NORTHERN TRUST
ASSET MANAGEMENT

March 24, 2022

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

Re: Response of Northern Trust Asset Management to Proposed Rule on Money Market Fund Reforms (File No. S7-22-21)

Dear Ms. Countryman:

Northern Trust Asset Management ("NTAM")[1] is pleased to submit these comments to the Securities and Exchange Commission (the "Commission") on proposed amendments to certain rules that govern money market funds ("MMFs") under the Investment Company Act of 1940 ("Act").[2] NTAM commends the Commission for its thoughtful consideration of proposed changes to MMF regulation after the stresses placed on short-term funding markets in March 2020.

Northern Trust Investments, Inc. ("NTI") is the primary U.S. investment adviser of NTAM and is one of the nation's largest sponsors of MMFs. As of December 31, 2021, registered MMFs sponsored by NTI and operating under Rule 2a-7 under the Act had approximately $218 billion in net assets, all of which were in "government MMFs" (as defined in Rule 2a-7).[3] NTAM offers a range of liquidity solutions, including tax-exempt, prime and government cash management solutions across mutual funds, CITs, UCITS and separately managed accounts. Because of the importance of the liquidity solutions that NTAM offers to our clients, NTAM welcomes this opportunity to engage constructively with the Commission regarding regulatory reform measures for MMFs.

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1 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, 2021, Northern Trust had assets under custody/administration of approximately US $16.2 trillion and assets under management of approximately US $1.6 trillion.

2 Money Market Fund Reforms, Investment Company Act Release No. 34441 (Dec. 15, 2021), *available at* https://www.sec.gov/rules/proposed/2021/ic-34441.pdf [hereinafter Proposing Release].

3 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 MMFs regulated under Rule 2a-7. These CITs and UCITS funds had total net assets of approximately $118 billion as of December 31, 2021.

NTAM's views on the proposed amendments are summarized below:

- It is highly unlikely that NTAM will reenter the institutional prime or institutional tax-exempt MMF markets. Swing pricing, together with increased liquidity requirements, if adopted, will reduce the utility of the money market fund vehicle to such an extent that the product will no longer be viewed by investors as an attractive investment option and will no longer serve many of its intended valuable cash management functions.
- Converting to a floating net asset value ("NAV"), rather than implementing mechanisms that reduce the number of fund shares outstanding, is an appropriate solution in a negative interest rate environment.[4]
- The current regulatory framework applicable to government MMFs should be preserved, and should not be altered in response to perceived challenges related to other types of MMFs.

Furthermore, NTAM supports MMF reform efforts that increases transparency for investors and preserves cash management options. NTAM, however, urges the Commission to reassess and balance the need for certain investor-specific information, as proposed, with the paramount need to protect investor privacy.

I. Proposed Swing Pricing and Increased Liquidity Requirements Reinforce NTAM's Decision to Exit, and Make it Highly Unlikely NTAM Will Reenter, the Institutional Prime and Municipal MMF Markets

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

- Investors should be compensated for the risks they take, and NTAM is committed to delivering investment products and solutions that fit our investor-centric approach.
- Future MMF regulatory changes have the potential to make prime and tax-exempt MMFs unattractive to investors through unnecessary complexity and without compensating for the investment risk, especially in low interest rate environments.
- Government MMFs are the optimal solution for investors' immediate operational cash needs.

The proposed amendments to Rule 2a-7 that would require swing pricing for institutional prime and tax-exempt MMFs and impose increased liquidity requirements further reinforces NTAM's decision to exit the prime and tax-exempt MMF markets and, if adopted, makes it highly

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4 For the avoidance of doubt, NTAM supports permitting government and retail MMFs to use the amortized cost method of valuation. NTAM's views related to converting to a floating NAV are limited to a negative interest rate environment.

unlikely that NTAM will reenter the institutional prime and tax-exempt MMF markets. As more fully explained below, NTAM does not view the removal of liquidity fees and redemption gates from Rule 2a-7 as offsetting the new proposed swing pricing and increased liquidity requirements in a manner that would make prime and tax-exempt MMFs appealing to investors or fund sponsors. In short, NTAM does not support the proposed amendments to Rule 2a-7 that would require swing pricing for institutional prime and tax-exempt MMFs and increased liquidity thresholds.[5]

