NORTHERN TRUST
ASSET MANAGEMENT

April 12, 2021

Ms. Vanessa A. Countryman
Secretary
United States Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Re: Response of Northern Trust Asset Management to Request for Comment on Potential Money Market Fund Reform Measures in President's Working Group Report (File No. S7-01-21)

Dear Ms. Countryman:

Northern Trust Asset Management ("NTAM") is pleased to submit these comments to the Securities and Exchange Commission (the "Commission" or the "SEC") on its Request for Comment relating to the December 2020 Report of the President's Working Group on Financial Markets (the "PWG Report") regarding potential further regulatory reform measures for money market mutual funds ("MMFs") that are registered under the Investment Company Act of 1940 (the "Act") and operate under Rule 2a-7 under the Act ("2a-7").

NTAM is the branding name of the asset management business of Northern Trust Corporation ("Northern Trust"), a financial holding company and publicly traded company. Northern Trust is a leading provider of wealth management, asset servicing, asset management and banking to corporations, institutions, affluent families and individuals. As of December 31, 2020, Northern Trust had assets under custody/administration of US $14.5 trillion and assets under management of US $1.4 trillion.

Northern Trust Investments, Inc. ("NTI") is the primary U.S. investment adviser of NTAM. NTI is registered with the Commission as an investment adviser under the Investment Advisers Act of 1940 and is one of the nation's largest sponsors of MMFs. As of December 31, 2020, registered MMFs sponsored by NTI and operating under 2a-7 had $165 billion in net assets, the large majority of which was in government MMFs. NTAM also sponsors collective investment trusts ("CITs"), and funds operating under the European Union's Undertakings for Collective Investment in Transferable Securities ("UCITS"), that employ investment strategies similar to those of 2a-7 MMFs. These CITs and UCITS funds had total net assets of approximately $107 billion as of December 31, 2020. NTAM offers a range of liquidity solutions, from tax-exempt, prime and government cash management to ultra-short fixed income strategies across mutual funds, CITs, UCITS and separately managed accounts. Because of the importance of these liquidity solutions to our clients, NTAM welcomes this opportunity to engage constructively with the Commission regarding potential regulatory reform measures for MMFs.

In 2020, NTAM initiated a thoughtful progression of modifications to its MMF lineup to exit the prime and tax-exempt MMF sectors, a process that began with the closure in May 2020 of our institutional prime MMF, the Northern Institutional Funds - Prime Obligations Portfolio. These MMF product lineup changes were grounded in (1) NTAM's long-term views on interest rates, (2) shifting investor preferences and (3) the potential for future MMF regulatory changes. More specifically, our MMF lineup changes were influenced by the following NTAM views:

- Our investment strategies are rooted in the foundational belief that investors should be compensated for the risks they take, and we are committed to delivering investment products and solutions that fit our investor-centric approach.

- We anticipate that U.S. short-term interest rates will remain anchored near zero for the foreseeable future. In a continued low interest rate environment, investors in tax-exempt and prime MMFs earn yields comparable to those of government MMFs. In our opinion, the risk/reward profile for investors in prime and tax-exempt MMFs is misaligned, and is likely to remain so for the foreseeable future.

- Generally across the sector, prime and tax-exempt MMF assets have declined, while government MMF assets have grown, because government MMFs seek to provide the principal stability and liquidity that investors value. Investor preferences have changed, but their liquidity needs remain the same.
- Our view is that the constraints limiting return opportunities for investors in, and growth opportunities for sponsors of, prime and tax-exempt MMFs today will not improve significantly over time, as the MMF landscape has fundamentally changed.

For the foreseeable future, NTAM views government MMFs as the optimal solution for investors' immediate operational cash needs. The Commission has correctly acknowledged that during times of stress, government MMFs have served as an important source of liquidity for investors seeking stability. Government MMFs have functioned well in both the credit events associated with the 2008 Global Financial Crisis and the market stresses of March 2020. We believe it is important that government MMFs be allowed to continue to operate under their current regulatory framework. Any regulatory changes that are designed to address the challenges or limitations associated with prime or tax-exempt MMFs should be targeted specifically to those types of MMFs that experienced such challenges or limitations in March 2020 rather than applied indiscriminately to all MMFs.

