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Money Market Funds: Primed for Additional Reform?

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Money market funds (MMFs) are once again in the crosshairs of regulators. As markets and economies around the world continue to react and adjust to the ongoing COVID-19 pandemic, US and international regulators have called for another wave of regulatory reforms to MMFs in response to the market events that impacted MMFs beginning in March 2020.[1] These calls for additional reforms to the regulation of MMFs follow significant regulatory reforms adopted by the US Securities and Exchange Commission (SEC) in 2010 and 2014 in response to the 2007-2009 financial crisis.

Although MMFs experienced significant stress and absorbed a variety of conditions and circumstances, in many ways demonstrating their resiliency and potentially affirming the efficacy of aspects of prior regulatory reforms, some industry participants have argued that one of the principal amendments to the rules governing MMFs included in the 2014 reforms—the permissible implementation of liquidity fees or redemption gates (fees or gates) if a MMF's weekly liquid assets (WLAs) fall below 30 percent of total assets—may have intensified redemptions from institutional prime MMFs (Prime MMFs) instead of moderating them, as intended.[2] Other industry participants have argued that regulators should focus any future reforms on the short-term credit markets in which MMFs transact. Although it is unclear how any additional reforms may take shape, several MMF sponsors have already chosen to exit the Prime MMF space in the months following the market events of March 2020.[3]

This article begins by reviewing the forms of stress placed on MMFs during the 2007–2009 financial crisis and the government's response intended to further strengthen MMFs during and in the aftermath of that crisis. It then reviews the events that occurred in March 2020, during the beginning of the COVID-19 market crisis, and examines how MMFs fared in light of prior reforms and discusses potential future MMF reforms. Although this article focuses on Prime MMFs, tax-exempt MMFs (Tax-Exempt MMFs) were impacted, albeit to a lesser degree, by the market volatility and deterioration during the onset of the COVID-19 market crisis and may also be subject to additional reforms.

What Happened to MMFs in 2007–2009 Financial Crisis

One of the hallmarks of the turmoil during the 2007–2009 financial crisis was the collapse of the Reserve Primary Fund, a MMF that "broke the buck" (that is, its net asset value (NAV) per share fell below $1.00) on September 16, 2008. The failure of the "original" MMF, which, prior to collapse,

held over $60 billion in assets,[4] to maintain its dollar share price stemmed from the Reserve Primary Fund's ownership of commercial paper issued by Lehman Brothers Holdings Inc. (Lehman), which filed for bankruptcy on September 15, 2008. The shock of this Prime MMF's failure (only the second MMF in history to break the buck) caused a widespread "flight to quality," leaving many Prime MMFs struggling to meet heavy redemptions.[5] In the wake of these events, the SEC and other regulators proposed, and the SEC ultimately adopted, extensive reforms to MMFs designed to address many of the issues with which MMFs grappled during the weeks following the Lehman bankruptcy.

Government Response to the 2007–2009 Crisis

In September of 2008, intending to prevent an investor run on MMFs following the Reserve Primary Fund breaking the buck, the US Department of the Treasury (the Treasury) announced the creation of the Temporary Guarantee Program, a program backed by the Federal Deposit Insurance Corporation guaranteeing the dollar valuation of MMF shares for all MMFs that applied for and paid a fee to participate in the program.[6] Separately, the Federal Reserve Bank of Boston also provided loans through its Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF) to finance bank purchases of MMF commercial paper.[7] In February 2010, following a proposal in 2009 that largely mirrored many recommendations of the Report of the Money Market Working Group issued by the Investment Company Institute (ICI), the SEC approved amendments (the 2010 Amendments) to Rule 2a-7 under the Investment Company Act of 1940, as amended (the 1940 Act), the primary Rule governing the operation of MMFs.[8] Certain key provisions of the 2010 Amendments to Rule 2a-7 required MMFs to: (1) comply with enhanced portfolio quality and maturity requirements, and more stringent portfolio liquidity requirements; (2) periodically "stress test" the MMF's ability to maintain a stable $1.00 NAV per share upon the occurrence of certain hypothetical events; (3) disclose fund portfolio and other information in public website postings on a monthly basis; (4) electronically report portfolio and other information to the SEC on Form N-MFP; (5) be able to process transactions at prices other than a stable $1.00 NAV per share; and (6) hold at least 10 percent of their total assets in daily liquid assets (DLAs) (for taxable MMFs) and hold at least 30 percent of their total assets in WLAs (for all MMFs) (the 30 Percent Minimum).