As evidenced during March 2020, access to liquidity remains of primary importance to investors. Even though no MMF imposed a liquidity fee or redemption gate, the mere possibility of a fee or gate was a contributing factor in the level of MMF redemptions as certain MMFs' level of weekly liquid assets decreased closer to 30% of the MMF's total assets (the level at which a board of directors/trustees has discretion to impose a liquidity fee or redemption gate).[6] Our clients use MMFs for a variety of purposes, ranging from overnight "sweeps" of available cash for short-term yield, to pools of readily available cash to meet business operating expenses or investment needs, to longer-term strategic allocations of excess cash. It is vitally important that any additional regulatory requirements adequately consider the essential priorities of both retail and institutional investors to have readily available, predictable access to MMFs to meet their various cash management and liquidity needs. As further discussed below, NTAM expects that the proposed amendments will cause the prime and tax-exempt MMF sector to continue to decline, causing corporate and municipal borrowers to continue their move towards other sources of short-term funding, further reinforcing NTAM's view of government MMFs as the optimal solution for investors' immediate operational cash needs.

Regarding swing pricing specifically, NTAM views swing pricing as adding further complexities and operational challenges to institutional prime and tax-exempt MMFs that significantly diminish the benefits of principal preservation and liquidity access, both of which are core tenets valued by investors in cash management vehicles. As a result, the institutional prime and tax-exempt MMF product will no longer serve many of its intended cash management functions that investors seek and value and will no longer be viewed by investors as an attractive investment vehicle to help manage their important cash management needs. Instead, NTAM believes that a clear and consistent approach to any anti-dilution mechanism would benefit investors and fund sponsors.

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5 While NTAM does not support swing pricing for MMFs, to the extent the Commission determines to adopt swing pricing (other anti-dilution mechanism), NTAM supports the Commission excluding retail and government MMFs from such requirements.

The discussions in this comment letter regarding swing pricing are limited to MMFs and do not extend to other open-end funds in the United States, which are not the subject of this comment letter.

6 Based on data reported by the Investment Company Institute, from March 17 to March 24, average outflows were much stronger from institutional prime MMFs with weekly liquid assets at or below 35%, despite the fact that these MMFs held liquid assets above the regulatory minimum. *See* Investment Company Institute, Report of the COVID-19 Market Impact Working Group, Experiences of US Money Market Funds During the COVID-19 Crisis (Nov. 2020) at 33, *available at* https://www.ici.org/system/files/attachments/pdf/20_rpt_covid3.pdf [hereinafter ICI Report].

a. Swing Pricing Places an Unnecessary Penalty on Liquidity Access

One way in which swing pricing reduces access to liquidity is through effectively placing a penalty on liquidity access by imposing additional and unnecessary costs on redeeming investors.[7] This is amplified by application of a "swing factor", under the current rule proposal, *any* time there are net redemptions for a pricing period, even during normal market conditions and even when a MMF meets redemptions with available liquidity. NTAM questions whether it is necessary to impose swing pricing any time a MMF has net redemptions for a pricing period, even when such net redemptions are not significant, do not result in a MMF having to sell securities to meet redemptions or rebalance or reposition its portfolio, or are part of routine or anticipated flow activity. MMFs, by design, are intended to provide access to liquidity and serve valuable cash management functions for investors. NTAM urges the Commission against adopting an overly complex, punitive, or burdensome swing pricing regime, particularly, for example, a swing pricing regime that applies regardless of the amount of net redemptions or current market conditions, does not set an upper limit on a MMF's swing factor, and that impedes core functions for which MMFs are designed.

MMFs typically hold securities to maturity and meet redemptions with available liquidity in normal market conditions rather than selling securities (and incurring related transaction costs) to meet redemptions. The likelihood that a MMF would have to sell securities to meet redemptions would be even lower to the extent the Commission adopts higher liquidity minimums. The swing pricing proposal, however, would impose a "swing factor" that includes transaction costs (i.e., brokerage commissions, custody fees, and any other charges, fees, and taxes associated with portfolio security sales) from selling a vertical slice of the portfolio to meet net redemptions during a pricing period even when a MMF had been managed to a level of liquidity sufficient to meet redemptions without having to incur transactions costs, and may even realize gains, through selling securities to meet redemptions.[8] Moreover, it is unlikely a MMF would incur costs in rebalancing its portfolio in connection with such redemptions, particularly in normal market conditions.

Money market fund sponsors position their funds in anticipation of market trends and expected flows.[9] The implementation of swing pricing, however, would change the role of money market fund liquidity management because regardless of a MMF's ability to increase its liquidity buffer

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[7] Under the proposed rule, an institutional prime or institutional tax-exempt MMF must adjust its current NAV per share by a "swing factor" if the MMF has net redemptions for the pricing period. Proposing Release at 46. A swing factor is essentially a premium over NAV that an investor would be required to pay the MMF to make it whole for liquidity costs incurred in meeting the investor's redemption during periods of net redemptions.

