BlackRock

April 11, 2022

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

Submitted online via *https://www.sec.gov/rules/submitcomments.htm*

RE: Money Market Fund Reforms (File No. S7-22-21)

Dear Ms. Countryman:

BlackRock, Inc. (together with its subsidiaries, "BlackRock") respectfully submits the following comment letter on the proposed rule, "Money Market Fund Reforms" ("the proposal").[1]

BlackRock supports the Securities and Exchange Commission's ("SEC" or "Commission") efforts to continue to improve the resiliency and transparency of United States ("U.S.") money market funds ("MMFs").[2] The proposal, which incorporates certain feedback from market participants in response to the December 2020 President's Working Group Paper on potential MMF reform options[3], represents a positive step toward the Commission's goal of making MMFs more resilient during periods of stress. In particular, we support the proposal's elimination of redemption gates from Rule 2a-7 and amendments to specify the appropriate methodology for calculations of the dollar-weighted average maturity ("WAM") and dollar-weighted average life ("WAL") of MMF portfolios.

However, we continue to oppose mandatory swing pricing for MMFs, as we do not believe the implementation of swing pricing will achieve the goal of protecting against first-mover advantage while maintaining the usefulness of MMFs for participants in the industry. The Commission's concern is that early redemptions may result in a dilution of value for the remaining MMF investors, triggering an incentive for all MMF investors to redeem quickly in times of stress, a classic "bank run" scenario. To solve this problem, economic analysis suggests "internalizing" the

[1] Money Market Fund Reforms, Investment Company Act Release No. 34441 [87 FR 26 (February 8, 2022), 7248] ("2021 Proposing Release").
[2] BlackRock continues to believe that a holistic approach to reform in the short-term funding markets should be undertaken in response to the March 2020 market events. *See* BlackRock's ViewPoint, "Lessons from COVID-19: U.S. Short-Term Money Markets" ("Lessons").
[3] *See* Report of the President's Working Group on Financial Markets Overview of Recent Events and Potential Reform Options for Money Market Funds (December 2020), available at PWG-MMF-report-final-Dec-2020.pdf (treasury.gov).

costs to the early redeemers, thereby preserving fund value. The Commission has proposed swing pricing as a method of achieving this internalization. In our view, this is not the appropriate method for MMF's, due to the high levels of liquidity that an MMF is required to maintain.

The current proposal's swing pricing solution will introduce unnecessary operational complexity while having only a tenuous relationship with the true cost to an MMF of managing redemptions. Further, the computation of the swing factor when net redemptions breach the threshold in the proposed rule is hypothetical and not representative of the true cost of managing redemptions in an MMF, as explained in more detail below. This complexity and uncertainty would likely diminish the utility of MMFs for investors.

If the Commission believes internalization of redemption costs is necessary, we believe a redemption fee would be more appropriate for MMFs. In contrast to swing pricing, a redemption fee has the same economic effect as swing pricing but is operationally simpler to implement. We propose a redemption fee that would initially be imposed only if net redemptions exceeded 10%, which equates to half of our proposed level of Daily Liquid Assets ("DLA") (we discuss below why a 20% DLA requirement is more than sufficient for meeting redemptions without the need to sell other assets), **and** certain levels of market stress are present as measured by Weekly Liquid Asset ("WLA") levels. The maximum value of this fee would be transparent to investors who expect to trade in MMFs at close to net asset value ("NAV").

We have also identified several other areas where the Commission's proposal should be modified prior to the adoption of a final rule to allow MMFs to (i) continue to meet large redemptions while addressing any concerns about redemption costs and liquidity without causing significant operational challenges to the industry and (ii) retain their availability and utility for participants in the industry. Specifically, we recommend:

- ***Adjusting the proposed portfolio liquidity requirements of MMFs*** to provide a substantial buffer that would continue to equip MMFs for large and rapid investor redemptions but still provide flexibility to the MMFs, particularly non-government MMFs, to invest in diverse assets which we believe would improve resilience.

- ***Removing the requirement for MMF providers to determine the capacity of intermediaries for implementing a per share floating net asset value ("FNAV") in Government and Retail MMFs*** and clarifying that intermediaries need only be able to implement manual processes for redemptions in a negative interest rate environment.

- ***Implementing suggested specific recommendations regarding the proposed reporting requirements***.

We first discuss the short-term funding markets ("STFMs") in which MMFs operate. With that background and understanding, in the remainder of this letter, BlackRock

will discuss these aspects of the Commission's proposal and offer changes and alternatives the Commission should consider prior to issuing a final rule for MMFs. These comments are driven by the belief that MMFs, including institutional prime MMFs, are valuable investment tools for investors and enhance the short-term market ecosystem, and are informed by BlackRock's long experience with managing MMFs.[4]

Short-Term Funding Markets and March 2020 Events: The Broader Picture

We cannot discuss MMFs without also analyzing the STFMs in which they operate. STFMs are critical for financing governments, banks, and non-financial companies and play a central role in monetary policy transmission. As investors came to understand the worldwide impact of COVID-19 in March 2020, liquidity concerns arose and portions of the STFMs essentially froze. Certain MMFs faced heightened redemptions as investors moved quickly to increase their liquidity; in contrast, other MMFs, particularly government MMFs, saw large increases in subscriptions during this same time. While the COVID-19 crisis exposed vulnerabilities in current MMF regulation that should be evaluated and addressed, as we have discussed in more detail in prior letters, the March 2020 market dislocation underscores the need to undertake a holistic review of and make improvements to the market structure for short-term instruments.[5]

