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April 12, 2021

Via email to rule-comments@sec.gov

Re: Release No. IC-34188; File No. S7-01-21
Request for Comment on Potential Money Market Fund Reform Measures in President's Working Group Report

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

Dear Ms. Countryman

*m*CD IP Corporation appreciates this opportunity to provide the Securities and Exchange Commission (the SEC) with comments in response to the above-captioned release.

The Background of the Commentators

In 2015 three individuals, with very strong US and international banking and regulatory experience (especially regarding liquidity issues), formed *m*CD IP Corporation to market a new class of fixed income instrument they had designed to improve the liquidity and regulatory metrics of issuing banks.

This patent protected product, Market Rate Commercial Paper (***mCP***) utilizes web-based technology to make an instrument, which is tradable at par, possible for the first time. Initially, the product was directed to bank issuers as the Market Rate Certificate of Deposit (***mCD***) but has since been generalized to the *m*CP.

The *m*CD has been discussed constructively with Federal Reserve Board staff who allow us to report "that they could see no reason why it would not work".

More detailed information is available on request.

Specific Comments

These comments are in relation to File No. S7-01-21 and the Potential Policy Measures listed in the "Report of the President's Working Group on Financial Markets Overview of Recent Events and Potential Reform Options for Money Market Funds" December 2020 (the ***Paper***) with matching numbering.

A. Removal of Tie between MMF Liquidity and Fee and Gate Thresholds

We broadly agree with the Paper that this would do little to mitigate run incentives.

B. Reform of Conditions for Imposing Redemption Gates

We agree with the Paper that this may reduce the effect of gates somewhat, but they could still be the focal point of runs.

C. Minimum Balance at Risk

Essentially this reduces the amount of an investor's funds which can redeemed on demand at par making the MBR a longer term, effectively subordinated, instrument. While that would improve the stability and liquidity of the MMFs, it is unlikely to meet the investors' criteria for this type of investment.

D. Money Market Fund Liquidity Management Changes

We agree this may be of some limited benefit.

E. Countercyclical Weekly Liquid Asset Requirements

This measure is useful. Having a fixed WLA level suffers from the same problem that fixed bank capital requirements had. Both are intended as buffers against shocks, but if fixed they do not serve that purpose (rather like a stiff inflexible car spring, it provides no smoothing). While minimum capital and minimum liquid asset requirements provide different financial benefits, if set at a fixed level neither can provide their intended effect. For that reason, countercyclical bank capital requirements were adopted in 2010.

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

The extension of floating NAV, from institutional MMFs, to retail and tax-exempt MMFs, may become necessary to protect the liquidity of retail MMFs if the more stable behavior of retail MMF investors, that has been seen historically declines. New media has already increased the communication of "scares" and readier redemption, potentially making retail investor behavior akin to, but possibly more irrational than, that of institutions. As a result, some bank regulators already distinguish between the assumed stability of traditional retail and the more volatile behavior of internet-based retail depositors. There have been examples where this has been a factor. We expect floating NAV however to be very unattractive to retail investors reducing the demand for CP and CDs via those MMFs.

G. Swing Pricing Requirement

This is probably a beneficial measure for the MMFs, but it is unlikely to be acceptable to investors, most of whom require stable pricing to maintain ready fungibility with the par value payments system. The requirement for par value redemption has been well demonstrated by surveys conducted by the Association of Financial Professionals including in 2019 of over 500 investors *AFP 2019 Survey* and by the $1.4 trillion run down in the Prime Institutional Money Market Funds when floating NAV was introduced by changes to SEC Rule 2a-7 in 2016.

H. Capital Buffer Requirements

We agree with the Paper that it is difficult to fund a requirement for a capital buffer and to pay the required return on equity that will be required by those funders. A capital base can serve to cover the losses incurred when term assets are sold at fire sale prices to fund redemptions, but as this progresses, the capital base is eroded making the fund less sound and increasing the incentive of the remaining investors to redeem. Consequently, a capital base is only a partial protection against a run unless it is very large. Comparable series of events have occurred during bank runs. Even well capitalized banks have been subject to runs, for example at RBS in October 2008.

I. Require Liquidity Exchange Bank Membership (*LEB*)

This Potential Policy Measure is comparable to the Federal Reserve System but set up for MMFs on a cooperative basis. The LEB would be owned and capitalized by the MMFs themselves. It would provide a liquidity facility to each MMF (we expect by way of repos over the assets held by the MMFs). The LEB would be a special purpose bank but chartered so it would be eligible to access the discount window and lender of last resort funding from the Federal Reserve.

