Cynthia Lo Bessette
Chief Legal Officer
Fidelity Management & Research Company LLC
[redacted]

April 12, 2021

Submitted electronically through: https://www.sec.gov/rules/submitcomments.htm

Ms. Vanessa A. 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,

Fidelity Investments ("Fidelity")[1] appreciates the opportunity to provide comments to the Securities and Exchange Commission ("SEC" or "Commission") on potential reform measures for money market funds, as noted in the report entitled Overview of Recent Events and Potential Reform Options for Money Market Funds issued by the President's Working Group on Financial Markets ("PWG") in December 2020 ("PWG Report" or "Report").[2]

Fidelity was encouraged by the PWG's efforts to analyze the events of March 2020 as a means of informing potential modifications to the regulation and structure of money market funds. A thorough understanding of these events is an essential element in designing regulatory measures if those measures are to achieve the Report's three stated goals of addressing structural vulnerabilities that contributed to stress in the short-term funding markets, improving the resilience of short-term funding markets and reducing the likelihood of government intervention in the future.[3] In addition, a thorough understanding of the events of March 2020 also requires an analysis of the similarities and differences between those events and the events of the financial crisis in 2008 as well as an understanding of how the SEC's prior amendments to Rule 2a-7[4] impacted money market funds and their investors in 2020. Adopting reform measures without a full appreciation of these matters would be ill-conceived and could significantly harm the short-term funding markets, which in turn, would negatively impact the financial system more broadly.

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[1] Fidelity is one of the world's largest providers of financial services, including investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and many other financial products and services to more than 30 million individuals and institutions, as well as through 13,500 financial intermediary firms. Fidelity submits this letter on behalf of Fidelity Management & Research Company LLC, the investment adviser to the Fidelity family of mutual funds.
[2] *See* Request for Comment on Potential Money Market Fund Reform Measures in President's Working Group Report, Release No. IC-34188 (February 4, 2021), *available at* https://www.sec.gov/rules/other/2021/ic-34188.pdf.
[3] PWG Report at 19-20.
[4] 17 CFR 270.2a-7 under the Investment Company Act of 1940 (the "Act")

Fidelity has long served as a leading provider of money market funds and has extensive experience managing funds in both normal and stressed market conditions. Fidelity first began managing and offering money market funds in 1974. As of March 1, 2020, Fidelity managed approximately $817 billion in money market fund assets and offered a comprehensive suite of money market funds, including government, prime and tax-exempt funds,[5] to both retail and institutional investors. By April 1, 2020, our assets under management had grown to $927 billion. Fidelity remains the largest provider of money market funds with approximately $897 billion in assets under management as of April 1, 2021, representing approximately 18 percent of the U.S. money market fund industry. Fidelity liquidated its two publicly offered institutional prime funds in August 2020 in response to our experience with rapid, significant investor redemptions from these funds during periods of market stress, as well as evolving institutional investor preferences (as evidenced by the decline in institutional prime fund assets since 2016). We believe we can better meet institutional investor needs with other products and we continue to offer a broad array of money market funds across all other categories. In addition, as a diversified provider of financial services, Fidelity witnesses firsthand and in real time the starkly divergent investment behaviors of different types of money market fund investors such as retail brokerage customers, individuals saving for retirement through employer-sponsored and individual retirement accounts, and corporate treasurers seeking short-term investment options for operating cash, among others.

Based on our history of managing and distributing a broad array of money market funds held by millions of fund investors, we believe we are uniquely qualified to provide insights into the events of March 2020 and to offer views on the various reform measures described in the PWG Report. While we view the PWG Report as a productive first step in considering potential reform measures, we encourage the SEC to now narrow the range of options under consideration by eliminating those options that have no nexus to the events of 2020 and therefore would not achieve any of the goals for reform stated in the PWG Report. The details of any measures that the SEC wishes to pursue further remain to be considered and, as such, we anticipate having more viewpoints to offer once more of these details are made public.

I. EXECUTIVE SUMMARY

In the remainder of our letter, Fidelity discusses the following matters in detail, which we believe the SEC should consider in undertaking any further reform of the money market fund industry.

Any Reforms Must Preserve and Protect the Availability of Money Market Funds. Money market funds provide significant benefits to investors, the short-term funding markets and the broader economy. The ongoing dialog regarding potential reform measures must account for these benefits as well as the significant changes to the industry and to the regulation of money market funds by the SEC through its prior 2010 and 2014 reforms. Furthermore,

[5] Tax-exempt funds are often referred to as "municipal funds" and invest in municipal securities that are normally free from federal income tax, federal alternative minimum tax (AMT) and/or state income tax. Municipal securities serve as an important source of funding for states and municipalities and can help fund hospitals, educational systems, utilities and other public works projects.

government funds, which now represent a significant majority of the industry, should be excluded entirely from further rounds of reform in light of their proven track record as a stable, attractive investment in calm financial markets and as a safe haven in times of market uncertainty.

Any Reforms Must Be Narrowly Tailored to Address Liquidity Pressures in Institutional Prime Funds. The stresses experienced by money market funds in March 2020 were focused on liquidity pressures in publicly offered institutional prime funds resulting from substantial institutional investor redemptions. These redemptions were driven by concerns about access to cash due to the potential imposition of redemption gates. Although redemption gates were intended to discourage or prevent significant redemptions in periods of market uncertainty, the fear of a gate being imposed served to accelerate redemptions from institutional prime funds in March 2020. Furthermore, institutional prime funds were unable to deploy much of the liquidity built into their funds because of investors' concerns with gates. While institutional prime funds now maintain significantly greater levels of liquidity because of the SEC's prior reforms, the fear of a redemption gate being applied negated the benefits such higher levels of liquidity would have otherwise provided. Based on these observations and our experiences in 2020, we felt it was prudent to exit the institutional prime money market business and liquidated our two publicly offered funds in August 2020.

By contrast, government funds experienced significant inflows while redemptions from retail prime and tax-exempt funds were manageable and, in our experience, caused no significant concerns. Thus, we believe that government, retail prime and tax-exempt funds should be excluded entirely from further rounds of reform. It is imperative that the SEC avoid a one-size-fits-all solution for all money market funds and instead use its limited resources to focus on reforms addressing liquidity pressures in institutional prime funds.

Measures that Could Successfully Address March 2020 Events: Through this lens, Fidelity believes the following reform measures, if properly calibrated, could address the issues faced in March 2020 and warrant further consideration by the SEC:

- ***Removal of Weekly Liquid Asset Thresholds for the Imposition of Fees and Gates****:* Removing the set threshold to implement fees or gates we believe would diminish the incentive for preemptive redemptions by institutional investors and allow funds to more fully deploy their existing liquidity buffers to satisfy redemptions.

- ***Higher Percentages of Weekly Liquid Assets***: Either in combination with removing the thresholds for the imposition of fees and gates or alone, the SEC could require institutional prime funds to maintain higher percentages of Weekly Liquid Assets, which would remove the propensity for a run to occur.

- ***Countercyclical Weekly Liquid Asset Requirements****:* This option achieves the same outcome as removing the tie between liquidity percentages and the board's consideration of fees and gates, provided that the new triggers are automatic and not based on official action from the SEC. Requiring official SEC action would spur the same redemption behavior among institutional shareholders as experienced in March 2020.

Measures that are Unworkable and/or have No Applicability to Events of March 2020*:* Fidelity strongly opposes the following reform options either because the measures are unworkable or would not have been effective in preventing the stresses that occurred in March 2020 (or both):

- *Reform of Conditions for Imposing Redemption Gates and Floating NAVs:* The events of March 2020 demonstrated that investors in institutional prime funds prioritize access to their cash above all else and will redeem from institutional prime funds if they perceive any risk that they may lose the ability to remove their cash from these funds same day and at no cost. Existing reforms like restrictions on redemptions (commonly referred to as "gates") only amplified institutional investor redemptions, and floating NAVs (which were already in place for institutional prime funds) were not effective at curbing redemptions driven by market liquidity issues.

- *Liquidity Exchange Bank Membership:* Requiring fund sponsors to be members of a private liquidity exchange bank is unnecessarily complex, economically unworkable, and would be ineffective at preventing future runs or potential government intervention; rather this approach could create moral hazard by forcing responsible funds to insure less responsible funds.

- *Capital Buffers and Requirements Governing Sponsor Support:* These reform options would not have addressed the liquidity pressures (and, thus, investors' redemption patterns) in institutional prime funds in March 2020 because they focus on asset quality rather than liquidity. Furthermore, if buffers are funded by retaining rather than distributing income, the buffers would take a significant amount of time to accumulate and, if funded by fund sponsors, managing money market funds would no longer be economically feasible.

- *Minimum Balance at Risk:* In addition to the serious operational and legal challenges of implementing a holdback of a portion of each investor's redemption for a period of time, this reform option would significantly alter the structure of money market funds to the detriment of funds and investors.

- *Swing Pricing:* Swing pricing, which essentially operates as a redemption fee, would not have reduced or eliminated institutional investor redemptions in March 2020 and presents serious operational obstacles that would need to be solved across the mutual fund industry broadly before swing pricing could be implemented.

II. BENEFITS OF MONEY MARKET FUNDS; IMPACT OF PRIOR REFORMS; OVERVIEW OF INDUSTRY

While the purpose of the PWG Report is to analyze the stresses experienced by some money market funds in 2020 and to begin a dialog regarding potential reform measures, Fidelity believes any discussion must also include a recognition of the many benefits that money market funds provide to investors, to the short-term funding markets and to the broader economy, which must be preserved and protected.

For decades, money market funds have been attractive investments due to their convenience, high credit quality, and liquidity. Money market funds are utilized by a broad spectrum of investors, from small, individual investors, to large, institutional investors. Money market funds provide millions of individual investors, including retirees, a safe way to earn income on cash awaiting further investment with low risk and low volatility. Institutional investors in money market funds include corporations, pension plans, and state and local governments. Broker-dealers, trustees, pension funds, and charitable foundations also utilize money market funds as an essential cash management tool for their customer assets. Today, while many money market funds offer a relatively low yield in the current near-zero interest rate environment, investors have maintained their investments due to the safety, flexibility, and liquidity that these funds provide. Money market funds also provide investors a convenient, cost-effective cash investment option. In addition, some funds offer check writing privileges, allowing an investor to make payments directly out of a fund rather than requiring the investor to redeem, transfer the proceeds to another account and then make the payments. These convenience features have made money market funds an attractive complement to bank accounts.

