assets under management.

For example, the 2021 SEC Staff Report noted that:

funds with advisers owned by the largest U.S. banks designated as global systemically important banks (“G-SIBs”) accounted for 56% of the outflows in the third week of March even though these funds managed only around 28% of net assets in publicly offered prime institutional MMFs.<sup>32</sup>

While the Commission has acknowledged that the threat of fees and gates impacted redemptions in some funds, it appears to have largely ignored the relationship between redemption rates and sponsor affiliation with a G-SIB.<sup>33</sup> Why?

We also note that despite all of these movements, no funds came remotely close to having significant liquidity problems. No fund fell below 25 percent in weekly liquid assets. No fund had daily redemptions that threatened the fund’s viability. ,

Additionally, in March 2020, the inflows into government funds vastly outpaced the outflows from the handful of prime money market funds that experienced heightened redemptions. Further, prime money market fund outflows in March 2020 do not appear to be generally significantly different from outflows during prior years. However, there was a sharp drop in inflows. Put another way, net assets in prime money market funds went down significantly because regular outflows were not replaced by regular inflows, as they traditionally had been.

We also note that one of the primary stated justifications for revisions to money market fund regulation was the purported potential impact of withdrawals on the businesses or governments who might depend on money market funds for funding. We find this justification uniquely puzzling with respect to the commercial paper markets. The 2020 President’s Working Group Report acknowledges that “at the end of February, prime

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*Market Funds During the COVID-19 Crisis*, at 33, Nov. 2020, available at [https://www.ici.org/system/files/attachments/pdf/20\\_rpt\\_covid3.pdf](https://www.ici.org/system/files/attachments/pdf/20_rpt_covid3.pdf).

<sup>31</sup> See, e.g., Proposal, at 7256 (“Based on available evidence, even though no money market fund imposed a fee or gate, the possibility of the imposition of a fee or gate appears to have contributed to incentives for investors to redeem and for money market fund managers to maintain weekly liquid asset levels above the threshold, rather than use those assets to meet redemptions.”); see also, Investment Company Institute, *Report of the COVID-19 Market Impact Working Group, Experiences of US Money Market Funds During the COVID-19 Crisis*, at 33, Nov. 2020, available at [https://www.ici.org/system/files/attachments/pdf/20\\_rpt\\_covid3.pdf](https://www.ici.org/system/files/attachments/pdf/20_rpt_covid3.pdf).

<sup>32</sup> 2021 SEC Staff Report.

<sup>33</sup> While “March 2020” appears over one hundred times in the Proposal, the phrase “G-SIB” appears exactly once. See, Proposal, at 7255, n.52.



[money market funds] offered to the public owned about 19 percent of outstanding [commercial paper],” which was over a \$1.1 trillion market.<sup>34</sup> Yet, over the two weeks of March in question, these funds cut their holdings of commercial paper by just \$35 billion (about 3 percent of the then-outstanding commercial paper market).<sup>35</sup>

In 2015 and 2016, hundreds of billions of dollars flowed out of prime money market funds, and yet we recall no massive freezing of the commercial paper markets or government bailout. Frankly, it is facially unreasonable to conclude that a 3 percent outflow from the market in March 2020 caused the commercial paper markets – and then the entire financing system – to freeze and necessitate government intervention.

## Proposal

The Proposal would:

1. remove the liquidity fee and redemption gate provisions that perversely incentivize disruptive redemption activity;
2. increase the daily liquid asset minimum liquidity threshold to 25% and the weekly liquid asset minimum to 50%;
3. require institutional prime and institutional tax-exempt money market funds to implement swing pricing;
4. Revise reporting requirements on Forms N–MFP, N–CR, and N-1A;
5. Revise rules for how money market funds with stable net asset values “should handle a negative interest rate environment;” and
6. Detail how funds must calculate weighted average maturity and weighted average life.<sup>36</sup>

Below, we offer comments on four elements of the Proposal.

## Decouple Liquidity Thresholds From Fees and Gates

The Proposal would decouple the liquidity percentages from the imposition of liquidity fees and gates. This reform should be adopted without delay.

As we explained to the Commission last year:

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<sup>34</sup> *Request for Comment on Potential Money Market Fund Reform Measures*, SEC, at 11, n.15, available at <https://www.sec.gov/rules/other/2021/ic-34188.pdf> (“2020 President’s Working Group Report”).

<sup>35</sup> 2020 President’s Working Group Report, at 11.

<sup>36</sup> Proposal, at 7248.

The linkage between liquidity percentages and gates creates a strong incentive for investors to run, if they see the fund nearing the gate threshold. By openly sharing a point at which investors are likely to be entirely blocked from accessing their cash, and requiring the disclosure of the liquidity percentages, the Commission has provided the kindling for a potential panic.

It is clear that, in March 2020, some investors moved assets to bank accounts and government funds as prime funds' disclosures suggested that they were approaching the 30% liquidity threshold where a redemption fee may be imposed.

<sup>37</sup>

Commissioner Stein's primary fear of the 2014 Reforms proved well-founded: the policy that was supposed to prevent runs appears to have precipitated a run. This isn't a hunch. It's what the corporate treasurers who pulled assets from prime funds have said. For example, one survey found that 87 percent of the corporate treasurers who reduced their prime money market fund holdings in March 2020 (which was about half of the treasurers surveyed) cited potential redemption hurdles as one of the drivers of their reduction.<sup>38</sup>

Neither inciting the panic nor blocking investors from their capital protects investors or promotes fair and efficient capital markets overall.<sup>39</sup>

We appreciate the Commission's admission that the 2014 Reforms were an error, and support the effort to remedy that mistake. The Commission should eliminate any regulatory tie between liquidity thresholds and the imposition of fees and gates.

