WESTERN ASSET

April 12, 2021

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

Re: Report of the President's Working Group on Financial Markets: Overview of Recent Events and Potential Reform Options for Money Market Funds (December 2020)

Dear Ms. Countryman:

Western Asset Management Company, LLC (Western Asset) welcomes the opportunity to respond to the request of the Securities and Exchange Commission to provide comments on the December 2020 President's Working Group (PWG) Report (Report) on Money Market Funds (Release IC-34188; File No. S7-01-21).

We believe that the money market fund industry represents an important sector of the financial markets, bringing short-term borrowers and lenders together in a cost-effective and efficient manner. Money market funds provide institutional and retail cash investors with a range of taxable and tax-exempt investment strategies while acting as important sources of direct and indirect short-term funding for sovereign, private and public sector issuers.

Western Asset has managed money market funds for more than 30 years and has extensive experience in managing taxable and tax-exempt investment strategies on behalf of institutional and retail shareholders. As of March 31, 2021, Western Asset managed over $61 billion in money market fund assets, with around $54 billion invested via portfolios adhering to Rule 2a-7 of the Investment Company Act of 1940. Western Asset and its jointly managed non-US affiliates comprise one of the world's leading fixed-income managers, with $476 billion in assets under management as of March 31, 2021. Western Asset is a subsidiary of Franklin Resources, Inc.

Western Asset strongly supports the objectives outlined by the PWG in the Report, namely enhancing the resilience of short-term funding markets, addressing any structural vulnerabilities in the MMF industry and reducing the likelihood that official sector intervention, including potential taxpayer support, is required to mitigate any future runs on money market funds. We are pleased to provide our comments on the Report while outlining policy measures that we believe will support policymakers' objectives.

We stress, however, that we consider it unlikely that amendments to Rule 2a-7 could avert a systemic market crisis of the scale and type triggered by the COVID-19 pandemic while still preserving money market funds and their benefits. The impact of the pandemic cascaded throughout the broader financial system and resulted in periods during which substantial parts of the US and global economies were effectively closed down. In considering changes to Rule 2a-7 we strongly urge policymakers to consider the structure of the short-term funding markets, including an assessment by market participants of possible improvements to increase liquidity for the commercial paper (CP) and other relevant short-term sectors, or changes in financial services regulation beyond money market funds, including regulations related to bank liquidity coverage, funding and leverage ratios that might more effectively support dealer intermediation in times of crisis.

The March 2020 Market Crisis

The COVID-19 crisis demonstrated the deep interconnectedness of US credit markets. As a subset of these markets, the short-term funding sector represents around $10 trillion out of more than $50 trillion of the total credit in the US financial system as at the end of 2019 (source: SEC - U.S. Credit Markets: Interconnectedness and the Effects of the COVID-19 Economic Shock. October 2020).

The backdrop to the March 2020 crisis in financial markets has been extensively documented by policymakers and market participants, and is generally understood to have originated in the Treasury and agency mortgage-backed securities (MBS) sectors, before extending out into the broader credit markets. The economic shock caused by the pandemic precipitated a dramatic flight to quality and liquidity as sovereign, institutional and retail investors sold positions across asset classes (including prime and tax-exempt money market funds) to move to cash and government securities.

A number of research papers have been reviewed in the preparation of this comment letter including:

Did Dealers Fail to Make Markets during the Pandemic? Liberty Street Economics. FRBNY: March 2021

Federal Reserve Financial Stability Report: November 2020

The Official Sector's Response to the Coronavirus Pandemic and Moral Hazard - Liberty Street Economics FRBNY: September 2020

Sophisticated and Unsophisticated Runs – FRBNY: December 2020

U.S. Credit Markets – Interconnectedness and the Effects of the COVID-19 Economic Shock – SEC: October 2020

The Role of Money Market Funds in the Crisis

The US money market fund industry is an important component of the short-term funding sector and experienced a similar flight to quality and liquidity as institutional, retail prime and tax-exempt investors redeemed their fund positions to move to government money market funds or into other cash investments they deemed to be safer and more liquid.