We also believe that money market funds constitute a critical component of the capital markets, allowing issuers to access low-cost funding under a well-defined regulatory framework. By investing in short-term debt instruments, money market funds serve as important providers of short-term funding to financial institutions, businesses and governments. Issuers of short-term debt instruments include the federal government and its agencies, corporations, hospitals, universities, banks, and state and local governments.

The dialog regarding additional potential reform measures must also account for the considerable impacts of the SEC's prior two rounds of money market fund reform on the industry. The SEC amended Rule 2a-7 in both 2010 and 2014 introducing significant structural changes, including new requirements regarding asset quality and liquidity, a floating net asset value (or, "NAV") for institutional prime and institutional tax-exempt funds, a mechanism for the imposition of liquidity fees or restrictions on redemptions when funds face liquidity pressures, new requirements for board oversight, and new disclosure changes providing investors with more frequent and accessible information. As we discuss later in this letter, these changes had the effect of significantly curtailing the risks that some money market funds posed during the 2008 financial crisis. In addition, any vulnerabilities in either the structure of, or regulations governing, money market funds that may have become apparent from the events of March 2020 were limited to publicly offered institutional prime funds, which, largely because of the changes adopted by the SEC in 2014, now represent only a small portion of the overall industry.

Attachment 1 provides information on the total assets of the various types of money market funds since 2007. Most notably, as of the end of 2020, approximately 80 percent of assets are in funds that qualify as government funds under Rule 2a-7, while institutional prime funds now represent only a small portion of the industry. The decline in institutional prime fund assets and the expansion in government fund assets began in 2016 with the full implementation of the reforms adopted by the SEC in 2014. Many institutional investors shifted assets out of institutional prime funds once these funds were required to implement a floating NAV, preferring the stable NAV offered by a government money market fund. Additionally, many institutional investors were uncomfortable with even a remote possibility of redemption gates, and to a lesser extent the possible implementation of a liquidity fee, which, as required by the 2014 amendments, boards must consider implementing when institutional prime funds face liquidity pressures.

Retail prime and tax-exempt funds have also declined over the years. This is largely attributable to several fund families, including Fidelity, no longer offering retail prime and tax-exempt funds as default investment options (often referred to as "sweep" or "core" positions) in brokerage accounts following the implementation of the SEC's 2014 amendments to Rule 2a-7. At Fidelity, for example, if a brokerage customer would like to use a money market fund as the sweep investment option, the customer can now choose from several government money market funds.

III. EVENTS OF MARCH 2020

Before reviewing the various reform options in the PWG Report, we first discuss our experiences and perspectives on the events of March 2020. Most importantly, the stresses experienced by the money market fund industry were concentrated in publicly offered institutional prime funds, which, as shown in Attachment 1, now represent a small subset of the overall money market fund industry. The PWG indicates that prime funds more broadly, as well as tax-exempt funds, were sources of concern.[6] In our experience, however, while retail prime and tax-exempt funds faced some redemptions in mid-March 2020, these redemptions were readily manageable. In addition, unlike the events of 2008, the stresses experienced by institutional prime funds were overwhelmingly related to institutional investor concerns about liquidity rather than asset quality. These important distinctions must factor into any reform options considered by the SEC, as we discuss in more detail below.

We focus much of our attention in this letter on the experiences of "institutional prime funds" in March 2020. In doing so, we are referring to those institutional prime funds that are *publicly offered* and are not referring to funds that are privately offered to other mutual funds in the same complex. In our experience, these privately offered funds (which we commonly refer to as our central funds), faced neither the redemption pressures nor liquidity issues experienced by publicly offered institutional prime funds in March 2020. As a result, we believe that the dialog regarding potential reform measures for institutional prime funds should not include these privately offered funds and encourage regulators to exempt these funds from any further regulatory changes.

Government Fund Inflows; Institutional Prime Fund Outflows

Fidelity's experiences in managing money market funds in March 2020 were largely consistent with the broader industry. Volatility in the equity markets increased significantly in late February 2020 as investors began to recognize that the United States would not be spared from the COVID-19 pandemic. Unlike previous crises (including 2008), there was not a gradual

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[6] *See, e.g.,* PWG Report at 14-15.

buildup to the apex of the crisis; instead, volatility and financial market uncertainty increased significantly in a compressed timeframe. Likewise, the value of the S&P 500 Index declined more than 30 percent between the third week of February through the first half of March.

Investors' broader market concerns began to manifest themselves in inflows into government money market funds. Assets in government funds increased by $53 billion between February 26th and March 4th and by approximately $95 billion between March 4th and March 11th as investors began seeking the safety and liquidity that government money market funds provide.[7] Over this same period, inflows into Fidelity's government funds totaled $42 billion, an increase of approximately 7.5 percent.

The critical period for money market funds began on March 11th and extended to March 23rd. The sudden buildup of anxiety regarding the personal threat posed by the pandemic coupled with a desire to limit losses from the equity markets and preserve liquidity resulted in continuing shifts into government money market funds from other asset classes. For example, as retail brokerage customers shed equities, many kept the proceeds from these sales in the government money market funds that serve as their default sweep investment options in their brokerage accounts. Some businesses borrowed under committed lines of credit and invested the proceeds into government money market funds in order to guarantee access to cash for contingency purposes. In addition, institutional investors began moving from institutional prime money market funds to government money market funds to preserve access to their operating cash. Overall, assets in government money market funds increased by $249 billion between March 11th and March 18th and another $345 billion between March 18th and March 25th.[8]

As redemptions from institutional prime funds accelerated beginning on March 11th, Fidelity and other money market fund managers took prudent steps to maintain or increase their funds' liquidity in anticipation of needing to satisfy further redemptions. First, managers discontinued making new investments in securities that do not qualify as weekly liquid assets under Rule 2a-7 ("Weekly Liquid Assets" or "WLA").[9] For investments other than cash or government securities, these securities must have a maturity of five business days or less.[10] Second, as securities with maturities longer than five business days matured, the funds either held the proceeds in cash or invested the proceeds in shorter-dated instruments. Third, some fund managers began actively selling securities with longer maturities (i.e., non-government securities that do not qualify as Weekly Liquid Assets). Fidelity had no need to sell securities in

[7] Money Market Mutual Fund Assets, Investment Company Institute, Report: Money Market Fund Assets Historical Data (xls), available at: https://ici.org/research/stats/mmf.
[8] *Id.*
[9] Rule 2a-7(a)(28) defines Weekly Liquid Assets as (i) Cash; (ii) Direct Obligations of the U.S. Government; (iii) Government securities that are issued by a person controlled or supervised by and acting as an instrumentality of the government of the United States pursuant to authority granted by Congress of the United States that : (A) Are issued at a discount to the principal amount to be repaid at maturity without provision for the payment of interest; and (B) Have a remaining maturity date of 60 days or less; (iv) Securities that will mature, as determined without reference to the exceptions in paragraph (i) of this section regarding interest rate readjustments, or are subject to a demand feature that is exercisable and payable, within five business days; or (v) Amounts receivable and due unconditionally within five business days or pending sales of portfolio securities.
[10] *Id.* at Rule 2a-7(a)(28)(iv).

this fashion because, as described further below, the percentages of our institutional prime funds that qualified as Weekly Liquid Assets were higher than that of other institutional prime funds.

Managers of institutional prime funds were able to dispose of these securities in transactions entered into by Friday, March 13th. By the following Monday (March 16th), however, attempts by managers to sell more of these assets were no longer successful because the broker-dealers that had been purchasing these assets the prior week discontinued doing so, likely because of the low margins that broker-dealers make in buying commercial paper. At the same time that institutional prime funds were no longer able to build liquidity by selling commercial paper in the secondary market, redemptions from these funds accelerated even further. In total, institutional prime funds experienced 30% net redemptions in March 2020. Of this amount, two thirds occurred between March 16th and March 21st. Attachment 2 to this letter includes a graph depicting the steep and sudden increase in net outflows from institutional prime funds during the week of March 16th. Redemptions from Fidelity's two publicly offered institutional prime funds were consistent, with most of the net outflows from the funds occurring during this same week.

The combination of accelerating redemptions and fewer options for building liquidity resulted in a decline in the Weekly Liquid Asset percentages for institutional prime funds. As part of the amendments to Rule 2a-7 adopted in 2010, the SEC now requires all money market funds to maintain at least 30 percent of their holdings in Weekly Liquid Assets. Then, since the second round of rule amendments adopted in 2014, boards of institutional prime, retail prime and tax-exempt funds must consider whether to impose a liquidity fee of two percent or less or a temporary suspension of (or "gate" on) redemptions when Weekly Liquid Assets fall below 30 percent of the fund's total assets. In addition, if a fund's Weekly Liquid Assets fall below 10 percent of the fund's total assets, the board is obligated to impose a liquidity fee unless the board determines that such a fee is not in the best interest of the fund.[11]

While the original purpose of the liquidity fee and gate provisions was to discourage (in the form of a fee) or outright stop redemptions (through a gate) in non-government money market funds in times of market stress,[12] the potential for the imposition of a gate served as a key accelerant of redemptions from institutional prime funds in March 2020. To understand why, it is first important to understand how institutional investors use institutional prime funds. These investors (mostly businesses) invest corporate assets in institutional prime funds as a temporary investment until such time as the assets are needed to fund business operations (payroll, rent, etc.). As a result, the investor base tends to be more sensitive to changes in fund characteristics, including liquidity levels, which are published daily on fund websites.[13] Furthermore, because these investors redeem their money market fund assets when cash is needed to fund business operations, they prioritize unfettered access to their cash over all else. When markets are calm and there is no risk that an institutional prime fund will impose a redemption gate, these investors prefer earning the slightly higher yield offered by an institutional prime fund. When

[11] Rule 2a-7(c)(2).
[12] *See* Money Market Fund Reform; Amendments to Form PF, Release No. 33-9616, IC-31166; File No. S7-03-13 (July 23, 2014), *available at* https://www.sec.gov/rules/final/2014/33-9616.pdf at 40.
[13] Rule 2a-7(h)(10)(ii).

even a remote risk of a redemption gate arises, many of these investors prefer to forego the slight yield advantage of an institutional prime fund in favor of ensuring immediate access to cash by switching their investments to a government money market fund.

