

April 11, 2022

Via Electronic Submission on www.sec.gov

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

**RE: SEC Proposed Rules on Money Market Fund Reforms
File Number S7-22-21; Release No. IC-34441**

Dear Ms. Countryman:

The Bank of New York Mellon Corporation ("BNY Mellon") welcomes the opportunity to comment on the proposed amendments to Rule 2a-7 and Rule 31a-2 under the Investment Company Act of 1940, as amended, (the "Proposed Rule"). BNY Mellon plays a critical role as a central orchestrator in the global financial ecosystem. We are the world's largest custodian, with \$47 trillion assets under custody and/or administration, and the number one provider of collateral services. We clear about \$10 trillion of securities and process over \$2 trillion of payments daily, and we manage \$2.4 trillion of assets on behalf of our Investment and Wealth Management clients.

This BNY Mellon response to the Proposed Rule encompasses feedback from our collection of businesses that represent a cross-section of the market. BNY Mellon Investment Adviser, Inc. ("BNYM Investment Adviser") is registered with the U.S. Securities and Exchange Commission (the "Commission") as an investment adviser under the Investment Advisers Act of 1940. As of December 31, 2021, BNYM Investment Adviser, through its division Dreyfus Cash Investment Strategies ("Dreyfus"), managed \$255 billion invested in 17 domestic money market mutual funds structured within the confines of Rule 2a-7 under the Investment Company Act of 1940. Pershing LLC ("Pershing"), provides clearing, brokerage custody and other related services. In addition, our Securities Services and Market and Wealth Services businesses provide custody, cash management, clearing, fund accounting, transfer agency, and other services for money market funds and their investors. Together, our businesses provide a well-rounded view of the Proposed Rule's impacts on money market funds.

Introduction

BNY Mellon supports the Proposed Rule's goal to improve the resilience and transparency of money market funds. The 2008 financial crisis and the 2020 financial crisis had similar market impacts to the short-term credit markets, including flights to safety from institutional prime money

market funds into government and Treasury money market funds. But these two crises diverge in a key respect – their causes.

The 2008 financial crisis was caused by several factors, including failed counterparty credit risk.¹ The 2020 financial crisis was triggered by an unforeseen global pandemic, which again amplified vulnerabilities in the short-term funding markets.² Economic uncertainty and the institutional need to strengthen cash reserves and de-risk investment portfolios rapidly created unprecedented liquidity pressure on the market.³ It is important to note that money market funds did not cause the market stress that the industry experienced in March 2020 but money market funds, like other mutual funds, were adversely impacted by it. The market's liquidity concerns and ensuing shareholder redemption activities were exacerbated by the minimum 30% weekly liquid asset ("WLA") link to the liquidity fees ("fees") and redemption gates ("gates") threshold (the "WLA Governance Threshold"). This link created a bright-line, pro-cyclical effect and incentivized institutional prime money market investors to quickly redeem balances as fund WLAs approached 30%.

While the nature of the crises was different, we support the efforts underway to further strengthen this aspect of the funding market by enhancing the resiliency of money market funds to meet investor expectations and redemptions in various market conditions.

BNY Mellon supports the following overarching goals for money market fund reform:

- Improve the resilience of money market funds during stressed markets, eliminating the need for government intervention,
- Improve the functioning of short-term funding markets, and
- Reduce the likelihood that interventions would be needed to meet future money market fund runs.

Recommendations

BNY Mellon has assessed the changes introduced by the Proposed Rule. Due to the breadth of changes contemplated, we are focusing on three specific suggestions that would have the most impact on investors and on the money market fund industry:

A. Amending portfolio liquidity requirements, including decoupling the weekly liquid asset threshold from the imposition of liquidity fees and redemption gates,

¹ Financial Stability Board, *Policy Proposals to Enhance Money Market Fund Resilience: Consultation Report* (June 30, 2021) ("FSB Consultation Report"), p. 18.

² The Proposed Rule, p. 14.

³ FSB Consultation Report, p. 18.

- B. Removing the proposed swing pricing requirement, and
- C. Introducing reverse distributions as an alternative option for money market funds to handle negative interest rates.

We provide details on the ways in which we believe these rulemaking changes would better serve investors and enhance the resilience of the money market fund industry in Sections A through C below. BNY Mellon has considered the remaining reform options detailed in the Proposed Rule. We agree with the Investment Company Institute's comment letter, dated April 11, 2022 (the "ICI Letter"), which further discusses the remaining reform options.

