FACT SHEET

Money Market Fund Reforms

The Commission proposed amendments to certain rules that govern money market funds under the Investment Company Act of 1940. The proposed amendments would improve the resilience and transparency of money market funds by:

- Increasing minimum liquidity requirements to provide a more substantial buffer in the event of rapid redemptions;
- Removing the ability of money market funds to impose liquidity fees and redemption gates when they fall below certain liquidity thresholds, which would eliminate an incentive for preemptive redemptions;
- Requiring certain money market funds to implement swing pricing so that redeeming investors bear the liquidity costs of their redemptions; and
- Enhancing certain reporting requirements to improve the Commission's ability to monitor and analyze money market fund data.

Background

Money market funds are managed with the goal of providing principal stability and access to liquidity by investing in high-quality, short-term debt securities whose value does not fluctuate significantly in normal market conditions. These characteristics have made money market funds popular cash management vehicles for both retail and institutional investors and an important source of short-term financing for businesses and governments.

In March 2020, growing economic concerns about the impact of the COVID-19 pandemic led investors to reallocate their assets into cash and short-term government securities. Prime and tax-exempt money market funds, particularly institutional funds, experienced large outflows, which contributed to stress on short-term funding markets. The outflows significantly slowed following intervention from the Federal Reserve, which established the Money Market Mutual Fund Liquidity Facility and other programs to support short-term funding markets. The Commission's proposed amendments are, in part, designed to address concerns about prime and tax-exempt money market funds highlighted by these events. In particular, these funds have shown continuing susceptibility to heavy redemptions in times of stress. They also are invested in short-term funding markets that show a lack of liquidity in times of stress.

Proposed Amendments

<u>Amendments to Portfolio Liquidity Requirements</u>

Rule 2a-7 is the principal rule governing money market funds. Currently, the rule requires that immediately after acquisition of an asset, a money market fund must hold at least 10% of its total assets in daily liquid assets and at least 30% of its total assets in weekly liquid assets. These requirements are designed to support funds' ability to meet redemptions from cash, or securities convertible to cash, even in market conditions in which money market funds cannot rely on a secondary or dealer market to provide liquidity. The proposal would increase daily and weekly liquid asset requirements to 25% and 50%, respectively. These increased thresholds are informed by analysis of the level of liquid assets needed to meet redemptions, based on redemptions in March 2020. The increased thresholds would provide a more substantial buffer to better equip money market funds to manage significant and rapid investor redemptions.

Removing Liquidity Fee and Redemption Gate Provisions

Rule 2a-7 currently provides that a money market fund may impose a liquidity fee of up to 2% or temporarily suspend redemptions (*i.e.*, impose a "gate"), if the fund's weekly liquid assets fall below 30% of its total assets and the fund's board of directors determines that imposing a fee or gate is in the fund's best interests. The current rule also includes a default liquidity fee if a non-government fund's weekly liquid assets fall below 10%, unless the board determines that a fee would not be in the best interests of the fund. In March 2020, even though no money market fund imposed a fee or gate, the possibility of their imposition appears to have contributed to investors' incentives to redeem from prime money market funds and for money market fund managers to maintain weekly liquid asset levels above the threshold, rather than use those assets to meet redemptions. Accordingly, the proposed amendments would remove the fee and gate provisions from rule 2a-7.

Swing Pricing Requirement

Trading activity associated with meeting redemptions may impose costs, including trading costs and costs of depleting a fund's daily or weekly liquid assets. These costs currently are borne by the remaining investors in the fund, diluting these investors' interests in the fund. This can create incentives for shareholders to redeem quickly to avoid losses, particularly in times of market stress. Swing pricing is a process of adjusting a fund's current net asset value ("NAV") such that the transaction price effectively passes on costs stemming from shareholder redemptions to redeeming shareholders. The Commission is proposing to require institutional prime and institutional tax-exempt money market funds to adopt swing pricing policies and procedures to adjust a fund's current NAV per share by a swing factor when the fund has net redemptions. The swing factor would reflect spread and certain other transaction costs of selling a vertical slice of the fund's portfolio. The swing factor would also include an estimate of market impact costs when net redemptions exceed a specified threshold.

Other Proposed Amendments

The proposal also provides that stable NAV funds must convert to a floating share price if future market conditions result in negative fund yields. In addition, the proposal would amend certain reporting requirements on Forms N-MFP and N-CR to improve the availability of information about money market funds, as well as make certain conforming changes to Form N-1A to reflect the proposed changes to the regulatory framework.

Additional Information:

Visit sec.gov to find more information about the adopted amendments and the full text of the proposed rules. The proposed rules will be published on SEC.gov and in the Federal Register.