At the beginning of March 2020, many of the largest institutional prime funds held Weekly Liquid Assets between 35 percent and 40 percent of their total assets.[14] (Fidelity consistently managed its two publicly offered institutional prime funds at weekly liquidity levels well above many of its competitors' funds. At the beginning of March 2020, Fidelity's funds held 49 percent and 47 percent of their total assets in Weekly Liquid Assets.) The common perception in the industry was that a 5 percent to 10 percent buffer for institutional prime funds above the 30 percent threshold for the board's consideration of a gate was sufficient to weather unexpected redemptions, even in moderately stressed market conditions. While one could argue that the events of March 2020 were extraordinary, it is now apparent that such a voluntary buffer was insufficient to allay concerns by institutional prime fund investors that a gate could be imposed resulting in a loss of liquidity, even if temporary.

Instead, as redemptions in institutional prime funds began in early March, the fear of a redemption gate (even if still remote) took hold among these investors, resulting in accelerating redemptions and, as discussed above, efforts by fund managers to shore up liquidity in institutional prime funds. As the pace of redemptions increased, declining levels of Weekly Liquid Assets (the percentages of which are disclosed daily on fund websites) then fed even further the fear among institutional prime investors that a gate would be imposed.[15] The Weekly Liquid Asset percentages among the largest institutional prime funds fell from between 35 and 40 percent to percentages in the low 30s, with one competitor fund in particular falling from 35 percent to 27 percent in one day on March 19th. Even though the Weekly Liquid Asset percentages for Fidelity's two institutional prime funds began the month significantly higher than those of competitor funds, the contagion effect was apparent. For example, the Weekly Liquid Asset percentages for one of our institutional prime funds declined from 49 percent to a low of 42 percent, though remained well above the 30 percent threshold that would have obligated the fund's Board of Trustees to consider the imposition of a liquidity fee or gate.

The redemption patterns in institutional prime funds in March 2020 also exposed an inherent problem with the current 30 percent threshold for a fund board's consideration of whether to impose a liquidity fee or gate. Institutional prime funds are unable to deploy the liquidity built into the fund by virtue of the 30 percent Weekly Liquidity Asset requirement in Rule 2a-7. Instead, because institutional shareholders redeem from prime funds when liquidity levels begin to approach the 30 percent threshold out of concerns that a gate or liquidity fee could be imposed, funds effectively are unable to use the 30 percent of the portfolio held in Weekly Liquid Assets as a source of liquidity. Instead, the additional voluntary buffer of liquidity above 30 percent that investment advisers maintain serves as the *true* liquidity available

[14] iMoneyNet daily data as of March 2, 2020.
[15] As mentioned above, money market funds are required by Rule 2a-7 to post several statistics each business day, including the percentage of the fund's assets that qualify as Weekly Liquid Assets.

to fund redemptions and the 30 percent Weekly Liquid Asset requirement has become a floor under which a fund may never fall.

As the PWG acknowledges, the instability among institutional prime money market funds eased somewhat following the Federal Reserve's announcement of the Money Market Liquidity Facility, or MMLF, on March 18th.[16] Between March 18th and March 23rd, when the MMLF began full operations, redemptions from institutional prime funds continued, though at a slower pace, while market volatility and liquidity pressures remained elevated. During this five-day period, market participants were working to understand the specifics of the MMLF as well as the MMLF's operational mechanics, during which time the Federal Reserve also made modifications to the securities eligible for participation. Once the MMLF became fully operational on March 23rd, the redemption and liquidity stresses on institutional prime funds eased considerably. As reflected on Attachment 2, net flows for institutional prime funds were essentially flat between March 23rd and March 30th and eventually turned positive in April.

Fidelity believes that the key reason the MMLF alleviated redemption and liquidity stresses in institutional prime funds is because the facility allowed institutional prime funds to raise their Weekly Liquid Asset percentages to a degree that lessened investor concerns about the possibility that a redemption gate could be imposed. By March 25th, the Weekly Liquid Asset percentages for most institutional prime funds were in the range of 38 and 49 percent.[17] (The percentages for Fidelity's two institutional prime funds were 53 percent and 61 percent on March 25th.) Once funds were able to raise their Weekly Liquid Asset percentages sufficiently, the impetus for investors to exit the funds (i.e., concerns about access to operating cash because of a possible redemption gate) disappeared.

Once the market crisis had subsided, Fidelity decided to liquidate our two publicly offered institutional prime funds, effective August 2020. Even though we consistently managed these two funds with significantly more Weekly Liquid Assets than our competitors, these funds still experienced considerable redemptions in March 2020. As competitor funds began to experience declines in Weekly Liquid Assets because of rising redemptions and concerns about the possibility of redemption gates took hold, investors also began redeeming from Fidelity's two institutional prime funds even though the funds held significantly more liquid assets. In light of this investor behavior in times of stress, as well as evolving institutional investor preferences (as evidenced by the decline in institutional prime fund assets since 2016), we decided to exit the institutional prime segment of the money market industry because we can better meet institutional investors' needs with other cash management products.

Experiences of Retail Prime and Tax-Exempt Funds in 2020

We agree with the PWG's assertion that the redemptions experienced by retail prime and tax-exempt money market funds in March 2020 were on a significantly smaller scale than those experienced by institutional prime funds.[18] As noted in the Report and on Attachment 2, net

[16] PWG Report at 17-18.
[17] iMoneyNet daily data as of March 25, 2020.
[18] PWG Report at 15.

outflows of retail prime funds totaled approximately nine percent between March 13th and March 26th.[19] Similarly, assets in tax-exempt funds declined by approximately eight percent over the same period.[20] As discussed in more detail below, the PWG Report seems to conclude that retail prime and tax-exempt funds are in need of further reform solely because net outflows were somewhat elevated. We strongly disagree because the net outflows from retail prime and tax-exempt funds were manageable and caused no significant negative impacts.

As of March 1, 2020, Fidelity managed approximately $133 billion in two retail prime funds. (Assets in these funds have since declined to $92 billion.) At the time, approximately 42 percent of these funds' portfolios were comprised of Weekly Liquid Assets. Competitor funds held Weekly Liquid Assets in the range of 38 percent to 43 percent.[21] Similar to our management of our two institutional prime funds, Fidelity discontinued buying securities with longer maturities in the latter half of March in order to meet redemptions and maintain liquidity levels. As longer-dated securities matured, Fidelity reinvested the proceeds in securities with shorter maturities. This process was orderly, manageable and posed no significant concerns.

As in 2008, retail prime funds were inherently more stable in March 2020 than institutional prime funds. The differences in redemption patterns for retail investors in prime funds and institutional investors in prime funds in March 2020 can be explained by the intrinsic differences between the two groups of investors. As noted above, institutional investors use prime funds as a mechanism to invest operating cash on a short-term basis until such time as the proceeds are needed to fund business operations. These investors prioritize access to their funds and therefore are acutely sensitive to any possibility of a redemption gate serving to block access to their cash even on a temporary basis. Retail investors, on the other hand, display more stable and predictable redemption behaviors than institutional investors in all market conditions. Retail investors normally invest in prime funds for the same reasons that cause individuals to invest in other asset classes – to seek exposure to a particular asset class as one of several investment positions they may hold. As such, the investments tend to be less transitory (i.e., 'stickier') than investments by institutional investors in a prime fund. Because retail investors are less concerned with immediate, unfettered access to cash to fund other priorities, they are also less sensitive than institutional investors to the possibility of a temporary redemption gate in times of market uncertainty.

We acknowledge above that the implementation of the MMLF served to alleviate pressures on institutional prime funds because the facility allowed these funds to increase their percentages of Weekly Liquid Assets sufficiently above the 30 percent threshold such that institutional investors were no longer concerned about the possibility of a redemption gate. We do not think the MMLF had a similar impact on retail prime funds. Redemption levels in retail prime funds were much lower than in institutional prime funds because retail investors hold prime funds as an investment in an asset class, rather than to fund ongoing business operations, and are, therefore, less concerned about the prospect of temporary redemption restrictions. In our view, even without the MMLF, redemptions in retail prime funds were unlikely to reach a

[19] *Id.*
[20] *Id.*
[21] iMoneyNet daily data as of February 28, 2020.

level or pace that would cause liquidity pressures for these funds. Because redemptions did not reach and, in our view never would have reached, significant levels, retail prime funds were able to satisfy investor redemptions without facing any significant liquidity issues.

As the PWG Report notes, a large majority (approximately 90 percent) of tax-exempt money market assets are held by retail funds.[22] Because the investor base in tax-exempt funds is overwhelmingly retail, these funds tend to experience less volatile redemption patterns for the same reasons that retail prime funds tend to be more stable than institutional prime funds. As noted above, retail investors normally display more predictable redemption behaviors than institutional investors and, as a result, assets in retail funds (whether prime or tax-exempt) generally do not fluctuate as much as those in institutional funds. Tax-exempt funds also tend to hold higher amounts of liquidity than prime funds. For example, over half of the assets of tax-exempt funds involve holdings of tender option bonds and variable rate demand notes, both of which qualify as Weekly Liquid Assets. In March 2020, Fidelity's tax-exempt funds held between 60 percent and 97 percent of their assets in Weekly Liquid Assets, while others in the industry were in the range of 52 percent and 100 percent.[23]

While we agree with the PWG Report that tax-exempt funds experienced larger than normal redemptions (approximately 8 percent) in March 2020,[24] we disagree that such redemptions created additional stress in municipal markets. We recognize that market-based net asset values of some tax-exempt money market funds did decrease, but for reasons unrelated to redemptions in these funds. Other investment products (i.e., non-money market funds) holding municipal securities experienced higher than normal outflows, leading these products to sell more securities in the market, which in turn created downward pressure on the valuation of municipal securities. Fund companies, administrators and pricing services were required to consider these market transactions when valuing securities held by tax-exempt money market funds. However, because tax-exempt money market funds maintain such high levels of Weekly Liquid Assets, redemptions had little impact on the funds themselves and on the broader municipal securities market.

Similarities and Differences Between 2008 and March 2020

While there were some aspects of the events of 2020 that were similar to the events of 2008, there were also key differences between the two periods that we encourage the SEC to consider when analyzing potential reform measures. Most importantly, the underlying source of the problems were fundamentally different. In 2008, money market funds, to varying degrees by fund type, came under pressure first and foremost because of a gradual and growing concern about *asset quality in the financial sector*, while in 2020 the health of the financial sector and concerns with asset quality were not at issue.

The asset quality issues that impacted money market funds in the financial crisis began in 2007 with growing concerns about the subprime mortgage market, which ultimately led to

[22] PWG Report at 11.
[23] iMoneyNet daily data as of March 25, 2020.
[24] PWG Report at 15.

significant financial pressures on Countrywide. These asset quality issues continued to build into early 2008 with the eventual collapse of Bear Stearns and its sale to JPMorgan, along with the sale of Countrywide to Bank of America. Lastly, and most significantly, the bankruptcy of Lehman Brothers in September 2008 put significant pressure on prime money market funds, which contributed to the Reserve Fund's inability to maintain a stable $1.00 NAV.