In addition, the 2010 Amendments expanded the "circumstances under which certain affiliated persons can purchase portfolio securities" from a MMF pursuant to Rule 17a-9 under the 1940 Act so that MMFs could "dispose of distressed securities (for example, securities depressed in value as a result of market conditions) quickly during times of market stress."[9] In particular, the amendments to Rule 17a-9 adopted with the 2010 Amendments permitted MMF affiliates to purchase from a MMF (1) portfolio securities that had defaulted but continued to be an Eligible Security (as defined in Rule 2a-7) and (2) any portfolio securities, for any reason, subject to a "claw-back" requirement that any profit realized from a subsequent sale of a purchased security be returned to the MMF.[10] Amended Rule 17a-9 also required that any purchase made in reliance on the Rule be paid in cash and at a price that "is equal to the greater of the security's amortized cost or its market value, including accrued interest."[11] Prior to the 2010 Amendments, only a security that no longer qualified as an Eligible Security under Rule 2a-7 was eligible to be purchased in reliance on Rule 17a-9. Notwithstanding the breadth of the 2010 Amendments, at the time they were adopted then SEC Chairman Mary Schapiro characterized these amendments as "an important step—but just a *first step*—in [the SEC's] efforts to strengthen the money market regime."[12]

Following several years of public debate regarding additional MMF reforms, the SEC proposed further amendments to Rule 2a-7 in 2013. At the

core of the proposed amendments were two alternatives, the first being a requirement that Prime MMFs float their NAVs and the second being a requirement that MMFs transacting at a stable $1.00 NAV per share "impose a liquidity fee on redeeming investors if the fund's [WLAs] drop below 15 percent of its total assets, unless the fund's board determines that imposing the fee is not in the fund's best interest."[13] Under the second alternative, MMFs would also be permitted to suspend redemptions temporarily under the same circumstances. Although the SEC stated in its proposal that the two alternatives could be adopted separately or in combination, many anticipated that MMFs would be required to use either a floating NAV or impose fees and gates and "opposed combining the two alternatives into a single package."[14]

In a change from the proposing release, the SEC's amendments to Rule 2a-7 adopted in 2014 (the 2014 Amendments) combined the two proposed alternatives with some slight adjustments. In particular, the 2014 Amendments required: (1) MMFs that do not qualify as "government"[15] or "retail"[16] MMFs (for example, Prime MMFs) to use a floating NAV; (2) all non-government MMFs to have the choice to impose fees or gates if a MMF's WLAs fall below the 30 Percent Minimum; and (3) and all non-government MMFs to impose a 1 percent liquidity fee on all redemptions if the MMF's WLAs fall below 10 percent of total assets, unless the MMF's board of directors determines not to do so or to impose a different liquidity fee. More particularly, under amended Rule 2a-7, a MMF's board of directors is permitted to impose a liquidity fee of up to 2 percent on all redemptions or temporarily suspend redemptions, for up to 10 business days in a 90-day period, if the MMF's WLAs fall below the 30 Percent Minimum. In order to impose such fee or gate, the MMF's board of directors, including a majority of its independent directors, must determine that imposing the fee or gate is in the MMF's best interests.[17] With respect to the 1 percent liquidity fee required to be imposed by MMFs whose WLAs fall below 10 percent of its total assets, the board of directors "may also determine that a lower or higher fee would be in the best interests of the fund."[18]

As a result of the 2014 Amendments, a MMF is required to file Form N-CR with the SEC to report certain material events. For example, in the event that a MMF's board of directors determines to impose a fee or gate, the MMF must report this on Form N-CR and disclose "the primary considerations or factors taken into account by the fund's board."[19] The 2014 Amendments also required MMFs to disclose on Form N-CR any purchases of securities from a MMF by an affiliate in reliance on Rule 17a-9.[20]

In an effort to increase MMFs' "transparency and permit investors to better understand [MMFs'] risks,"[21] the 2014 Amendments also imposed website disclosure requirements regarding MMF DLAs and WLAs. Pursuant to amended Rule 2a-7, a MMF is required to disclose on its website the percentage of the MMF's total assets that are invested in DLAs and WLAs, as of the end of each business day during the preceding six months. The SEC intended for this requirement to provide "investors assurance that a [MMF] has sufficient liquidity to withstand the potential for heavy redemptions" during periods of market stress where MMFs may "face rapid, heavy redemptions."[22] With a MMF's DLAs and WLAs updated on its website each business day, as of the end of the preceding business day, investors are given the opportunity to monitor a MMF's liquidity levels.

