Prime MMFs’ Asset Composition and Asset Sales

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This study analyzes portfolio holdings data filed by prime money market funds (MMFs) on Form N-MFP to gain insights about these funds’ portfolio composition in March 2020 through the present. The analysis also includes data filed on Form N-CR, which is used for current reporting of MMFs’ material events such as sales of securities to affiliated firms, and data about the Money Market Mutual Fund Liquidity Facility (MMLF). The analysis shows that since March 2020 prime MMFs increased their holdings of government securities and repurchase agreements (repos) overall. Allocations to credit-related securities issued by banks and other types of firms may differ substantially among prime MMF categories.

Prime MMF investments

Prime MMFs invest in a broad range of short-term, high quality fixed-income instruments. Since 2010, the SEC has required all MMFs to report their portfolio holdings on a monthly basis and classify each holding in one of the 18 asset categories (see Appendix A for a full list of asset categories). Historical filings show that prime MMFs typically hold a mix of securities across all 18 categories. As of February 2022, prime MMFs held most of their assets in repos (22% of the total), followed by investments in financial CP (19% of the total) and U.S. government securities (17% of the total) (Figure 1).

Figure 1: In recent years, prime MMFs have invested a larger share of assets in government securities and repos

![Image of chart showing asset composition]

Note: “Repo” shows the total of MMF investments in Treasury repos, government agency repos, and other repos. Source: Form N-MFP

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2 See Form N-MFP, Item C.6.

Average portfolio compositions change over time in response to market events and other factors. For example, at the end of 2016, following implementation of the 2014 MMF reforms, prime MMFs held close to 30% of their total assets in CD and 15% of their total assets in U.S. government securities. The share of government securities in prime MMFs increased markedly at the onset of the COVID-19 pandemic in early 2020, reaching an all-time high of 38% of these funds’ portfolios in August 2020. On the other hand, the share of CD declined to 15% in August 2020 and was at 14% in February 2022.

Filing data show that the portfolio composition of prime MMFs also depends on the type of shareholders of the fund. As of February 2022, prime retail MMFs – those funds limiting their investors to natural persons – invested the majority of their total assets (74%) in securities issued by banks and other financial firms, including CD/TD, financial CP, and ABCP (Figure 2). Prime institutional MMFs offered to the public – which are typically used by large institutions – allocated over 70% of their total assets to securities of banks and other financial firms (Figure 3). However, prime institutional MMFs that are not offered to the public and are managed to benefit affiliated funds and accounts invested close to 70% of their assets in U.S. government securities and repos, a much larger share than that of other types of prime MMFs (Figure 4).

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See Baklanova, Kuznits, and Tatum “How Do Prime MMFs Manage Their Liquidity Buffers?” SEC Staff Analysis (July 2021).
Most assets are held to maturity

MMFs invest in securities that mature within 397 days and are required to maintain a dollar-weighted average portfolio maturity (WAM) that does not exceed 60 calendar days and a dollar-weighted average portfolio life (WAL) that does not exceed 120 calendar days. In practice, MMFs often maintain WAM and WAL well below the regulatory limits. For example, as of February 2022, prime retail MMFs had average WAM of 27 days and average WAL of 46 days, while prime institutional MMFs had average WAM of 23 days and average WAL of 45 days. Given the short-term nature of MMF portfolios, most assets are held to maturity and the proceeds from maturing securities are normally reinvested in similar securities in the absence of redemption requests.

Prime MMF assets sales in March 2020

Estimates based on Form N-MFP suggest that in March 2020 prime MMFs liquidated a higher than average proportion of assets. This is consistent with the reports of prime MMFs raising liquidity to meet incoming redemptions and to maintain weekly liquid assets above the regulatory threshold of 30% of total assets. The recent SEC Money Market Fund Reforms proposing release explains that in March 2020, publicly offered prime institutional MMFs disposed of 15% of their total investments prior to maturity, significantly higher than a 4% monthly average during the period from October 2016 through February 2020.

However, estimates of asset liquidations are sensitive to assumptions and may result in a range of results. The current Form N-MFP provides month-end snapshots of portfolio holdings by MMFs, which does not provide visibility into purchases and sales of securities during the month and potentially underestimates asset sales. To facilitate monitoring of prime money market funds’ liquidity management and secondary market activities, the SEC recently proposed to require prime MMFs to report information about the amount of portfolio securities sold or disposed of during the month, among other changes to MMF regulation.