[8] The Commission acknowledges that "the realized transaction costs of most redemptions may be zero as funds absorb them out of daily liquidity, while the true liquidity costs of redemptions may consist of the depletion of daily and weekly liquidity during times of stress (when rebalancing is especially expensive) rather than the sale of illiquid assets." This aspect of the proposal, therefore, could impose a large cost on redeemers that does not represent the actual cost realized from their trading activity, which may reduce the attractiveness of affected money market funds to investors." *See* Proposing Release at 196.

[9] In fact, MMFs already have tools in place to assist in identifying such routine flow activity through "know your customer" procedures.

and plan for redemptions, any time a MMF is in net redemptions (including due simply to the impact of market trends and cycles on flows in normal market conditions) a MMF would be required to implement swing pricing.

Swing pricing places an unnecessary penalty on an investor's access to liquidity through imposing costs on redeeming investors that are using the MMF for its intended purpose (cash management). Simply put, the Commission's proposed swing pricing requirement is not designed to reflect the functions of MMFs as cash management vehicles and is unnecessary, particularly in normal market conditions.

b. Swing Pricing Diminishes Principal Preservation by Introducing Greater NAV Variability

In addition to diminishing liquidity access, swing pricing also diminishes another core function and benefit of MMFs: principal preservation. As noted in the Proposing Release, MMFs are managed with the goal of providing principal stability.[10] Although institutional prime and tax-exempt MMFs are required to float their NAVs, such MMFs still seek to minimize principal volatility through the portfolio limitations in Rule 2a-7. Swing pricing requirements, however, are at odds with goals of providing principal stability and minimizing principal volatility, as the addition of swing pricing requirements could introduce greater variability to a MMF's NAV, particularly during volatile periods.

Investors use MMFs for valuable cash management functions and daily liquidity needs. Introducing swing pricing (and, therefore, the potential for additional volatility) to MMFs complicates the MMF wrapper in a manner that undermines the precision that investors require in order to make their daily liquidity decisions. Although institutional prime and tax-exempt MMFs are required to have variable NAVs, the strict portfolio limitations of Rule 2a-7 make it rare that a MMF's NAV greatly fluctuates. This minimization of principal volatility provides investors with a level of precision and forecasting in order to make daily liquidity decisions. Introducing greater variability to a MMF's NAV adds complexity that undermines core functions of a MMF as a cash management vehicle by inhibiting an investor's ability to make precise daily liquidity decisions and introduces a potential level of investor confusion regarding the MMF's NAV each day. This will cause investors to seek alternative cash management options that are not subject to such fluctuations and variability.

c. Swing Pricing Reduces the Utility of MMFs as Cash Management Vehicles

Requiring swing pricing adds significant complexities and operational challenges that impact an investor's access to liquidity and may result in fewer investment options available to investors. This, in turn, leads to increased industry concentration among remaining tax-exempt and prime MMF sponsors. These additional complexities and operational challenges significantly reduce the utility of the MMF wrapper for investors and include the following:

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10 Proposing Release, *supra* note 2, at 6 (also noting that "[t]he combination of limited principal volatility, diversification of portfolio securities, payment of short-term yields, and liquidity has made money market funds popular cash management vehicles for both retail and institutional investors").

- Operational impediments that restrict access to liquidity. Many MMFs offer investors the valuable feature of same day settlement, meaning MMF shareholders receive proceeds from their redemptions on the same day that they sell their shares. Further, many institutional MMFs strike their NAVs multiple times a day in order to provide investors with access to intraday liquidity. As more fully discussed below, swing pricing may impede these features and cause MMFs to move cut-off and/or NAV strike times to earlier in the day, which would shorten the period each day that an investor can access liquidity. These consequences of swing pricing alter the functionality of the MMF product and reduce the utility of the product to investors.
    - Impeding a MMF's ability to offer same day settlement; earlier cut-off times; and/or NAV strike times. In order to offer same day settlement, many operational items must be completed in a short amount of time – including computing NAV, receiving and processing redemptions, and completing Fedwire instructions. Each item must be completed after the MMF's closing time and before the Federal Reserve's Fedwire cutoff time of 6:45 pm Eastern Time.