However, the 2014 Amendments soon proved to have some divergent effects on the MMF industry. In the year leading up to the compliance date of the 2014 Amendments (October 14, 2016), "assets in [Prime MMFs] fell [by] $814 billion. Over the same period, assets in government institutional [MMFs] rose by $772 billion."[23] Although mutual funds, in particular Prime MMFs, had historically "been one of the largest investors in the US commercial paper market—an important source of short-term funding for major corporations around the world," the

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decline of assets in Prime MMFs led Prime MMFs to reduce their aggregate holdings of commercial paper, with "mutual funds' share of the commercial paper market [falling] from 40 percent to 19 percent" from the end of 2015 to the end of 2016.[24] Although the MMF industry speculated that the inflow to government MMFs and outflow from Prime MMFs simply reflected a preference by institutional investors for a stable $1.00 NAV per share and for MMFs not subject to liquidity fees or redemption gate provisions,[25] the effects of the fees and gates provisions adopted by the SEC in the 2014 Amendments would not be revealed until a market environment similar to the 2007–2009 financial crisis emerged.

What Happened in March 2020?

In March 2020, the impact of the COVID-19 pandemic reached US markets with devastating effects. Market volatility "soared to levels not seen since the Global Financial Crisis"[26] and liquidity diminished. Stresses in the commercial paper market "became linked to the supply of business credit, putting pressure on banks and heightening the market demand for cash" and increasing the "borrowing costs for financial and nonfinancial firms."[27] To preserve cash, "investors stopped rolling (or reinvesting proceeds from maturing securities)," which contributed to a "frozen market" where secondary trading and new issuances were at a standstill.[28] Accordingly, the liquidity challenges and high level of volatility resulting from the economic consequences associated with the spread of COVID-19 provided "the first major event to empirically study the impact of the liquidity restrictions introduced by the [2014 Amendments] on the stability of the MMF industry."[29]

Despite the mechanisms implemented by the 2014 Amendments intended to combat investor runs on MMFs, "[h]uge investor outflows from [Prime MMFs] . . . left managers scrambling to sell assets, threatening a vital source of funding for businesses across America."[30] Between March 9 and March 23, 2020, approximately "$96 billion (about 30 percent of Prime MMFs' assets under management) were withdrawn from [Prime] MMFs."[31] As Prime MMFs continued to experience outflows and their assets under management neared the 30 Percent Minimum, MMF boards of directors became increasingly close to facing the decision of whether to impose fees or gates, and sponsors contemplated the impact of such an event on the products and broader business. Despite Prime MMFs being more liquid and experiencing smaller dollar outflows than during the 2007–2009 financial crisis, "[m]any institutional investors reportedly viewed a breach of the [30 Percent Minimum] as akin to 'breaking the buck,' rather than as a substantial liquidity buffer that could be used to meet redemptions."[32]

Government Response to March 2020 Volatility

In response to the extreme market volatility and liquidity challenges experienced in March 2020, the Board of Governors created emergency facilities to assist commercial paper markets and MMFs, among other sectors. With respect to MMFs, the Board of Governors launched the Money Market Mutual Fund Liquidity Facility (MMLF) on March 19, 2020, modeled after the AMLF established during the 2007–2009 financial crisis and designed to "support the flow of credit to households and businesses... to enhance the liquidity and functioning of the financial markets and to support the economy."[33] The MMLF permitted the Federal Reserve Bank of Boston to make nonrecourse loans available to banks and other eligible financial institutions to purchase assets being sold by Prime MMFs to meet redemptions.[34] Also, on March 19, 2020, the Board of Governors and other federal banking agencies issued an interim final rule so that these loans would not impact the ability of a financial institution participating in the MMLF from meeting its regulatory capital requirements.[35]

At the same time, the Treasury provided $10 billion of credit protection from its Exchange Stabilization Fund to help the Federal Reserve Bank

of Boston cover loan losses under the MMLF.[36] Days later, the Board of Governors announced that it would expand the MMLF to support crucial Tax-Exempt MMFs by making loans available to eligible financial institutions secured by certain high-quality assets purchased from single state and other Tax-Exempt MMFs.[37] By March 23, 2020, the MMLF became available for use by eligible financial institutions and the Board of Governors released final term sheets and program documents.

