Federated Hermes

Federated Hermes, Inc.
1001 Liberty Avenue
Pittsburgh, PA 15222-3779

August 30, 2022

Associate Director Sarah ten Siethoff
Securities and Exchange Commission
100 F Street, NW
Washington, DC 20549

VIA EMAIL & OVERNIGHT MAIL

Dear Ms. ten Siethoff:

As a follow-up to our conversation on July 22, and as previewed in our letter on July 28, we are writing to provide further information and examples of how a reverse distribution mechanism ("RDM") could be utilized in a negative interest rate environment in such a way as to minimize any potential investor confusion.

We have set-forth as exhibits to this letter a number of examples of disclosure documents which could be utilized in a negative interest rate environment or in other circumstances in which a four-digit NAV is required. These include:

(i) an initial notice upon a fund's board adoption of new prospectus disclosure on the potential use of a RDM should the Federal Funds Rate fall below zero (Exhibit A);
(ii) ongoing prospectus disclosure (Exhibit B);
(iii) a draft website notice to be published if and when the Federal Reserve lowers the Federal Funds Rate below zero (Exhibit C); and
(iv) a mock account statement informing investors that a RDM is in place and directing them to the fund's prospectus (Exhibit D).

With respect to the mock account statement, we believe the example provided in Exhibit D can be facilitated by money market funds and intermediaries. We also considered the feasibility of including a side-by-side comparison table on each account statement, similar to the ones included in the draft prospectus disclosure notices, however after consultation with our operational staff it became clear that similar system limitations that prevent intermediaries from moving to a four-digit NAV could come into play in the preparation of account statements, making the inclusion of a comparison table on each account statement problematic. This is why in our mock account statement you will see clear disclosure on the use of a RDM and a direction for investors to refer to the fund's prospectus for more information.

When these plain English disclosure documents, viewed in totality, are considered alongside what investors will be experiencing in their everyday bank accounts, we believe the investor confusion concerns raised by the Securities and Exchange Commission ("Commission") will have been addressed.

Additionally, we discussed at length how investors in money market funds would receive the appropriate explanatory disclosure documents and be given an opportunity to have any questions they might have about a RDM addressed, even though end investors may often only have direct relationships with intermediaries who offer funds on behalf of fund companies. To provide comfort to the Commission on this point, we have confirmed that all of our intermediary agreements contain forms of the following provisions:

- **Delivery of Disclosure Documents.** Intermediary shall deliver or cause to be delivered to its customers copies of the current Prospectus for any Shares (including the SAI if expressly requested), periodic reports, proxy materials and other shareholder communications for any Fund ("**Disclosure Documents**") in accordance with applicable regulatory requirements and applicable required time frames except to the extent that Federated Securities Corporation (FSC) expressly undertakes to do so.
- **Compliance Assistance**. Intermediary shall provide FSC with any assistance or report that FSC may reasonably request in order to fulfill its duties to assist the Funds with compliance with Rule 38a-1 under the 1940 Act, in FSC's capacity as distributor to each Fund.

It is also our understanding that these provisions are industry standard for situations where funds are distributed primarily through intermediaries and would be included in any similar intermediary / distribution agreement. Given that, we are confident that the agreements that we have in place with intermediaries would require distribution of any required disclosure related to a RDM that we provide.

It should also be noted that some intermediaries may prefer to create their own client communications, which would be provided to their clients in addition to the distribution of any material we may provide. This may be a preferred choice for those intermediaries who are dealing with multiple fund providers, or in order to meet the specific needs and sophistication level of a particular customer base. An example where intermediaries have made similar determinations in the past, include updates regarding the implementation of the 2014 money market reforms. In that instance we worked closely with our intermediary partners to address any questions investors might have on the nature of the reforms, including developing draft FAQs.

We hope that after reviewing our examples of plain English disclosure regarding the use of a RDM that the Commission will include the potential use of a RDM as an option for a Board to elect to use in a negative rate environment, thereby avoiding negative consequences to U.S. investors and markets. We agree with your goal of having contingency tools in place should we ever encounter a negative rate environment and are hopeful that the Commission will allow the use of a RDM as a permissible contingency tool in a negative rate environment.

