

April 11, 2022

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

Re: *Money Market Fund Reforms (File Number S7-22-21)*

Dear Ms. Countryman:

The Independent Directors Council¹ appreciates the opportunity to comment on the Securities and Exchange Commission's proposed amendments to certain rules that govern money market funds under the Investment Company Act of 1940.² Fund independent directors—whose primary responsibility is to represent funds and their shareholders—have a strong interest in the impact of money market fund reform efforts on investors. Specifically, fund independent directors have an interest in ensuring that investors have the opportunity to invest in products that meet their financial needs.

Investors typically rely on money market funds as a low cost, efficient cash management tool to provide a high degree of liquidity, minimal principal volatility, and market-based yield. As such, these funds offer a vitally important investment choice for consumers in the United States. We also recognize that money market funds, holding \$5.0 trillion³ on behalf of shareholders throughout the country, play a vital role in financial markets more broadly.

¹ The [Independent Directors Council](#) (IDC) serves the US-registered fund independent director community by advancing the education, communication, and public policy priorities of fund independent directors, and promoting public understanding of their role. IDC's activities are led by a Governing Council of independent directors of [Investment Company Institute](#) (ICI) member funds. ICI's members manage total assets of \$31.0 trillion in the United States, serving more than 100 million US shareholders, and \$10.0 trillion in assets in other jurisdictions. There are approximately 1,600 independent directors of ICI-member funds. The views expressed by IDC in this letter do not purport to reflect the views of all fund independent directors.

² See [Money Market Fund Reforms](#), SEC Release No. IC-34441 (December 15, 2021) (Proposal).

³ See Proposal at 9.

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The Proposal suggests that a wide range of reforms are necessary to improve the resilience and transparency of money market funds. We disagree and believe that the Proposal seeks to advance some unnecessary reforms that will be detrimental to money market funds.

While we commend the Commission for its sound decision to eliminate the framework on the imposition of liquidity fees and gates, we have serious concerns regarding the Proposal's swing pricing requirement, as well as its approach to addressing negative interest rate environments, both of which would alter essential characteristics of money market funds and call into question the viability of broad categories of money market funds. As a result, the Proposal would have debilitating impacts on both investors and money market funds. Our comments below are intended to provide the fund board perspective on these critical issues.

Elimination of Liquidity Fee and Redemption Gate Provisions

We support the elimination of liquidity fees and gates reflected in the Proposal. As discussed in our response to the Request for Comment on the President's Working Group (PWG) recommendations,⁴ while the SEC's 2014 reforms were intended to strengthen money market funds, there is general consensus that the possibility of liquidity fees and gates increased uncertainty, created confusion in the market, and may have made it more difficult for a money market fund to manage redemptions.⁵ Removing the current tie between liquidity thresholds and fee and gate mechanisms is an appropriate way to reduce the risks to money market funds created by the 2014 reforms.⁶ IDC commends the Commission for taking this step.

Swing Pricing Proposal

The SEC is proposing a swing pricing requirement specifically for institutional prime and institutional tax-exempt money market funds. An institutional fund would "swing" its share price downward by an amount meant to approximate the portfolio transaction costs generated when the fund experiences net redemptions.⁷ In its Proposal, the SEC explains that the proposed swing pricing requirement is

⁴ See [Letter](#) from Thomas T. Kim, IDC Managing Director, to Vanessa Countryman, SEC Secretary, re: Request for Comment on Potential Money Market Fund Reform Measures in President's Working Group Report (File Number S7-01-21) (April 12, 2021) (expressing support for reform efforts that strengthen money market funds against adverse market conditions for the protection and benefit of investors, so long as their essential characteristics are preserved, and they can remain a viable option in the marketplace).

⁵ See ICI Report of the COVID-19 Market Impact Working Group, [Experiences of US Money Market Funds During the COVID-19 Crisis](#) (November 2020).

⁶ See Proposal at 169.

⁷ See Proposal at 48-50.

designed to “ensure that the costs stemming from net redemptions are fairly allocated and do not give rise to a first-mover advantage or dilution under either normal or stressed market conditions.”⁸ We question whether swing pricing would advance these reform goals.⁹

We note that the proposed swing pricing mandate would introduce substantial operational challenges and informational limitations to funds. Under mandated swing pricing, operational risk management—which fund boards oversee—would involve layers of additional complexity without a commensurate benefit to funds and their shareholders. To the extent that the methodology associated with calculating the swing overstates the actual transaction costs associated with redemptions, redeeming shareholders will be subsidizing remaining shareholders. Miscalculations could result in errors in NAV pricing. We are deeply concerned about these operational risks and their potential impact on fund shareholders.

Moreover, in order to implement a swing pricing requirement, a fund would need flow information to determine whether for any particular day it has net redemptions in order to then determine whether to “swing” its NAV. The Proposal states that a fund may estimate shareholder flow information, provided the fund’s “swing pricing administrator” receives sufficient investor flow information to make a reasonable estimate.¹⁰ Estimating flows, however, is difficult to do overall, but particularly in the largely intermediated market in which the mutual fund industry operates.¹¹ Smaller funds would face substantial costs or may simply lack the ability to compel timely flow information from intermediaries in light of limited bargaining power. The likely impact of this requirement would be to call into question the viability of funds subject to this rule, particularly smaller funds, and pose an insurmountable barrier for new market entrants—a result that would limit investors’ ability to find products to meet their financial needs.