During the 2008 financial crisis, credit shocks in certain fixed income assets eventually led to a deep banking and credit crisis. The source of the turmoil differed greatly from the COVID-19 crisis, which arose from a pandemic, a government shut-down of the economy, and the resulting unprecedented shocks to the real economy. The reaction to the fears generated by the pandemic and the steps required to mitigate the spread of the virus created massive and unanticipated destruction of demand for goods and services and supply chain disruption as well as global uncertainty. This uncertainty arose almost instantaneously and abruptly disrupted a robust U.S. economy that had been performing at historically high levels of employment and economic output. The broader market turmoil placed acute strains on the STFMs. For nearly two weeks in March 2020, market participants, like BlackRock, often struggled to find bids from dealer banks in the secondary market for much of the commercial paper ("CP"), bank certificates of deposits ("CDs"), or municipal debt they were holding. Even Treasury bills came under pressure during this time, and primary issuance for corporate issuers and municipal issuers abruptly halted. Decisive and targeted intervention in the STFMs by the U.S. Federal Reserve helped to alleviate the strains in the U.S. markets. However, in Europe where central bank interventions only touched a limited segment of the STFMs, the secondary market remained highly stressed for several

[4] BlackRock and its predecessor companies have been involved in the management of MMFs since 1973, and today, BlackRock manages approximately $755 billion (as of December 31, 2021) in global MMF assets.

[5] For more on our views on how the STFMs can be improved to enhance financial stability, *see* Lessons, *supra* note 2, and BlackRock's comment letters, "FSB – Consultation Report on Policy Proposals to Enhance Money Market Fund Resilience" ("FSB Comment Letter") and "President's Working Group on Financial Markets: Overview of Recent Events and Potential Reform Options for Money Market Funds."

weeks, with banks' ability or willingness to make markets in short-term CP and CDs severely diminished. Fragmentation and opacity in the STFMs hamper visibility into the specifics of this "no bid" environment, but anecdotal evidence from other market participants is consistent in pointing to this dynamic.

Therefore, BlackRock firmly believes that the issues in the underlying STFMs must be addressed initially or concurrently with additional MMF reform. While we agree that the lack of liquidity in the market in March 2020 exposed a vulnerability related to the difficulty of liquidating assets, this is a vulnerability of the STFMs as a whole, not a vulnerability exclusive to MMFs.[6] MMFs were not the only seekers of liquidity in the STFMs during March 2020. MMFs make up less than 25% of the CP investor base in the U.S. BlackRock believes, based on anecdotal conversations, that other participants in the STFMs, such as insurance companies and pension plans, were also facing pressure to raise cash in the face of the uncertainty brought on by the COVID-19 crisis. While their cash-raising attempts were not as visible as those of MMFs, given the opacity of the STFMs, we believe that pressure was no less acute.

Changes to MMFs will do little to address the underlying vulnerability of limited liquidity during market stress in certain portions of the STFMs. Moreover, if the changes to MMFs were made in isolation, driving investors away from MMFs and into other corners of the STFMs, these reforms might decrease the limited existing transparency in the STFMs.

Finally, we note that a significant reduction in the footprint of MMFs in the STFMs would not necessarily mean a reduction in the possible need for central banks to intervene in future market crises. For example, if shrinking the size of the MMF market shifts participants in the STFMs into less easily accessible solutions for investing cash, this could lead to corporations struggling to convert direct holdings into cash in times of need, or pension funds finding they are unable to liquidate assets in order to meet elevated margin calls during market stress (noting that these other direct holders of CP would not have the same liquidity buffer requirements of MMFs). Therefore, the real economy and financial stability imperative for central banks to underpin the functioning of STFMs may arguably be greater in a scenario where the aggregate size of MMFs is significantly diminished than in today's status quo.

Amendments to Increase MMF Portfolio Liquidity

In considering portfolio liquidity requirements, we first want to emphasize our support for the proposal's elimination of redemption gates which were linked to the required WLA threshold. Under Rule 2a-7 today, all MMFs must hold WLA of at least 30% and most must hold DLA of 10%;[7] these metrics are publicly disclosed

[6] We think the dash for liquidity from institutional prime MMFs was exacerbated by the current regulatory structure of MMFs, and in particular, by the threat of an imposition of a redemption gate by a MMF Board.

[7] Rule 2a-7(d)(4)(ii) and (iii). Tax-exempt MMFs are not subject to the DLA requirement. The WLA and DLA requirements were added to Rule 2a-7 as part of the 2010 money market

each day on a one business day lag.[8] In addition, if an MMF (other than a government MMF) falls below the 30% WLA threshold, the MMF's Board may impose liquidity fees or a redemption gate to limit withdrawals if in the best interests of the MMF.[9] In March 2020, certain institutional MMF investors actively monitored the WLA levels of the MMFs they were invested in and chose to redeem out of MMFs that approached the 30% WLA threshold, rather than remain in those MMFs, in order to avoid the potential imposition of a redemption gate by their MMF's Board. We note that institutional prime MMFs whose WLA dropped toward the 30% level during March 2020 had, on average, substantially stronger outflows in percentage terms than other institutional prime MMFs.[10] The possible imposition of redemption gates and their connection with required WLA exacerbated the rush for redemptions in March 2020 and, as such, we strongly support the proposal's elimination of redemption gates from Rule 2a-7.[11]

