VIA ELECTRONIC SUBMISSION

April 12, 2021

Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090
rule-comments@sec.gov

Re: File No. S7-01-21: Request for Comment on Potential Money Market Fund Reform Measures in President's Group Report

Dear Ms. Countryman:

Invesco Ltd. ("**Invesco**") appreciates the opportunity to provide comments to the Securities and Exchange Commission (the "**Commission**") on the Request for Comment on Potential Money Market Fund Reform Measures in President's Group Report (the "**Request**") regarding potential reform measures for money market funds ("**MMFs**"), as highlighted in a recent report of the President's Working Group on Financial Markets ("**PWG Report**").

Invesco is a leading independent investment manager with approximately $1,404.1 billion in assets under management as of March 31, 2021. Invesco is a global company focused on investment management, and our services are provided to a wide range of clients throughout the world, including open-end mutual funds, closed-end funds, exchange-traded funds, collective trust funds, UCITS, real estate investment trusts, unit investment trusts and other pooled investment vehicles, as well as pensions, endowments, insurance companies and sovereign wealth funds. Invesco provides a wide range of customized investment strategies to its clients, including fundamental, actively managed equity and fixed-income strategies and passive, index-based strategies.

For over 40 years, Global Liquidity has been a core business at Invesco with over $125 billion in liquidity assets as of March 31, 2021, of which $72.9 billion is held in SEC Rule 2-a7 money market funds. We believe in a disciplined investment process, high credit quality solutions with a keen focus on liquidity, and distinguished client engagement. These factors have led to consistent performance and a successful history of navigating multiple credit and liquidity events. Invesco has a tremendous commitment to the money fund industry not only in the US, but across the globe.

Invesco appreciates the opportunity to provide the Commission with our perspective on the PWG Report; this letter (the "**Comment Letter**") addresses some specific issues raised therein. Invesco recognizes that there are critical adjustments that need to be made to previous money market reform measures to make MMFs more resilient to market disruptions so they may continue to provide safe and liquid investments to retail and institutional investors. Invesco generally supports and is largely aligned with the positions expressed by the Investment Company Institute ("**ICI**") and the Securities Industry and Financial Markets Association ("**SIFMA**") in their separate comment letters to the Commission regarding the Request. We believe the regulatory focus should be on issues which would improve market structure and liquidity for all participants in the short-term funding markets and reduce shareholder uncertainty in MMFs by delinking fees and gates from specific portfolio liquidity levels.

As has been noted in other comment letters, Invesco agrees with the exclusion of government MMFs from future rulemaking. Government MMFs provide an important liquidity vehicle for retail and institutional investors, and in reviewing investor behavior during and since the 2020 financial crisis, government MMFs have performed well and are not in need of additional reform. With respect to floating net asset values ("**NAVs**") on all prime and tax-exempt money market funds, we agree with our colleagues at the ICI and SIFMA that floating NAVs for retail funds would be confusing to individual investors, would not change investor behavior in times of market stress and thereby would not attain the desired goals of the Commission. It is our view that retail investors would withdraw from floating NAV MMFs in lieu of either stable NAV government funds or bank products.

In reviewing and assessing any potential structural changes to institutional prime MMFs, it is important to conduct the review in light of and informed by the market events of late February and early March 2020 in order to ascertain the root cause of the market disruption and whether any change to MMFs would provide more stability to investors. **Money market funds did not cause market instability and they were only one of many participants in the short-term funding markets**; rather it was the unprecedented "dash for cash" more broadly and uncertainty about access to cash in institutional prime MMFs that influenced investor behavior which exacerbated an already unstable market.

We believe changes to policy and rulemaking should be thoughtful and healthy for the industry with a goal of also avoiding further consolidation in an already highly concentrated field.