      Swing pricing introduces additional operational complexities into the process described above. In addition to computing NAV, receiving and processing redemptions, and completing Fedwire instructions, under the Commission's proposal, a MMF would also be required to determine whether it has net redemptions for the pricing period (which requires sufficient investor flow information from fund intermediaries), the amount of such redemptions, and whether the MMF crossed the "market impact threshold."[11]

      It is unlikely a MMF could complete the additional, intensive deliverables required by the Commission's swing pricing proposal within their current settlement schedules. As such, MMFs would either no longer be able to provide valuable cash management features such as same day settlement, or would be forced to move cut-off times and/or NAV strike times earlier in the day. As noted above, access to liquidity is of primary importance to investors. Moving cut-off and/or NAV strike times to earlier in the day limits an investor's access to liquidity by shortening the time frame during which investors could submit redemption orders and still receive same day settlement. As a result, the utility and benefits of MMFs to shareholders will be reduced in a manner that makes such products unattractive as cash management vehicles.

    - Fewer MMFs offering intraday liquidity through multiple NAV strike times. For the same reasons as immediately discussed above, and to avoid having to complete the complex swing pricing process multiple times a day, MMFs that currently strike their NAVs multiple times a day may stop doing so should the swing pricing proposal be adopted. This, in turn, limits an investor's access to

[11] Under the proposal, the "market impact threshold" would be defined as 4% of the MMF's NAV divided by the number of pricing periods the MMF has in a business day, or such smaller amount of net redemptions as the swing pricing administrator determines.

intraday liquidity and reduces investor choice by limiting the number of products available to investors that provide intraday liquidity.

- Increasing tax reporting burdens. NTAM encourages the Commission to continue discussions with the staff of the Treasury Department and Internal Revenue Service regarding the tax consequences of the proposed swing pricing requirement to confirm, in advance of adopting swing pricing requirements, that shareholders of a floating NAV MMF that is subject to swing pricing may continue to use the NAV method to report gains and losses and that the wash sale rule does not apply to redemptions in floating NAV MMFs using swing pricing.[12] If the proposed swing pricing requirement modifies the method of accounting for gains or losses in MMF shares, or has other tax implications, the tax reporting effects of the proposed swing pricing requirement could increase burdens for investors, MMFs, and brokers.

- Effects of costs in order to implement swing pricing. In the current very low interest rate environment, the cost of the necessary systems and technology enhancements to implement swing pricing is likely to significantly outweigh the financial returns to sponsors of MMFs. Moreover, investors will see little if any increased yield from the additional risk of a MMF that implements swing pricing, compared with a stable government MMF or bank deposit. As a result, we believe that many sponsors will adopt similar views as NTAM and simply will not offer institutional prime or tax-exempt MMFs. This will increase industry concentration and reduce competition and investor choice.

These operational challenges not only add undue complexity to institutional prime and tax-exempt MMFs, but also threaten core functions and benefits offered by MMFs by reducing investors' access to liquidity (to the extent swing pricing results in MMFs imposing earlier cut off times or fewer MMFs offering intraday liquidity through multiple NAV strikes) and reduce investor choice (to the extent swing pricing results in fewer institutional prime and tax-exempt MMFs).

Simply put, swing pricing needlessly transforms the institutional prime and tax-exempt MMF wrapper in such a way that the product will no longer serve many of the valuable cash management functions that investors seek and value.

d. Benefits of Removing Liquidity Fees and Redemption Gates Do Not Outweigh Costs of Proposed Swing Pricing and Increased Liquidity Requirements

With respect to proposed increased liquidity minimums, NTAM believes liquidity minimums, even with the removal of liquidity fees and redemption gates, can still create threshold effects.

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[12] The Treasury Department and Internal Revenue Service previously clarified that the wash sale rules do not apply to redemptions in floating NAV MMF. *See* Rev. Proc. 2014–45 (2014–34 IRB 388) and Method of Accounting for Gains and Losses on Shares in Money Market Funds; Broker Returns With Respect to Sales of Shares in Money Market Funds, RIN 1545-BM04 (June 15, 2016).

Prior to the implementation of liquidity fee and redemption gate requirements, MMFs were able to more effectively use their liquidity buffers. In order to meet redemptions or react to market conditions, MMFs at times would drop below 30% of total assets in weekly liquid assets and then simply rebuild their liquidity buffers.[13] As a result of liquidity fee and redemption gate requirements, however, investors have been conditioned to have a heightened focus on weekly liquid asset figures (which are publicly available each business day) and may perceive any decrease below a required liquidity minimum as having potential negative implications, which may incentivize shareholders to redeem.[14] While NTAM supports the removal of liquidity fees and redemption gates from Rule 2a-7 (as further discussed below), NTAM does not believe this increased focus on liquidity levels will necessarily diminish should liquidity fee and redemption gate provisions of Rule 2a-7 be removed. Increased liquidity requirements will amplify investors focus on weekly liquid asset thresholds and may inhibit a MMF's ability to use its liquidity buffer. In addition, the increased liquidity requirements will have the impact of decreasing the yield potential in MMFs. NTAM believes the current daily and weekly liquid asset minimums for MMFs promote a highly liquid product in order to meet daily redemption requests.[15]