Turning to the Commission's proposed increases to the DLA and WLA, these levels should not be raised as high as proposed by the Commission. As stated in our response to the Financial Stability Board ("FSB") report "Consultation report on Policy Proposals to Enhance Money Market Fund Resilience", we believe that USD-denominated prime MMFs should hold a minimum of 20% of their assets in DLA.[12] With the removal of the threat of a redemption gate, an enhanced DLA of 20%, coupled with an enhanced WLA of 40%, will provide a strong source of available liquidity to ensure MMFs are able to continue to manage significant and rapid investor redemptions.[13]

An MMF is designed to meet redemptions with available cash, rather than by selling assets to raise cash. Therefore, the most relevant type of liquidity to an MMF's ability to meet redemptions is DLA. In our view, a 20% DLA is more than adequate to cover redemptions on even high redemption days. From December 2016 through October 2021, no BlackRock sponsored institutional prime MMFs had net redemptions of 20% or more on any single day. [14]

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fund reform rules. Money Market Fund Reform, Investment Company Act Release No. 29132 [75 FR 42 (Mar. 4, 2010), 10060]. Prior to 2014, MMFs were not required to post their liquidity levels daily, and these liquidity metrics were not linked to a Board's ability to impose a liquidity fee or a redemption gate.

[8] Rule 2a-7(h)(10)(ii).

[9] Rule 2a-(c)(2)(i).

[10] According to iMoneyNet data from March 11, 2020 to March 31, 2020, institutional prime MMFs with WLA that fell below 35% saw net outflows of 43% in aggregate, while institutional prime MMFs with WLA that did not fall below 35% saw outflows of 25%.

[11] We also agree that Rule 22e-3 should remain a tool for MMF Boards if they determined that it would be in the best interests of the MMF to liquidate in an orderly manner. *See* 2021 Proposing Release, *supra* note 1, 7257.

[12] *See* FSB Comment Letter, *supra* note 5.

[13] The Commission notes that "for the past several years, prime money market funds have maintained levels of liquidity that are close to or that exceed the proposed thresholds. . ." *See* 2021 Proposing Release, *supra* note 1, 7273. Based on our analysis of iMoneyNet data for publicly disclosed WLAs of institutional prime MMFs during the period of 2018 and 2019, the weighted average WLA was closer to 43%.

[14] *See* iMoneyNet data for March 2020 (as of March 31, 2022).

Turning to WLA, the purpose of that liquidity requirement is to ensure that there is adequate ability for an MMF to organically replenish its DLA to continue to meet redemptions out of DLA in the following business days. During March 2020, to lessen investor concerns over the possible imposition of a gate, MMFs allowed their maturity profile to shorten without redeploying cash into longer-dated positions. This was done in an effort to bolster cash positions well beyond what was needed to meet current day or near-term redemptions, signaling to investors that redemption gates were not a risk to their investments. To avoid lowering their WLA levels, MMFs sold longer-term securities rather than rely on the liquidity already held in their portfolios.

Combined with a 20% DLA, we believe that a 40% WLA level would in our view be sufficient for any MMF. An MMF's 40% WLA level would be comprised of securities that meet the DLA criteria on any given day and those that would fulfill the replenishing function in the following days.

Importantly, we believe that even with the delinking of redemption gates from any WLA threshold, most institutional MMFs providers will still manage their institutional MMFs to keep liquidity levels above the regulatory minimum. Institutional investors will continue to view WLA as the most transparent metric of liquidity of an MMF (and stress in the marketplace) and this metric will inform their choice of whether to remain in an MMF, similar to other metrics such as NAVs, WAMs or WALs. Consequently, we believe MMFs will consistently maintain their WLA at or above the regulatory level and will avoid allowing their WLA level to dip significantly below the regulatory mandated level.[15]

We believe the additional liquidity called for by the proposal beyond 20% DLA and 40% WLA would be harmful to investors, as it would hinder diversification within MMFs rather than provide necessary investor protections.[16] Excessive liquidity levels would also significantly impact non-government MMFs' ability to generate yields that are sufficiently higher than those of government MMFs, reducing their utility to investors as a higher yielding product.[17]

Swing Pricing Requirement

Asset managers have used swing pricing as an anti-dilution investor protection tool for non-MMF open-end mutual funds ("OEFs") in major fund jurisdictions for over

[15] We acknowledge that MMFs more regularly used their liquid assets between the implementation of the 2010 rule changes and the implementation of rule changes in 2016. During this time, the WLA and DLA of an MMF were not as transparent to investors, as these metrics were not required to be posted daily on an MMF's website at that time.
[16] There is a need for balance between any liquidity requirements and the need for diversification if the goal is to optimize the resilience of MMFs. Setting liquidity requirements too high could also cause unknown impacts on the STFMs given issuers will need to fund more of their operations through shorter duration issues to meet investor demand, in turn decreasing the reliability of their own cash flows.
[17] *See also* discussion above of the unintended negative consequences on the STFMs of shrinking the market size of institutional prime MMFs.

twenty years.[18] Swing pricing is primarily an investor protection tool to reflect the transaction costs associated with an OEF selling assets in the process of meeting redemptions (or purchasing assets to invest subscriptions proceeds). Calculating these estimated transaction costs via swing pricing is relevant to an OEF, as there can be a difference between the valuation price of these assets when the fund's NAV is struck (and the calculation is performed) versus when the underlying assets are sold or bought. As non-MMF OEFs typically meet redemptions through asset sales, swing pricing can appropriately estimate the costs of meeting those redemptions. MMFs, on the other hand, do not typically meet redemptions by selling securities and, when an MMF does sell securities, the typical bid/ask spread is quite narrow. These differences make swing pricing inappropriate for MMFs. Additionally, swing pricing does not address first mover advantage in markets: that is, the advantage for market participants to take up available market liquidity ahead of other market participants. As was seen in March 2020, it was really market liquidity that needed to be addressed.