At the time, institutional prime funds priced their shares at the stable $1.00 NAV. As concerns about asset quality continued to grow, institutional prime fund investors were fearful that their funds would be unable to maintain the stable NAV, similar to the experiences of the Reserve Fund. This fear of contagion brought on by concerns with asset quality, coupled with anxieties about the health of the financial sector and the global economy more generally, led institutional prime fund investors to shift assets into government money market funds beginning in early September 2008.

As noted above, the impetus for institutional prime fund investors to shift assets to government money market funds in March 2020 centered on sudden and abrupt concerns about access to liquidity in light of the potential for redemption gates to be applied. Investors were not concerned about the inherent quality of the assets in which their funds were invested nor were they concerned about the stability of the financial system generally. In addition, these investors were not concerned about a deterioration in fund net asset values. In 2008, the fear of 'breaking the buck' served as an accelerant for fund redemptions. Following the SEC's 2014 reforms and the adoption of the floating NAV for institutional prime funds, investors were aware that movements in the fund's NAV were a daily, routine event and had accepted the risk that the NAV could decline when investing in the fund.

That said, once redemptions in institutional prime funds began to accelerate in March 2020 (albeit for fundamentally different reasons), the redemption patterns for the first several weeks were similar to those observed in 2008. As noted above, assets in institutional prime money market funds were significantly greater in 2008 than in 2020. In both crises, however, assets fell by approximately 30 percent in the span of a few weeks. Attachment 2 tracks the percentage changes in assets of various types of money market funds, including institutional prime funds, over the 90-day periods beginning on September 10, 2008 and March 10, 2020. In both periods, there was a concentrated wave of redemptions from institutional prime funds that placed pressure on fund liquidity. Between September 16, 2008 (the day after Lehman Brothers filed for bankruptcy protection) and September 21, 2008 and between March 16, 2020 and March 21, 2020, percentage declines in institutional prime fund assets were nearly identical.

These sudden and dramatic redemptions placed pressure on liquidity in institutional prime funds, as fund managers had to adjust portfolios in order to satisfy redemptions. While institutional prime funds maintained significantly greater levels of liquidity in 2020 than in 2008 (because of the SEC's 2010 and 2014 reforms), the fear of a redemption gate being applied in 2020 in effect muted any benefits such higher levels of liquidity would have otherwise provided.

IV. REFORM OPTIONS

The PWG Report includes ten possible policy measures for further reform of the money market fund industry. We are encouraged that the PWG Report does not suggest that any of these measures should be applied to government money market funds. That said, while some of the measures are new and, in our view, share at least some nexus to the events of March 2020, we are disappointed that the PWG chose to include several options that lack any connection to the events of 2020 as well as several options that had been considered and rejected in prior reform efforts. In the remainder of this letter, we organize our discussion of the various options by distinguishing between (i) those options that, if properly constructed, could successfully address the liquidity issues that were the central factor in the stresses experienced by money market funds in 2020 and (ii) those options, such as the liquidity exchange bank, adopting a floating NAV for some funds, capital buffers, explicit sponsor support, minimum balance at risk or swing pricing, that either are unworkable or would have had no discernible impact (or both) in preventing the stresses that occurred in 2020 had they been in place at the time.

Government Money Market Funds Should Be Excluded from Further Reform

The PWG states that the Report is intended to facilitate discussion about possible reform options.[25] The Report is clear that the PWG would consider these measures for prime and tax-exempt money market funds only and does not imply that changes are warranted (or even contemplated) for government money market funds.[26] We agree strongly that government money market funds should be excluded from further rounds of reforms. Following the amendments to Rule 2a-7 adopted in 2010 and 2014, we believe that further restrictions on, or changes to the structure of, government funds are unnecessary.

In our experience, government money market funds have served as a stable, attractive investment in calm financial markets and as a safe haven in times of market uncertainty. As noted above, in both 2008 and in 2020, government funds experienced significant inflows and performed well. In particular, the prior amendments to Rule 2a-7 virtually guaranteed that these funds not only would be immune from the pressures that affected institutional prime funds in 2020, but also would be viewed as the safest, most liquid investment option for many investors. Rule 2a-7 now requires that government funds invest at least 99.5 percent of their total assets in cash, U.S. government securities or fully collateralized repurchase agreements.[27] Government securities are inherently stable and are generally perceived to have the lowest credit risk and the greatest liquidity among all securities traded in U.S. debt markets. In light of the strong and consistent record of government money market funds performing well in all market conditions coupled with the robust regulatory regime already in place, the consideration of policy measures for the money market fund industry need not, and should not, include additional measures for government funds.

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[25] *Id.* at 5.
[26] *See, e.g.*, PWG Report at 4.
[27] Rule 2a-7(a)(14). The definition of a government security is set forth in Section 2(a)(16) of the Act.

Policy Measures Should Focus on Institutional Prime Funds

The PWG Report asserts that policy measures should be considered for retail prime and tax-exempt funds in addition to institutional prime funds. The Report implies that because percentage declines in assets of retail prime funds were greater in 2020 than in 2008 (nine percent versus five percent) and roughly equal for tax exempt funds (eight percent versus seven percent), it must necessarily be the case that further reforms are needed. We believe this is an insufficient justification for additional policy measures for these funds.

Based on our experiences managing both retail prime and tax-exempt funds, redemptions in these funds presented no material issues. As noted above, retail investors (whether in prime or tax-exempt funds) normally exhibit more predictable redemption behaviors than institutional investors in both normal markets and in periods of uncertainty. Retail money market fund investors are not funding business operations and, therefore, do not require frequent, large redemptions. As a result, assets in retail money market funds do not fluctuate as often as or as much as assets in institutional money market funds. Even in times of stress (such as March 2020), outflows are lower to a degree such that fund managers can manage liquidity in these funds without significant concerns. In March 2020, Fidelity and other fund managers were able to meet redemptions in the ordinary course of business and the funds were under significantly less pressure than institutional prime funds.

Given the sharp differences between the experiences and investor characteristics of institutional prime funds on the one hand and retail prime and tax-exempt funds on the other, the SEC should narrowly focus reform efforts on institutional prime funds, which, as mentioned above, now represent only a small portion of the overall industry. In our view, there is little factual basis to support the application of reform measures to any money market funds other than institutional prime.

Should the SEC determine that reforms for retail prime or tax-exempt funds are warranted, though we disagree, we encourage the SEC at a minimum to calibrate the application of any reform measures by fund type based on the stresses experienced in 2020. For example, as we discuss further below, if the SEC believes that required Weekly Liquid Asset percentages should be adjusted upward, we would argue that the requirements for institutional prime funds should be higher than for retail prime or tax-exempt funds. Applying uniform requirements on institutional prime, retail prime and tax-exempt funds could unnecessarily penalize retail prime and tax-exempt funds, thus impeding the operations of these funds and reducing their value to investors, which in turn could negatively impact the broader markets in which the funds invest.

Reform Measures that May Successfully Address 2020 Liquidity Pressures

As discussed throughout this letter, the events of 2020 involved concerns about *liquidity* rather than asset quality. As a result, only policy measures that address liquidity can hope to meet the PWG's stated goal of addressing structural vulnerabilities in money market funds that contributed to stress in the short-term funding markets in 2020. In this section, we discuss the three reform options enumerated below. We believe each of these options is at least intended to manage potential liquidity concerns, which was the key vulnerability that surfaced during the events of March 2020. If constructed properly, these measures have the potential to solve the structural vulnerability in institutional prime funds that became apparent in March 2020 and warrant further consideration by the SEC:

- Removal of Tie between Money Market Fund Liquidity and Fee and Gate Thresholds
- Money Market Fund Liquidity Management Changes
- Countercyclical Weekly Liquid Asset Requirements

1. Removal of Tie between Money Market Fund Liquidity and Fee and Gate Thresholds

As discussed above, the events of March 2020 brought to light one area of vulnerability in the structure and regulation of money market funds. The strict requirement in Rule 2a-7 for boards of institutional prime funds to consider whether to impose a redemption gate when Weekly Liquid Assets fall below 30 percent served to accelerate net outflows from these funds as Weekly Liquid Asset percentages (which began the month in the 35 to 40 percent range) started to decline. The concern among investors in institutional prime funds about losing unfettered access to their operating cash had the unintended effect of contributing to the very liquidity pressures that the fee and gate provisions in Rule 2a-7 were originally intended to solve.

To eliminate this structural vulnerability as well as reduce the pressures that institutional prime funds can place on the short-term funding markets and the likelihood of government intervention in the future, we support removing the enumerated Weekly Liquid Asset thresholds for the consideration and imposition of fees and gates. We agree with the PWG that this change could improve the usability of the Weekly Liquid Asset buffers.[28] In our experience, institutional prime funds currently lose any benefit from investing roughly 30 percent of their holdings in Weekly Liquid Assets – this threshold essentially becomes a floor rather than a buffer. Already, investment advisers are compelled to manage institutional prime funds with some buffer above the 30 percent threshold. As noted above, for most institutional prime funds this is normally in the range of 35 to 40 percent, while at Fidelity it was consistently above 45 percent. Investment advisers view this additional buffer as the true liquidity available to fund redemptions. Removing the set thresholds would provide investment advisers the flexibility to deploy more effectively the significant amount of liquidity built into their holdings that qualify as Weekly Liquid Assets.

We also agree with the PWG's assertion that such a change, "…would reduce the salience of these thresholds and could diminish the incentive for preemptive runs."[29] By not having such a set threshold, especially for the board's consideration of whether to impose a redemption gate, investors will no longer feel compelled to exit the fund preemptively at the first sign that a fund's Weekly Liquid Assets are beginning to decline. Because the current 30 percent threshold serves as such a seminal marker for institutional prime fund investors, it drives redemption behavior in a manner that, as we witnessed in 2020, can create liquidity pressures in

[28] PWG Report at 23.
[29] *Id*.

these funds. Removing the link between the 30 percent threshold and the redemption gate would reduce the importance of the threshold as a factor in driving investor redemption patterns.