Moreover, NTAM highlights that MMFs typically manage their portfolio liquidity at levels higher than regulatory minimums. Although the Commission states a concern that MMFs may reduce their liquidity levels and not be equipped to handle future stress should the Commission adopt the proposal to remove liquidity fees and redemption gates, NTAM notes that even before the implementation of liquidity fee and redemption gate requirements, MMFs typically managed their portfolios above regulatory liquidity minimums.[16] NTAM believes this management of

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[13] Under Rule 2a-7, MMFs must comply with daily and weekly liquidity standards at the time each security is acquired. *See* Rule 2a-7(d)(4). A MMF whose portfolio does not meet the minimum daily or weekly liquidity standards is not in violation of Rule 2a-7, but may not acquire any assets other than daily or weekly liquid assets (as applicable). The structure of Rule 2a-7's liquidity requirements as an acquisition test correctly recognizes that a MMF's ability to use its liquidity buffer is part of effective liquidity management of the MMF. *See e.g.,* Money Market Fund Reform, Investment Company Act Release No. 29132 at 57 (stating that "a fund should be able to use [daily and weekly liquid] assets to pay redeeming shareholders even in market conditions (such as those that occurred in September and October 2008) in which money market funds cannot rely on a secondary or dealer market to provide immediate liquidity").

[14] NTAM believes that despite investor education regarding the removal of liquidity fees and redemption gates, investors will likely continue to negatively perceive any drop below the required minimum of weekly liquid assets and increase redemption behavior.

[15] In addition to minimum daily and weekly liquid asset requirements, NTAM notes that MMFs are subject to an additional general liquidity requirement to hold securities that are sufficiently liquid to meet reasonably foreseeable shareholder redemptions in light of the MMF's obligations under Section 22(e) of the Act and any commitments the fund has made to shareholders. Depending upon the volatility of cash flows (particularly shareholder redemptions), this general liquidity requirement may already require a MMF to maintain greater liquidity than would be required by the daily and weekly minimum liquidity requirements.

[16] Data prepared by the Investment Company Institute shows that from 2010 to 2013 (before fees and gates), weekly liquid assets for institutional prime MMFs averaged 42% of their assets. From 2014 to 2019 (excluding the period June 2016 to May 2017), weekly liquid assets for institutional prime MMFs averaged 44% of their assets. The comparable figures for retail prime MMFs were 39% from 2010 to 2013, and 42% from 2014 to 2019 (excluding the period from June 2016 to May 2017). Accordingly, even before liquidity fee and redemption gates were imposed, MMFs managed their portfolios significantly above regulatory minimums. ICI Report, *supra* note 6, at 45, n. 59.

portfolio liquidity will continue should the Commission adopt the proposal to remove liquidity fees and redemption gates from Rule 2a-7, as investors have become conditioned to have a heightened focus on weekly liquid asset figures and such figures are publicly available each business day.

When prime MMFs have comparable yields to other types of MMFs, investors in prime MMFs are not being compensated for the credit risk they are taking on and therefore will naturally look to reduce their risk by investing in a government MMF that provides a substantially similar yield.[17] NTAM notes that over the past several years, MMF investors have shifted to primarily government MMFs. As of March 16, 2022, government MMFs comprised approximately 89% of the approximately $4.6 trillion in total MMF net assets.[18] 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.[19] 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. We see this trend continuing and accelerating with the proposed swing pricing and increased liquidity requirements. We expect that the prime and tax-exempt MMF sector will continue to decline, 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 funding markets, but would highlight that borrowers have successfully adapted to the substantial decline in assets of prime and tax exempt MMFs over the past several years.

NTAM commends the Commission for reviewing the unintended consequences created by liquidity fee and, in particular, redemption gate provisions of Rule 2a-7 and supports the Commission's proposal to remove liquidity fee and redemption gate requirements from Rule 2a-7. NTAM, however, does not view the removal of liquidity fees and redemption gates from Rule 2a-7 as offsetting the new proposed swing pricing and increased liquidity requirements in a manner that would make prime and tax-exempt MMFs appealing to investors or fund sponsors. More specifically, NTAM agrees with the Commission's assessment that unintended consequences of liquidity fees and, in particular, redemption gates detracted from, rather than enhanced, the resiliency of MMFs and therefore the short-term funding markets.[20] NTAM

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[17] Anecdotal feedback across our client base has been consistent with this trend.