For the following reasons, we do not believe swing pricing is a workable tool for MMFs[19]:

- **Market impact calculations would be based on hypothetical assumptions and, therefore, may unfairly benefit some investors over others.** MMFs do not meet redemptions by selling a vertical slice of their portfolio. Rather, an institutional prime MMF typically relies on its DLA to meet redemptions, with confidence that additional holdings within the WLA bucket would mature the next day to replenish the DLA bucket. Additionally, an MMF is usually aware of an impending large redemption during normal market conditions and manages its liquidity to account for that redemption.[20] Therefore, calculating a "market impact" each time net redemptions were more than 4% based on the sale of a vertical slice of an MMF would not be reasonable given that such sales do not happen in normal (i.e., the vast majority) of market conditions. Without such sales, an MMF would be forced to calculate a swing factor based on a hypothetical sale of a vertical slice of an MMF's portfolio resulting in a hypothetical cost unrelated to the actual impact on an MMF of such redemptions. The proposal acknowledges this by noting, "without an active secondary market, particularly in times of severe liquidity stress, funds may need to use their discretion in the estimation of market impact factors."[21] This is fiction, unrelated to market conditions. As a result, this fictitious market impact factor would (i) potentially disadvantage certain investors (subscribers or redeemers) over others because it is not accurate, and (ii) result in potential moral hazard as sponsors seek to avoid

[18] *See* BlackRock's Policy Spotlight, "Swing pricing—Raising the bar"; *see also*, BlackRock's ViewPoint, "Lessons from COVID-19: Liquidity Risk Management is Central to Open-End Funds," pgs. 19-21.
[19] We particularly support the cost benefit analysis being submitted by the Committee on Capital Markets Regulation in response to the proposal's swing pricing requirement.
[20] Indeed, MMF's often receive and are expressly designed to accommodate large redemptions during normal market conditions, and an MMF having daily net redemptions of 4% or greater should not be considered a sign of stressed market conditions.
[21] *See* 2021 Proposing Release, *supra* note 1, 7303.

competitive disadvantages resulting from high calculations. Notably, the proposal lacks guidance on how an MMF should estimate these hypothetical costs and, instead, calls on MMF sponsors to be guided by "good faith."[22] We note this lack of regulatory clarity further exacerbates our concerns with respect to the potential for moral hazard and unfairly differentiated investor experience.

- **Lack of or Narrow Bid-Ask Spreads make calculating, and applying, the swing factor challenging.** We are skeptical that an accurate swing factor could be calculated fairly, and consistently, given extremely narrow bid-ask spreads for the underlying securities in the STFMs. Further, during times of extraordinary market stress, like that in March 2020, it is not unusual to fall into a no-bid environment for CP given the lack of a well-developed secondary market for those securities.[23] Specifically, the swing factor calculated for an STFM instrument is likely to be of such de minimis size that after applying the swing factor there might be no change in the price of the STFM instrument due to the need to apply rounding. In the meantime, the MMF would internalize additional cost and operational complexity with no discernible benefit.

- **The operational changes and costs required to implement swing pricing in the U.S. are significant and will impact the viability of institutional prime MMFs.** A key feature of the institutional MMF product for many investors is the ability to obtain same day settlement. In order to provide same day settlement on days when there were net redemptions, MMFs would need to close earlier in the day to provide enough time for the Swing Price Administrator to calculate the swing factor and apply it to the calculated NAV of the MMF prior to redemption proceeds being paid. If the MMF is required to calculate a market impact factor due to net redemption levels crossing the proposed 4% threshold, this would take additional time further shortening the trading hours of the MMF. This additional processing time may cause fund providers to set earlier closes for MMFs to ensure redemption proceeds can still be processed prior to the Fed wire cutoff, making them less useful to investors. MMFs and their service providers would need to develop seamless and systematic calculations and controls to allow for variability of NAV pricing methods and adjustments throughout the day with tight deadlines to facilitate cash settlement in an orderly and timely fashion. The technology changes necessary to support swing pricing by MMFs and their service providers, and the ongoing governance structure to support the changes, could be substantial and time consuming to develop and test. In particular, record keeping, board reporting, and policies and procedures would all need to be adjusted, in addition to the processes related to the calculation of the swing factor itself that MMF providers would need to create, as described above, with all of these changes putting into question the viability of institutional prime MMFs.

[22] *See* 2021 Proposing Release, *supra* note 1, 7262.
[23] *See also* discussion above on STFM infrastructure.