As previously noted, we remain very concerned that the Commission's proposal to mandate U.S. Government MMFs move to a four-digit NAV in a negative rate environment could lead to a loss of at least $1 Trillion in U.S. Government MMF assets via traditional sweep accounts and up to an additional $1 Trillion in assets invested into U.S. Government MMFs which are made as position trades. These position trades are entered into the cash sweep system manually at the end of the day. The position trades include, but are not limited to, investor funds relating to special items, such as mass-tort settlements, M&A, stimulus money, securities lending and custody. This combined $2 Trillion in U.S. Government MMFs is currently invested in direct obligations of the U.S. Treasury, obligations of U.S. Government Sponsored Enterprises, or in repurchase agreements collateralized by these securities. Movement out of these investments would remove a stable source of support for these vital markets, as well as a source of funding for the Federal Government. These assets would most likely shift from U.S. Government MMFs into lower yielding bank deposit accounts or other less transparent products, which would disrupt the liquidity and functioning of these important markets, and would deprive investors of a market rate of return.

Given the complexity and importance of this matter and the reality that the risk of a near-term shift to negative interest rates is extremely remote, we urge the Commission to consider use of a RDM with proper plain English disclosure and withhold the requirement in the proposed MMF rule relating to the four-digit NAV until a RDM has been thoroughly vetted and approved.

We very much appreciate your continued consideration on the use of RDM in a negative rate environment and we will continue to make ourselves available for any further follow-up questions or discussions as you deem appropriate.

Sincerely,

Peter J. Germain
Chief Legal Officer

Attachments

EXHIBIT A

Notice on the Potential Use of a Reverse Distribution Mechanism (RDM) Should the Federal Fund Rate Fall Below Zero

The Fund's Board has elected to include, as an option to be utilized only if the Federal Reserve lowers the Federal Funds Rate, its official policy rate, to below zero, the application of a reverse distribution mechanism (RDM) to pass on any negative interest earned in the fund. This is being done today to ensure the fund is prepared should the Federal Funds Rate fall below zero in the future.

In accordance with the regulations governing the operation of money market funds there are two ways to address the impact of negative income received by the fund:

1. Continue to provide a stable net asset value (NAV) of $1.00 per share by using a Reverse Distribution Mechanism (RDM), which reduces the number of your shares in proportion to the negative income earned; or,

2. Adopt a variable, or "floating" NAV, which lowers the value of each of your shares in proportion to the negative income earned.

Regardless of which option a fund selects, the decline in the value of a shareholder's investment due to the negative interest income earned by the fund would be the same. The difference is only in the methodology.

A money market fund which elects to utilize a RDM will maintain a stable NAV per share of $1.00 by reducing the number of an investor's shares in the fund (or a portion thereof) in an amount equivalent to the negative yield accrued in the fund. This reduction in the number of shares will allow the fund to continue to maintain a stable NAV per share of $1.00 and does not reduce your total value in the fund any more than a money market fund which has chosen to move to a floating NAV. Application of the negative interest earned on a fund which chooses to move to a floating NAV is reflected by reducing the NAV per share of the fund below $1.00, while the total number of shares owned would not change. Both methods of applying the negative income have equal impact on the fund.

Depending on which methodology is chosen, there will be differences when you view your statement. For example, if you are invested in a fund which chooses to use a RDM, you will see that the NAV per share will continue to remain stable at $1.00, but the number of shares you own will be reduced to reflect the application of the negative yield. For a fund which chooses to move to a floating NAV, the number of shares you own will remain constant, however the NAV per share will be reduced to reflect the application of the negative yield. In each case the total value of your investment remains the same.

The following example illustrates how a negative interest rate accrual would be reflected in your account statement using both a RDM and floating NAV methodology. In this example, a shareholder has $1 million invested and has received 1 million shares at $1.00 per share on Day 1. During that day, the fund earns negative income and therefore has a negative yield. To apply the negative income to the fund, and to the example investor account, the fund using a RDM reduces the number of shares in the account, while the fund electing to use a floating NAV reduces the NAV per share of the fund but does not adjust the number of shares in the account. The result is that the number of shares and NAV per share value differ at the end of Day 1 based on which methodology is used, but the total ending value of the investment using either methodology is the same. In each case having been reduced by 13.70 to reflect the application of negative yield. In this example, we assume that the annualized yield accrued on Day 1 is negative fifty basis points (-0.50%). The actual annualized negative yield accrued if the Federal Fund Rate falls below zero may be larger or smaller.

	Negative Yield Example Using RDM	Negative Yield Example Using Variable NAV
Opening Value	$1,000,000	$1,000,000
Opening Number of Shares	1,000,000	1,000,000
Opening NAV Per Share	$1.00	$1.00
Negative Daily Yield (-0.5%)	-$13.70	-$13.70
Reduction in Shares	-13.70	n/a
Closing NAV Per Share	$1.00	$0.9999873
Closing Number of Shares	999,987.3	1,000,000
Total Investor Ending Value	**$999,987.30**	**$999,987.30**

Importantly, this is only a notice of which options the fund may use during periods when the Federal Reserve sets interest rates below zero. As current rates are positive, the fund is not implementing either of these methods at this time. Nor does Federated Hermes believe that the Federal Reserve intends to implement negative interest rates in the near future.