[18] Investment Company Institute, Release: Money Market Fund Assets, *available at* https://www.ici.org/research/stats/mmf (Mar. 17, 2022).

[19] The financial commercial paper market has been relatively stable ranging from approximately $500 to $650 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 has been at elevated levels despite declines in prime MMFs during that same time period. *See* Federal Reserve Board Commercial Paper Rates and Outstanding Summary, *available at* https://www.federalreserve.gov/releases/cp/ (Jan. 14, 2022).

[20] NTAM further agrees with the Commission's assessment of the unintended consequences of the tie between weekly liquid assets and liquidity fees and redemption gates, and believes it is possible that many investors in institutional prime MMFs were motivated to redeem their shares in March 2020 out of concern that if they delayed redeeming their investment might later be adversely affected by the imposition of liquidity fees or, in particular, redemption gates. *See* Proposing Release, *supra* note 2, at 28 ("[t]hese tools therefore appear to have potentially increased the risks of investor runs without providing benefits to money market funds as intended").

believes Rule 22e-3 under the Act is sufficient to address scenarios requiring a suspension of redemptions.[21]

In NTAM's comments on the Commission's 2013 proposed amendments to Rule 2a-7, NTAM expressed the view that a combination of both a floating NAV requirement and liquidity fees and redemption gates was the least satisfactory alternative.[22] More specifically, NTAM commented that the combination of these alternatives would be unduly punitive on MMF investors and would result in most investors moving their cash investments to bank deposits or other stable non-punitive investment alternatives. It remains NTAM's view that if a MMF has a floating NAV, liquidity fees and redemption gates are not necessary or appropriate.

In summary, NTAM does not believe the removal of liquidity fees and redemption gates from Rule 2a-7 offsets the Commission's swing pricing and increased liquidity proposals that add undue complexity to the product, place unnecessary penalties on liquidity access for redeeming investors, and decrease yield potential. The practical effect of the Commission's swing pricing and increased liquidity proposals, even with the removal of liquidity fees and redemption gates, is that the MMF product will no longer serve many of the valuable cash management functions that investors seek and will no longer be viewed by investors as an attractive investment option.

II. Converting to a Floating NAV is an Appropriate Solution In a Negative Interest Rate Environment

Consistent with NTAM's position of supporting transparency to investors, NTAM supports using a floating NAV in a negative interest rate environment. When interest rates are negative and a MMF's gross yield, in turn, turns negative, it becomes challenging to maintain a stable price per share. While persistent negative interest rates have not been experienced in the United States, as a leading global asset manager, NTAM draws upon its experience operating MMFs in Europe that have experienced negative interest rates.

The European Central Bank introduced a negative interest rate policy in June 2014 and has since cut its deposit rate several times to reach -0.5% in September 2019. In Europe, constant NAV

Similar conclusions were also included in a report by the Commission's Division of Economic and Risk Analysis, which noted that "some investors may have feared that if they were not the first to exit their fund, then in the event the fund breached the 30% [weekly liquid asset] limit, there was a risk that they could be subject to restrictions on withdrawals known as 'gates.' This anticipatory, risk-mitigating perspective potentially further accelerated redemptions." *See* Securities and Exchange Commission, Division of Economic and Risk Analysis, US Credit Markets: Interconnectedness and the Effects of the COVID-19 Economic Shock (Oct. 2020) at 26, *available at* www.sec.gov/files/US-Credit-Markets_COVID-19_Report.pdf.

21 Rule 22e-3 generally allows a MMF to suspend redemptions if, among other conditions, (i) the MMF, at the end of a business day, has invested less than 10% of its total assets in weekly liquid assets or, in the case of a government or retail MMF, the MMF's price per share has deviated from its stable price or the MMF's board determines that such a deviation is likely to occur, and (ii) the MMF's board has approved the fund's liquidation.

22 *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.

MMFs traditionally used a share cancellation technique of reducing the amount of an investor's shares corresponding to the amount of negative yield in order to maintain a stable value per share in negative interest rate environments. This technique, when used, was inconsistently applied across fund complexes, with some complexes implementing weekly versus monthly share cancellation techniques, as it lacked an industry standard structure and detailed regulatory framework. Ultimately, share cancellation has been deemed to be inconsistent with European Money Market Funds Regulation and is no longer used in Europe.[23] The Commission's proposed prohibition of share cancellation allows for global consistency among MMFs.