From early to late March 2020, the money market fund industry saw a very large increase in government money market fund balances of around \$840 billion, with around \$125 billion of net outflows from prime money market funds and \$9 billion of net outflows from tax-exempt funds (source: SEC Form N-MFP). Redemptions of prime funds were only slowed through actions taken by the Federal Reserve with the backing of the U.S. Treasury Department, particularly the introduction of the Money Market Liquidity Facility (MMLF) on March 23, 2020.

It should be noted that prior to introducing the MMLF, the Federal Reserve had taken numerous actions to address disruptions in the broad financial system, particularly the Treasury and agency MBS sectors. These included expanding overnight and term repo operations to ensure continuity in the financing markets, purchasing \$500 billion of Treasuries and \$200 billion of agency residential MBS securities, introducing the Primary Dealer Credit Facility (PDCF) and establishing the Foreign and International Monetary Authorities (FIMA) facility to ensure foreign central banks and international authorities the ability to source dollars without needing to sell Treasuries. A number of key groups had likely contributed to these broad market disruptions including foreign investors' sales of Treasuries, hedge funds unwinding trading positions, mortgage REITs' reducing leverage and key market participants, including principal trading firms (PTFs) and dealers proving unable to maintain their normal market activities. Money market funds did not initiate the disruptions but were significantly impacted by these adverse liquidity conditions as the crisis took hold. (Source: Federal Reserve: Financial Stability Report November 2020).

Prime funds also had experienced significant challenges in the Global Financial Crisis of 2008-09; however, the issues confronting money market funds in 2008 and 2020 had different causes.

In September 2008 prime funds experienced "runs" due to investor concerns around credit quality and the risk of "breaking the buck" or receiving less than \$1.00 per share on their money market fund balances. The underlying causes of the September 2008 crisis are generally acknowledged to have been as a result of certain structural weaknesses in the banking and broader financial services sectors exposed through the Global Financial Crisis and related to structural vulnerabilities in the fixed-income markets. These issues were subsequently addressed by global and domestic banking and securities industry regulators in large part through the implementation of Basel III (Source: BCBS Basel Framework), the Dodd-Frank Act and other related legislation.

In contrast, the March 2020 crisis was caused not by underlying concerns around credit quality or financial markets, but instead was the direct result of the actions of central banks and governments shutting down economies as they responded to the COVID-19 pandemic.

An environment of considerable economic uncertainty and the prospect that unprecedented economic shutdowns would interrupt corporate cash flows across multiple sectors in the real economy prompted a flight to quality and liquidity across the economy, resulting in blockages of the Treasury and government agency markets, among others, which in turn required central bank intervention to "unfreeze."

As part of this broader flight to quality and liquidity, many institutional and retail shareholders in prime and tax-exempt funds redeemed their positions and moved to government money market funds or other investments that they saw as offering greater protection for their liquid assets, including Treasuries, agencies and bank balance sheet products.

Role of Dealer Intermediation in the Crisis

The constraints on dealers' ability to make markets during the crisis has been documented extensively (see November 2020 Financial Stability Report – Federal Reserve Board of Governors for an example) and was only remedied through the extraordinary actions taken by the Federal Reserve in March 2020 including the introduction of the Commercial Paper Funding Facility (CPFF), the PDCF and the MMLF.

As described above, the rapid economic shutdown in March 2020 saw dealer balance sheets become heavily constrained to the extent that there was limited, if any, secondary market liquidity across financial markets prior to the Federal Reserve's intervention. Western Asset's experience during this period is consistent with commentary from market participants and research published by the Federal Reserve (Financial Stability Report – November 2020) and the SEC (U.S. Credit Markets – Interconnectedness and the Effects of the COVID-19 Economic Shock – October 2020).