Market Structure and Stability

As the coronavirus made its presence known across the globe, governments, companies, and individuals struggled to ascertain what the real impact would, and should, mean to their respective businesses and lives. Uncertainty led to volatile markets, with equity and fixed income markets showing signs of stress as early as mid-February, ultimately leading the US Federal Reserve (the "**Fed**") to implement an inter-meeting interest rate cut of 50 basis points on March 3, 2020. At that time, the Fed stated that the economy was "strong" but wanted to limit downside risk due to the virus. Unfortunately, the risk-off tone continued, leading to elevated demand for cash and US dollars. Companies needed more cash on hand to meet payroll and other obligations while their businesses were put on hold. Governments (local, state and federal) needed more cash on hand to pay for new fiscal policies launched to offset the economic impact of the virus.

Individuals withdrew from risk markets as volatility increased and their risk appetite waned. Through March, the Fed continued to pull all the levers at its disposal, including repurchase agreement ("repo") operations and open market purchases, to try to add liquidity to the system and stabilize what was becoming a volatile and illiquid US Treasury market. During this time, and adding to the demand for cash, was the March 15 quarterly corporate tax deadline when companies owe tax payments to the US Treasury. The MMF industry experienced increased redemptions from prime MMFs leading up to this day ($148 billion, or 18% of total assets in March), which, due to the building illiquidity in the market, led to more outflows. As prime MMFs attempted to raise cash to meet redemptions, they found no bids for high-quality, short-dated money market securities from the bank and broker-dealer community whose balance sheets were tapped out from market sellers earlier in the month.

The Fed was forced to take more drastic steps and cut rates by another 100 basis points to a range of 0.00%-0.25% on Sunday evening, March 15, 2020. The Fed also announced a large-scale asset purchase program, enhanced US dollar swap lines with foreign central banks (including a reduced rate charged to access these lines) and implemented other measures to encourage banks to use their capital and liquidity buffers to help restore market functioning.

Money market fund assets, and particularly institutional prime fund assets, were stable through March 11, 2020 when they began to experience redemptions. The speed of events, not only in the US, but globally, were happening at velocities not previously experienced, even during the financial crisis of 2008-2009. As countries and companies began to lock down, both institutional and retail investors began to raise and access cash for what was going to be an uncertain timeframe. The call for liquidity was universal and every day was critical.

By the time the market disruption made its way to the front end of the curve and pressure began to build on money market rates, dealer balance sheets were already constrained. In addition to MMFs looking to increase liquidity, other market participants were doing the same. It bears mentioning that MMFs are not the only participants in the front end of the curve, and credit products are not limited to commercial paper. As the Commission has highlighted in its October 2020 report on U.S. Credit Markets Interconnectedness and the Effects of the COVID-19 Economic Shock[1] ("**SEC Report**"), the short-term funding markets also include certificates of deposit ($1.5 trillion) as well as commercial paper ($1 trillion), though data on commercial paper is more widely available. Using the commercial paper investor data from the SEC Report as a proxy, market participants vary widely as well: financial and nonfinancial investors, global investors, mutual funds (ex-MMFs), pensions, and state and local governments. Money market funds only comprise approximately 20% of commercial paper outstanding. Raising additional liquidity for any investor was difficult by this point, as requests for liquidity were met with constrained capital and risk limits in the intermediated markets. Per the SEC Report, "[t]he stresses

[1] U.S. Credit Markets Interconnectedness and the Effects of the COVID-19 Economic Shock, October 5, 2020. US Credit Markets COVID-19 Report (sec.gov)

were most apparent in markets that are principally dealer-intermediated, including markets for municipal securities, corporate bonds, and short-term funding.[2]"

As markets and participants struggled to manage events impacting their personal and professional lives, uncertainty reigned, and cash was required at any price. The Fed, in conjunction with the Treasury Department, acted quickly and announced multiple programs such as the Commercial Paper Funding Facility ("**CPFF**"), the Primary Dealer Credit Facility ("**PDCF**") and the Money Market Mutual Fund Liquidity Facility ("**MMLF**"). "The facilities ***gave investors confidence that they could access their cash when needed*** and that companies would be able to roll over CP when needed, relieving selling pressures[3]" (emphasis added). As with other facilities such as the Primary Market Corporate Credit Facility ("**PMCCF**"), the Secondary Market Corporate Credit Facility ("**SMCCF**") and the Municipal Liquidity Facility ("**MLF**"), the mere announcement provided stability to the markets ahead of actual implementation, and given the low take-up of the facilities, the existence versus actual usage of support, provided assurance and certainty.