A. Amendments to Portfolio Liquidity Requirements

We agree with the Proposed Rule that money market funds must have a strong source of available liquidity to meet daily redemption requests, particularly in times of market stress. As previously noted,⁴ the tie between the Rule 2a-7 requirement imposing a 30% weekly liquid asset minimum (the "WLA Portfolio Minimum") and the WLA percentage threshold at which a fund's Board of Directors or Trustees (the "Board") may consider the potential imposition of liquidity fees and/or redemption gates could motivate investors to preemptively redeem in situations where a fund's WLA moves towards 30%. This pro-cyclical behavior hastened runs and hampered funds from accessing a fund portfolio's available liquidity to meet redemptions.

1. Increase to WLA Portfolio Minimum

We understand the goal behind the proposed recommendation that the daily liquid asset ("DLA") minimum (the "DLA Portfolio Minimum") be raised from 10% to 25%, and the WLA Portfolio Minimum from 30% to 50%. We support raising the DLA to 20%, as suggested in the ICI Letter. We would also recommend raising the WLA to 40% instead of 50%. In practice, fund managers routinely maintain a buffer above regulatory minimums to meet unanticipated redemptions while still remaining above the minimum thresholds. With a WLA of 40%, fund managers could choose to maintain their liquidity closer to 50%, while abating concerns about funds reducing their liquidity levels due to the proposed removal of the tie between fees and/or gates. Enhancing liquidity requirements must not be so restrictive as to make the investment product difficult to attract investors. A minimum WLA above 50% would make money market funds hold an even higher buffer, further decreasing the difference between government and prime money market funds, making prime money market funds less attractive to investors and reducing investor choice.

⁴ Dreyfus included this point in its response to the money market reform options presented in the Report of the President's Working Group on Financial Markets: Overview of Recent Events and Potential Reform Options for Money Market Funds. BNY Mellon Investment Management also supported this view in its response to the FSB Consultation Report.

2. Removal of Ties Between Liquidity Fees and Redemption Gates

We agree with the rationale in the Proposed Rule that, even though no money market fund imposed a fee or gate in March 2020, the possibility of an imposition of a fee or gate led investors to redeem preemptively, adding to existing liquidity stresses already present in the short-term markets and constraining the ability of fund managers to use liquid assets to meet shareholder redemptions. As we noted previously in the BNY Mellon Responses, decoupling the WLA Governance Threshold from the WLA Portfolio Minimum would help to mitigate these pro-cyclical effects of the current rules.

B. Proposed Swing Pricing Requirement

We agree with the goals in the Proposed Rule of ensuring fair allocation of costs from net redemptions and prohibiting a first-mover advantage are important.

We also agree with the suggestion that the variability of introducing swing pricing to institutional money market funds could reduce the appeal of these funds as cash management tools. If swing pricing were introduced, the many investors using these funds for cash management purposes would migrate to private funds, ultra-short funds or separately managed accounts, and many fund managers would leave the space. This is for several reasons.

First, with swing pricing, any related tax changes or moving from a T+0 to a T+1 settlement could cause prime money market funds to be inconsistent with clients' investment guidelines. From a tax perspective, certain funds, if they permitted swing pricing, may no longer qualify as cash equivalents for accounting purposes. Additionally, moving from a T+0 to a T+1 settlement could impact clients with investment guidelines that only permit investment into mutual funds that offer same day settlement.

Second, while investors in floating NAV funds are generally willing to accept the risk of minimal NAV decreases, the product may become untenable for most investors when faced with additional price uncertainty and volatility due to other investors' portfolio redemption activity, lower investment returns and the inability to provide proceeds intraday.

Introducing swing pricing would increase complexity and likely eliminate swing pricing money market funds as a T+0 instrument. Operationally, the move would entail a significant amount of preparation, requiring technology and control developments as well as integration across operations including Fund Accounting, Transfer Agency, brokerage platforms, intermediaries and other parties. Since swing pricing requires receiving the total trade volume and the applying of prices, funds would not only require all trade orders to be received, but they would also need to receive and apply all prices to portfolio assets same day in order to accommodate

swing pricing. In addition, the ability to price institutional money market funds several times a day would be reduced, resulting in the inability of funds to provide redemption proceeds to investors intraday. This would require major changes to internal applications in order to change the methodology currently used. It would also impact the timing of trade processing, inducing fund providers to move up the cutoff time for trading and potentially decreasing the daily trade window in which trades can be accepted dramatically, which would put further strain on the ability to use these products as cash management vehicles by investors and intermediaries.