Should the Federal Reserve reduce the Federal Funds Rate below zero, the Board will determine which methodology it believes to be in the best interest of the fund's shareholders, and notice of both the movement of rates into negative territory and the Board's chosen methodology for operating in a negative interest rate environment will be posted on the Fund's website.

EXHIBIT B

Draft Prospectus Language: Reverse Distribution Mechanism (RDM)

Potential Application of a Reverse Distribution Mechanism (RDM) if the Federal Funds Rate Falls Below Zero

In accordance with the regulations governing the operation of money market funds, if the Federal Reserve lowers the Federal Funds Rate, its official policy rate, to below zero, money market funds have two options to address the impact of negative income received by the fund:

1. Continue to provide a stable net asset value (NAV) of $1.00 per share by using a Reverse Distribution Mechanism (RDM), which reduces the number of your shares in proportion to the negative income earned; or,

2. Adopt a variable, or “floating” NAV, which lowers the value of each of your shares in proportion to the negative income earned.

Regardless of which option a fund selects, the decline in the value of a shareholder’s investment due to the negative interest income earned by the fund would be the same. The difference is only in the methodology.

A money market fund which elects to utilize a RDM will maintain a stable NAV per share of $1.00 by reducing the number of an investor’s shares in the fund (or a portion thereof) in an amount equivalent to the negative yield accrued in the fund. This reduction in the number of shares will allow the fund to continue to maintain a stable NAV per share of $1.00 and does not reduce your total value in the fund any more than a money market fund which has chosen to move to a floating NAV. Application of the negative interest earned on a fund which chooses to move to a floating NAV is reflected by reducing the NAV per share of the fund below $1.00, while the total number of shares owned would not change. Both methods of applying the negative income have equal impact on the fund.

Depending on which methodology is chosen, there will be differences when you view your statement. For example, if you are invested in a fund which chooses to use a RDM, you will see that the NAV per share will continue to remain stable at $1.00, but the number of shares you own will be reduced to reflect the application of the negative yield. For a fund which chooses to move to a floating NAV, the number of shares you own will remain constant, however the NAV per share will be reduced to reflect the application of the negative yield. In each case the total value of your investment remains the same.

The following hypothetical example illustrates how a negative interest rate accrual would be reflected in your account statement using both a RDM and floating NAV methodology. In this example, a shareholder has $1 million invested and has received 1 million shares at $1.00 per share on Day 1. During that day, the fund earns negative income and therefore has a negative yield. To apply the negative income to the fund, and to the example investor account, the fund using a RDM reduces the number of shares in the account, while the fund electing to use a floating NAV reduces the NAV per share of the fund but does not adjust the number of shares in the account. The result is that the number of shares and NAV per share value differ at the end of Day 1 based on which methodology is used, but the total ending value of the investment using either methodology is the same. In each case having been reduced by 13.70 to reflect the application of negative yield. In this example, we assume that the annualized yield accrued on Day 1 is negative fifty basis points (-0.50%). The actual annualized negative yield accrued if the Federal Fund Rates fall below zero may be larger or smaller.

	Negative Yield Example Using RDM	Negative Yield Example Using Variable NAV
Opening Value	$1,000,000	$1,000,000
Opening Number of Shares	1,000,000	1,000,000
Opening NAV Per Share	$1.00	$1.00
Negative Daily Yield (-0.5%)	-$13.70	-$13.70
Reduction in Shares	-13.70	n/a
Closing NAV Per Share	$1.00	$0.9999873
Closing Number of Shares	999,987.3	1,000,000
Total Investor Ending Value	**$999,987.30**	**$999,987.30**

Should the Federal Reserve reduce the Federal Funds Rate below zero, the Board will determine which methodology it believes to be in the best interest of the fund's shareholders, and notice of both the movement of rates into negative territory and the Board's chosen methodology for operating in a negative interest rate environment will be posted on the Fund's website.

<u>**EXHIBIT C**</u>

Draft Website Notice Upon the Federal Reserve Lowering the Federal Funds Rate Below Zero

Today the Federal Reserve lowered the Federal Funds Rate, its official policy rate, to below zero for the first time in U.S. history. As set forth in the Fund's prospectus, and in accordance with the regulations governing the operation of money market funds, money market funds have two options to address the impact of negative income received by the fund:

1. Continue to provide a stable net asset value (NAV) of $1.00 per share by using a Reverse Distribution Mechanism (RDM), which reduces the number of your shares in proportion to the negative income earned; or,

2. Adopt a variable, or "floating" NAV, which lowers the value of each of your shares in proportion to the negative income earned.