To that end, to be effective we believe any additional regulation of prime and tax-exempt MMFs should be reasonably designed to meet two fundamental objectives:

(1) Address prime and tax-exempt MMFs' structural vulnerabilities, but in a manner that does not unnecessarily increase the cost or complexity of operating these categories of MMFs for investors and sponsors; and

(2) Reduce the likelihood of official sector interventions relating to prime and tax-exempt MMFs and increase transparency for investors in these types of MMFs.

We think it important to note that there is no failsafe regulatory solution—no "silver bullet"—that can address definitively the challenges presented by investors' understandable inclination to respond to market disruption or uncertainty by seeking to reduce their exposures to riskier or less liquid assets. Accordingly, we urge circumspection as the Commission evaluates the various policy options described in the PWG Report. In particular, we believe the Commission should avoid adopting a series of new additional requirements generally for MMFs, with potentially duplicative or redundant effects, when a more targeted response would more appropriately and effectively address the issues faced by only certain types of MMFs in March 2020.

Markets Continue to Adapt

Over the past several years, MMF investors have adapted to shift to primarily government MMFs. Government MMFs currently make up over 86% of the $4.5 trillion in total MMF net assets.[1] Government MMFs were a key safe harbor during both the market events of March 2020 and the 2008 Global Financial Crisis, experiencing significant asset inflows and providing investors with a cash alternative to bank deposit products.[2]

Meanwhile, prime and tax-exempt MMFs have fallen to less than 14% of total MMF industry assets as of March 31, 2021, which reflects a decline of more than 1% to date in 2021.[3] Notably, the average yield of prime MMFs compared to government MMFs differed by one basis point for both institutional and retail products.[4] With such comparable yields, investors are not being compensated for the credit risk they are taking on in a prime MMF and therefore will naturally look to reduce their risk by investing in a government MMF that provides a substantially similar yield.[5]

[1] Investment Company Institute Weekly Money Market Fund Assets report as of March 31, 2021.

[2] Government MMFs absorbed $348 billion of inflows in September 2008 and $836 billion of inflows in March 2020 according to the Investment Company Institute. See "Experiences of US Money Market Funds During the COVID-19 Crisis," *Report of the COVID-10 Market Impact Working Group* (November 2020), available at www.ici.org/pdf/20_rpt_covid3.pdf, at Figure 3.13.

[3] Investment Company Institute Weekly Money Market Fund Assets report as of March 31, 2021.

[4] Crane Data as of February 28, 2021. As of February 28, 2021 the Crane Govt Instit MF Index had a 7-day net yield of two basis points, while the Crane Prime Instit MF Index had a 7-day net yield of three basis points. Similarly the Crane Govt Retail MF Index had a 7-day net yield of one basis point, while the Crane Prime Retail MF Index had a 7-day net yield of two basis points.

[5] Anecdotal feedback across our client bases has been consistent with this trend.

The substantial decline in the overall size of the prime and tax-exempt MMF sectors has led corporate and municipal borrowers to seek sources of short-term funding other than MMFs.[6] We believe that the recent decline in the prime and tax-exempt MMF sectors is due to a significant extent to the low interest rate environment. With the current low interest rate environment expected to persist until at least 2023,[7] and with short-term rates in our view anchored near zero for the foreseeable future, we expect that prime and tax-exempt MMFs will naturally continue to decline in relevance, causing corporate and municipal borrowers to continue their move towards other sources of short-term funding. We recognize the importance of properly functioning short-term credit markets, but would point out that borrowers have successfully adapted to the substantial decline in assets of prime and tax-exempt MMFs over the past several years.

PWG Report Proposal That May Advance the Goals of Reform

Floating Net Asset Value Per Share ("NAV") for Retail Prime and Tax-Exempt MMFs

Of the ten potential policy measures outlined in the PWG Report, we believe that transitioning to a floating NAV structure for retail prime and tax-exempt MMFs is the most constructive and appropriate. Such a change would enhance transparency and investor recognition of the credit risks associated with prime and tax-exempt MMFs and require market dynamics, as reflected in changes in the market value of a MMF's portfolio holdings, to be priced into the NAV at which investors in these MMFs purchase and redeem shares. A floating NAV structure would also align the structure of retail prime and tax-exempt MMFs with that of comparable institutional MMFs, which were required to transition to floating NAVs as a result of regulatory changes adopted by the Commission in 2014. Retail prime and tax-exempt MMFs experienced notable asset outflows in March 2020, which likely would have continued or accelerated without official sector intervention.[8] During March 2020, retail prime and tax-exempt MMFs continued to issue and redeem shares at $1.00 even though their market-based NAVs declined. Market-based NAVs had generally recovered by the end of the month.[9] If these retail prime and tax-exempt MMFs