Analysis of changes in prime MMF portfolio holdings in March 2020 suggests that CP and banks’ CD were the largest asset classes not held to maturity. The SEC Money Market Fund Reforms proposing release provides the estimate that, based on Form N-MFP filings, around $24 billion in CD and around $28 billion in CP were not held to maturity. In addition to potential sales in the secondary market, the reduction in CD and CP holdings includes sales of these assets to affiliated banks and sales under the terms of the Money Market Mutual Fund Liquidity Facility (MMLF). The Federal Reserve established the MMLF on March 18, 2020 to provide loans on advantageous terms to financial institutions purchasing securities from money

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5 See rule 2a-7(d)(1). Adjustable rate government securities may have longer final maturity dates under certain conditions. See rule 2a-7(i)(1).
6 See Baklanova, Kuznits, and Tatum “Prime MMFs at the Onset of the Pandemic” SEC Staff Analysis (April 2021).
7 See Money Market Fund Reforms, Rel. No. IC-34441 (December 15, 2021). These estimates include the assets sold to affiliated banks and pledged to the Money Market Mutual Fund Liquidity Facility.
8 Id.
Market funds. MMLF operations started on March 23, 2020, with the last transaction occurring on April 23, 2020. Filings on Form N-CR by three prime MMFs in March 2020 showed that these funds sold approximately $4 billion of securities to affiliated banks, including around $1.2 billion of CP and around $2.8 billion of CD. In addition, in March 2020, 47 prime MMFs sold around $33 billion of CP and $16 billion of CD to financial institutions under the terms of the MMLF. These sales accounted for close to 85% of the $58 billion in total MMLF loans extended during its time in operations.

The Federal Reserve’s recent disclosures concerning the MMLF and other lending facilities established in response to the COVID-19 pandemic shows that all categories of eligible MMFs sold assets under the terms of the facility. Prime institutional MMF offered to the public accounted for the largest share of these sales (73%), prime retail MMFs accounted for 24%, and prime institutional nonpublic MMFs accounted for only 1% of the sales (Figure 5).

For additional perspective, in February 2020, prime retail MMFs had the largest share of net assets ($473 billion), followed by public prime institutional MMFs ($386 billion), and by prime institutional nonpublic MMFs (close to $250 billion). Assets pledged to the MMLF accounted for a larger share of participating prime institutional public MMFs net assets (12%), followed by prime retail MMFs (7%). Tax-exempt retail and institutional MMFs only accounted for a very small part of MMLF pledges, 2% and 0.3%, respectively.

It appears that estimates of prime MMF asset liquidation in March 2020 using February 2020 and March 2020 Form N-MFP filings are close in size to the total sales to affiliated banks and reported MMLF (Figure 6).

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10 See Anadu, Cipriani, Craver, and La Spada “The Money Market Mutual Fund Liquidity Facility” (September 2021).
11 See Form N-CR filings in the SEC EDGAR system.
12 See supra footnote 10. This is slightly lower than the amount the Commission previously estimated was pledged to the MMLF in March 2020 ($53 billion). See supra footnote 7, at n.57 and accompanying text. Since the time of that earlier estimate, additional data about the MMLF has become available.
13 See Federal Reserve, Disclosures Regarding the Emergency Lending Response to COVID-19, Pursuant to Section 11(s) of the Federal Reserve Act (March 31, 2022).
However, a survey of prime MMFs conducted by an industry group provides a higher estimate of asset sales by prime MMFs in March 2020 as it includes daily data about CP and CD sales prior the MMLF operations. The survey showed that sales of these assets during the period from March 2 through March 18 amounted to $23 billion. These sales together with the amount of reported sales to affiliated banks and reported MMLF loans exceed the estimates derived solely from Form N-MFP underscoring the need for better, more granular data about assets sales by prime MMFs.

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Appendix A

1. U.S. Treasury Debt;
2. U.S. Government Agency Debt;
3. Non-U.S. Sovereign, Sub-Sovereign and Supra-National debt;
4. Certificate of Deposit;
5. Non-Negotiable Time Deposit;
6. Variable Rate Demand Note;
7. Other Municipal Security;
8. Asset Backed Commercial Paper;
9. Other Asset Backed Securities;

10. U.S. Treasury Repurchase Agreement if collateralized only by U.S. Treasuries (including Strips) and cash;
12. Other Repurchase Agreement if collateral falls outside Treasury, Government Agency, and cash;
13. Insurance Company Funding Agreement;
14. Investment Company;
15. Financial Company Commercial Paper;
17. Tender Option Bond; or
18. Other Instrument.