Western Asset's Perspective

Western Asset manages a number of prime money market portfolios, including funds complying with Rule 2a-7, and the European Union Money Market Fund regulations. Although our prime funds did not experience heavy redemption pressure during the crisis period, we considered it prudent to maintain their daily and weekly liquid asset figures well above normal ranges, generally achieving elevated levels of around 30% DLA and 50% WLA. Due to very illiquid conditions, the increase in WLA was generally achieved by allowing securities to roll down into the 1-7 day maturity range, and by selectively and opportunistically selling longer-dated securities.

During the March 2020 crisis period we experienced an effective freeze in trading activity driven by massive supply-demand imbalances as CP issuers and banks looked for funding and money market investors sought liquidity. Western Asset's trading counterparties consistently stated that they had little to no capability to act as principal on transactions due to internal risk constraints and regulatory requirements. Treasury and government money market funds were not immune from this, and also experienced deterioration in trading conditions due to balance sheet constraints. These funds generally functioned effectively as liquidity flowed into their sector.

Despite the market freeze we were able to gradually build our prime funds' maturities within the WLA "bucket." As the Federal Reserve announced a number of emergency programs, including the MMLF, liquidity conditions gradually improved, albeit marginally. There was also some relief as non-traditional buyers took advantage of spikes in short-term yields (3-month USD LIBOR peaked at 1.45% on March 31, 2020).

Sentiment improved in April as the Federal Reserve's actions settled the markets and investors understood that money market funds were not troubled by the deterioration in credit. The strength and resiliency of the US financial system provided an important tailwind, which aided the resumption of a more normal liquidity environment toward the end of the month.

Role of WLA Link to Fees and Gates

As noted, until the Federal Reserve introduced a range of facilities including the MMLF, the CP markets had become virtually "frozen." Institutional prime money market funds in particular found it extremely challenging to sell longer-dated CP and similar securities to raise liquidity.

As a result, to meet shareholder redemptions, money market funds were increasingly forced to sell their more liquid holdings, including instruments needed to meet the 2a-7-mandated WLA.

However, institutional prime money market funds sought to preserve their WLA positions by selling longer-dated CP positions in large part due to two key reasons:

1. <u>2010 Rule 2a-7 Reforms: Introduction of Liquidity Thresholds and Daily Public Disclosure</u>
   The SEC's 2010 reforms to Rule 2a-7 introduced minimum daily and weekly liquidity levels for money market funds, requiring taxable funds to hold at least 10% of their total assets in securities that matured within one business day (Daily Liquid Assets or "DLA") and 30% of their total assets in securities that matured within five business days (Weekly Liquid Assets or "WLA"). The 2014 amendments to Rule 2a-7 further required that funds publish these figures on their websites and update them on a daily basis. Fund managers, wishing to avoid reporting WLA figures that may have fallen close to, or

below, the regulatory threshold, which in turn would prompt investor concerns, opted to meet redemptions wherever possible through selling longer-dated maturities. This sudden increase in supply of longer-dated CP and other money market instruments at first contributed to a sharp widening in spreads for these maturities and, before long, a seizure of this market altogether, as dealers generally became unable to provide a bid for those securities due to their balance sheet constraints, which in turn led to pressure on funds' WLA levels. (Source: Federal Reserve Bank – Financial Stability Report, November 2020; and SEC Form N-MFP.)

2. <u>2014 Rule 2a-7 Reforms: Fees and Gates Tied to Liquidity Thresholds</u>
   The 2014 reforms to Rule 2a-7 allowed money market fund Boards to consider introducing liquidity fees or imposing redemption gates if a fund's WLA fell below 30%, and required them to introduce liquidity fees (unless they specifically determined that doing so would not be in the best interests of the fund) if a fund's WLA fell below 10%. Although fees or gates only became optional at the 30% WLA level, the existence of the threshold has a powerful psychological effect on market participants. Market participants assert that the mere "*possibility*" of liquidity fees and redemption gates being applied had the effect of *accelerating* redemptions from institutional prime money market funds where their WLA was trending toward the 30% threshold.