Policymakers need to work with industry professionals on market functioning as both technology and settlement cycles are evolving very quickly and this needs to be balanced with the credit strength of intermediaries and the need to have open and better functioning markets.

Potential Policy Measures for Prime Funds

Turning our attention to MMFs specifically, the SEC has implemented multiple rounds of reform aimed at making MMFs more resilient and better able to withstand various interest rate, credit and liquidity crises. The 2010 reforms focused on transparency and new risk-limiting parameters - shortening weighted average maturities to 60 days, implementing a new weighted average life measure of 120 days, and new liquidity requirements of 10% and 30% in daily and weekly liquidity measures. The 2014 reforms were more structural in nature, requiring institutional prime and tax-exempt funds to transact at a floating NAV, and new redemption fee and gate tools if a MMF's weekly liquidity dropped below 30%. Additionally, the 2014 reforms further increased transparency, requiring advisers to post daily portfolio information on liquidity, mark-to-market NAVs, and net flows on their websites.

We applaud the Commission's recommendation regarding increased transparency. One of the many challenges facing investors throughout the financial crisis in 2008 was understanding exactly what they owned in their various MMFs and the industry was not aligned in terms of publicly available information. After the implementation of the 2010 reforms, which provided investors with more certainty and clarity around their money fund holdings, they could for the first time compare different funds and advisors and have more transparency around risk exposures.

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[2] SEC Report, p.2.

[3] Board of Governors of the Federal Reserve System Financial Stability Report, November 2020. [Financial Stability Report (federalreserve.gov)]

The institution of a floating NAV on institutional prime and tax-exempt money funds was intended to remove the first mover advantage inherent in a stable NAV fund and potentially stop redemption activity in times of stress. Though we do not think the existence of a floating NAV disincentivizes redemptions (as was evidenced in March 2020), we do think that the floating NAV appropriately places the risk in the hands of the investor. Many of the potential policy measures discussed in the PWG Report are bank-like in nature and would add to investor confusion and uncertainty which we believe was the main driver of redemptions in prime MMFs last year. **Investors were less concerned about the price of their shares and they were more concerned about not having access to their shares as liquidity percentages fell closer to the 30% weekly liquidity level**. The uncertainty surrounding potential gates was unacceptable to those investors who were bolstering their liquidity positions ahead of what was an unknown situation. As the Commission has stated, the Fed's timely and sizable intervention in March restored confidence in the stability and operation of the markets. The knowledge that MMFs had a potential outlet for high quality, short-dated money market securities was enough to calm markets and slow redemptions. The Commission has also noted that the maximum usage of the MMLF was $51 billion at the peak in early April, which represented under 5% of the net assets in eligible money market funds. Invesco believes that it is the lack of transparency around potential fees and gates that breeds the uncertainty which instigates and prolongs runs. We strongly believe that removing or delinking potential fees and gates to a certain liquidity threshold is the most appropriate change needed for institutional prime and tax-exempt MMFs.

The increased transparency requirements have allowed investors to make better informed decisions with respect to their investments in MMFs. Money market funds are safer and more transparent than any other type of mutual fund, which is a benefit not only to investors but also to regulators to help track and monitor risks in what can be an opaque market. The short-term funding markets will always exist in some form and having a transparent market participant with the structure and characteristics of money market funds provides a benefit to all market participants. **Reforms that make MMFs less viable from a business perspective, more bank-like in nature, and less competitive from a yield perspective will in effect eliminate the usage and efficacy of MMFs and not eliminate any short-term funding risk in the markets.**

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Invesco

Invesco commends the Commission for its efforts to provide meaningful dialogue on money market fund reform. Invesco appreciates the opportunity to comment on this proposed rulemaking by the Commission, as well as the Commission's consideration of our Comment Letter. We are available to discuss our comments or provide any additional information or assistance that the Commission might find useful.

Sincerely,

Invesco Ltd.

Jeffrey H. Kupor

Jeffrey Kupor
Head of Legal, Americas
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