

# BLACKROCK®

April 12, 2021

Submitted via the Commission's internet comment form:

<https://www.sec.gov/rules/submitcomments.htm>

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

## Re: S7-01-21: Comments on the Report of the President's Working Group on Financial Markets: Overview of Recent Events and Potential Reform Options for Money Market Funds

Dear Ms. Countryman:

BlackRock, Inc. (together with its affiliates, "BlackRock") respectfully submits this comment letter to the Securities and Exchange Commission ("SEC" or "Commission") in response to the President's Working Group on Financial Market's report, "[Overview of Recent Events and Potential Reform Options for Money Market Funds](#)" (the "Report"). We appreciate the opportunity to comment on the Report and share our views on further strengthening the resiliency of money market funds.

The disruption to the markets in March of 2020 as a result of COVID-19 (the "COVID-19 Crisis") highlighted weaknesses in money market funds ("MMFs") and the surrounding short-term market ecosystem. We believe this affords regulators and market participants the opportunity to revisit and improve the resilience of MMFs and the short-term markets. As noted in our recent ViewPoint "[Lessons from COVID-19: U.S. Short-Term Money Markets](#)", we recommend that policymakers look holistically at short-term markets to identify areas for improvement rather than look at MMFs in isolation. We outline three areas for improvement in commercial paper market structure, banks' role as intermediaries, and MMFs.

- First, in the current **commercial paper ("CP") market structure**, market participants must frequently ask the bank from whom they purchased the CP to bid that paper back in the secondary market when they want to sell it. Typically, banks are unwilling to bid CP from issuers where they are not a named dealer on the issuer's program. This "single source of liquidity" model failed during the COVID-19 Crisis and will fail again in the next liquidity crisis if fundamental changes to the CP market structure are not implemented, especially in light of current bank regulations. *We recommend that the SEC convene a group of banks, issuers, MMFs and other market participants to study potential CP market reforms. Ideas we recommend for consideration include: (i) standardization in the CP market and (ii) an all-to-all platform in primary and secondary trading to deepen the pool of liquidity providers.*

- Second, the strength of the **banks'** balance sheets provided an opportunity for prudential regulators to selectively dial back some of the regulations imposed after the Great Financial Crisis of 2008-2009 ("GFC"), effectively treating bank capital and liquidity as countercyclical buffers in a crisis. However, this capacity was used solely for lending and was not used for market making. *We recommend policymakers provide guidance on what provisions of the banking regulations might be relaxed in a future market liquidity crisis to provide additional liquidity to the market.* Additionally, we believe that banks are better holders of CP relative to other investors such as corporates, particularly during periods of stress, as they have more options available to them for financing. *In order to incentivize banks to bid CP in times of market stress, we recommend the highest rated CP be treated as a high-quality liquid asset ("HQLA") for purposes of a bank's liquidity coverage ratio ("LCR").* As displayed in the data below, there were no defaults in any CP program in 2020, emphasizing that the issues in the CP market were not due to credit quality concerns. We understand that changing the HQLA formula may be outside the remit of the President's Working Group, but this is worthy of consideration given CP's importance to the short-term market ecosystem.

#### Financial Institutions (excluding Insurance Companies) Commercial Paper

Credit Ratings as of 12/31/2019		Credit Ratings as of 12/31/2020 (Percent)				Other Outcomes During 12/31/2019 - 12/31/2020 (Percent)	
Credit Ratings	Number of Ratings Outstanding	P-1	P-2	P-3	NP	Withdrawn	Default
P-1	289	94.5%	2.1%	0.0%	0.0%	3.5%	0.0%
P-2	71	1.4%	93.0%	2.8%	0.0%	2.8%	0.0%
P-3	8	0.0%	12.5%	75.0%	12.5%	0.0%	0.0%
NP	13	0.0%	0.0%	0.0%	53.8%	46.2%	0.0%
Total	381						

#### Insurance Company Commercial Paper

Credit Ratings as of 12/31/2019		Credit Ratings as of 12/31/2020 (Percent)				Other Outcomes During 12/31/2019 - 12/31/2020 (Percent)	
Credit Ratings	Number of Ratings Outstanding	P-1	P-2	P-3	NP	Withdrawn	Default
P-1	19	94.7%	5.3%	0.0%	0.0%	0.0%	0.0%
P-2	15	0.0%	80.0%	0.0%	0.0%	20.0%	0.0%
P-3	2	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%