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<sup>37</sup> We also note that sudden reductions of corporate and other organizational revenues arising from the coronavirus shutdowns, coupled with the need to make regular outflows for things like payroll and rent, led to a rapid retreat of institutional cash inflows. This is not at all surprising, and would be expected from similar customers regardless of whatever cash-like products they were using. Put simply, much of the net outflows was simply the result of lower inflows.

<sup>38</sup> The Carfang Group, *Corporate Treasurer Response to March Market Collapse*, available at [https://61fcc29-49c7-4ff3-abc8-c5ae702f30ad.usrfiles.com/ugd/61fcc\\_5a7dab46e991401fa2ab907d2fe2d7a.pdf](https://61fcc29-49c7-4ff3-abc8-c5ae702f30ad.usrfiles.com/ugd/61fcc_5a7dab46e991401fa2ab907d2fe2d7a.pdf).

<sup>39</sup> Letter from Tyler Gellasch, Healthy Markets Association, to Vanessa Countryman, SEC, Apr. 19, 2021, available at <https://healthymarkets.org/wp-content/uploads/2021/04/Money-Funds-PWG-Response-to-SEC-4-19-21.pdf>.

## Adopt Data-Driven Liquidity Thresholds

Already, money market funds are typically far more liquid than bank accounts or other similar cash-like products.<sup>40</sup> The Proposal would further increase the minimum daily liquid assets to 25 percent and weekly liquid assets to 50 percent, up from 10 percent and 30 percent, respectively. This would be more than a bit extreme.

To be clear, since March 2020 funds have generally maintained liquidity levels well above the current regulatory requirements, in part so as to alleviate any perceived risks or regulatory pressures. For example, in February 2021, the median weekly liquid asset level was above 50 percent.<sup>41</sup>

While it may be appropriate to consider increasing regulatorily imposed liquidity levels, we are aware of no precedent in which a money market fund would come close to 25 percent daily redemptions. Again, these are significantly greater than any liquidity levels at banks (to which much of these assets would go, if not in money market funds).

We would urge the Commission to consider basing its thresholds on data and experience, including in times of stress. Based on the data, we would not expect the Commission to reasonably impose a daily liquidity threshold over 20 percent or a weekly liquidity threshold over 40 percent.

## Abandon Swing Pricing

Swing pricing is not only administratively difficult to implement effectively, but it also severely undermines the utility of money market funds as vehicles with stable values and ready liquidity. Undermining those tenets is precisely how the 2014 Reforms led to massive outflows from institutional prime funds. We agree with one asset manager who already commented that, if swing pricing were adopted,

the institutional prime and tax-exempt MMF product will no longer serve many of its intended cash management functions that investors seek and value and will no longer be

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<sup>40</sup> We note that many retail investors have begun to use stablecoins as cash-like investment products. Notably, while there is currently some regulatory uncertainty regarding these products, they may have far less liquid and riskier assets than money market funds. See, e.g., *Independent Accountant's Report*, Grant Thornton, at 4, Sept. 1, 2021, available at <https://www.centre.io/hubfs/pdfs/attestation/2021%20Circle%20Examination%20Report%20July%202021%20Final.pdf?hsLang=en> (noting that USD Coin had a number of assets including unsecured corporate bonds with BBB+ ratings and terms of up to 3 years). See also, Press Release, *CFTC Orders Tether and Bitfinex to Pay Fines Totaling \$42.5 Million*, CFTC, Oct. 15, 2021, available at <https://www.cftc.gov/PressRoom/PressReleases/8450-21> (reflecting Tether holdings of high risk assets – and even no assets – to back its coin issuance).

<sup>41</sup> As of February 2021, the median weekly liquid assets for prime money market funds was still over 50 percent. 2021 SEC Staff Report, at 4.

viewed by investors as an attractive investment vehicle to help manage their important cash management needs.<sup>42</sup>

Given that these funds' assets are already extremely liquid, and the Proposal would require even greater levels of liquidity, we question the intention of the proposed adoption of swing pricing.

The Proposal would require the adoption of complex and costly systems and compliance by fund sponsors to accommodate swing pricing. But what is the point? Money market funds are typically used as cash management vehicles, and their sponsors already safely manage large, frequent, and irregular investor redemptions with minimal costs and challenges.

Obviously, swing pricing would preclude investors from having certainty on their pricing (fundamentally undermining their cash management needs). But it could also inhibit funds from pricing multiple times per day or offering T+0 settlement, which may be also extremely valuable to their investors.

This tool would arguably be more effective if the Commission were considering assessing liquidity risks in investment vehicles that could have much less liquid assets. Put another way, swing pricing is a solution for funds where there may be significant risk between investor redemptions and the funds' ability to meet those redemptions. Given the ultra short maturities and stability of money market funds, swing pricing appears to be precisely the fund type least relevant for such an approach. Further, we have seen no analysis of any credible risk of a money market fund running into a liquidity problem at current or the proposed liquidity levels.

If swing pricing is adopted, the results will be further outflows from the funds in favor of what are often far less liquid bank accounts or digital assets.<sup>43</sup>

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<sup>42</sup> Northern Trust Asset Mgmt Letter, at 3.

<sup>43</sup> We may be even more concerned if these investor assets continued to flow into digital assets like stablecoins, which may have less transparency and liquid assets, or digital asset lending programs, which may currently operate with significantly greater investor risks.



## Conclusion

Thank you for the opportunity to offer comments on the Proposal, which we urge the Commission to revise and adopt without delay. Please feel free to contact me by email at [ty@healthmarkets.org](mailto:ty@healthmarkets.org) or telephone at (202) 909-6138 for any follow up.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tyler Gellasch', written in a cursive style.

Tyler Gellasch  
Executive Director