Finally, these factors would reduce or eliminate institutional prime and tax-exempt money market funds' use in sweep arrangements due to the move from T+0 to T+1.⁵

C. Amendments Related to Potential Negative Interest Rates

We agree that the money market fund industry must have a clear path forward on how to operate when interest rates become negative. While the pricing provisions of Rule 2a-7 explicitly state that constant NAV funds must have the ability to transition to a floating NAV in certain circumstances where the fund's Board determines that doing so is in the best interest of the fund and its shareholders, other options must be in place to support money market funds if interest rates become negative. A reverse distribution mechanism should be authorized as an additional way for a fund to operate in that environment.

1. Financial Benefits of Money Market Funds in Negative Yield Environments

It is a common misconception that no investor would invest in money market funds with negative yields since it would be more advantageous to hold uninvested cash. However, as a practical matter, institutional investors and many retail investors lack the operational capacity to hold physical currency outside of a custodial account. And as recently confirmed in several foreign countries whose central banks have turned to negative interest rates as a policy option (e.g., European Central Bank and Bank of Japan), the negative deposit rates for uninvested cash balances in custodial accounts were materially lower and less favorable than the negative yields of local money market funds. When faced with the limited choice of negative money market fund yields or lower negative deposit rates, many investors will find it economically advantageous to remain invested in money market funds, not only for the yield premium but also for the convenience of the benefits associated with their broader adoption of these products as cash management vehicles, particularly in sweep arrangements. In addition, the availability of different investment options and the resulting economics are essential from the perspective of many custodians, intermediaries

⁵ The Proposed Rule noted that institutional prime and tax-exempt money market funds are not currently used in sweep arrangements. BNY Mellon offers institutional prime and tax-exempt money market funds on certain of its sweep platforms. The Proposed Rule, page 77.

and the banking industry since banks may not have the balance sheet capacity to absorb elevated amounts of excess cash due to leverage constraints.⁶

2. Transitioning to a Floating NAV

Transitioning to a floating NAV could be even more complex and confusing for investors than a reverse distribution mechanism and would be more impactful to customers using funds on many intermediary sweep platforms. Currently, the balances in constant NAV money market funds used on many intermediary sweep platforms are included in the calculations to determine how much cash is available in customers' accounts. Moving a fund from the sweep platform to a position-traded platform, which would be the way many intermediaries would handle a constant NAV fund transitioning to a floating NAV, would immediately eliminate all the "cash available" in the accounts using that fund as their sweep option. Thereafter, every transaction that requires a cash balance in the customer's account would require the shareholder to manually submit a redemption request to its custodian, which would then have to manually enter the trade on the position traded platform and wait until the proceeds of that trade settle in the account.

Transactions that are currently accommodated same day and handled automatically through sweep arrangements would then require multiple days as a result of the manual input and customer involvement required to execute them as well as the settlement cycle associated with the fund. Furthermore, due to the regulatory framework associated with updating customers' sweep options, this arrangement would need to be in place until the intermediary worked with each client to select another viable sweep option for every impacted investor account. This environment and the applicable challenges would persist each time a constant NAV fund transitioned to a floating NAV until intermediaries developed the capability to support floating NAV money market funds as sweep vehicles or funds were eliminated as sweep options altogether. In short, this could lead to major client disruption and require a large number of resources by multiple parties to react to the situation manually, which would lead to heightened risk in the system and the loss of the many benefits associated with automatic sweep arrangements for shareholders of a fund. Impacted transactions would include: investors' credit lines for debit cards and check writing, automatic redemptions to cover margin/house requirements (leading, in turn, to higher volumes of margin/house calls), automatic sweep redemptions to cover periodic distributions, automatic sweep redemptions to cover periodic purchases (dollar cost averaging), and automatic sweep redemptions to cover debits in investor accounts. Disruption to these features may lead to many accounts being left in debits, incurring interest charges and requiring manual intervention by multiple parties to resolve.