NP	-		
Total	36		

### Nonfinancial Corporates Commercial Paper

Credit Ratings as of 12/31/2019		Credit Ratings as of 12/31/2020 (Percent)				Other Outcomes During 12/31/2019 - 12/31/2020 (Percent)	
Credit Ratings	Number of Ratings Outstanding	P-1	P-2	P-3	NP	Withdrawn	Default
P-1	209	89.0%	7.2%	0.0%	0.0%	3.8%	0.0%
P-2	374	0.5%	91.7%	1.9%	0.8%	5.1%	0.0%
P-3	59	0.0%	8.5%	64.4%	16.9%	10.2%	0.0%
NP	32	0.0%	0.0%	0.0%	81.3%	18.8%	0.0%
Total	674						

### Asset Backed Commercial Paper

Credit Ratings as of 12/31/2019		Credit Ratings as of 12/31/2020 (Percent)				Other Outcomes During 12/31/2019 - 12/31/2020 (Percent)	
Credit Ratings	Number of Ratings Outstanding	P-1	P-2	P-3	NP	Withdrawn	Default
P-1	113	93.8%	0.0%	0.0%	0.0%	6.2%	0.0%
P-2	2	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%
P-3	1	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%
NP	-						
Total	116						

Source: Ratings Transition Matrix for FY 2020, Moody's

- Third, we recommend a detailed review of MMFs to identify possible improvements to these products. We note that **government MMFs** performed well and we do not recommend any further reforms of these funds. Given the recent experience with the potential for triggering the implementation of liquidity fees and redemption gates creating uncertainty among investors in **non-government MMFs**, *we recommend decoupling the potential imposition of liquidity fees and redemption gates from the 30% weekly liquid asset ("WLA") threshold. In addition, we recommend generally retaining the 30% WLA requirement as a portfolio construction feature to provide MMFs a substantial liquidity buffer<sup>1</sup>.* During the COVID-19 Crisis, the

<sup>1</sup> We recommend studying whether the 10% WLA level might remain as a threshold for Board action.

WLA threshold held in MMFs was similar to banks holding significant liquidity but not being able to use it. As such, *we recommend that the SEC provide clear guidance on whether a non-government MMF can waive or modify the 30% WLA requirement during periods of market stress and provide parameters for such waiver or modification.* Additionally, to further enhance the resiliency of Prime MMFs, *we recommend adjusting the portfolio requirements of these MMFs, prohibiting the purchase of CP that does not have “strong capacity for repayment” and eliminating the 5% illiquid bucket.* Separately, mutual fund boards should have the ability to implement liquidity fees and redemption gates at any time that they deem it to be in the best interests of a MMF. Finally, we note that improvements made in bank regulation and CP market structure would be beneficial to all purchasers of CP generally, including MMFs.

With the context of our overall views on how short-term markets can be strengthened laid out above, we categorize the President’s Working Group’s proposed reforms to MMFs into three categories: those that BlackRock supports, those that might be beneficial for investors and MMFs but require additional analysis, and those that would make Prime and Municipal MMFs unattractive to investors, and expensive or operationally difficult to implement. We note that the third category is likely to lead to the end of these non-government MMFs and recommend considering an outright ban on these products rather than pursuing complex implementation plans if these reforms are considered.

### **Reforms BlackRock Supports**

**BlackRock is supportive of the President’s Working Group’s proposed reform for removing the tie between the 30% weekly liquidity requirements and liquidity fee and redemption gate thresholds,** which directly tracks our suggested action in our ViewPoint noted above. While we believe decoupling liquidity fee and redemption gate considerations from the 30% WLA threshold is a critical element of any MMF reform, we recognize that additional reforms should be paired with this for the optimal outcome. In addition, we recommend studying whether the lower 10% WLA level might remain as a threshold for Board action or whether that threshold should also be decoupled.

**We are additionally supportive of codifying the suggested countercyclical WLA requirements.** We recommend this in addition to decoupling the link between WLA and redemption gates and liquidity fees. Lowering the minimum WLA requirements in times of market stress would send a strong signal to the market that the buffer is intended to be used. Consequently, investors would be less concerned about the imposition of liquidity fees or redemption gates. We recommend that the parameters for relaxing the 30% WLA threshold should be proscribed by the SEC in a revised final rule to provide uniform and consistent adoption across the MMF industry.