Although the use of this share cancellation technique enabled the MMF to maintain a stable price per share, the aggregate value of a shareholder's shares was reduced over time and the shareholder's investment, therefore, lost value over time. NTAM was among the first asset managers in Europe to introduce a variable NAV MMF in Europe when interest rates turned negative. In 2014, NTAM introduced the Euro Liquidity Fund (a fund of the Northern Trust Global Funds plc). The Euro Liquidity Fund has grown to $2.5 billion in assets under management as of December 31, 2021.

By using a variable NAV to address negative interest rates, NTAM sought to offer investors greater transparency while meeting investor objectives for security and liquidity. The lack of transparency created by complexes inconsistently applying share cancellation techniques compromised the precision investors sought in order to manage their cash needs. By using a variable NAV, investors were able to see daily fluctuations in the MMF's NAV and monitor the value of their investment. Conversely, the use of share cancellation may be potentially misleading to investors, particularly retail investors, insofar as share cancellation presents less transparency into the fact that a shareholder's aggregate investment may be losing value although the MMF's share price remains the same. In addition, any lack of a consistent approach with respect to applying share cancellation may further add to potential investor confusion. NTAM's philosophy of offering investors greater transparency remains unchanged, and NTAM continues to believe that using a floating or variable NAV is the appropriate solution in a negative interest rate environment.

NTAM believes an industry-wide, transparent approach with respect to responding to negative interest rates is in the best interests of investors. An industry-wide approach will avoid investor confusion with respect to how MMFs will respond to negative interest rates and how their investments may be impacted. As a result of requirements adopted in 2014 for MMFs to float their NAVs (excluding government MMFs and retail MMFs), NTAM has already developed capabilities to be able to convert its stable value NAV MMFs to floating NAV MMFs and NTAM believes that the operating model and capabilities for floating NAVs have already been

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23 *See* Letter from Olivier Guersent, European Commission Director-General of the Directorate-General for Financial Stability, Financial Services and Capital Markets Union, to Steven Maijoor, Chair of the Management Board of the European Securities and Markets Authority (Jan. 19, 2018), *available at* http://firds.esma.europa.eu/webst/20180119_Reply%20to%20Mr%20Maijoor%20on%20MMF.pdf; Letter from Valdis Dombrovskis, European Commission Vice-President Responsible for the Euro and Social Dialogue, to Mr. Maijoor (Oct. 4, 2018), *available at* https://www.esma.europa.eu/sites/default/files/library/ref._ares20185093685_letter_from_ec_to_esma_on_implementation_of_mmf_regulation.pdf.

developed by most of the MMF industry.[24] Further, the concept of a floating NAV MMF is not a new concept to investors, as investors have become familiar with the floating NAV construct for MMFs as a result of the 2014 amendments to Rule 2a-7. Continuing this construct allows for consistency within the U.S. MMF market.

Conversely, reverse distribution mechanisms have not been used for U.S. MMFs and operating models and capabilities with respect to such mechanisms have not been fully developed for the U.S. MMF industry. Moreover, even if the Commission does not adopt the proposal to prohibit devices that would periodically reduce the number of the MMF's outstanding shares to maintain a stable share price, there may be other requirements to which MMFs are subject, such as provisions in a MMF's charter documents, that could prohibit certain MMFs from implementing such devices. This could lead to inconsistencies across MMFs as to the available options for MMFs to respond to negative interest rates and increase investor confusion. Lastly, because this has not been used in the United States previously for MMFs, investors lack the familiarity with reverse distribution mechanisms that they have with floating NAV MMFs. For these reasons, including NTAM's experience in Europe with negative interest rates, NTAM believes adopting an industry-wide approach of responding to negative interest rates by floating a MMF's NAV in a negative interest rate environment is in the best interests of investors.

NTAM acknowledges certain drawbacks of stable value MMFs converting to floating NAV MMFs in a negative interest rate environment, including with respect to sweep transactions, challenges with financial intermediaries, and costs; however, for the reasons stated above, NTAM believes that floating a MMF's NAV is the appropriate response in a negative rate environment.

III. The Regulatory Framework for Government MMFs Should be Preserved

As noted by the Commission, different types of MMFs exist to meet differing investor needs.[25] For the foreseeable future, NTAM views government MMFs as the optimal solution for investors' immediate operational cash needs.[26] This view is further strengthened to the extent the Commission adopts rule proposals applicable to other types of MMFs that add undue complexity and unnecessarily impede or restrict access to liquidity (such as swing pricing requirements) or proposals that decrease the yield potential of other types of MMFs (such as increased liquidity minimums).