⁶ Both the Supplementary Leverage Ratio (SLR) and Tier 1 Leverage Ratio require large banks to maintain the same amount of capital for every asset on its balance sheet, regardless of the risk profile of such assets (cash, U.S. Treasury securities, non-investment grade corporate loans, etc). Bank deposit levels have risen sharply since 1Q2020, which has resulted in risk-insensitive leverage ratio requirements becoming the binding constraint on more banks, and disincentivizing further low-risk balance sheet growth (i.e. taking on more deposits).

Additionally, there is no established process to revert a money market fund position back to the sweep platform if and when the fund was to revert to constant NAV pricing in the future. All impacted customers would be required to identify another viable sweep option in order to regain the convenience associated with the sweep feature. It is important to note that mass updates to customers' sweep options require technology efforts to accomplish and have advance notice regulatory requirements, which include mailing a notification letter directly to every impacted investor. These types of updates are resource and time intensive, and, in the interim, impacted investors would not have any cash available in their accounts without processing manual trades.

While all parties concerned – stable NAV money market funds, their service providers, and their distribution network – may be able to confirm they are capable of supporting a money market fund if it were to transition to a floating NAV, the inefficiency of the processes that would most likely be used to do so for investors needs to be emphasized. Pershing, for example, can support floating NAV funds, but only on its position-traded mutual fund platform. If a constant NAV fund supported on its sweep platform were to transition to a floating NAV, Pershing would have to move all balances held in the underlying customer accounts on the sweep platform to the position-traded platform where customer balances would be reflected as positions in shares that could be priced. So, while Pershing could support a transition to a floating NAV as proposed, a money market fund's transition from a constant NAV to a floating NAV would result in significant client disruption. Having only a single, disruptive option to support money market funds in times of negative interest rates is simply not sufficient.

3. Reverse Distribution Mechanism

The Proposed Rule notes that a reverse distribution mechanism "would not be intuitive" for retail investors, and that it has the capacity to be "misleading or confusing". This can be solved with additional disclosures and transparency. For example, we propose using each fund's offering documents to reflect whether the fund would move to a floating NAV or utilize reverse distribution mechanism in times of negative interest rates. A thorough description of the option chosen by the money market fund would be provided in the fund's offering documents, making the process readily understandable to investors.

As discussed above, money market funds play a valuable role in the marketplace when interest rates become negative, and reverse distributions could be highly beneficial to investors as a less disruptive alternative to a fund's transitioning to a floating NAV. Reverse distributions would allow money market funds to maintain a constant NAV in a negative interest rate environment, which is crucial for processing funds on various sweep platforms.

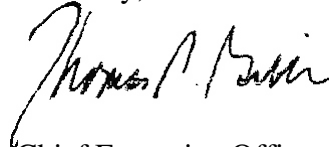
Reverse distribution mechanisms would reduce a fund's outstanding shares while the fund's NAV would remain constant. A reverse distribution mechanism would not cause the operational difficulties involved with effecting a daily reverse stock split. The money market fund industry strongly supported the introduction of a reverse distribution mechanism in the United States, so much so that many participants in the industry made technology changes to their platforms when interest rates began to drop into the single digits, so that they would have the capability to utilize reverse distributions in the future. Despite the support from these industry participants, we are disappointed to see its exclusion from the Proposed Rule. Permitting money market funds to have the option of switching to a floating NAV or utilizing a reverse distribution mechanism if interest rates went negative would provide the flexibility that is presently lacking in this area.

Conclusion

We appreciate the goals of the Proposed Rule to help protect investors and the money market fund industry. As discussed in Sections A through C above, the three key areas in which the Commission should consider changes are: (A) amending portfolio liquidity requirements, including decoupling the weekly liquid asset threshold from the imposition of liquidity fees and redemption gates, (B) removing the proposed swing pricing requirement, and (C) introducing reverse distributions as an alternative option for money market funds to handle negative interest rates. Finally, we emphasize the need for time to make any necessary system updates to accommodate changes under any final rulemaking, which the ICI Letter outlines in further detail.

We appreciate the opportunity to discuss our views on the issues raised by the Proposed Rule.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas P. Butler". The signature is fluid and cursive, with the first name "Thomas" being more prominent.

Chief Executive Officer
The Bank of New York Mellon