In March 2020, the Office of the Comptroller of the Currency’s (“OCC”) allowed for a temporary extension of maturity limits (Weighted Average Maturity and Weighted Average Life limits), for short term investment funds, allowing these funds to continue to operate in an orderly fashion while permitting them to use some of their shorter maturity holdings for redemptions. This was a good example of a regulator setting out clear guidelines to take countercyclical measures during the crisis.

We believe that the ability to use some of the liquidity within an MMF during a crisis period without the threat of a redemption gate or a liquidity fee, under proscribed measures, could be similarly beneficial. We recommend further study to understand how much liquidity could be used and whether to set a hard lower limit (see the response to *Changing the conditions for imposing redemption gates* below).

**Portfolio construction criteria.** In our Viewpoint, we also propose reconsidering portfolio construction criteria, an idea not covered in the PWG's proposed recommendations. Specifically, prohibiting CP that does not have a "strong capacity for repayment" and eliminating the 5% illiquid bucket could help improve prime MMFs credit quality and maturity profiles.

### **Reforms that Require Additional Analysis**

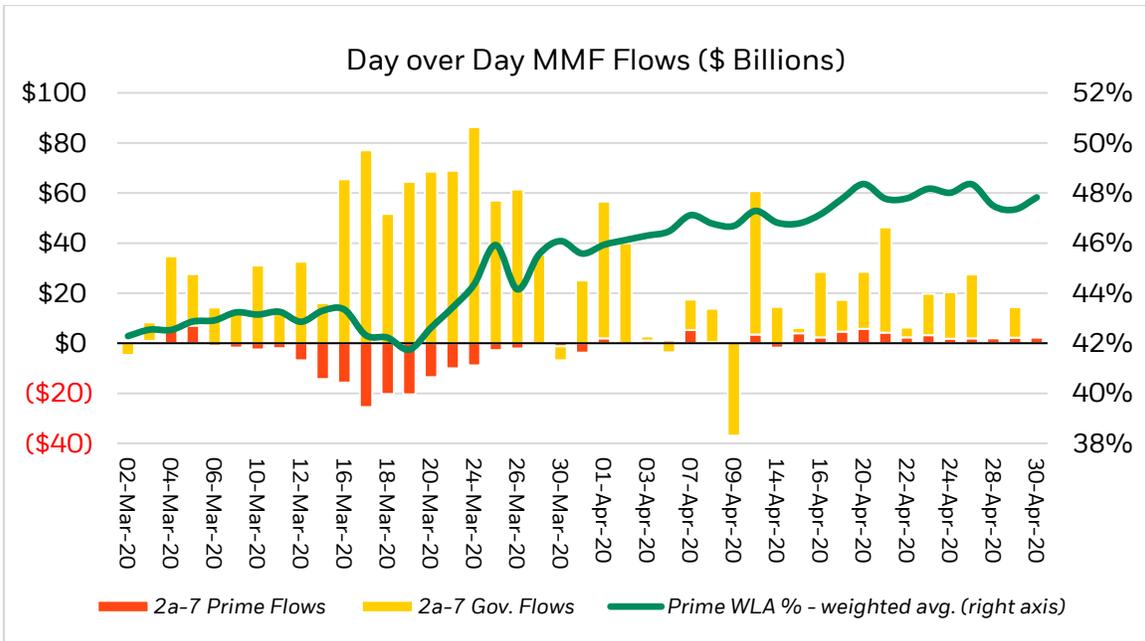
**The following proposed reforms recommending changing the conditions for imposing redemption gates, implementing a new category of MMF liquidity management requirements, and implementing floating NAVs for all prime and tax-exempt MMFs require additional analysis to understand whether they would be beneficial to investors and MMFs and whether they would help prevent a run during a liquidity crisis.**

**Changing the conditions for imposing redemption gates** would require the consideration of (i) how redemption gates are implemented and (ii) when redemption gates are implemented. In our view, requiring MMFs to ask permission from the SEC prior to implementing redemption gates would be unlikely to prevent the run scenario experienced in March 2020. The issue is not that investors lack trust in fund boards to make good decisions; rather the issue is fundamentally the risk of the redemption gates themselves regardless of who authorizes them. The sequencing of redemption gates and liquidity fees is also largely irrelevant as we believe both redemption gates and liquidity fees raised concerns for MMF investors in March 2020 and created "run" incentives during this period of market liquidity stress. Retaining the WLA threshold as a portfolio requirement and decoupling the WLA threshold for considering a redemption gate could enable a MMF to use its liquidity buffer as described in our ViewPoint. Looking at the redemption behavior in March 2020, allowing a MMF to use the buffer below 30% WLA while perhaps leaving the 10% WLA level for a MMF board to consider a redemption gate or liquidity fee merits further consideration.