The fact that funds are not required to introduce fees or gates when the 30% threshold is triggered was not meaningful to investors, who sought to invest their cash in investments they deemed to provide the greatest liquidity in an enormously uncertain economic environment.

Comments on Suggested Policy Actions

We support suggested policy measures that we believe will further the objectives of policymakers in improving the resiliency of short-term funding markets and money market funds while reducing the risk of future runs and reducing the requirement for official sector intervention.

We recommend the following for institutional and retail prime and tax-exempt money market funds:

- <u>De-linking of fees and gates and liquidity thresholds:</u> the imposition of fees and gates should be de-linked from the DLA and WLA thresholds, removing a key triggering factor in the acceleration of outflows during the crisis.
- <u>Limited use of redemption gates:</u> the ability to use redemption gates should be limited to extraordinary circumstances (i.e., only when a fund is likely to be liquidated, or may be in severe difficulties, which may be likely to lead to closure).

- Enhance Fund Boards' discretion over use of fees and gates: Boards should have discretion to introduce liquidity fees whenever they deem necessary, based on a wide range of key factors, including broader market considerations, portfolio holdings and risk measures, shareholder-specific factors including concentration and flow expectations, as well as the ability to introduce redemption gates in specific extraordinary circumstances in order to protect the interests of shareholders.
- Adoption of detailed policies and procedures for fees and gates: Boards should adopt detailed policies and procedures governing the use of fees and gates that take into account the factors described above.
- Consideration given to increasing WLA threshold: consideration should be given to increasing WLA to above 30%. However, we caution against raising the WLA figure to a level that neutralizes or removes any incremental return benefit from investing in prime or tax-exempt money market funds.

Our more detailed comments on each of the PWG suggested policy measures are outlined below:

Removal of Tie Between MMF Liquidity and Fee and Gate Thresholds

Rule 2a-7 currently gives retail and institutional prime and tax-exempt money market fund Boards the ability to introduce fees or gates when a fund's WLA falls below 30%, and the obligation to introduce a liquidity fee of 1% if the WLA falls below 10% unless the Board believes that a fee would not be in the best interests of fund shareholders or if a higher or lower fee is warranted up to a maximum fee of 2%.

Since the introduction of this mechanism in the 2014 Rule 2a-7 reforms, no Board has made the decision to use either fees or gates to stop a "run" on a money market fund. Our belief is that the direct linkage between fees and gates and the WLA threshold has had two significant impacts:

- It has contributed to the considerable reduction in assets in institutional and retail prime and tax-exempt money market funds since implementation of money market fund reforms in October 2016.
- It acted during the March 2020 crisis to encourage investors to seek "first-mover" advantage by redeeming their positions in non-government money market funds. Industry participants have referred to the threat of fees and gates as being a key driver behind institutional prime money market fund outflows during this crisis period.

Notwithstanding the significant drawbacks noted above, we believe that flexibility to deploy liquidity fees and redemption gates in appropriate circumstances offers vital protections for fund shareholders and we support their continued inclusion in the Rule 2a-7 framework. However, the March 2020 crisis showed that when fees and gates are linked to bright-line numerical WLA thresholds, investors have an incentive to redeem quickly in times of stress.

One measure that we believe might help assuage investor concern (and rapid flight) in times of stress is to restrict the use of redemption gates to truly extraordinary circumstances. We believe that the use of liquidity fees, when appropriately calibrated, would be tolerable to investors that are in immediate need of liquidity. In contrast, the investor perception that redemption gates may be applied is likely to encourage investors to accelerate redemptions.

Each money market fund has its own unique shareholder make-up and fund companies, as contemplated by Rule 2a-7's "know your customer" provisions, generally invest a great deal of effort in ensuring that they understand the drivers behind fund flows, whether through intermediary partners, or through direct investors. In fact, the 2010 Rule 2a-7 reforms added enhanced shareholder due diligence and "know your customer" oversight responsibilities to funds and their sponsors. Based on their unique knowledge of the composition of the investor base, fund companies should be responsible to provide recommendations allowing each Board to make a considered decision around whether fees and gates are appropriate.