The Paper mentions the problem of funding the LEB's capital and providing a return on that capital, but it does not mention the LEB's resultant bank liquidity regulatory problem. This arises because the liquidity facility provided to the MMFs would, on drawing, provide the LEB with assets, which, being non-government securities, are not High Quality Liquid Assets. These would be funded by a deposit held by the MMFs at the LEB redeemable in less than 30 days. Unless an exemption from normal bank regulations were granted, that would put the LEB in clear breach of the Liquidity Coverage Ratio, so, in our view, this measure just passes the MMFs' liquidity problem on to the LEB rather than solving it.

J. New Requirements Governing Sponsor Support

We agree with the Paper that sponsor support is special case of a capital buffer requirement with the same drawbacks. The MMF would in effect be a controlled subsidiary of the sponsor and if that sponsor were a bank, would then subject to bank regulation.

General Comments

Of the MMF market participants, which might bridge the liquidity gap between the term of the assets held by the MMFs and the investors' requirement for redemption on demand (preferably at par), namely:

- issuers of CP or CDs;
- MMF sponsors;
- CP dealers;
- a newly created special purpose liquidity exchange bank; or
- investors,

none are *currently* in a position to provide this.

The exception always is the Federal Reserve which can and has offered that support, most recently via the Federal Reserve Bank of Boston's MMLF, but this is not without a burden on the public and therefore a political cost and so its viability is questionable.

For these reasons we continue to believe that a new solution is required. This is now feasible by taking advantage of the web-based technology now well-established in other markets. This technology will allow transparent markets in multiple assets and multiple investors to operate on a continuous basis. These markets will operate by way of competitive rate bids, comparable to a bond auction, but run continuously. This will activate inter-investor liquidity, at par, bridging the MMFs' liquidity gap.

This solution cannot be implemented overnight, but must first be piloted and once proven successful, it could serve as major upgrade of the MMF model, which has not materially changed since the 1970's, despite the arrival of major technological advances.

It will require a break from the traditional co-mingled fund model to a "fish-bowl" model. A comingled fund increases entropy (as for any mixing) destroying information about the assets and the investor's preference for each asset. That information needs to be preserved if inter-investor liquidity is to be maximized.

The MMLF currently allows MMFs to repo any asset to a bank funded by the Federal Reserve Bank of Boston provided it is of sufficient credit rating. The "fish-bowl" model provides a more targeted vector for Federal Reserve support if, in we expect rarer cases, it were still required. That support could be given, subject to credit, to the individual market for a particular asset, which was under obvious liquidity stress.

The liquidity of the inter-investor market will also be backed up by further standby liquidity from other investors who are remunerated for maintaining bids which remain unfilled, comparable to the grant of a put option. The cost of this remuneration is funded by the higher return of the underlying assets owing to their term.

Market Rate Commercial Paper (*m*CP) is designed to operate in exactly this way.

More detailed information is available on request.

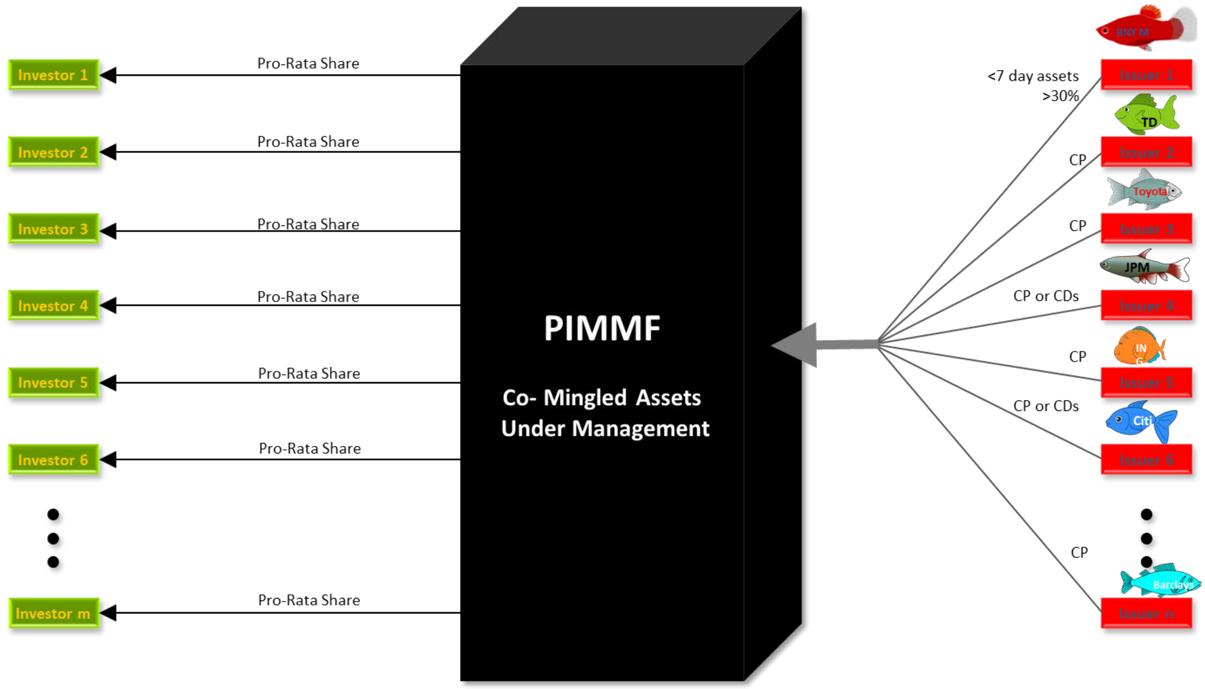
Once again, we appreciate the opportunity to share our views on this important issue and we look forward to any further questions and discussion. Please feel free to reach out to me,
Jeffrey R. Shafer [redacted], or to *m*CD IP Corporation President and CEO Mark Sheppard [redacted].