In the chart below, it is clear that the weighted average WLA across prime MMFs remained well above 30% throughout March 2020 as fund sponsors built WLA levels well above 40% in order to alleviate investors' concerns that a redemption gate or liquidity fee might be imposed<sup>2</sup>.

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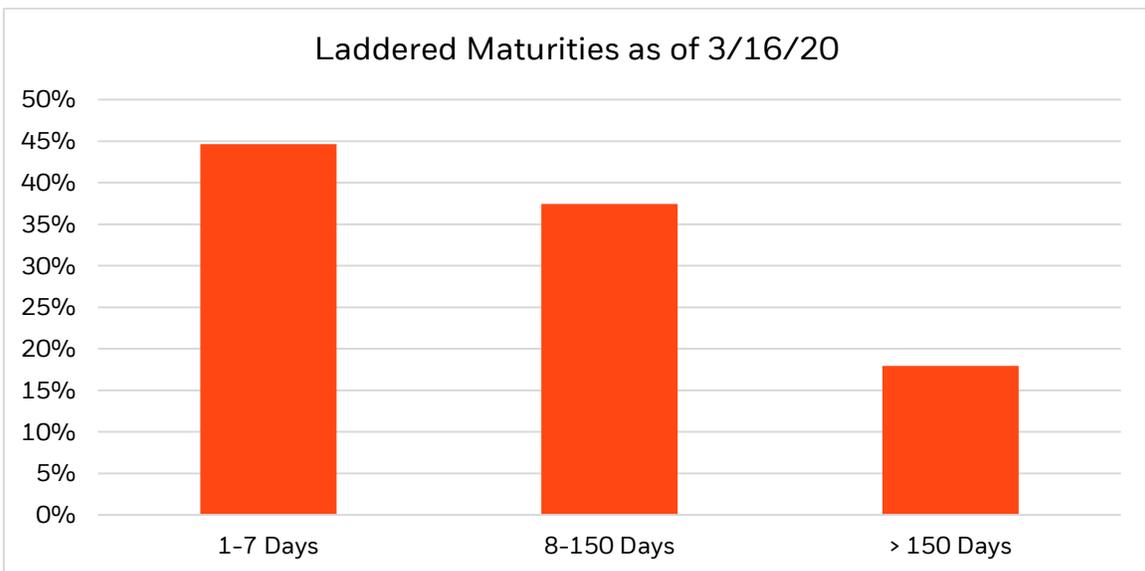
<sup>2</sup> According to iMoneyNet, 104 of 31,141 (0.3%) funds reported a WLA below 30% from February 28, 2020 to April 30, 2020.



Source: iMoneyNet

The suggested **implementation of a new category of MMF liquidity management requirements** appears to address a perceived concern that MMF holdings were barbelled. While we have not seen evidence that barbellling was a problem in March 2020, or that MMFs’ portfolios were generally structured with a barbell, we believe studying the impact of shorter maturity requirements for non-government MMFs would be useful.

The graph below shows a representative BlackRock prime MMF as of the March liquidity crisis. We believe this was not an unusual maturity structure for non-Government MMFs at the time. As you can see, this prime MMF held nearly 40% in short-term securities with 8 to 150 days to maturity, and the MMF did not employ a barbell strategy.



Source: BlackRock

In March 2020, the problem MMFs faced was the ‘dash for cash’ across the entire market which resulted in wholesale redemption requests simultaneous to a closed secondary market. Changing the maturity lengths or threshold levels within a MMF might help on the margin but would not address the root problem as even high-quality overnight CP met “no bid” in the market during the worst days in March. To address the liquidity problem at the root, we recommend addressing the CP market directly as outlined in our ViewPoint. We conclude that, on its own, this proposal is unlikely to solve the resiliency issues of non-government MMFs.