As a result, we believe that de-linking fees and gates from the WLA and DLA thresholds is appropriate.

Reform of Conditions for Imposing Redemption Gates

As described above, Rule 2a-7 currently allows for the introduction of fees and/or gates if a prime or tax-exempt money market fund falls below the 30% WLA threshold. The Report sets forth a number of potential changes to the circumstances in which gates could be used, including requiring SEC permission prior to their introduction, using "soft" gates which would only allow a portion of investor balances to be redeemed and amending the related DLA or WLA thresholds.

As stated above, we believe that the mere prospect of a redemption gate is likely to act as an incentive for investors to redeem. We would suggest limiting the use of redemption gates to extraordinary circumstances only, for instance, when a Board has determined that it is in the best interests of shareholders to liquidate a fund.[1]

These circumstances should be described in detailed policies and procedures that are approved by a fund's Board.

[1] If the SEC determined to pursue this approach, the use of gates could simply be removed from Rule 2a-7, as Rule 22e-3 already permits the use of gates in these circumstances. We note further that, although, as a practical matter, money market funds meet shareholder redemptions on a T+0 or T+1 basis, Section 22(e) provides flexibility to pay redemption requests as late as seven days following receipt by the fund. This statutory flexibility should, except in the direst circumstances, provide funds with sufficient flexibility in times of significant stress.

Minimum Balance at Risk (MBR)

As described in the Report, an MBR would allow funds to hold back a portion of an investor's redemption proceeds for loss mitigation purposes in times of stress. We think this approach presents a number of significant practical drawbacks.

We understand that MBR would be designed to provide funds with a mechanism to share losses with investors that have redeemed, thereby potentially reducing the first-mover advantage to redeeming in times of market stress and help prevent "runs" on money market funds.

However, we do not believe this policy measure will meet policymakers' objectives for the following reasons:

- The mechanics and use of the MBR may be poorly understood, resulting in limited acceptance by shareholders.
- Money market funds are substitutes for other liquidity products and investment vehicles. We believe that the delayed liquidity and risk of loss features of MBR would place money market funds at a significant competitive disadvantage that would be almost impossible to overcome and render them largely irrelevant as cash investment options.
- We do not believe that investors will use a liquidity vehicle that limits access to a component of their daily liquidity.
- The use of money market funds applying MBR would greatly decline as fund companies are forced to exit the business due to reduced scale in key products and intermediaries stop supporting the products due to implementation costs and operational complexity.

Money Market Fund Liquidity Management Changes

This policy measure would potentially involve amending the levels of daily and weekly liquidity asset requirements under Rule 2a-7, including introducing an additional WLA threshold of 40%, with economic penalties imposed on managers whose portfolios fall below this level, or as another example, introducing a new category of biweekly liquid assets.

While we support thoughtful consideration of the impact that increasing the WLA to a higher figure, such as 40%, might create, we believe policymakers should strongly consider retaining the existing 30% level for the following reasons:

- Since the link between WLA and fees and gates were introduced in October 2016, money market funds have almost universally maintained WLA above 30%, while managers have typically targeted WLA levels above 35% (Source: SEC Form N-MFP).

- Moving to a higher WLA requirement, such as 40%, for example, will likely result in managers maintaining actual portfolio WLA levels of 45% to 50%, if not higher.
- Increasing the WLA threshold to 40% may reduce the ability of prime or tax-exempt managers to outperform government money market funds unless they adopt "bar-belling" (i.e., maintaining a portfolio with higher levels of longer-dated securities in order to compensate for the drag on yield from the higher WLA level). This would itself lead to the counterproductive result of increasing risk.
- Money market fund portfolio managers have already exhibited strong discipline in maintaining WLA figures exceeding 30%.
- A key reason for this is that WLA figures are reported daily to shareholders whether through a fund company's website or via an intermediary's platform, which was shown through the recent crisis to lead to market discipline.
- The combination of regulatory obligations and commercial transparency has supported this disciplined approach throughout the industry.
- Significant liquidity issues for CP and other instruments experienced during the March 2020 crisis are unlikely to be solved through amendments to Rule 2a-7 in isolation, such as an increase in the WLA threshold.