The Board of the Fund has determined that the utilization of a RDM (Option 1 above) is the most appropriate tool for the Fund to use to apply any negative interest earned by the Fund to its shares. Importantly, the Fund's net yield may remain positive for some period before dropping below zero. However, when the daily gross income of the Fund becomes negative, a RDM will be applied.
The following hypothetical example illustrates how a negative interest rate accrual would be reflected in your account statement using both a RDM and floating net asset value (NAV) methodology. In this example, a shareholder has $1 million invested and has received 1 million shares at $1.00 per share on Day 1. During that day, the fund earns negative income and therefore has a negative yield. To apply the negative income to the fund, and to the example investor account, the fund using a RDM reduces the number of shares in the account, while the fund electing to use a floating NAV reduces the NAV per share of the fund but does not adjust the number of shares in the account. The result is that the number of shares and NAV per share value differ at the end of Day 1 based on which methodology is used, but the total ending value of the investment using either methodology is the same. In each case having been reduced by 13.70 to reflect the application of negative yield. In this example, we assume that the annualized yield accrued on Day 1 is negative fifty basis points (-0.50%). The actual annualized negative yield accrued if the Federal Fund Rate falls below zero may be larger or smaller.

	Negative Yield Example Using RDM	**Negative Yield Example Using Variable NAV**
Opening Value	$1,000,000	$1,000,000
Opening Number of Shares	1,000,000	1,000,000
Opening NAV Per Share	$1.00	$1.00
Negative Daily Yield (-0.5%)	-$13.70	-$13.70
Reduction in Shares	-13.70	n/a
Closing NAV Per Share	$1.00	$0.9999873
Closing Number of Shares	999,987.3	1,000,000
Total Investor Ending Value	**$999,987.30**	**$999,987.30**

If you have any questions on how a RDM would work or the circumstances surrounding its potential adoption, please see the Fund's Prospectus Section entitled "Potential Application of RDM in a Negative Rate Environment" or contact your Federated Hermes Client Representative.

EXHIBIT D

Federated Hermes

PO Box 219318
Kansas City, MO 64121-9318

Get connected at
FederatedInvestors.com

Monthly Statement

For the period ending January 31, 2030
Page X of X

Account Detail Visit FederatedInvestors.com for fund performance and current yields.

- You may be eligible for breakpoint discounts based on the amount of your purchase, current holdings or future purchases. The sales charge you paid may differ slightly from the Prospectus disclosed rate due to rounding calculations. Please refer to the Prospectus, Statement of Additional Information, or contact your Investment Professional for additional information.
- Generally, a cash dividend or capital gain distribution payable by check that is less than $25.00 will automatically be reinvested into your account. This policy does not apply if you have elected to receive cash distributions that are directly deposited into your bank account via wire or ACH.
- Information may be obtained about the Securities Investor Protection Corporation (SIPC), including SIPC brochure, by contacting them at 202-371-8300 or visiting their web site at www.sipc.org.
- Due to the current negative interest rate environment, money market funds may utilize a "reverse distribution mechanism" ("RDM") to apply the negative interest earned in the fund to investors accounts. The use of a RDM allows the fund to maintain its net asset value at $1.00 per share price. Under a RDM, your share price remains the same but the number of shares you own are reduced in an amount equivalent to the negative interest earned. Please refer to the Prospectus for additional information.

Note for background information only (not to be included in the mock statement). This mock statement provides an example where the Federal Funds Rate falls to negative 50 basis points (-0.50) on the last day of January 2030. A daily negative dividend adjustment would occur each day until the use of a RDM is no longer required.

Federated Hermes XXX Fund IS

JOHN A SMITH

Fund number	X	**Account number**	9999999999
NASDAQ symbol	XXXX	**Account opened**	xx/xx/xxxx
		Dividends	Reinvested
		Capital gains	Reinvested

Transaction detail

Confirm date	Trade date	Transaction description	Dollar amount	Share price	Shares this transaction	Total shares owned
		Previous balance as of 01/01/2030	$1,000,000.00	$1.00		1,000,000.00
01/31	01/31	Negative Dividend Adj	-$13.70	$1.00	-13.70	999,987.30
		Ending balance as of 01/31/2030	**$999,931.00**	**$1.00**		**999,987.30**

Due to the current interest rate environment, Federated Hermes XXX Fund has implemented a "reverse distribution mechanism" ("RDM"), in order to seek to maintain the fund's stable $1.00 per share price. Under RDM, your share price remains the same but the number of shares you own are reduced in an amount equivalent to the negative interest earned. Please refer to the Prospectus for additional information.