- **Institutional MMFs with multi-strike NAVs would be unavailable or unappealing to investors if they were subject to swing pricing.** It is very typical for multi-strike MMFs to consistently see net redemptions during the earlier NAV strikes offered by the MMF and then see net subscriptions during the later NAV strikes.[24] In our experience, redeeming investors redeem earlier in the day so that they can deploy their redemption proceeds throughout the day while subscribing investors subscribe later in the day once they have a clearer picture of the cash they would like to place overnight. Investors would not want to be subject to a swing price simply because they chose to access their liquidity earlier in a day when markets were not under stress and there were no other extenuating circumstances challenging an MMF's liquidity. This preference for redeeming in the morning and subscribing at fund close means that on many days a swing factor might need to be calculated for the morning NAV due to net redemptions at that time when in fact the overall activity across the full day in the MMF might result in net subscriptions.[25]

- **The swing factor would need to be calculated often and with no regard to actual liquidity impact.** Using the swing pricing calculation requirements from the proposal, BlackRock would have been required to determine if a swing factor needed to be applied 1,947 times over the last 5 years[26] to our flagship institutional prime MMF, which strikes its NAV multiple times per day. During that period, the fund would have crossed the market impact threshold 303 times or 25% of its total trading days. Yet the fund experienced no liquidity concerns during these five years, remaining well above both its required DLA and WLA levels and processing all redemptions it received.[27] The cost of imposing a swing pricing regime on an MMF simply because an MMF is experiencing net redemptions, where the MMF has more than enough liquidity and will continue to have more than enough liquidity, is not justified by the minimal impact it might have on the dilution of remaining investors, particularly when the swing factor does not include a market impact factor.

- **The uncapped nature of swing pricing is incompatible with the investor needs these MMF products were designed to meet**. Investors use MMFs to fulfill part of their cash investment needs and expect to be able to redeem at

[24] Based on approximately 5 years of data (from December 1, 2016 to November 5, 2021) from BlackRock's flagship multi-strike NAV institutional prime MMF, the 8 A.M. NAV strike saw net redemptions 64% of the time, the 12:00 P.M. strike saw net redemptions 54% of the time, and the 3 P.M. strike saw net redemptions 41% of the time.
[25] Based on approximately 5 years of data (from December 1, 2016 to November 5, 2021) from BlackRock's flagship multi-strike NAV institutional prime MMF, on 45% of the days where there were net redemptions at the 8 A.M. NAV strike, the MMF had net subscriptions for the full day.
[26] Over the period of December 1, 2016, through November 5, 2021.
[27] Based on approximately 5 years of data (from December 1, 2016 to November 5, 2021) from our flagship multi-strike NAV institutional prime MMF, neither DLA nor WLA ever dipped below their regulatory mandated levels, and we did not have any day where net redemptions exceeded DLA.

or near NAV. Having redemptions subject to an unknown swing factor with no upper cap is likely to turn investors away from using this product.[28]

- **Swing pricing could harm investors and reduce competition.** Swing pricing can hurt a small investor in an MMF who happens to redeem on the same day a big investor redeems a large amount. While the proposal is only intended to apply swing pricing to institutional MMFs, there are certainly retail investors who take advantage of these institutional vehicles and could ultimately experience a swing factor. Additionally, given the cost to address the operational challenges of swing pricing, we believe this could further reduce the number of competitors in the marketplace giving investors less choice.

- **Certain MMF's are "Internal Only" which makes them particularly ill-suited to swing pricing.** A significant number of the institutional MMFs that exist today are not sold to public investors, but rather are used for money management by mutual fund sponsors. For example, there are prime MMFs that serve only as a sweep vehicle for other open-end mutual funds in the same fund complex or that serve as collateral management vehicles for securities lending done by mutual funds in the same fund complex and are not as sensitive to 'runs' as publicly offered funds. For instance, BlackRock manages an Internal Only MMF which only crossed the market impact threshold 8 times over the last 5 years[29], and during March 2020, had average daily trading volumes of less than 2.5% of total net assets. In instances such as these, investors in the Internal Only MMFs are more likely to have an aligned purpose, negating the need to protect against a first-mover advantage. As such, these Internal Only MMFs are particularly ill-suited to any anti-dilution mechanisms such as swing pricing.

Swing Pricing Alternative: Modified Redemption Fee

The additional proposed portfolio liquidity requirements along with the removal of gates adequately positions MMFs to absorb redemptions during a stressed market. However, if the Commission continues to believe that redeeming investors should bear a cost for redeeming in stressed markets, we believe a modified version of a redemption fee is the most appropriate solution. A redemption fee would best address the concern of placing some cost of redeeming on the redeeming investor during times of stress but still allow an institutional MMF to retain the features that make it useful in the STFMs, such as multiple strikes and a high degree of certainty for redeeming investors. As compared to swing pricing, the infrastructure for a redemption fee is already available in institutional MMFs and our proposed structure could be applied consistently by all institutional MMFs in the market. Our proposed tiered fee methodology and formulaic application is logical outgrowth

[28] *See also* discussion above of the unintended negative consequences on the STFMs of shrinking the market size of institutional prime MMFs.
[29] Over the period of December 1, 2016, through November 5, 2021.

from the proposal's question 37 regarding simplified fee calculation methodology.[30]

We believe that a redemption fee needs to be both objective and at least partially unobservable to investors before being implemented, which implies it should not initially be linked to a single transparent metric. As noted above, and in our response to the 2021 FSB proposal, we believe that USD-denominated prime MMFs should hold a minimum of 20% of their assets in DLA, as MMFs with a DLA requirement use that liquidity as the key tool by which they meet redemptions. The turnover of overnight liquidity into cash on hand the next trading day is non-dilutive, unlike sales of assets with remaining residual maturity. This means there is no need for fund-level liquidity management mechanisms when MMFs are functioning normally. Also given that MMFs meet their redemptions from available liquidity rather than selling assets, any anti-dilution mechanism should be stress tested against a MMFs ability to maintain minimum levels of DLA. However, given that the Commission's proposal for swing pricing extended to institutional tax-exempt MMFs which are exempt from maintaining a minimum overnight level of liquidity because of the available securities in the municipal markets, we suggest a two-part test to determine if a fee is implemented based on the MMF's net redemptions and the MMF's WLA.