Countercyclical Weekly Liquid Asset Requirements

As we have noted, the market stress in March 2020 highlighted a potential flaw in the 2014 reforms in that fund managers sought to preserve their WLA levels of 30% to avoid investor concerns around fees and gates by selling longer-dated securities. As dealers were themselves constrained by their balance sheet capacity it became extremely difficult for fund managers to find "bids" for these securities. In other words, the secondary market for CP was effectively frozen.

In response to this, a potential policy measure suggested within the Report would be to introduce Countercyclical Weekly Liquid Asset requirements that would automatically adjust downward in the event of large net redemptions or if the SEC granted temporary relief from WLA requirements.

We do not believe this policy measure will advance the goals of reform. We believe ad hoc emergency relief from the SEC permitting lower WLA levels during times of stress would likely accelerate redemptions by contributing to investor perception that certain funds, or the industry as a whole, were under stress.

We think de-linking fees and gates from the DLA and WLA threshold levels, coupled with heightened Board discretion to evaluate a wide range of factors in the event of a crisis, would negate the need for Countercyclical WLAs. Without the fees and gates linkage, if a fund experiences liquidity pressure that takes it below the WLA level there would be little benefit in applying a Countercyclical WLA given the Board's ability to respond to the specific circumstances of an individual fund.

Floating NAVs for All Prime and Tax-Exempt Money Market Funds

Under current Rule 2a-7, retail prime and tax-exempt money market funds are able to value portfolio securities using amortized cost and maintain a stable $1.00 NAV per share.

One policy measure discussed in the Report would withdraw this ability and require retail prime and tax-exempt funds to "float" their NAVs, or sell and redeem shares at a price reflecting the market value of a fund's portfolio.

We do not believe this policy measure will achieve policymakers' objectives for a number of reasons:

- Retail prime and tax-exempt money market funds did not come under the severe pressure during the March 2020 crisis as experienced by institutional prime funds. While institutional prime funds saw outflows of around 30% in sector balances from March 4 to April 1, retail prime funds reduced by around 10% and tax-exempt funds by just 4%. (Source: Investment Company Institute).
- Retail money market funds are generally offered to shareholders through wealth management platforms including brokerage or private banking cash management or sweep services.
- A significant number of these platforms do not currently provide for FNAV money market funds but have been able to support retail prime or tax-exempt money market funds due to the operational simplicity of a stable $1.00 NAV.
- Moving to FNAV valuations for retail funds would likely result in a significant reduction in the retail money market sector as retail platforms stopped offering the funds rather than go through the expense of developing or replacing their existing sweep platforms.

Swing Pricing Requirement

This policy measure seeks to use swing pricing to pass the costs of specific redemption activity on to those investors seeking first-mover advantage, rather than having costs spread more widely over the fund as is the practice today.

This policy measure has merit in theory; however, the use of swing pricing for money market funds has several practical drawbacks, including:

- Swing pricing is not currently used in the US mutual funds industry, and fund and distribution platform infrastructure has not been developed to provide support for such pricing.

- Using swing pricing for money market funds would be challenging under the current regulatory and operational construct which allows same day liquidity and multiple price-points per day. In an environment where swing pricing is applied it is unlikely that valuation processes and NAV information could be transmitted through the various parties to the NAV calculation process, including fund accounting, transfer agency, pricing vendor and intermediary platforms.
- The money market fund industry is extensively intermediated and the implementation of swing pricing would likely see platforms decrease their use of the products leading to significant reduction in the sector's relevance for short-term funding markets.
- Money market funds invest in securities that generally have extremely small price movements. Developing platforms across the industry to support swing pricing for money market funds might have little to no practical impact during "normal" market conditions.
- While in theory the use of swing pricing during periods of market stress may slow redemptions, our belief is that it is more likely to encourage shareholders to accelerate redemptions and seek first-mover advantage, rather than delay and experience greater economic loss as market and portfolio conditions potentially deteriorate.
- It does not address the key market liquidity issues faced by funds in March 2020.