Meanwhile, on March 19, 2020, the ICI asked the Staff of the SEC's Division of Investment Management (the Division) to issue no-action relief to permit affiliated persons of a MMF who are subject to Sections 23A and B of the Federal Reserve Act to purchase securities from the MMF at a price that is not equal to the greater of the amortized cost of the security or its market price, as would be required by Rule 17a-9.[38] Without no-action relief, such affiliated persons would not be permitted to rely on Rule 17a-9 to purchase securities from affiliated MMFs because the conflicting banking regulations to which they are subject dictate that these persons purchase securities from affiliated MMFs at a price other than as prescribed in Rule 17a-9. In its letter, the ICI noted that due to the short-term market dislocation caused by COVID-19, affiliated persons of MMFs unable to rely on the exemption in Rule 17a-9 because of conflicting banking regulations may desire to purchase securities from MMFs to enhance a MMF's liquidity or stability. The ICI's proposed conditions to relief included that the security would be purchased at its "fair market value as determined by a reliable third-party pricing service."[39] The Staff of the Division granted temporary no-action relief in accordance with the ICI's request on the same day subject to certain conditions, including that the MMF files a report of the transaction on Form N-CR and notes that the transaction was made in reliance on the letter.[40]

Another notable event from the week of March 16, 2020 was the filing of Form N-CR by four MMFs.[41] Those filings revealed that sponsors had purchased MMFs' underlying securities to support the MMFs and provide liquidity.[42] This marked the first time that Form N-CR had been used to report substantive actions relating to MMFs.

Because of the enhanced transparency of MMF portfolio information resulting from the website disclosure requirements adopted as part of the 2014 Amendments, investors were able to closely monitor Prime MMFs' WLAs. Indeed, that data revealed that at least one MMF's WLAs fell below the 30 Percent Minimum.[43] Although there is no requirement to report this type of event on Form N-CR unless and until a board determines to impose a fee or gate, the website disclosure requirements allowed investors to monitor, on a daily basis, the WLAs of Prime MMFs during that week.

Calls for Additional Regulation

By April 2020, assets in Prime MMFs "increased by $105 billion . . . after declining by $125 billion in March to $1.1 trillion, roughly $20 billion below their February level."[44] However, in the months following the onset of the market crisis in the spring of 2020, regulators and industry participants speculated about the impact prior regulatory reforms had on MMFs and the markets in which they transact.[45] Furthermore, many have speculated about the future viability of MMFs, particularly Prime MMFs, with some suggesting that the future is bleak for their existence with or without reforms,[46] while others argue fervently for their place in the market.[47] The Director of the Division, Dalia Blass,[48] emphasized the need to "analyze the events in March and how the framework of rule 2a-7 may have either alleviated or contributed to any of the events that unfolded."[49] Randal Quarles, Vice Chair for Supervision of the Board of Governors and Chair of the FSB, also stated that "[t]he March turmoil has underscored the need to strengthen the resilience of nonbank financial intermediation."[50]

One prevailing suggestion from industry participants focuses on certain reforms implemented