The PWG Report notes that the proposal could create issues for funds in managing significant redemptions if funds maintain Weekly Liquid Asset levels closer to 30 percent as a result.[30] As noted above, the proposal would provide investment advisers greater flexibility to deploy the liquidity inherent in Weekly Liquid Assets. In our view, the risks of funds maintaining Weekly Liquid Asset levels closer to 30 percent are considerably less than the risks posed by accelerating redemptions from institutional prime funds in times of market uncertainty, which the 30 percent threshold currently creates.

2. Money Market Fund Liquidity Management Changes

If the SEC is concerned that funds will systematically decrease their Weekly Liquid Asset levels closer to 30 percent if this threshold for the board's consideration of fees and gates is removed, the SEC could couple the elimination of the threshold with a new mandate that institutional prime funds also maintain higher percentages of Weekly Liquid Assets. In fact, we believe that this combination of reforms to the regulation of institutional prime funds would most effectively meet the PWG's three goals of eliminating structural vulnerabilities in money market funds, improving the resilience of the short-term funding markets and reducing the likelihood of government intervention in the future.

Removing the threshold for the board's consideration of fees and gates while also raising the percentage of Weekly Liquid Assets that funds are required to maintain could reduce significantly the risk that institutional prime fund investors will redeem en masse in times of market uncertainty to ensure unfettered access to their cash. While we acknowledge that further analysis is needed on the precise level of Weekly Liquid Assets that institutional prime funds should be required to maintain, in our view, the level can be set in such a fashion that curtails the incentive for institutional investors to redeem in times of market uncertainty.

We disagree with the contention in the PWG Report that higher Weekly Liquid Asset requirements "…may provide funds only a little extra time during a run." The primary purpose of these requirements is not necessarily to provide funds with more time *during* a run, but to remove the propensity for a run to begin. If institutional prime fund investors are sufficiently comfortable with higher amounts of liquidity, the incentive for institutional investors to redeem will be significantly reduced even in periods of market uncertainty. Sufficiently high levels of Weekly Liquid Assets would provide institutional investors a degree of certainty that a redemption gate is unlikely to be imposed, thus eliminating the primary catalyst for a run to begin.

If the SEC does not pursue removing the strict 30 percent threshold for the board's consideration of fees and gates, we nonetheless believe that higher Weekly Liquid Asset requirements could be effective. In such a scenario, however, it is imperative that the SEC not merely raise the threshold for the board's consideration of a fee or gate from 30 percent to the

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[30] *Id*.

new higher level. Such a change would perpetuate, rather than solve, the structural vulnerability in institutional prime funds that became apparent in 2020. Institutional investors would have the same incentives to redeem from prime funds at the first sign that a redemption gate could be imposed, just at that higher level. Instead, if the SEC maintains the 30 percent threshold for the board's consideration of fees and gates, the new, higher requirement for Weekly Liquid Assets should be in addition to the existing requirements in Rule 2a-7. In effect, the new higher level would create, by regulation, a buffer above the 30 percent threshold.

While the PWG Report identifies higher Weekly Liquid Asset requirements as a possible reform measure, it proposes to couple these requirements with punitive measures affecting fund managers.[31] For example, if a fund experiences a decline in Weekly Liquid Assets below the new requirement, the Report states that management fees could be put in escrow until such time as the fund's Weekly Liquid Assets are restored. We view this extreme measure as both unnecessary and likely to generate further unintended consequences on money market funds.

Rule 2a-7 already includes a mechanism for correcting shortfalls in Weekly Liquid Assets. Under Rule 2a-7(d)(4)(iii), a fund may not acquire a security that does not qualify as a Weekly Liquid Asset if, immediately after the acquisition, the percentage of Weekly Liquid Assets would be below 30 percent. The SEC could easily amend this provision to include the new level of Weekly Liquid Assets. In other words, if a fund fails to meet the new, higher Weekly Liquid Asset requirement, the fund would be required to resolve the shortfall by purchasing only securities that qualify as Weekly Liquid Assets. As a matter of regulatory policy, this self-correcting mechanism is a simple, effective means for ensuring compliance.

Furthermore, investment advisers already have sufficient incentive to guard against declines in Weekly Liquid Assets. As noted above, institutional investors are acutely aware of the Weekly Liquid Asset percentages of the prime funds they hold and will react by redeeming from those funds if the percentages begin to decline. In light of the competitive nature of the money market fund business and the ease and speed by which institutional investors can redeem from prime funds, investment advisers do not need a punitive measure such as a holdback of management fees in order to be compelled to comply with a Weekly Liquid Asset requirement. In addition, we agree with the PWG Report's contention that measures that are designed to punish the investment adviser if a fund's Weekly Liquid Assets fall below the new percentage likely would make funds "…less comfortable in deploying their liquid assets in times of stress."[32] In addition to decreasing the incentive to redeem, the higher buffer would provide funds with a larger amount of liquidity that can be deployed if redemptions tick up in times of market uncertainty but without triggering the run that can happen when the fear of a gate takes hold. Creating an incentive for fund managers not to deploy the extra buffer of liquidity in times of stress would defeat the very purpose of requiring the higher liquidity level.

Lastly, we are not aware of any other situation in which the SEC imposes a direct and immediate fine or other financial penalty on either a mutual fund or its investment adviser if a violation of a SEC rule occurs. We acknowledge that the Division of Enforcement plays an

[31] *Id.* at 26.
[32] *Id.* at 27.

important role in protecting the interest of fund investors by bringing civil suits and administrative proceedings for violations of the federal securities laws, which can result in fines on funds and investment advisers. That is different, however, from creating explicitly in a rule a mechanism to levy a financial penalty on a fund or adviser automatically if a provision of that rule is temporarily breached. As a matter of regulatory policy, such a mechanism is inconsistent with the manner in which the SEC compels compliance with all other provisions of the Act and its rules.

As discussed in detail above, the stresses experienced by the money market fund industry in March 2020 were concentrated in institutional prime funds and we disagree with the contention that reforms are needed for retail prime and tax-exempt funds. That said, we recognize that the PWG Report implies otherwise. If the SEC imposes higher Weekly Liquid Asset requirements on institutional prime, retail prime and tax-exempt funds, the new percentages should be calibrated by fund type. Based on the redemption behaviors of investors in both calm markets and in times of market uncertainty (most notably, March 2020) as well as the inherent differences in how retail and institutional investors view their money market fund investments, the requirements for institutional prime funds should be higher than for retail prime or tax-exempt funds. We strongly encourage the SEC to not impose the same higher percentage in a uniform manner on each of the three types of funds. Depending on the percentage chosen, such an approach could either impose a requirement on institutional prime funds that would be too low and insufficient to alleviate the stresses that institutional prime funds experienced in March 2020 or require retail prime and tax-exempt funds to maintain unnecessarily high levels of Weekly Liquid Assets (i.e., a level sufficient to solve vulnerabilities in institutional prime funds).

3. Countercyclical Weekly Liquid Asset Requirements

In the Report, the PWG discusses a policy measure in which Weekly Liquid Asset requirements could decrease during periods of high net outflows or when the SEC provides temporary relief. We agree with the basic premise of this measure – namely, that funds were unable or unwilling to use the liquidity built into the 30 percent Weekly Liquid Asset requirement during March 2020 out of concerns "about the potential imposition of fees or gates."[33] As discussed above, the potential for a gate to be imposed, even if remote, served as an accelerant of outflows from institutional prime funds in March 2020. By lessening the strict application of the 30 percent threshold in certain circumstances, such a proposal could lessen the propensity of institutional investors to redeem from prime funds when Weekly Liquid Asset percentages begin to decline.

In our view, this is an alternative means of seeking the same outcome that the proposal to remove the direct link between liquidity percentages and the board's consideration of fees and gates is intended to achieve. In both cases, we agree with the PWG that the proposal could reduce the "salience" of the 30 percent Weekly Liquid Asset Threshold and improve funds' ability to deploy liquid assets when needed.[34] In addition, because a countercyclical Weekly Liquid Asset requirement is in principle intended to address the liquidity concerns that were the

[33] *Id*.
[34] *Id.* at 23 and 27.

central factor in the stresses experienced in March 2020, we believe that the proposal deserves further consideration.

In analyzing the potential details of such a proposal, we caution the SEC against proposing bright line triggering events for when the Weekly Liquid Asset requirements would decrease. Such triggers run the risk of recreating the same structural vulnerability and run dynamics that currently exist in institutional prime funds because of the 30 percent threshold for a board's consideration of fees and gates. For example, we would object to this proposal if the reduction in the Weekly Liquid Asset requirement is not automatic and instead is based on official action from the SEC. If the SEC were to adjust the Weekly Liquid Asset requirement downward, such a move could signal to investors that the SEC is concerned about redemptions, which itself likely would serve as a triggering event for redemptions. In addition, if Weekly Liquid Assets begin to decline, institutional investors may immediately begin redeeming from prime funds out of a concern about *whether* the SEC will reduce the Weekly Liquid Asset requirements or not. Rather than accept the risk that the SEC does not take action, these investors may simply redeem as Weekly Liquid Assets start to decline. If so, then the proposal would not solve the structural vulnerability in institutional prime funds that became apparent in March 2020.

Reform Measures that are Unworkable and/or have No Applicability to Events of March 2020

The remaining options discussed in the PWG Report either are unworkable for a variety of reasons or would not solve for the liquidity-related vulnerabilities in institutional prime funds that manifested themselves in March 2020. We strongly encourage the SEC and the other members of the PWG to discard each of these potential measures from further consideration. Even if these measures are unlikely to be adopted, the mere inclusion of these measures in the reform dialog unnecessarily diverts attention away from the consideration of those measures that could serve to meet the PWG's three stated goals while also preserving the features of the money market fund industry that have made it so important to investors, to the short-term funding markets and to the financial system generally. In the remainder of this letter, we address each of the following policy measures.

- Reform of Conditions for Imposing Redemption Gates
- Require Liquidity Exchange Bank Membership
- Capital Buffers and New Requirements Governing Sponsor Support
- Floating NAVs for All Prime and Tax-Exempt Money Market Funds
- Minimum Balance at Risk
- Swing Pricing Requirement

1. <u>Reform of Conditions for Imposing Redemption Gates</u>

In this category, the PWG Report raises a number of different possible measures, such as requiring SEC notice or approval before a fund imposes a redemption gate, requiring boards to consider imposing fees before gates or adopting "partial gates" in which a fund would reduce on a pro rata basis all redemptions on a particular day when redemptions exceed a set amount (which we view as somewhat analogous to swing pricing but with gates instead of fees).[35] While we appreciate that these proposals are at least intended to address a topic (i.e., redemption gates) that was a key component of the events of March 2020 and perhaps to facilitate further dialog about the vulnerabilities in institutional prime funds that the current gate requirements can create, we do not believe that any of these measures is likely to be an effective long-term solution.