Converting all **Retail prime and tax-exempt MMFs to a floating NAV (“FNAV”)** is unlikely to address the issues seen in March. This idea may warrant further study to ascertain any other potential benefits as well as any concerns. We note that existing FNAV MMFs faced redemption challenges due to a dash for cash amid the perception of the impending imposition of liquidity fees or redemption gates. We believe converting retail prime and tax-exempt MMFs to FNAV would likely lead to a significant reduction in the number of these funds available. We recommend studying both fund sponsor willingness and investor demand for FNAV products before proceeding with this option. We note that many intermediaries have operational issues with supporting FNAV funds which would need to be addressed and these intermediaries may choose to instead stop offering non-government MMFs.

### **Reforms That Would Likely Lead to the End of Non-Government MMFs**

**We believe the proposals which impose a minimum balance at risk, capital buffer requirements, liquidity exchange bank membership requirements, governing sponsor support, and implementing a swing pricing framework each require extensive changes to funds and the operating environment for funds and these changes will likely result in the elimination of both prime and municipal institutional MMFs. Policymakers should consider an outright ban rather than requiring complex and expensive changes that will result in the elimination of these funds.**

- Imposing a **minimum balance at risk** effectively creates a rolling gate. Liquidity investors will not be interested in investing in a MMF with this feature and it would be operationally extremely challenging to implement. We explored this idea in our 2012 Viewpoint, “[Money Market Funds: A Path Forward](#).” In our discussions with US MMF clients at that time, they uniformly told us they would abandon the product if redemption holdbacks or capital requirements were implemented.
- The cost of **imposing capital buffer requirements** is expected to be prohibitive, especially in the current low-yield environment. Fund sponsors are unlikely to be willing to offer MMFs with this feature.
- **Requiring liquidity exchange bank membership** was explored at length in the debates leading up to the 2010 MMF reforms and the 2014 MMF reforms. We are opposed to this approach as it socializes risk across fund sponsors who have no control over each other’s actions. This approach could incentivize certain MMFs to take more risks at the expense of the other MMFs.
- **A regulatory framework governing sponsor support** would reduce the pool of potential MMF sponsors as some current sponsors might be unable to commit to providing support. Bank sponsors that can commit to sponsor support will need

to evaluate any new bank regulations which are likely to address bank sponsors' capital and liquidity needs associated with offering MMFs. We note that in the US, the Federal Reserve and the SEC gave banks waivers to purchase securities in March 2020 and we assume bank sponsors will be subjected to new capital and liquidity requirements if such waivers are to be available. Finally, this approach would codify regulatory inconsistency as sponsor support is prohibited in the EU.

- While **swing pricing** has been used successfully in some open-end funds in certain jurisdictions in Europe, there are a number of idiosyncratic issues specific to MMFs that make swing pricing operationally challenging. Two key features are (i) a T+0 settlement structure and (ii) multiple NAV strikes in a day. We note that swing pricing has been permitted for non-MMF US open-end mutual funds for several years, yet the ecosystem for mutual funds in the US includes late fund closing times and tight turn arounds. As a result, swing pricing has not been implemented in the US even for non-MMF open-end funds. The T+0 settlement feature, which is critical to investors in many MMFs, would make the implementation of swing pricing even more challenging as we do not believe it permits enough time for price discovery to calculate the appropriate swing factor to apply. Additionally, the timing problem is magnified further for those MMFs that strike a NAV multiple times a day as there would not be sufficient time to implement a swing factor between NAV cutoffs. We believe the changes that would be needed to make swing pricing operationally feasible would make the product critically unappealing to investors. Conversely, liquidity fees are already operationally feasible in MMFs while providing the same effect of directing costs to redeeming shareholders.

Looking beyond MMF and short-term market reform, we could explore potential new structures to serve as an alternative to MMFs by expanding the definition of cash equivalents to encompass additional structures. Several alternative structures already exist, such as ETFs. These structures would require a cash equivalency designation to overcome the hurdles for cash investor adoption. Many of these alternative options, such as ETFs, proved resilient and were a source of stability through the March market volatility by continuing to trade efficiently, despite deteriorating liquidity in the underlying market, which provided price discovery for investors and banks.

BlackRock thanks the Commission for the opportunity to comment on the Report. We appreciate and support your efforts to further strengthen MMFs following the COVID-19 Crisis and we welcome any additional questions or further discussion.

Sincerely,

Thomas Callahan  
Managing Director, Global Head of Cash Management Business

Kate Fulton  
Managing Director, Head of US Public Policy