Capital Buffer Requirements

This measure would require floating NAV funds to build and maintain capital (or "NAV") buffers in order to absorb fund losses in certain circumstances.

The principal benefits of the buffer would be to provide ex-ante loss absorption capacity, thereby shielding shareholders from losses, while also reducing the industry's reliance on ex-post sponsor support and ensuring that sponsors providing capital themselves have incentives to avoid excessive risk-taking in a fund.

We do not believe that this suggested policy measure is workable in practice for money market funds, given the complications in raising and calculating the appropriate levels of capital, which will vary depending on the circumstances and size of a risk event.

We believe that a capital requirement would also increase industry concentration and reduce competition and investor choice, as only fund sponsors with the deepest resources either from a bank or large institutional parent will be able to support raising and maintaining capital.

Require Liquidity Exchange Bank (LEB) Membership

This policy measure would involve establishing a LEB for the money market fund industry. The LEB would operate as a chartered bank but would be funded and maintained through money market funds and their sponsors.

The LEB would provide liquidity to funds in the event they need to sell eligible securities, but would not provide credit support.

In theory the existence of an LEB might reduce an investor's motivation to "run" in a market crisis, and would reduce the industry's potential reliance on official sector support.

In practice the complications of establishing the LEB appear significant including:

- The presence of moral hazard where incentives could be created that lead a money market fund to be managed with less rigorous risk controls than other funds given the fund managers' knowledge that they will be "bailed out" by the LEB.
- Depending on the scale of a market crisis, official sector support may still be needed.
- Establishing the LEB might require agreement and complex rule-making across a wide range of decision-making bodies including Congress, the Federal Reserve, OCC, FDIC and the SEC. It may be difficult to achieve consensus in establishing the facility.
- As with the creation of a Capital Buffer, the costs of contributing to the LEB might force smaller industry players to exit their money market funds complexes, leading to added concentration within the larger complexes and the reduction of investor choice and competition in the industry.

New Requirements Governing Sponsor Support

This policy measure would set forth specific circumstances where sponsors would be required to provide support to a money market fund in distress. This would have the effect of causing money market funds to be treated as contingent liabilities to their sponsors.

The explicit requirement for sponsor support would likely have a similar impact on investors as a Capital Buffer or LEB in that investors might have more confidence in a fund's ability to withstand significant market stresses.

However, the costs of supporting these liabilities may force smaller players out of the marketplace, again leading to industry consolidation within the larger providers, including bank-owned sponsors, and reduced investor options.

As referenced in the summary, each one of these measures is likely to increase costs to shareholders and reduce yields offered by money market funds. As a result, money market funds may become less competitive as substitutes for other liquidity investments, including bank balance sheet products or direct purchases of securities. This loss of competitiveness would likely reduce the scale of the industry and the corresponding availability of efficient short-term funding to multiple private and public sectors.

Conclusion

Western Asset fully supports policymakers' objectives in seeking to improve prime and tax-exempt money market funds' ability to withstand extreme market stress. We welcome the opportunity to comment on the Report's suggested policy actions and to continue to assist regulators in shaping actions intended to strengthen the resilience of short-term funding markets and the money market industry. We believe the suggested policy actions we outlined in this letter are key in advancing these goals. The March 2020 crisis, although devastating, provides a unique opportunity to strengthen this critical sector. The experiences we have gained will help reinforce its contribution to funding key areas of the domestic and global economies.

Very truly yours,

WESTERN ASSET MANAGEMENT COMPANY, LLC

By: C. a R d Pe

Charles A. Ruys de Perez
General Counsel