For example, we do not see how requiring SEC notice or approval before a fund imposes a gate would serve to alleviate in any meaningful way the concerns that institutional investors have with the potential for a gate when Weekly Liquid Assets begin to decline. The proposal to require a board to consider liquidity fees before gates is based on the premise that institutional investors have greater concerns with the latter than with the former. Liquidity fees are also a concern. Although the specter of a redemption gate is more troubling than a liquidity fee, institutional investors also would prefer not to be assessed a fee if possible.

The liquidity offered by a money market fund has always been the key defining characteristic that sets it apart from other types of mutual funds. The various elements of Rule 2a-7, such as requirements regarding portfolio quality, portfolio maturity, diversification, stress testing and board oversight, are designed to provide investors the ability to manage the most liquid part of their investment portfolios. Money market funds provide investors access to their cash either same day or next day, while still offering all of the other benefits that the mutual fund structure affords. With a click of a button and at no cost, investors can easily redeem their money market fund investments and move their cash elsewhere. As we saw in both 2008 and in March 2020, government money market funds often serve as the beneficiaries when institutional prime investors redeem.

Given investors' ability to redeem so easily and at no cost, there is no incentive for an institutional investor to remain in a prime fund and face the prospect of a liquidity fee as Weekly Liquid Assets begin to decline. While redemption gates may be more troubling than liquidity fees, institutional investors have no reason to accept the risk of either occurring. When markets are calm and the chance of either mechanism being deployed is negligible, these investors prefer the slight yield advantage that an institutional prime fund offers. At the first sign of either a fee or gate, that yield advantage is not enough to justify remaining in the fund. In light of the inherent liquidity features of a money market fund, which is the key feature that investors seek when making their investments, we do not believe that the various options for reforming the conditions for imposing a redemption gate listed in the Report would effectively solve the structural vulnerability in institutional prime funds and would not meet the PWG Report's three stated goals of reform.

2. Require Liquidity Exchange Bank Membership

The PWG proposes in the Report that prime and tax-exempt money market funds could be required to be members of a private liquidity exchange bank ("LEB") that would be structured as a chartered bank and purport to serve as a liquidity backstop during periods of market stress

[35] *Id.* at 24.

for its members.[36] Although the objective of this reform option is to address liquidity challenges experienced by some money market funds during periods of market stress, the proposal is an unnecessarily complex and costly means to provide additional liquidity to funds. We strongly agree with the numerous drawbacks, limitations, challenges and additional considerations that the PWG Report has catalogued with respect to this option, which we believe outweigh the few unverified benefits that are stated in the report.[37] In addition, policy makers have acknowledged in prior rounds of money market fund reform the many challenges with establishing an effective LEB, which ultimately makes such a proposal unworkable.[38]

As noted above, it became apparent in March 2020 that institutional prime funds are unable to deploy in any meaningful manner the 30 percent Weekly Liquid Asset buffer required by Rule 2a-7 because of concerns by institutional investors that a redemption gate could be imposed. The most effective means for solving this vulnerability is to remove the strict tie between liquidity percentages and the consideration of fees and gates, coupled with requiring funds to increase the percentages of their holdings in Weekly Liquid Assets. Doing so would require each fund to solve for itself the potential liquidity challenges that fund could face in times of market stress. The LEB on the other hand would impose a complex structure in which each fund's success in handling liquidity challenges in times of stress could be dependent on the behavior and liquidity characteristics of other funds as well as the amount of capital available at the LEB at the time such capital needs to be deployed.

The effectiveness of the LEB option at preventing runs is called into question by the PWG Report, which acknowledges there will be limits on the capacity of the LEB to absorb assets especially during periods of stress.[39] Even worse, a LEB's reported lack of capacity could serve to accelerate runs, thereby undercutting the PWG's goals for reform.[40] If investors in institutional prime funds in particular perceive any risk that the resources available for the LEB to deploy are insufficient, there is little incentive for those investors to remain in prime funds as Weekly Liquid Assets begin to decline. We anticipate that these investors will not accept this risk and, as they did in March 2020, will instead shift their investments into government funds.

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[36] *Id.* at 31.
[37] *Id.* at 32-33.
[38] *See, e.g.*, Money Market Fund Systemic Risk Analysis and Reform Options Consultation Report, Technical Committee of the International Organization of Securities Commissions, 27 April 2012, at 32, available at https://www.iosco.org/library/pubdocs/pdf/IOSCOPD379.pdf. (noting "the attendant challenges with establishing an effective facility may render the option unworkable. …for a liquidity facility to be effective, its structure and operations would have to be carefully designed to ensure that the facility has sufficient capacity during a crisis and that the facility itself is not vulnerable to runs. A depleted facility could trigger or amplify a run on MMFs. Sufficient capacity likely would only be possible through discount window access, as the MMF industry may not be able to raise sufficient capital without undue leverage. However, discount window access may raise complicated policy considerations.").
[39] PWG Report at 32-33. ("The LEB would need significant capital to both be in a position to provide meaningful liquidity for MMFs in stress events and be seen as a credible liquidity backstop. Building adequate capacity from MMF income could take several years, particularly in a low interest rate environment. Moreover, the need to comply with applicable leverage-based capital requirements on a continuous basis – even during periods of peak usage under stress – could render the LEB's lending capacity insufficiently robust in extremis")
[40] *Id*. at 33.

We also agree with the PWG Report that the creation of a LEB by money market funds and their sponsors would invite bank regulation of money market funds and their capital markets activities, create moral hazard by forcing more responsible funds to bear the costs of supporting less responsible funds,[41] and carries with it all the complexity (including infrastructure complications and cost problems) that capital buffers would entail if implemented.[42] For example, we believe that regulating money market funds as banks is misguided and inappropriate. There are significant differences between banks and money market funds, and each plays an important, but distinct, role in the short-term funding markets and the financial system as a whole. Transforming money market funds into banks presents insupportable challenges that the PWG Report agrees will raise "complex governance and fairness concerns," and "favor large and bank-affiliated sponsors," causing others to exit the industry, increase industry concentration, and "reduce yields for investors."[43]

3. Capital Buffers and Sponsor Support Requirements

The PWG suggests options such as capital buffers (structured in a variety of ways) or explicit sponsor support as potential resources to supply liquidity or absorb losses and fluctuations in the value of a money market fund's portfolio in the event of stress.[44] While these options may create loss absorption capacity and a loss sharing mechanism for fluctuations in the value of assets as a result of asset quality or credit events in the financial markets, these options do not address the management of liquidity pressures and would not have remedied the issues experienced by a subset of money market funds in March 2020. These reform options would also alter fundamentally the money market fund model by requiring fund families to provide a level of insurance on the funds they manage – a concept that is counterintuitive to the structure of mutual funds, including money market funds, whereby fund investors and not fund sponsors, own the funds they invest in and share in the risks and rewards of the securities held by the fund.

Capital buffers and sponsor support are simply not economically feasible for sponsors of money market funds (including large sponsors). Money market funds are already a low revenue business for fund sponsors, in comparison to other investment products. Requiring sponsors to take on a financial burden to support these types of funds will likely result in fund sponsors limiting, or exiting altogether from, these products, which would be detrimental to investors and the capital markets by forcing investors to less regulated products and reducing the availability of money market funds as funding sources. The PWG acknowledges that sizable capital buffers are costly to finance, challenging to calibrate, and take substantial time to build to adequate levels, particularly in a low interest rate environment.[45] While in theory, advisers could seek to pass along to investors the cost of providing a capital buffer to absorb investment risks (with the approval of investors in the funds), in a very low interest rate environment, doing so would raise

[41] *Id.* at 32. ("Access to the LEB backstop during times of market stress, without further consideration of risk management measures, could have moral hazard effects that motivate some funds to take greater risks in the less-liquid parts of their portfolios.")
[42] *Id.*
[43] *Id.* at 33.
[44] *Id.* at 30.
[45] *Id.* at 31.

fund expense ratios, dropping net returns below zero, thus making the product unattractive for both investors and sponsors.[46] The PWG also acknowledges that capital buffers, however structured, would be complex and unnecessarily costly to implement,[47] which would place a further drag on a fund's yield, and could unfairly disadvantage current investors, who would disproportionately bear the negative impacts of the capital buffer while it is being created, to the benefit of future investors.[48]

In any case, we do not believe that capital buffers or sponsor support would have affected investor behavior during March 2020, which resulted from a drive for liquidity, not credit or asset quality concerns in funds. As discussed above, in times of market stress, as borne out in March 2020, institutional investors shift their assets from institutional prime funds into government funds to preserve their unfettered access to cash when needed, and are willing to forego the slight yield advantage of a prime fund to ensure they can access their cash when needed to fund business operations. Capital buffers would not have prevented or reduced in any way the wave of redemptions from institutional prime funds in March 2020 because, as noted above, these investors were not concerned about asset quality but rather the potential for losing access to their cash because of redemption gates being applied. The extra amount of capital that a buffer would provide has no bearing on the liquidity available in a fund to meet redemptions.

Furthermore, even if the events of March 2020 had involved asset quality issues, institutional prime funds already operate with a floating NAV, which effectively addresses asset quality in a manner analogous to capital buffers. A capital buffer is intended to provide a cushion against a stable NAV fund breaking the buck when the fund's underlying market value NAV begins to deteriorate because of asset quality issues. As the value of the securities in a fund declines, the buffer (in theory at least) serves to delay or prevent the fund's NAV from decreasing to the point that the fund can no longer maintain the stable NAV. In an institutional prime fund, however, investors routinely experience fluctuations in a fund's NAV driven by changes in the valuation of the fund's holdings. By investing in the fund, these investors have already accepted the risk of NAV fluctuations, which are a normal, daily occurrence. When decreases in the NAV of a floating NAV fund occur, the investor is experiencing a deterioration in the investor's capital in that fund. In addition to the significant challenges detailed above, there would be no reason to require a capital buffer for institutional prime funds in order to prevent NAV fluctuations and such a buffer would have no bearing whatsoever on whether investors redeem because of rising concerns with a fund's liquidity.