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6 The financial commercial paper market has been relatively stable ranging from $500 to $600 billion in outstanding issuance since 2010 with the notable decrease in issuance from over $850 billion to current levels occurring between 2008-2010. While the financial commercial paper market decreased to just under $400 billion in November 2016, it returned to prior levels within twelve months and in 2021 have been at elevated levels despite declines in prime MMFs during that same time period. *See* Federal Reserve Board Commercial Paper Rates and Outstanding Summary.

7 *See* Federal Reserve Board: Press Release – Federal Reserve issues FOMC statement (December 16, 2020) and Summary of Economic Projections of the Federal Open Market Committee (December 16, 2020), available at www.federalreserve.gov/newsevents/pressreleases/monetary20201216a.htm and www.federalreserve.gov/monetarypolicy/fomcprojtabl20201216.htm, respectively.

8 PWG Report at 30.

9 Crane Data from March 2020. Average market NAVs for retail prime MMFs reached a low point of $0.9993 on March 20, 2020 and had recovered back to $0.9996 by March 31, 2020.

had processed redemption transactions during the period of market disruption at their underlying NAVs rather than at a stable $1.00 per share, redeeming investors would have borne the effects of the short-term decline in portfolio value. This could have served to deter some redemptions and decrease retail prime and tax-exempt MMFs' vulnerabilities to runs by mitigating the first mover advantage for redeeming investors, thus enhancing the stability of the sector and therefore the overall short-term funding markets.

In a 2013 letter to the Commission on proposed MMF reforms,[10] Northern Trust expressed the view that a floating NAV structure for prime institutional MMFs was the most appropriate structural change among various alternatives that were then under consideration by the Commission. We now believe that a similar change for retail prime and tax-exempt MMFs would be appropriate. The adoption of a floating NAV structure for institutional prime MMF investors was readily understood in the marketplace at the time, insofar as it conformed the share valuation rubric for those MMFs to that of most other mutual funds. Anecdotally, we understand that institutional investors adapted to the concept of a floating NAV much more readily than to the liquidity fee and redemption gate provisions adopted in 2014. We believe that retail investors would similarly easily understand the floating NAV construct.

A number of regulatory and operational issues associated with floating NAV MMFs that were identified at the time the SEC proposed its 2014 MMF reforms (including by us in our September 2013 comment letter) have been successfully resolved since that time. In particular, Commission guidance issued in conjunction with the 2014 MMF reforms clarified that floating NAV MMFs can qualify as "cash and cash equivalents" for financial reporting and accounting purposes. Similarly, the Internal Revenue Service issued regulations in 2016 simplifying and clarifying various aspects of the tax treatment of investments in institutional floating NAV prime and tax-exempt MMFs. Thus, at least in principle, moving to floating NAVs for retail prime and tax-exempt MMFs should not present significant accounting or tax issues. Additionally, many fund sponsors and financial intermediaries have already instituted systems and technology changes needed to process transactions in floating NAV MMFs, in response to the 2014 reforms requiring prime and tax-exempt institutional MMFs to adopt a floating NAV structure. As a result, we believe that transitioning to floating NAVs for retail prime and tax-exempt MMFs would increase the transparency of these products and enhance the stability of the sector and short-term funding markets, without adding undue cost or complexity.

In our September 2013 comments, we expressed the view that a combination of both a floating NAV requirement and liquidity fees and redemption gates was the least satisfactory alternative. It remains our view that a floating NAV is the most appropriate policy option for prime and tax-exempt MMFs, and we continue to question whether, if a MMF has a floating NAV, liquidity fees and redemption gates are necessary or appropriate. As the PWG Report itself notes, liquidity

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[10] See Comments on Proposed Rule: Money Market Fund Reform; Amendments to Form PF (File No. S7-03-13), Letter dated September 16, 2013 from James E. Roselle, EVP, Associate General Counsel, Northern Trust, available at https://www.sec.gov/comments/s7-03-13/s70313-144.pdf.

fees and redemption gates may "have the unintended effect of triggering preemptive investor redemptions" by MMF shareholders whose redemptions are motivated by the desire to avoid the imposition of a liquidity fee or redemption gate. We believe it is possible that many investors in institutional prime MMFs were motivated to redeem their shares in March 2020 less out of concern regarding possible declines in those MMFs' NAVs than out of concern that, if they delayed redeeming, their investment might later be adversely affected by the imposition of liquidity fees or redemption gates. We therefore urge the Commission to consider the possibility that liquidity fees and redemption gates detract from rather than enhance the resiliency of MMFs and therefore the short-term funding markets.

