American Bankers Association
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Phoebe A. Papageorgiou
Vice President, Trust Policy

Submitted via email to rule-comments@ sec.gov

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

Re: Money Market Fund Reforms, File No. S7–22–21, 87 Fed. Reg. 7248 (Feb. 8, 2022).

Dear Ms. Countryman:

The American Bankers Association[1] (ABA) appreciates the opportunity to comment on the Securities and Exchange Commission's (SEC) proposed money market fund (MMF) reforms. The SEC issued this proposal following consideration of potential reforms as raised in the December 2020 report of the President's Working Group on Financial Markets and the SEC's request for comments in February 2021. The SEC proposes these amendments to existing rules to "to improve the resilience and transparency of money market funds."

As we noted in response to the 2021 request for comments, banks[2] and their affiliates interact with MMFs in many ways, including as facilitators of bank customer investments (e.g., sweep arrangements from fiduciary and non-fiduciary accounts), as sponsors of MMFs, as investors, and as issuers of certificates of deposit and commercial paper in which prime MMFs invest. While banks value greater stability and resilience for participants in the short-term funding markets to weather financial shocks, we urge the SEC to consider carefully any changes that may affect the availability of these funds to bank fiduciary and nonfiduciary accounts.

[1] The American Bankers Association is the voice of the nation's $23.7 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $19.7 trillion in deposits and extend $11.2 trillion in loans.
[2] ABA represents national and state-chartered banks, savings associations, and trust companies (collectively referred to as "banks").

Summary of the Proposal

The proposal intends to strengthen money market funds, as well increase disclosure, in a number of ways. Specifically, the proposal eliminates the liquidity fee and redemption gate mechanism in the rule in order to remove the "first mover" advantage in anticipation of those triggers. In addition, institutional prime and tax-exempt funds would need to implement "swing pricing" to internalize related costs on redeeming investors when there are net redemptions in a pricing period. The proposal would also double the daily liquid asset and weekly liquid asset minimum liquidity requirements, to increase the liquid assets available. In terms of expanded disclosures, the proposal would amend Forms N-MFP and N-CR with additional relevant information. Lastly, the proposal would require stable net asset value (NAV) funds, such as government money market funds, to switch to floating NAV in the rare situation of negative interest rates, and furthermore require any financial intermediary to be able to accommodate floating NAV transactions in order to invest on behalf of others.

Rules Should Allow Reverse Distribution Mechanism to Manage Negative Interest Rates

To address the rare potential for negative interest rates in the United States, the proposal would require stable NAV money market funds to switch to a floating NAV. To facilitate this requirement even if never implemented, the fund must determine whether a financial intermediary, such as a bank on behalf of its clients, has the capacity to redeem and sell interests in the fund on a floating NAV basis and further prohibit from investing any intermediary that cannot do so. Unfortunately, the proposal would prohibit outright the very reasonable alternative to managing negative interest rates of employing a "reverse distribution mechanism." The rationale for this prohibition is that retail investors would be confused by there being fewer shares in their account even though the two approaches result in equivalent financial outcomes for the investor.

After the 2014 amendments, many banks that had swept fiduciary account cash into prime funds determined that government money funds were in the best interest of their clients, due to fiduciary and operational concerns with floating NAV funds and the potential imposition of fees and gates.[3] The Office of the Comptroller of the Currency noted these considerations at the time in Bulletin 2016-17, stating that these "characteristics, which would likely pose numerous operational challenges, make it unclear whether banks will be able to continue to offer prime MMFs as sweep vehicles for deposit sweep arrangements or for a bank's fiduciary and custody accounts. Banks that make prime MMFs available to their fiduciary and custody clients will need the system capabilities to report and process transactions to four decimal places. They will also need to establish processes to submit and settle trade orders in the modified time frames established by the funds."[4]

We believe for many bank financial intermediaries investing the excess cash in fiduciary and nonfiduciary accounts into government money market funds these operational concerns are still present. Some of the third party and proprietary systems (e.g., trust accounting systems) underpinning common sweep or automated cash investment arrangements assume a dollar per share investment. Any modifications to these systems to accommodate a floating NAV would be significant and costly even though the likelihood of a negative interest rate environment is low.[5]

For example, sweep programs would need to be modified to calculate the sweep market value to facilitate the correct number of shares to purchase. In addition, because the floating price would be established multiple times a day, the most current price would need to be used so that MMF sweep asset shares can be calculated for the day's sweep market value. If the current price were not used, the accounting systems would need to make next day share adjustments to remain in balance with the fund. Because many of the sweep cut-off times are near the end of the day, the bank would need to use the end-of-day price, thereby extending the processing day. Further for any fund that does not make the floating price available until the next morning, the system would need to accommodate next day share adjustments. Given these operational challenges, we are concerned that the proposal's "one size fits all" approach to managing negative interest rates could effectively shut out some financial intermediaries or impose significant costs on them to continue these long-standing sweep arrangements.

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[3] It is important to note that banks will do what is best interest of their customers, but other considerations, such as capital and liquidity implications to the bank balance sheet from additional deposits, affect the alternatives available for the placement of swept funds.

[4] OCC Bulletin 2016-17, *Money Market Funds: Compliance With SEC Money Market Fund Rules by Bank Fiduciaries, Deposit Sweep Arrangements, and Bank Investments* (May 19, 2016), available at https://www.occ.treas.gov/news-issuances/bulletins/2016/bulletin-2016-17.html.

[5] We also note the significant resources also being devoted to moving from T+2 to T+1 in the next few years.

As an alternative approach to requiring a floating NAV to manage negative interest rates, we strongly urge the SEC to allow stable NAV funds to elect the best approach based on the characteristics of their investors. For example, funds could make a determination after looking at the needs of their investors whether a reverse distribution mechanism is preferable for institutional investors or floating NAV for their retail investors. The concerns expressed by the SEC on behalf of retail investors should not drive the approach for all funds that may have significant institutional investors, such as bank fiduciary accounts swept into money funds.

Swing Pricing As Proposed Would Be Costly and Difficult to Implement

Proposed section 2a-7(c)(2) requires institutional prime and tax-exempt funds to implement swing pricing if there are net redemptions in a pricing period, attempting to internalize transaction costs on the redeeming investor and acting as an anti-dilution investor protection tool. Although allowing for good faith estimates in determining the swing factor imposed, the execution of swing pricing would be operationally difficult given that these funds compute NAVs multiple times a day. Obtaining sufficient, timely information to produce a good faith estimate of a swing factor would be challenging given the flow of information from third parties and need to confirm such information by fund accounting and other sources. We are concerned that even a relatively flexible swing pricing regulatory regime would be administratively difficult and potential too costly for some funds, thereby making them economically unfeasible to offer to investors. As intermediaries investing on behalf of bank clients, we urge the SEC to weigh the effect of swing pricing on the availability of these funds and to consider in that context the alternative framework of liquidity fees if in the best interest of the fund and its investors.

Conclusion

ABA appreciates this opportunity to comment on the significant changes proffered in the SEC's money market reform proposal. We urge the SEC to allow government MMFs to decide, based on its determination of the needs and characteristics of its investors, whether reverse distribution mechanism or floating NAV is the most appropriate way to manage the effects of negative interest rates. While we support the removal of mandatory fees and gates, we urge the

SEC to weigh the effect of a costly and complex swing pricing requirement on availability of these funds for investors.

Sincerely,

Phoebe A. Papageorgiou

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