4. <u>Floating NAVs for All Prime and Tax-Exempt Money Market Funds</u>

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[46] Particularly in the current very low interest rate environment where advisors are already waiving, voluntarily, billions of dollars in fees to maintain positive yield in the money market funds, adding additional costs that would serve to reduce yield is ill-advised.
[47] PWG Report at 31. ("Calibrating the appropriate size for a capital buffer could be a challenge; MMFs would continue to be vulnerable if the buffer is too small, but one that is too large would be unnecessarily costly.").
[48] Depending on how the capital buffer is structured (whether as sponsor-provided capital or as a subordinated share class which requires shareholder approval to enact), which the PWG Report does not specify, there are potentially a host of other accounting, administrative, tax and legal issues that fund sponsors and investors may face.

As detailed above, Fidelity strongly urges that any reform options pursue a narrowly tailored approach to address a clearly defined problem, namely, the structural vulnerabilities in institutional prime funds posed by the current fee and gate thresholds in Rule 2a-7. Expanding floating NAVs for all prime and tax-exempt money market funds, based on the events in March 2020, would not accomplish the PWG's three stated goals for reform.

The PWG Report correctly acknowledges that institutional prime money market funds with floating NAVs "still experienced runs in March," that "floating NAVs do not prevent runs," and that a floating NAV requirement would not affect institutional money market funds "which have historically been the most vulnerable to runs but already have floating NAVs." [49] Simply put, a floating NAV was not effective in addressing the liquidity issues experienced in March 2020 and there is no reason to consider expanding it to all prime and tax-exempt money market funds. As noted above, we disagree with the PWG's contention that reform measures should be considered for retail prime and tax-exempt funds, redemptions from which posed no significant concerns in March 2020. That said, if the PWG pursues reforms for these funds, we fail to see how adopting a floating NAV for all prime and tax-exempt funds would address liquidity in these funds or improve the resiliency of the product in any way. Because the floating NAV did not prevent outflows in institutional prime funds in March 2020, there is no plausible justification for now requiring a floating NAV for retail prime and retail tax-exempt funds.

5. Minimum Balance at Risk Requirement

Fidelity also strongly opposes policy measures implementing a minimum balance at risk (MBR) requirement, which is essentially a continuous redemption restriction. The PWG Report correctly identifies the fatal flaws of an MBR which includes "implementation and administration challenges" for funds, intermediaries, and service providers due to the need to convert existing systems to calculate, restrict, and holdback the MBR, inequitable treatment for investors in stable NAV and floating NAV funds, calibration challenges, and investor confusion.[50] We also believe that application of an MBR requirement to money market funds will alter the product significantly and drive investors and intermediaries away from money market funds to unregulated or less-regulated investment options, causing disruption to the short-term financing markets.

There are serious operational and legal challenges to implementing an MBR-type mechanism that extend beyond the control of money market funds to intermediaries and service providers who would need to undertake intricate, and costly system changes to be able to calculate, restrict, and holdback the portion of an investor's shares to comply with the MBR. The exorbitant costs associated with the operational and technology changes required under the MBR approach would discourage fund sponsors, intermediaries, and service providers from remaining in the money market fund business and would drive investors to other products that do not impose continuous redemption restrictions. The MBR framework poses particular challenges for intermediaries that establish omnibus accounts for underlying investors in money market funds, including banks, broker-dealers, trust companies, and retirement plan sponsors. In these

[49] PWG Report at 29.
[50] *Id.* at 25.

cases, the allocation of shares and trades across underlying investors is not always transparent or available to the fund, creating additional obstacles to reporting the size and balance of MBRs to the underlying investor.

The PWG Report also identifies potential legal impediments to enacting a "strong form" MBR requirement, which would require a conversion of existing money market shares, or issuance of new subordinate shares, to avoid state law limitations on allocating losses to different shares within a single share class.[51]

The significant obstacles detailed above far outweigh any purported benefits that an MBR requirement would provide. Although the PWG Report suggests that a "strong" MBR could make money market funds more resilient by internalizing the liquidity costs of investors' redemptions, thereby reducing or eliminating the first-mover advantage, there is no data or analysis supporting this theory. To the contrary, the PWG Report acknowledges that calibrating an effective MBR "could be a challenge" since an MBR that is too small may not create sufficient disincentives to redeem, but one that is too large "would unnecessarily reduce the liquidity of the fund's shares."[52] Further, *assuming* that an effective MBR requirement could be determined, and *assuming* that the overwhelming operational challenges could be overcome, whether an investor would even understand the functioning of the MBR for it to achieve its purported goals is uncertain at best. Indeed, the PWG Report recognizes that the MBR is an unfamiliar concept in the fund industry and "may result in discomfort or confusion, particularly when it is first introduced."[53]

Enacting an MBR requirement will alter significantly one of the simplest and well understood financial products available today and result in unintended consequences for the product and potentially the short-term funding markets more broadly. Rather than limiting redemptions, investors will arguably be more likely to redeem in times of stress in order to avoid the draconian impact of the MBR. Or they will invest less, or stop investing altogether in money market funds, in favor of other products where their investment is not "locked up" in stable or stressed times. Neither of these results effectively advance the overarching goals for money market reform and therefore weigh strongly against an MBR requirement.

6. Swing Pricing Requirement

The PWG Report also identifies as a potential reform option for money market funds the use of swing pricing, a process of adjusting the fund's NAV to pass on to purchasing or redeeming investors certain of the costs associated with their trading activity. Under swing pricing, a fund would adjust its NAV per share by a "swing factor" once the level of net purchases into, or net redemptions from, the fund exceeds a predetermined swing threshold. On a day when there are net redemptions from a fund, the NAV would be swung down to reflect transaction costs associated with trading activity, resulting in redeeming investors receiving a lower NAV. The PWG Report postulates that imposing transaction costs stemming from

[51] *Id.*
[52] *Id.* at 26.
[53] *Id.*

redemptions directly on redeeming investors will eliminate the first-mover advantage and reduce outflows during market stress.[54]

Fidelity does not believe that the application of swing pricing to money market funds would have reduced or eliminated redemption activity during the events of March 2020. As discussed throughout our letter, consideration of any potential reform option must begin with an assessment of its effectiveness in addressing the liquidity related stresses that occurred in March 2020. The PWG Report theorizes that by internalizing the costs of redemptions, swing pricing will reduce or eliminate the first mover advantage for redeeming investors. With respect to mutual funds generally, we do not understand how the practice of swing pricing – which is dependent on redemption activity unknown to investors at the time they are seeking to redeem – can serve to dissuade this same behavior. This circular logic is even more tenuous in the case of money market funds where transaction costs resulting from redemption activity that determine the "swing factor" are negligible.

In a sense, swing pricing operates similar to a redemption fee, which money market funds are already permitted to impose on investors under the SEC's 2014 reforms[55] but which proved ineffective in limiting outflows from institutional prime funds in March 2020. We do not believe that the application of an additional "fee" for transaction costs through the use of swing pricing – which will be significantly less than those already permitted under the 2014 reforms – will impact investor behavior, especially institutional investors, who accounted for the largest percentage outflows from funds in March 2020. The events of March 2020 demonstrated that in times of market stress, institutional investors prioritize access to cash over all else. This was reflected in the rapid shift of assets from institutional prime funds to government funds stemming from concerns over potential gates rather than concerns relating to yields. Imposition of an additional, relatively insignificant fee will not be effective in slowing or eliminating redemptions by these same investors.

The PWG Report cites other disadvantages of swing pricing that preclude its further consideration as a reform option, including the inability to design and calibrate an effective swing pricing mechanism "especially during stress events," and more volatile NAVs that would make its "shares less cash-like," reducing the attractiveness of the product for investors.[56] Concerns about money market fund investors' sensitivity to NAV volatility was also identified by the SEC as a factor in declining to permit the use of swing pricing for money market funds, while making it optional for other mutual funds in its November 2016 rulemaking.[57] In its

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[54] *Id.* at 29-30.

[55] *See* PWG Report at 8. (The SEC's 2014 reforms provided money market funds and boards the ability to impose redemption fees of up to 2 percent, or to temporarily suspend redemptions if the fund's weekly liquid assets fell below the minimum required. The SEC's 2014 reforms also permitted funds to impose an additional 1 percent liquidity fee if weekly liquid assets fall below 10 percent of total assets, unless the fund's board determines that imposing the fee is not in the best interests of the fund.)

[56] *Id.* at 22.

[57] *Investment Company Swing Pricing*, Release Nos. 33-10234, IC-32316, 81 FR 82084, at 25 (Nov. 18, 2016), available at https://www.sec.gov/rules/final/2016/33-10234.pdf ("Swing Pricing Adopting Release") (permitting mutual funds, except money market funds and ETFs, to use "swing pricing" under Rule 22c-1 under the Investment Company Act of 1940).

Swing Pricing Adopting Release, the SEC further reasoned that money market funds' already extensive liquidity requirements and ability to impose a liquidity fee for redemptions "serve a similar purpose as the NAV adjustments contemplated by swing pricing."[58] These liquidity requirements, the SEC concluded "could accomplish comparable goals to swing pricing" and are a "more appropriate tool for money market funds to manage the allocation of liquidity costs than swing pricing."[59]

At the time, the SEC decided to make swing pricing optional for mutual funds (other than money market funds) and provided a two-year extended effective date due to the lack of existing infrastructure and substantial operational challenges that made mandatory adoption virtually impossible.[60] Nothing has changed in the intervening years to address, or remove, the obstacles to using swing pricing for mutual funds. Indeed, the PWG Report identifies the need for "substantial reconfiguration of current distribution and order-processing practices" as a drawback to implementing swing pricing.[61] Tellingly, we are not aware of any large fund sponsor who has adopted swing pricing for use solely in the United States. This impediment, we believe, continues to make mandatory swing pricing for *any* open-end mutual fund in the United States, including money market funds, untenable.

The predicate for using swing pricing, and the fundamental challenge with implementing it in the United States, is the inability of fund complexes to receive and review complete daily investor flow information in sufficient time to know, or make reasonable high confidence estimates of, investor activity to determine if a fund's NAV should be swung. This limitation is primarily attributed to the existing complex and multifaceted system that exists for mutual fund processing, a sizable portion of which is done through intermediaries in the United States.