The SEC’s 2016 Swing Pricing Release gave assurances that “as long as the fund has followed reasonable practices, policies and procedures in gathering sufficient information in determining whether net investor flows (which may include reasonable estimates) have exceeded the applicable threshold used for swing pricing, such differences [i.e., in actual versus estimated net flows] would not in and of itself result in a determination of a NAV pricing error requiring reprocessing of transactions or a financial

⁸ See Proposal at 44.

⁹ See Proposal at 158 (noting dearth of academic research about the degree to which dilution costs alone may trigger money market fund runs and acknowledging redemptions may occur for reasons that are not strategic).

¹⁰ See Proposal at 46 n.111.

¹¹ For a discussion regarding how the industry distribution model in the United States and the use of intermediaries complicates the use of swing pricing, see Investment Company Institute, [“Evaluating Swing Pricing: Operational Considerations.”](#) (November 2016).

statement adjustment to the fund's NAV."¹² The Proposal contains no such assurances. We are troubled by the potential impact of any such NAV pricing errors on fund shareholders and therefore, to the extent that swing pricing continues to be considered, urge the SEC to include assurances in any adopting release.

In addition, we are concerned that the proposed swing pricing requirement would eliminate key characteristics of money market funds that investors have come to rely upon. Specifically, we understand that, to accommodate the operational challenges of swing pricing, money market funds would need to impose earlier order cutoff times on investors; reduce the number of daily NAV strikes; and pay redemption proceeds in a less timely way.¹³ In effect, investors would no longer be able to rely on money market funds subject to this rule to manage their cash flow and daily liquidity.

Negative Interest Rate Environment Proposal

Currently, the rules regulating money market funds do not explicitly address how a money market fund must operate when interest rates are negative. Rather, the rules state that government and retail money market funds may seek to maintain a stable share price by using amortized cost and/or penny-rounding accounting methods if the fund's board of directors believes that the stable share price fairly reflects the fund's market-based NAV per share.¹⁴

If the fund's board of directors does not believe that the stable share price fairly reflects the fund's market-based NAV per share, and the deviation between the two exceeds a certain threshold, the fund's board of directors must consider what action, if any, should be taken, including whether to re-price the fund's securities above or below the fund's \$1.00 share price.¹⁵ Regardless of the extent of the deviation, the current rules empower a money market fund board with the discretion to consider appropriate action when the board believes the extent of any deviation may result in material dilution or other unfair results to investors or current shareholders.¹⁶

The Proposal, however, eliminates board discretion in this regard. We firmly believe that, in a negative interest rate environment, the board overseeing a money market fund—as independent overseers of shareholder interests—should have discretion to use its business judgment and take action when it

¹² [Investment Company Swing Pricing](#), SEC Release No IC-32316 (October 13, 2016) at 110.

¹³ [Letter](#) from Eric J. Pan, ICI President and CEO, to Vanessa Countryman, SEC Secretary, re: Money Market Fund Reforms (April 11, 2022). The Proposal also acknowledges these complexities. *See* Proposal at 74-76.

¹⁴ *See* Proposal at 110.

¹⁵ *See* Proposal at 110.

¹⁶ *See* Proposal at 110.

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deems such steps to be appropriate. For example, the board of a money market fund could recognize that certain investors, especially retail investors, rely on a stable NAV for the value and convenience associated with features, such as ATM access, check writing, and ACH and Fedwire transfers, generally only available with stable NAV products.

In addition, a stable NAV enables the processing of cash balances through cash sweep programs, in which all customer cash balances are “swept” into investments in shares of money market funds that are owned by the customers but transacted through fund accounts registered to a broker-dealer or a bank. Sweep programs cannot typically accommodate floating NAVs. In those cases, the board may appropriately determine that the fund should reduce its number of shares in an amount equal to the negative accrual each day to cover a negative yield,¹⁷ and thereby maintain a stable NAV.

Permitting the board to exercise discretion in these and other circumstances is appropriate. By contrast, the proposed approach would take away valuable tools from fund boards—to the potential detriment of shareholders.

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We appreciate the opportunity to comment on the Proposal. If you have any questions regarding our comment letter or would like additional information, please feel free to contact Lisa Hamman, Associate Managing Director, at (202) 371-5405 or me at (202) 326-5463.

Sincerely,

/s/ Thomas T. Kim

Thomas T. Kim
Managing Director
Independent Directors Council

cc: Gary Gensler, Chair, Securities and Exchange Commission
Hester M. Peirce, Commissioner, Securities and Exchange Commission
Allison Herren Lee, Commissioner, Securities and Exchange Commission
Caroline A. Crenshaw, Commissioner, Securities and Exchange Commission

¹⁷This is commonly referred to as a reverse distribution method or RDM.