American Bankers Association
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[redacted]

Submitted via email to rule-comments@ sec.gov

April 12, 2021

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

Re: SEC Request for Comment on Potential Money Market Fund Reform Measures in President's Working Group Report, File No. S7–01–21, 86 Fed. Reg. 8938 (Feb. 10, 2021).

Dear Ms. Countryman:

The American Bankers Association[1] (ABA) appreciates the opportunity to comment on potential reforms for certain money market funds (MMFs) raised in the December 2020 report of the President's Working Group on Financial Markets. The Securities and Exchange Commission (SEC) is requesting comments on these potential reforms to improve stability of MMFs specifically and the short-term funding markets, generally.[2]

Banks and their affiliates interact with prime MMFs in numerous ways, including as investors on behalf of bank customers, as sponsors of MMFs, and issuers of certificates of deposit and commercial paper in which prime MMFs invest. In addition, as participants in the short-term funding markets, banks have a great interest in maintaining and improving general market stability. We understand that the SEC is working in conjunction with other federal financial regulators through the President's Working Group (PWG) and Financial Stability Oversight Council (FSOC) on MMF reforms, as well as with international standard-setting bodies, such as the Financial Stability Board (FSB) and the International Organization of

[1] The American Bankers Association is the voice of the nation's $21.9 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $17 trillion in deposits and extend nearly $11 trillion in loans.
[2] Federal Register: Request for Comment on Potential Money Market Fund Reform Measures in President's Working Group Report.

Securities Commissions. We make these comments for the broader audience, while acknowledging the SEC's focus on their regulatory authority over MMFs.

Any Reform Efforts Should Not Focus on Regulated Banks

Money market mutual funds are important cash providers to global funding markets. We agree with the PWG that, "the orderly functioning of short-term funding markets is essential to the performance of broader financial markets and our economy more generally."[3] As participants in these markets, ABA member banks appreciate the work the SEC is doing to make markets more resilient through times of stress. We note that throughout the COVID-19 pandemic, including during the market turmoil in March 2020, banks have been a reliable source of funding and liquidity for their customers, the markets, and the U.S. economy. Given this source of financial strength, additional regulation for the banking sector to address concerns regarding MMFs would be inappropriate and unnecessary. Similarly, the SEC's evaluation and reform efforts should not focus on government MMFs, which performed as needed and expected in late March 2020.

Reforms Should Balance the Need for Stability with Preservation of Prime and Tax-Exempt Municipal MMFs

In designing potential reforms, ABA urges the SEC to opt for rules that would maintain prime and tax-exempt municipal MMFs. Although less popular after the 2016 reforms,[4] these MMFs continue to play an important role for stability in our financial markets and as an investment opportunity for institutional and retail investors. These MMFs offer investors an alternative to government MMFs and bank deposits with potentially higher yields, while also offering a liquid option that is highly desired. These MMFs, similar to government MMFs, are transparent to investors, in particular providing key information on net asset flows and portfolio holdings. Lastly, prime and tax-exempt MMFs are large purchasers of commercial paper and municipal securities respectively, which are important sources of funding for many corporations

[3] PWG Report, 3 (Dec. 2020), *available at* https://home.treasury.gov/system/files/136/PWG-MMF-report-final-Dec-2020.pdf.
[4] *See* PWG Report, 10.

and municipal governments.[5] With respect to tax-exempt MMFs, further restrictions on these funds unnecessarily may limit municipal government sources of capital for infrastructure and other needs.

The SEC Should Focus on Feasible Reforms within Existing Regulatory Structure

The reforms outlined in the PWG Report span from potential changes to the SEC's existing regulatory framework to novel measures that are either within the SEC's authority or that of other policy makers. Many of the novel reforms would likely impose significant costs on the administration of prime and tax-exempt municipal funds or make them so unattractive to investors that these funds may no longer be viable. Therefore, we urge the SEC to consider the following amendments to the existing rules before taking more far-reaching and costly measures that may eliminate the availability of these funds.

Remove Tie between MMF Liquidity and Fee and Gate Thresholds

As noted in the PWG Report, institutional investors seemingly redeemed in anticipation of the imposition of fees and gates, which an MMF board may impose if the weekly liquid asset (WLA) threshold dips below 30 percent.[6] Many investors monitored this threshold so closely that as it approached 30 percent, they and other like-minded investors redeemed their interest in a first-mover advantage. One of the potential reforms highlighted in the PWG Report would be to untie the link between MMF liquidity and the imposition of fees and gates, in order to minimize the incentive for investors to redeem in anticipation of fees and gates at a particular threshold and cause an unmanageable run on the fund. If the SEC were to consider this, it should preserve the ability of MMF boards to impose fees and gates as warranted after appropriate fiduciary consideration. In addition, the SEC should preserve the WLA requirements to ensure a sufficient liquidity buffer during times of market stress.

[5] According to the most recent SEC primer, MMFs hold 22% of the outstanding commercial paper. Available at Primer: Money Market Funds and the Commercial Paper Market (sec.gov). The Federal Reserve Board lists MMFs as holders of over $100 billion in municipal securities, available at The Fed - L.212 Municipal Securities (federalreserve.gov).

[6] Some industry participants have suggested that the imposition of gates, more than fees, seemed to be driving investor behavior in March 2020.

Increase in the WLA Threshold during Normal Periods

In addition to decoupling the imposition of fees and gates from the WLA threshold, the SEC should consider increasing the WLA threshold above 30 percent to provide more liquidity for potential redemptions. Any new threshold should balance the need for more liquidity with its effect on the viability of the fund in relation to other investment options that may offer higher yields. The SEC should only consider increases to the WLA on the condition that the fees and gates requirements are untied from the WLA.

Establish Countercyclical WLA Requirements and Allow for Affiliate Purchases during Times of Stress

Presuming the SEC unties the WLA from fees and gates and also increases the WLA threshold above 30 percent, the SEC should consider the additional authority to decrease the WLA threshold by administrative order or notice during "times of stress," as characterized in the SEC request for comments. In such a situation, funds would have SEC acknowledgment of "times of stress" and be alerted to the potential need for funds to use up their reserve of liquid assets to meet redemption outflows. The use of countercyclical measures is akin to how regulators encouraged banking organizations to use their liquidity buffers in March 2020, although there was not sufficient guidance on the mechanisms to do so.[7]

In addition, the SEC should consider codifying the relief provided in March 2020,[8] to allow in certain cases affiliate purchases of MMF assets to enhance fund liquidity during times of stress or market dislocation. The SEC could provide industry-wide relief by administrative order or notice, so that regulated entities need not seek relief from the SEC through individual no-action letter requests.

Conclusion

ABA appreciates this opportunity to comment on the PWG Report on MMF Reforms and to offer suggestions for further regulatory changes to institutional prime and tax-exempt municipal funds. To balance the need for increased stability as well as the viability of these

[7] Statement on the Use of Capital and Liquidity Buffers (federalreserve.gov).
[8] SEC No-Action Letter to Investment Company Institute (March 19, 2020), *available at* SEC.gov | Investment Company Institute.

funds, we urge the SEC to remove the tie between the WLA threshold and the imposition of fees and gates, while also potentially increasing the WLA threshold during normal times and giving the SEC a mechanism to lower the WLA during times of stress. Lastly, the SEC should codify the relief provided in the March 2020, no-action letter to facilitate liquidation of MMF assets during times of stress or market dislocation.

Sincerely,

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