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[24] Based on a survey of select intermediaries. NTAM notes, however, additional considerations and complexities related to the ability to use such MMFs in sweep platforms and impacts on other downstream trading platforms that may require the development of additional capabilities and infrastructure.

[25] Proposing Release, *supra* note 2, at 7.

[26] This view is informed by NTAM's views discussed in Section I, including that in a continued low interest rate environment, investors in tax-exempt and prime MMFs earn yields comparable to those of government MMFs and therefore will naturally look to reduce their risk by investing in a government MMF that provides a substantially similar yield.

The Commission has correctly acknowledged that during times of stress, government MMFs have served as an important source of liquidity for investors seeking stability.[27] Government MMFs have functioned well in both the credit events associated with the 2008 Global Financial Crisis and the liquidity market stresses of March 2020. Government MMFs have served as a key safe harbor for investors, experiencing significant asset inflows and providing investors with a cash alternative to bank deposit products. Specifically, government MMFs had record inflows of $838 billion in March 2020 and an additional $347 billion of inflows in April 2020.[28] This is in contrast to the outflows experiences by other types of MMFs during the same time period. As previously recognized by the Commission, government MMFs generally offer greater safety of principal, face a lower risk of heavy redemptions, and have different portfolio risk characteristics than other types of MMFs.[29] The securities held by government MMFs are generally highly liquid even in stressed market conditions. These factors further support NTAM's view that changes to the regulation of government MMFs are not necessary and government MMFs should not be altered in response to perceived challenges related to other types of MMFs.

Government MMFs comprise a key segment of not only the MMF sector, but the overall short-term funding markets. As of March 16, 2022, government MMFs had assets under management of approximately $4.1 trillion.[30] NTAM believes 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 perceived challenges or limitations associated with prime or tax-exempt MMFs should be targeted specifically to those types of MMFs rather than applied indiscriminately to all MMFs.

IV. NTAM Supports Reform Efforts that Increase Transparency for Investors and Preserve Investor Choice

As a general matter, NTAM believes reform measures and policy measures should meet fundamental objectives of increasing transparency for investors and preserving investor choice. NTAM, however, believes it is important to balance these objectives with tenets of investor privacy and confidentiality. For these reasons, NTAM urges the Commission to permit investor-specific information, such as shareholder concentration levels, to be submitted to the Commission on a confidential basis rather than be made publicly available (as currently proposed).

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[27] Proposing Release, *supra* note 2, at 14; Money Market Fund Reform; Amendments to Form PF, Investment Company Act Release No. 31166 (July 23, 2014) at 17, *available at* https://www.sec.gov/rules/final/2014/33-9616.pdf [hereinafter 2014 Adopting Release].

[28] *See* Securities and Exchange Commission, Division of Economic and Risk Analysis, U.S. Credit Markets Interconnectedness and the Effects of the COVID19 Economic Shock (Oct. 2020) at 25*, available at* https://www.sec.gov/files/US-Credit-Markets_COVID-19_Report.pdf.

[29] *See e.g.,* Proposing Release, *supra* note 2, at 7, 14; 2014 Adopting Release, *supra* note 27, at 205.

[30] Investment Company Institute, Release: Money Market Fund Assets, *available at* https://www.ici.org/research/stats/mmf (Mar. 17, 2022).

Although similar information is required to be disclosed in a MMF's registration statement on an annual basis, NTAM believes monthly reporting of this information may cause investors to adjust holdings as of month end to avoid public disclosure of their MMF holdings. This investor specific disclosure item could therefore increase MMF redemption activity in a manner that does not serve the Commission's objectives of MMF reform. With respect to investors monitoring MMF liquidity levels, NTAM notes that investors will continue to have access to publicly available information about MMFs' historical net flows as well as current liquidity levels on a MMF's website. This information, which is required to be reported on a daily basis, provides a sufficient basis for investors to monitor redemption risks without the need for additional disclosure of shareholders that own more than 5% of shares as of month end. Revising the proposed reporting requirements to be reported on a confidential basis will still enable the Commission to collect and aggregate data and monitor a MMF's potential risk of redemption by an individual or small group of investors, but will protect investor privacy and confidentiality.

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NTAM appreciates the opportunity to submit the foregoing comments. We pride ourselves in being forward-looking and understanding the future intersection between practical market structures and investor demands and are pleased to submit the foregoing comments on the proposed amendments to MMF regulation. 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 Gary Gensler
The Honorable Allison Herren Lee
The Honorable Caroline A. Crenshaw
The Honorable Hester M. Peirce
William A. Birdthistle, Director, Division of Investment Management