An institutional MMF would be required to impose a prescribed redemption fee based on the following factors on a particular day. The following fees would be applied[31]:

- *If net redemptions were 10%[32] or higher **and** the prior day's WLA is less than 30% but greater than or equal to 20%, a fee of 0.25% would be applied to all redemptions*

- *If the prior day's WLA is less than 20% but greater than or equal to 10%, a fee of 1.00% would be applied to all redemptions*

- *If the prior day's WLA is less than 10%, a fee of 2.00% would be applied to all redemptions*

This solution provides an efficient and easily applied cost to redeeming investors and, given the Commission's own acknowledgment that the creation of a market impact factor will at best be only an estimation, we believe this prescribed fee would

[30] *See* 2021 Proposing Release, *supra* note 1,7268.
[31] Note, with respect to multi-strike NAV funds, we propose a payout of 98% of a redemption shortly after each intra-day NAV is struck, with the remaining 2% paid out after the close of the MMF if no fee is required to be applied or reduced by the fee if one is applied.
[32] Note that while this suggested framework focuses on an MMF's total net redemptions, one possible extension would be to consider the size of a specific investor's redemption as a percentage of its own position in a fund as part of the redemption fee calculation for that investor. This could allow investors who want to redeem a small portion of their holding, which is unlikely to affect the fund, to do so without facing a fee regardless of the redemption activity of other investors; this would encourage investors to only redeem the proportion of holdings they actually need in any given day.

provide more robust protection to remaining investors with no need for a market impact estimation. The formulaic application of the framework would allow MMFs to continue providing same day liquidity. Fund providers could apply the redemption fee quickly after the close of the MMF, without need for extra time to compute estimations.

In our view, this redemption fee addresses several of the challenges inherent in the liquidity fees permitted today under Rule 2a-7. First, we believe focusing as an initial matter on net redemptions is the best indicator of a given MMF's ability to meet redemptions from its DLA. Meeting redemptions through DLA is by design non-dilutive to remaining investors and has no associated transaction costs to the MMF. Additionally, net redemptions are not visible to investors on a same day basis and the inclusion of that part of the test should discourage investors from unnecessarily redeeming large volumes in a single day lest their own redemption trigger the redemption fee. However, as MMFs can receive and easily accommodate large redemptions during normal market times, we feel strongly that a single trigger test based only on net redemptions would not be adequate to identify times of market stress. It is feasible for an MMF to adequately plan for and handle net redemptions greater than 10% during normal markets, particularly as 10% net redemptions equates to only half of the recommended 20% DLA representing an MMF's daily cash on hand that is replenished as new assets from the WLA bucket roll into DLA.

Second, to ensure that the size of the redemption fee is calibrated to the severity of that stress, we believe the second trigger should be a percentage of WLA.[33] We acknowledge that any redemption fee that is linked to a transparent metric such as a WLA involves some level of "cliff edge" effect due to investors attempting to anticipate imposition of the fee. As noted in the above section, investors are likely to be closely watching whether an MMF is approaching its regulated minimum WLA level. Therefore, the existence of DLA and WLA thresholds will always create some cliff edge effect associated with those levels even if they are not related to a fee trigger. That said, we believe this cliff edge effect is mitigated in our redemption fee proposal by the reliance on the net redemption trigger for the initial implementation of the redemption fee. After the initial redemption fee has been implemented, the reliance on only the WLA no longer creates a first-mover advantage, as all redemptions will be charged a liquidity fee.

Third, we acknowledge that it is hard to fully distinguish between the impact of the potential for gates and the potential for fees on investor behavior in March 2020 because of how those tools are currently linked in Rule 2a-7. Our anecdotal conversations with our investors, however, lead us to believe that redemption gates were the primary concern leading investors to redeem when liquidity began to

[33] We believe DLA is the best metric to illustrate initial market stress, but we recognize that this metric is inapplicable for institutional tax-exempt MMFs given the types of securities in the tax-exempt market. We therefore rely on the next best metric, in our opinion, the WLA.

approach 30% WLA.[34] To the extent that the potential for fees was also fueling investor behavior, we believe that concern was largely centered on the unpredictability of whether fees would be applied due to their discretionary nature as well as the potential for the large maximum fee of 2% being applied as soon as the 30% WLA level was crossed.

The experience of bond ETFs during March 2020 further provides relevant evidence that investors would be willing to accept the need to pay a modest fee in order to access liquidity during a stressed market. Investors sold their exposures in ultra-short and floating-rate fixed income ETFs to raise cash, despite the largest U.S. floating rate bond ETF closing at a discount to its NAV on multiple days during that March 2020 period, including closing at a discount of 8% on March 12.[35] While some of this discount was likely due to ETF NAVs sometimes exhibiting latency issues in stressed times, the existence of a discount at all suggests investors were willing to sell the ETF despite the discount in order to access liquidity. This leads us to believe that investors in an MMF would similarly be willing to accept a redemption fee to access liquidity in a stressed market.

