Independent Directors Council

Promoting Excellence in Fund Governance

April 12, 2021

Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Request for Comment on Potential Money Market Fund Reform Measures in President's Working Group Report (File Number S7-01-21)

Dear Ms. Countryman:

The Independent Directors Council[1] appreciates the opportunity to comment on the recent report of the President's Working Group on Financial Markets highlighting the March 2020 market events caused by the COVID-19 pandemic and outlining various reform measures that policy makers could consider, individually or in combination, to improve the resilience of money market funds and broader short-term funding markets.[2] Independent directors of registered investment funds have a strong interest in the issues raised in the PWG Report and the potential impact of reform efforts on money market funds and their shareholders. Indeed, mutual fund independent directors—including those who oversee money market funds—have an interest in ensuring that investors have the opportunity to invest in products that meet their financial needs.

---

[1] The Independent Directors Council (IDC) serves the US-registered fund independent director community by advancing the education, communication, and policy priorities of fund independent directors, and promoting public understanding of their role. IDC's activities are led by a Governing Council of independent directors of Investment Company Institute (ICI) member funds. ICI is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds, closed-end funds, and unit investment trusts in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI's members manage total assets of $29.1 trillion in the United States, serving more than 100 million US shareholders, and $9.6 trillion in assets in other jurisdictions. There are approximately 1,600 independent directors of ICI-member funds. The views expressed by IDC in this letter do not purport to reflect the views of all fund independent directors.

[2] *See* Securities and Exchange Commission (SEC) Release No. IC-34188; File No. S7-01-21 (February 4, 2021) attaching the Report of the President's Working Group on Financial Markets Overview of Recent Events and Potential Reform Options for Money Market Funds (December 2020) (PWG Report), available at https://www.sec.gov/rules/other/2021/ic-34188.pdf.

Investors typically rely on money market funds as a low cost, efficient cash management tool to provide a high degree of liquidity, minimal principal volatility, and market-based yield. Money market funds, which date back to the early 1970s and today hold $4.8 trillion on behalf of shareholders, continue to play a vital role in financial markets today. Indeed, the longstanding value of money market funds and the choice they provide to investors remain vitally important.

Money market funds, like all registered funds, benefit from robust oversight by boards of directors, including independent directors who have a fiduciary duty to act in the best interest of the fund and its shareholders. In addition to their general oversight responsibilities, fund boards have a number of specific regulatory oversight responsibilities. For example, money market fund boards must adopt procedures and receive regular reports detailing periodic stress testing of a money market fund's ability to maintain certain weekly liquid asset levels and its ability to minimize principal volatility (or, in the case of a government or retail money market fund using the amortized cost or penny-rounding method of pricing, the fund's ability to maintain a stable NAV) based on certain hypothetical events. In addition, the fund is required to report the results of the stress testing to the board at their next regularly scheduled meeting, or sooner if appropriate. This robust oversight and transparency are unique features of a well-established investment option for investors looking for a short-term funding vehicle.

As the SEC considers the reforms outlined in the PWG Report, we urge caution against proposals that, while intended to enhance the resilience of money market funds, would have the effect of changing their key characteristics.[3] The negative, collateral impacts of any reform on the continuation of money market funds as a sound financial choice for investors, both retail and institutional, must be seriously considered. Likewise, regulatory reform efforts should not confuse the core characteristics of money market funds with the goals or attributes of other sectors, such as the banking sector and its products. It is imperative to money market fund shareholders that any regulatory changes to the structure of the funds are well calibrated to achieve the holistic goals of reform.

Importantly, IDC would support reform efforts that strengthen money market funds against adverse market conditions for the protection and benefit of investors, so long as their essential characteristics are preserved, and they can remain a viable option in the marketplace. For instance, one structural vulnerability in money market funds that the PWG Report identifies is the current tie between liquidity and the fees and gates thresholds. During the onset of the COVID-19 public health crisis, there were serious and widespread dislocations in short-term credit and other fixed-income markets before institutional prime money market funds experienced redemption pressure. That pressure was exacerbated—rather than mitigated—by unintended consequences from the SEC's 2014 reforms permitting funds to impose fees or gates if their weekly liquid asset levels dropped below the 30 percent

[3] *See* Letter from Eric J. Pan, ICI President & CEO, to Vanessa Countryman, Secretary, SEC (April 12, 2021) (discussing reform options with significant drawbacks, ranging from potential detrimental impacts on money market funds, their investors, and the market, to complicated regulatory, structural, and operational hurdles), available at www.ici.org.

regulatory minimum.[4] While intended to further strengthen money market funds, there is evidence that the possibility of liquidity fees and gates increased uncertainty, created confusion in the market, and may have even made it more difficult for a money market fund to manage redemptions.[5]

It is these types of unintended consequences—creating or perpetuating a liquidity "cliff" or the perception thereof—that should be avoided with any new reform efforts. To that end, reform efforts should stay away from a one-size-fits-all approach, while providing high-level guidance that enables funds and their boards to continue to prudently exercise their fiduciary responsibilities during periods of market stress.

Finally, the PWG Report acknowledges that although beyond the scope of its report, "there were other stresses in short-term funding markets in March 2020 that may have contributed to the pressure on [money market funds]."[6] Any reform efforts intended to enhance the resilience of money market funds must necessarily review the nature, characteristics, and limitations of the short-term funding markets in which such funds invest. Reform efforts that proceed in a vacuum without taking into account the underlying asset class could result in misguided regulation and reforms with unintended consequences, to the detriment of fund shareholders.

With the foregoing in mind, IDC encourages the SEC and other members of the PWG to take a thoughtful approach in reviewing the potential policy measures that the PWG Report identifies. As the SEC continues to engage in dialogue with various stakeholders, we stand ready to assist and look forward to further discussions.

* * *

[4] *See* ICI COVID-19 Crisis Report. *See also* Securities and Exchange Commission, "Money Market Fund Reform; Amendments to Form P-F," SEC Release No. IC-31166 (July 23, 2014) (adopting amendments to the rules that govern money market mutual funds), available at www.sec.gov/rules/final/2014/33-9616.pdf.

[5] *See* ICI COVID-19 Crisis Report.

[6] *See* PWG Report, supra note 2 at 24.

If you have any questions regarding our letter or would like additional information, please contact Lisa Hamman, Associate Managing Director, at [redacted] or me at [redacted].

Sincerely,

Thomas T. Kim
Managing Director
Independent Directors Council

cc: Allison Herren Lee, Acting Chair, Securities and Exchange Commission
Hester M. Peirce, Commissioner, Securities and Exchange Commission
Elad L. Roisman, Commissioner, Securities and Exchange Commission
Caroline A. Crenshaw, Commissioner, Securities and Exchange Commission

Janet L. Yellen, Secretary of the Treasury
Jerome Powell, Chair, Board of Governors of the Federal Reserve System
Rostin Behnam, Acting Chair, Commodity Futures Trading Commission