Yours sincerely

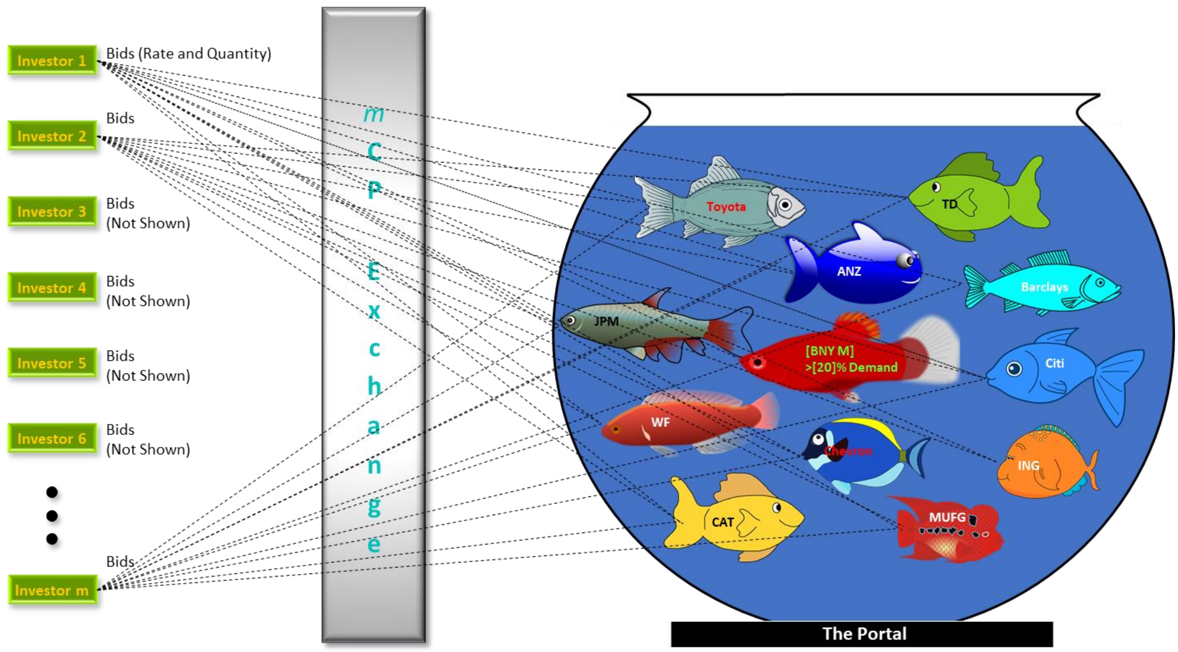
Jeffrey R Shafer
Chairman
*m*CD IP Corporation

An Illustration of the Concept

Prime Institutional Money Market Funds (PIMMFs) are Black Boxes of Comingled Assets



*m*CP Assets are not Co-Mingled but are Transparent and Simultaneously Traded Individually



Exchange intermediates between the Investors and Assets, pricing and allocating each Asset to Investors
Unfilled bidders hold demand account [BNYM] of >[20]%. Compensated by Liquidity Support Payment
Total Bids = n (Assets) x m (Investors)