Fourth, by removing the discretionary nature of the current Rule 2a-7 fee, our proposal provides more clarity to investors about when and why a fee will be applied. In March 2020, investors expressed concern about the opacity of an MMF Board's decision making surrounding the discretion those Boards were given, and we believe investors will derive comfort from that discretion being removed.

Our tiered redemption fee proposal focuses on a predictable, objective structure that is fairly tied to the impact of redemptions during times of stress on the MMF and its remaining investors. Note, it is our view that this fee would be a new concept rather than an application of a Rule 22c-2 fee, which is a discretionary fee.

Lastly, we encourage the Commission to be open to market innovation of novel fund structures that could also provide solutions to the issue of investor dilution.

Negative Interest Rate Environment & Intermediary Requirement

Unlike Europe, the U.S. has never entered a negative interest rate environment.[36] Indeed, current market conditions have resulted in the Federal Reserve raising interest rates, thus lowering the chance of a negative interest rate environment

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[34] Under current Rule 2a-7, a Board had the ability to impose a liquidity fee ***or*** redemption gate when an MMF's WLA fell below 30%. Rule 2a-7(c)(2)(i). Investors were not able to discern which tool a Board may use.

[35] See BlackRock's policy spotlight, "Lessons from COVID-19: ETFs as a Source of Stability," p. 6.

[36] "I continue to think, and my colleagues on the Federal Open Market Committee continue to think, that negative interest rates is probably not an appropriate or useful policy for us here in the United States," Federal Reserve Chairman Jerome Powell told 60 Minutes correspondent Scott Pelley in an interview that aired on May 17, 2020 (Full transcript available at https://www.cbsnews.com/news/full-transcript-fed-chair-jerome-powell-60-minutes-interview-economic-recovery-from-coronavirus-pandemic/) .

even further.[37] In our view, requiring intermediaries to implement significant and costly transformations to their operations and technology simply to protect against the unlikely event of a negative interest rates environment seems disproportionate to its rarity. Rather, we believe that the current Rule 2a-7 requirement of fund providers and their transfer agents having the ability to redeem and sell shares at a level other than a stable price per share[38] is a sufficient safeguard against the negative rate environment.

In the unlikely event that the U.S. enters a negative interest rate environment, we recognize that the Commission believes that a negative interest rate environment could be reflected in the per share NAV of a MMF by allowing its NAV to fluctuate. However, in order for government and retail MMFs to continue to be useful to investors, we believe the Commission should amend the proposal to ensure that the rule on negative interest rates only impacts a MMF's distribution policy rather than the pricing of that fund's portfolio of assets.[39]

In our suggested operating model, MMFs would continue to use amortized cost, to the extent it continues to fairly reflect a security's market-based price, and/or penny-rounding accounting methods at the portfolio level (often referred to as Fund Level Rounding) if the market were to enter a negative interest rate environment. Any income, including negative interest, would be allocated by the MMF to its underlying share classes and distributed to that class's investors as defined by the fund transfer agent at close of business on each trading day. On any day with negative income, that negative income would be represented as a reduction in capital at the share class level resulting in a fluctuating per share NAV (i.e., a de-accumulating share class). Importantly, this does not result in a reduction in shares of an investor, which the Commission notes might not be intuitive for investors in government and retail MMFs.[40]

Today, government MMFs (and all MMFs for that matter) differentiate between the capital value of their portfolio of assets and the income generated from that capital. As a result of recognizing this negative yield and applying it to the MMF shares that remain invested in the MMF overnight, the NAV of those shares would decrease. If this proposed operating model were to become the final rule, we would also suggest that the Commission provide guidance on whether the level of per share NAV pricing sensitivity should be the pricing sensitivity required by all FNAV MMFs. If MMF providers price fund shares at different levels of precision, the impact of negative income on the per share NAV will be recognized at different points depending on the number of decimal places at which each MMF provider chooses to transact.

In the absence of adopting amendments to allow for Fund Level Rounding, government MMFs would need to drastically change their operating model during

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[37] FOMC statement, March 16, 2022.
[38] Rule 2a-7(h)(11).
[39] The operating model we described is currently used by many MMF providers in Europe to support negative rates.
[40] *See*, 2021 Proposing Release, *supra* note 1, 7279.

a negative interest rate environment. Specifically, these funds would need to offer multiple NAV strike times per day in order to continue allowing redemption proceeds to be wired out throughout the day as is the current practice. This type of operational shift may be difficult and costly. With Fund Level Rounding, importantly, income earned, including any negative income, is applied at the end of the day and does not impact intra-day dealing prices.

Additionally, in the unlikely event that negative interest rates occur in the U.S., we believe it should be more than sufficient for intermediaries to have policies and procedures in place to allow for manually processing redemptions at an FNAV.[41] We are concerned that the Commission's proposal regarding an intermediary's readiness to support negative interest rates would require cost prohibitive changes to myriad systems. To avoid those changes, intermediaries may remove government and retail MMFs from their platform offerings and instead move their customers to alternative products such as bank deposits. We note there is precedence for intermediaries culling the funds they offer in response to regulatory change that would require them to undertake substantial operational and technology change. It was intermediaries' unwillingness to take on this same transformative work after the 2016 MMF reforms that led to the removal of institutional MMFs with FNAVs from certain intermediary platforms. In our view, this requirement could cause a similar reckoning by intermediaries of the costs to them of remaining distributors of government and retail MMFs. The likely outcome is a significant decrease in the size of the government and retail MMF sector to the detriment of the larger STFMs, all to prepare for a rare negative interest rate environment when manual work arounds would be more than sufficient.