PWG Report Proposal That Increases the Cost and Complexity of MMFs While Not Advancing the Goals of Regulatory Reform

Minimum Balance at Risk
Another potential policy measure discussed in the PWG Report is a minimum balance at risk mechanism ("MBR"). As described in the PWG Report, an MBR is "a portion of each shareholder's recent balances in a MMF that would be available for redemption only with a time delay to ensure that redeeming investors still remain partially invested in the MMF over a certain time period." Accordingly, even if an investor in a MMF with an MBR feature redeems all of their available shares, the investor "would still share in any losses incurred by the fund during that timeframe." The size of the MBR would be "a specified fraction of the shareholder's maximum recent balance (less an exempted amount)." The PWG Report states that "an MBR mechanism could be used in a floating NAV fund to allocate losses only under certain rare circumstances, such as when the fund suffers a large drop in NAV or is closed." The PWG Report also notes substantial potential drawbacks, limitations, and challenges associated with the MBR structure with which NTAM agrees.

If, in the Commission's view, the MBR concept has potential merit, we encourage the Commission to evaluate it carefully, with thorough consideration of the potential drawbacks, limitations, and challenges identified in the PWG Report, and of whether an MBR construct would contribute meaningfully to sector stability, or would be largely redundant to the protections provided by a floating NAV, if retail prime and tax-exempt MMFs are required to adopt a floating NAV structure.

In another context, NTAM has carefully evaluated the potential benefits, as well as the potential drawbacks, limitations, and challenges, associated with a structure similar to an MBR. Specifically, in the process of designing a variable NAV UCITS fund with an investment program very similar to a MMF in response to negative European interest rates, we considered an MBR-like feature under which 1% of a redeeming investor's balance would be held back until the next business day, to account for any material changes in the NAV. This construct was most relevant to a full redemption scenario, but in our assessment could not feasibly be applied to redemptions generally because of the administrative complexity and burdensome costs associated with applying it to numerous small redemption transactions and the difficulty of developing and executing administrative rules for applying it to some redemption transactions but not to others. Accordingly, we ultimately did not implement this feature on our UCITS fund.

If the Commission does entertain the possibility of imposing an MBR, we think it is critical that investors be provided with clarity regarding both the amount of any holdback of redemption proceeds and the timeline for payment with respect to amounts withheld. We also urge the Commission, in considering any possible MBR requirement, to bear in mind that the shares of mutual funds, including MMFs, are intended to be "redeemable securities" as defined in the Act.[11]

The PWG Report notes that imposition of an MBR requirement could present implementation and administration challenges, and would require substantial systems updates by MMFs, financial intermediaries, and service providers. In evaluating any possible MBR requirement, the Commission should consider whether the incremental benefits of an MBR (as compared, for example, to the current liquidity fee and redemption gates provisions of 2a-7) justify the substantial costs associated with implementing an MBR. We note in this connection that MMF sponsors and intermediaries incurred considerable costs in effecting systems changes necessitated by the liquidity fee and redemption gate requirements imposed by the 2014 reforms.

In addition, if the Commission determines to impose an MBR requirement, it should consider whether other elements of the current regulatory structure for MMFs (such as liquidity fees and redemption gates) remain appropriate or should be modified.

PWG Report Proposals That Would Be Detrimental to MMFs While Not Advancing the Goals of Regulatory Reform

We caution that certain of the other potential policy measures described in the PWG Report present the significant risk of making it cost-prohibitive to sponsor MMFs, or of forcing further exits from the MMF sector and/or further consolidation of the MMF business, with low likelihood of deterring future official sector interventions. In particular, capital buffer requirements and sponsor support requirements present this significant risk of triggering MMF sponsor concentration.