The calculation of a fund's NAV is a rigorous process that takes place in a short time frame typically at the end of the day. In practice, funds typically cut off investor subscription and redemption orders, value portfolio securities and calculate their NAVs as of the close of the New York Stock Exchange, normally 4 p.m. Eastern Time (ET).[62] Once calculated fund NAVs are then disseminated through a variety of methods to the fund's transfer agent, intermediary distribution partners, media outlets, and investors, ordinarily between 6:00 p.m. and 8:00 p.m. ET. Fidelity generally strives to finalize fund NAV calculations by the 6:05 p.m. ET media deadline in order to enable prompt and complete publication in newspapers and on financial websites. To adopt swing pricing a fund would need to obtain timely and reasonably accurate

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[58] Swing Pricing Adopting Release at 24.
[59] *Id.*
[60] *See id*. 61-62 ("The Commission acknowledges the operational challenges noted by commenters that will need to be addressed by industry participants. Because of these concerns, we believe the adoption of swing pricing in the U.S. as a new (optional) anti-dilution tool will likely require considerable lead time for many funds that will need to coordinate and implement the necessary operational changes with intermediaries and service providers in order to effectively conduct swing pricing for new or existing funds. Additionally, as noted by commenters, we understand that certain funds, intermediaries and service providers may incur substantial costs in doing so.").
[61] PWG Report at 30.
[62] The PWG Report identifies an additional disadvantage exists for those money market funds that strike their NAV more than once per day and allow intraday purchases and redemptions for any orders received prior to a given NAV strike. PWG Report at 30.

daily investor subscription and redemption information in order to determine if its swing threshold had been breached and if a NAV adjustment was to be made. Notwithstanding changes to the funds' NAV calculation and dissemination times, this investor flow information would need to be received daily between 4:00 p.m. and 6:00 p.m. ET.

While a subset of the Fidelity funds' trade records are kept directly on Fidelity's own platforms, Fidelity, and much of the industry, also use intermediaries extensively to support the distribution of the funds. Intermediaries such as broker-dealers, retirement plan recordkeepers, fund supermarkets, and financial advisers, are essential to the distribution of mutual funds, and are the mechanism by which most retail investors buy and sell funds. Intermediaries are generally independent from the mutual funds they sell and aside from any contractual obligations related to selling fund shares, the intermediary determines its own operating model, processing routines and technology systems.

In the United States, intermediaries are not required to provide the fund's transfer agent with their net/gross activity, by the time the fund's NAV is calculated, provided they follow certain guidelines outlined within the "forward pricing" rule (Rule 22c-1 of the Act). In practice, most fund orders managed through intermediaries are transmitted through the Fund/SERV® processing utility administered by DTCC's National Securities Clearing Corporation. Fund orders transmitted through this channel are not required to be transmitted to the transfer agent until 8:30 p.m. ET. Beyond that, retirement recordkeeping systems are not currently configured to create fund orders until they receive a fund's NAV. This sequence of events creates a problematic circular dependency given that funds who adopt swing pricing will require the investor orders (or reliable estimates) to determine their NAV. In current practice, this retirement account activity is executed overnight through DTCC's Defined Contribution Clearance & Settlement service and communicated to the funds' transfer agents thereafter. For these reasons, in today's operating environment, a significant portion of the fund's actual investor orders cannot be known within the timeframe that a fund's swing pricing operation would be conducted.

A subset of mutual fund advisors have voiced support for adopting swing pricing for mutual funds[63] in the United States, largely due to their use of swing pricing in Europe (and thus ability to leverage pre-existing systems), and their lack of reliance on intermediaries for distribution. There are fundamental differences between fund operations in the U.S. and Europe, including earlier trading cut-off times, the greater use of currency-based orders (compared to the prevalence of share or percentage based transactions in the U.S. which contributes to confidence in the accuracy of fund flow details), and a higher portion of direct-sold funds in Europe, which do not make swing pricing a one-size-fits-all approach.

In light of the ineffectiveness of the application of swing pricing to money market funds, due to the negligible impact of transaction costs resulting from redemptions from these funds,

[63] Notably, many of the supporters of swing pricing for mutual funds oppose its use for money market funds for many of the same reasons we note above.

together with the operational hurdles that require broad industry reforms, Fidelity strongly opposes the pursuit of mandated swing pricing for money market funds and other mutual funds.

* * *

Fidelity would be pleased to provide further information, participate in any direct outreach efforts the Commission undertakes, or respond to questions the Commission may have about our comments.

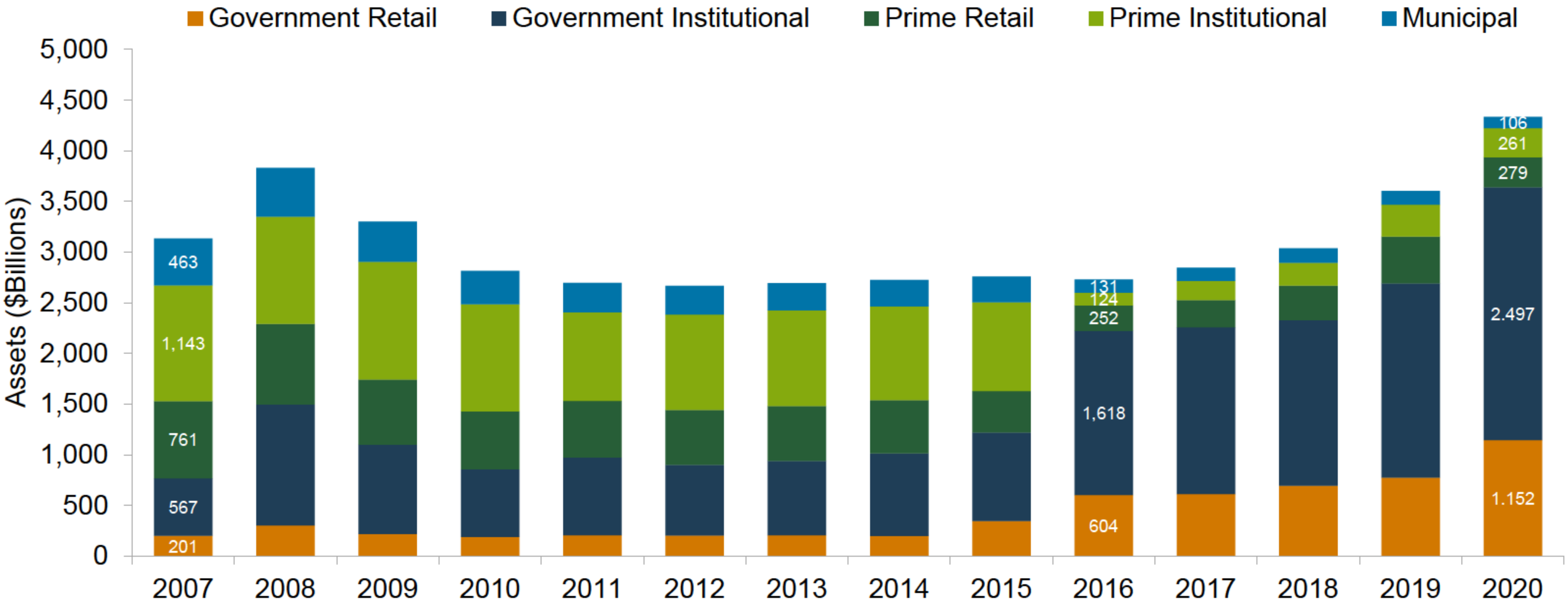
Sincerely,

Cynthia

cc: The Honorable Allison H. Lee, Acting Chair
The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner
The Honorable Caroline A. Crenshaw, Commissioner

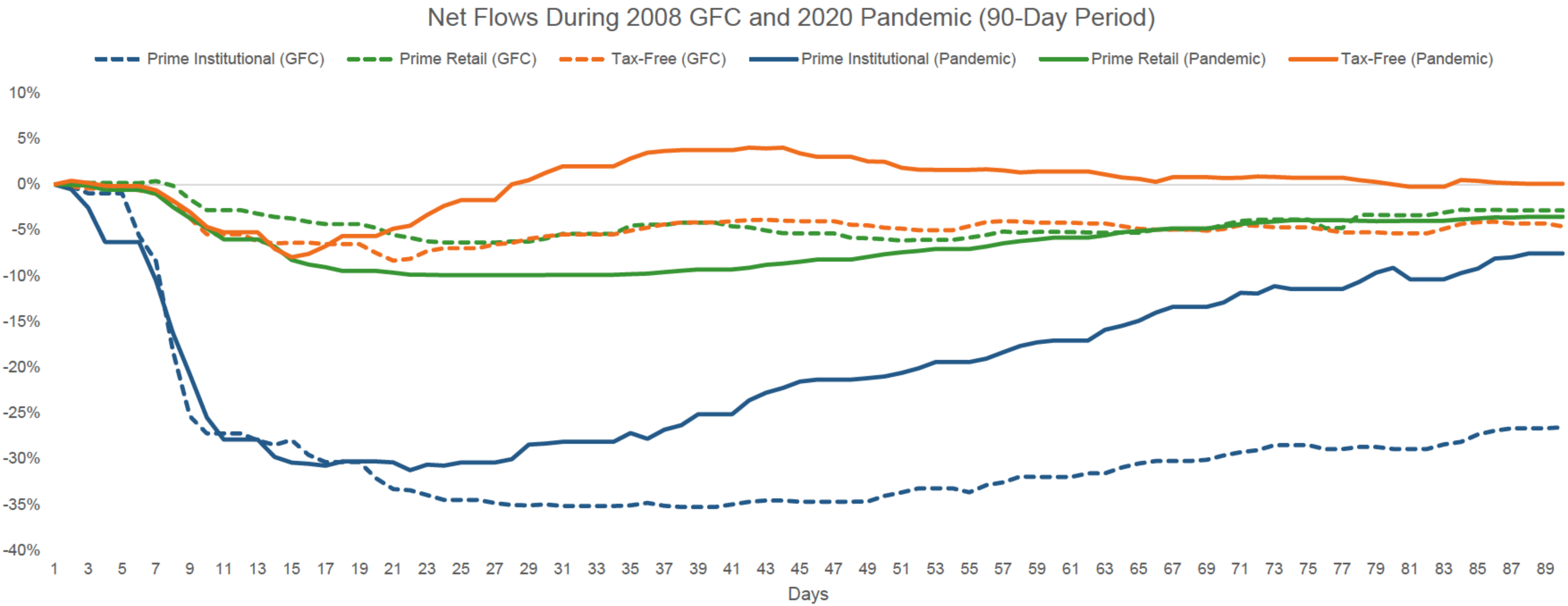
Sarah ten Siethoff, Acting Director, Division of Investment Management

Attachment 1
Industry Money Market Asset Composition



Note: ICI Data includes only publicly offered money market funds.
Source: ICI as of 12/30/2020

Attachment 2
Investor Behavior in March Was Similar to the 2008 Crisis



Note: 90-day periods started 9/10/08 for 2008 GFC and 3/10/20 for pandemic.
Source: iMoneyNet