Additionally, we believe the proposed requirement that MMF providers certify the readiness of intermediaries to handle FNAVs is overly burdensome and unnecessary. Fund providers should not be placed in a position of policing intermediaries in this manner. Rather than having each fund provider independently determine an intermediary's readiness, there should be a consistent analysis of any given intermediary's abilities to transact redemptions with a FNAV. Otherwise, as different fund providers come to different conclusions about a given intermediary's readiness, that intermediary will be able to continue to distribute some funds but not others. This is unfair in our view: if one fund may transact with a given intermediary, then any fund should be able to transact with such intermediary.

Amendments to Reporting Requirements

BlackRock has long been a strong proponent for transparency in the MMF market. Through the reforms of 2010 and 2014, MMFs have become arguably one of the most transparent investments in the marketplace, particularly within the STFMs. During the March 2020 crisis, we did not sense that there was concern about a lack of transparency in the MMFs. We would posit that to the extent that additional

[41] We note if intermediaries only have manual capabilities to handle FNAV functionality, they could simply cease to accept additional subscriptions from their clients, thus only having to handle redemptions manually.

transparency would have been beneficial around the STFMs during March 2020, it would have been more useful away from the MMFs. Given that backdrop of ample existing transparency for MMFs, we do not believe that collecting more information that is not directly related to a specific reporting shortcoming evident in March 2020 is warranted. Whenever new reporting requirements that might be beneficial to investors is considered, the Commission should always balance any benefits with the associated costs of increased reporting burdens. In relation to the specific proposed additional reporting for MMFs on Forms N-CR and Form N-MFP, we have a few recommendations:

1. Disclosing the name and percent of ownership of each person who owns of record or is known by an MMF to beneficially own 5% or more of the shares of a class for all MMFs is a significant burden for the MMF with very little value for concentration analysis purposed. We propose rather than providing this information the Commission consider simply collecting the number of investors holding beneficially more than 5% of the fund, to the extent known by the MMF, or the top 5 holders by percentage (without name) and type of investor who own beneficially or of record at the Fund level. Of note, in the current Form PF proposal where similar data is being proposed to be collected from Large Liquidity Funds, no investor names are being requested.[42] In either instance, we note that the data should be collected monthly at the Fund level and not the share class level. While we understand the SAI currently lists 5% holders at the share class level, we believe that information is provided for a different reason than needing to monitor concentration in a fund. Lastly, certain investors have sensitivity to being named annually in a fund's SAI and thus, this concern would be exasperated by additional reporting.

2. The removal of the ability to aggregate purchased security information for repurchase agreements will be a significant burden for many MMFs. Often MMFs using repurchase agreements can be purchasing over a hundred different CUSIPs in a single repurchase agreement. If an MMF is to report this information line by line, this would require significant amount of time to gather and review the data to ensure an accurate filing. While this additional information may provide the Commission "more complete information about securities subject to a repurchase agreement", the Commission does not adequately explain the benefit or use of this additional reporting justifying the cost associated with providing the additional information.

3. Reporting the yield on a lot level basis for each security in an MMFs portfolio as is now being requested could, in our view, reveal some of the MMF's trading strategies. We think that if this data is collected, it should not be made public through Form N-MFP. This information should only be collected if it can be done on a confidential basis.

[42] *See* Amendments to Form PF to Require Current Reporting and Amend Reporting Requirements for Large Private Equity Advisers and Large Liquidity Fund Advisers, Investment Advisers Act Release No. 5950 [87 FR 33 (February 17, 2022), 9106].

4. In response to the Commission's request[43] for feedback on increased transparency concerning omnibus positions, we do believe that some additional reporting to MMFs would be beneficial for risk management and liquidity management purposes. The Commission could assess whether requiring some transparency, such as anonymized flows by client type, could benefit stress testing and liquidity management.

5. We recommend that given the number of additional reporting points required now under Form N-MFP that the Commission extend the filing deadline for this form to 7 business days after month end. This 2-day extension would allow the additional information to be generated in a timely manner and would allow MMF sponsors to have proper oversight and controls in reviewing the data prior to filing. Based on the Commission's calculations of time to complete the additional reporting, this 2-day extension would be appropriate.

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We appreciate the Commission reviewing our letter on the proposed reform of MMFs and hope our views are constructive as the Commission considers issuing final amendments. We note however that the short comment period provided for this comment letter, along with the plethora of other proposals the Commission has recently released, have made fully reviewing and commenting on this proposal difficult. Given that, the Commission should be open to providing further guidance or no action relief post adoption if issues are later raised that we were unable to identify during our abbreviated review of this proposal. Should the Commission or staff have questions about our submission please contact us at your convenience.

If the Commission adopts the proposals, we request that the Commission consider additional time for the transition period after the effective date to give funds sufficient time to comply with certain of the proposed changes. We believe MMFs will need at least 2 years to adequately comply with swing pricing or a similar proposal and we believe the Commission should also provide intermediaries adequate time to comply with the required capability to redeem and sell shares of certain MMFs at prices other than a stable NAV.

Sincerely,

Elizabeth Kent
Managing Director, Global Public Policy Group

Jonathan Steel
Managing Director, Global Chief Operating Officer of the Cash Management Business

[43] *See* 2021 Proposing Release, *supra* note 1, 7283.