We start with the premise that MMFs are investment products that carry inherent investment risk for investors. It is important that all investors in MMFs understand this basic concept. To the

[11] Section 2(a)(32) of the Act defines "redeemable security" as a security under the terms of which the holder, upon its presentation to the issuer or to a person designated by the issuer, is entitled to receive approximately the holder's proportionate share of the issuer's current net assets, or the cash equivalent thereof. In this connection, we also note the policy considerations reflected in Section 22(e) of the Act, which generally prohibits a registered investment company from suspending the right of redemption, or postponing the date of payment or satisfaction upon redemption of any redeemable security, for more than seven days after the security is tendered for redemption.

degree that regulatory changes increase investor expectations that MMFs are somehow guaranteed or insured, they also increase the likelihood that investors will expect support and intervention. Such regulatory changes could therefore invite investor confusion and overly complicate the MMF regulatory framework. Investors who are looking for guarantees would more appropriately seek deposit products that are protected by or an equivalent government agency or guarantee scheme.

The cost of providing mandatory sponsor support would be likely to result in further exits from the MMF industry. A significant number of MMF sponsors have already exited the business in recent years.[12] This risk is heightened during the current period of very low interest rates, in which MMF sponsors are already waiving their management fees to avoid negative net yields to MMF investors. Likewise, as the PWG Report itself notes, the current low yield environment potentially makes the cost of capital buffers prohibitive, whether those costs are intended to be borne by MMF shareholders, by MMF sponsors, or both. In the current interest rate environment, which we believe is likely to persist, there simply is not enough yield on MMFs , or enough profits from MMF management fees, to fund the cost of capital buffers.

Additionally, we note that any requirement for MMF sponsor support would be in stark contrast with the direction being set by other regulators. For example, the European Money Market Fund Regulation (EU) 2017/1131 (the "European Regulation") prohibits support for UCITS money market funds from an external source, notably fund sponsor support.[13]

While we acknowledge that a MMF sponsor may voluntarily determine in any particular instance, as a business matter, that it wishes to provide financial support for a MMF, requiring financial support either via capital buffers or directly from the fund sponsor is inconsistent with the principle that investments carry inherent risks to be borne by MMF investors. The European Regulation makes it very clear that investors bear the investment risk, and we endorse this principle of transparency and clarity regarding the risks of investments in MMFs.

Finally, we note that any capital buffer or MMF sponsor support requirement would likely entail considerable costs and administrative complexity. We are skeptical whether any such requirement would justify the associated cost and complexity, and we are uncertain what benefits, if any, such requirements would have provided in the context of the March 2020 market stresses.

Concluding Thoughts

To conclude, we emphasize that:

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[12] The number of fund sponsors has decreased from 123 in 2008 to only 60 in 2020 reflecting a reduction of over 50 percent. Source: iMoneyNet.

[13] See Article 35 of the European Regulation.

- Any changes instituted in response to the PWG Report should be tailored to address the specific concerns detailed in the Report, which relate to outflows from prime and tax-exempt MMFs during certain periods of past market stress. In our view, the current regulatory structure applicable to government MMFs is adequate and appropriate and should not be altered in response to perceived challenges relating to the prime and tax-exempt MMFs.
- If the Commission contemplates adopting any new MMF regulatory requirements, it should carefully consider the costs and benefits of those requirements in the overall context of the existing regulatory framework for MMFs. In particular, if the Commission is considering imposing new requirements, it should evaluate whether the new requirements would add meaningful additional market or investor protections, or would largely duplicate protections already provided by the existing regulatory framework. Any decision to impose new MMF requirements should be accompanied by an assessment of whether adoption of the new requirements might warrant the modification or elimination of any of the existing requirements.
- The Commission should not lose sight of the fact that MMFs are investment products that entail investment risks and that shareholders could lose money by investing in MMFs. The Commission should resist imposing regulatory mandates that risk obscuring this basic principle and thus leading investors to believe that MMFs have the characteristics of insured or guaranteed bank deposit accounts.
- In evaluating any proposed change to the MMF regulatory framework, the Commission should give careful consideration to the risk of additional MMF sponsors exiting the market and/or the MMF market becoming significantly more concentrated or less competitive.

NTAM appreciates the opportunity to submit the foregoing comments. Should you have any questions, please contact the undersigned.

Very truly yours,

/s/ Colin Robertson
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Colin Robertson, Executive Vice President, Head of Fixed Income

cc: The Honorable Allison Herren Lee
The Honorable Caroline A. Crenshaw
The Honorable Hester M. Peirce
The Honorable Elad L. Roisman
Ms. Sarah ten Siethoff, Acting Director, Division of Investment Management