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through the 2014 Amendments. As discussed above, some in the industry have taken issue with the 2014 Amendments' grant of authority to MMFs to implement fees or gates when WLAs fall below the 30 Percent Minimum. Data on the operations of Prime MMFs during the market crisis in the spring of 2020 indicated that the "[30 Percent Minimum], in combination with the option to impose fees and gates, in effect may have created a trip wire that investors sought to avoid, rather than a robust source of liquidity."[51] Staff of the Federal Reserve Bank of New York noted that "[t]he response of MMF investors to the [2014 Amendments] is consistent with their desire to hold money-like assets. From an investor's perspective, the introduction of [fees or gates] and the adoption of a floating NAV make a [P]rime MMF less similar to a regular bank deposit."[52] Although Prime MMFs had more highly liquid assets to sell to meet redemptions than they did during the 2007–2009 financial crisis, the 30 Percent Minimum combined with a Prime MMF's discretion—or that of its board—to impose fees or gates appeared to incentivize investors to exit Prime MMFs.[53] As stated by Paul Stevens, then President and CEO of the ICI, many institutional investors reported "interpret[ing] this board option as a requirement to restrict redemptions when liquidity reached that level."[54] Between March 17 and March 24, 2020, Prime MMFs whose WLAs were at or below 35 percent of total assets had more significant outflows than other Prime MMFs.[55] As further evidence of the 30 Percent Minimum threshold acting as a catalyst for redemptions, the ICI generated simulated results of hypothetical Prime MMFs, one operating consistent with the 2014 Amendments and having the ability to impose fees or gates at the 30 Percent Minimum threshold and the other operating consistent with Rule 2a-7 prior to the 2014 Amendments. The results of its simulations show that assets declined more quickly when the hypothetical MMF's WLAs fell below 35 percent for those MMFs that could impose fees or gates.[56]

Indeed, certain regulators have acknowledged that the potential for fees and gates may have exacerbated the redemptions in Prime MMFs, particularly for publicly offered MMFs.[57] When comparing the 2007-2009 financial crisis with the COVID-19 market crisis, Deputy US Treasury Secretary Justin Muzinich queried whether "we have exchanged one psychological bright line for another," with the $1.00 NAV per share being the bright line in 2007–2009 and the 30 Percent Minimum being the bright line in March 2020. Likewise, the Division Director Dalia Blass, during a speech discussing MMFs, asked "did the possibility of gates when a fund's liquidity approached or passed certain limits drive market behavior?"[58]

To attempt to solve for this unintended consequence of the fees and gates provisions of Rule 2a-7, some industry experts have suggested "decoupling" the fees and gates from the 30 Percent Minimum.[59] In addition, BlackRock has suggested that MMFs retain "the ability to implement fees and gates at their discretion at any time." However, BlackRock supports retaining "the [30 Percent Minimum] requirement as a portfolio construction feature so that a fund has a substantial liquidity buffer" but not tying the 30 Percent Minimum to triggering a board of directors' determination as to whether to impose fees or gates.[60]

Instead of focusing on further regulating MMFs, some industry participants argue that regulators should focus on reforming the short-term funding markets in which MMFs transact. These participants argue that MMFs provide essential capital to a variety of governmental, commercial and financial institution borrowers who in turn use the funding "to lend to households such as through auto loans, consumer finance loans, home equity lines of credit, and credit card lending."[61] Specifically, concerns have mounted regarding secondary market liquidity for commercial paper.[62] Without access to liquidity in the commercial paper market, industry participants fear that the viability of the commercial paper market will rely on bailouts from Federal Reserve banks when the next crisis occurs.[63]

Regulators have also acknowledged the fragility of short-term funding markets, including the

commercial paper market.[64] The shortening of maturities in the commercial paper market during the COVID-19 market crisis, which was "similarly reminiscent" of the financial crisis and proved that "these short-term funding markets remain an unstable source of funding in times of considerable financial stress[,]"[65] also evidenced the fragility of the commercial paper market. Under the current commercial paper market structure, market participants rely on banks to bid commercial paper in the secondary market. Market participants have found that "banks are unwilling to bid paper from issuers where they are not a named dealer on that program," creating a "single source of liquidity" model which was unsuccessful during the COVID-19 market crisis and is likely to "fail again in the next liquidity crisis if fundamental changes to the [commercial paper] market structure are not implemented."[66] One suggestion that has emerged with respect to liquidity in the commercial paper market is for the SEC to "convene a group of banks, issuers, [MMFs] and other market participants to study potential [commercial paper] market reforms."[67] In an effort to expand the available liquidity providers in the commercial paper market, certain market participants further suggest that the proposed group consider standardizing the commercial paper market and creating an "all-to-all platform" in primary and secondary markets.[68]

In addition, many market participants and industry leaders believe that "there needs to be chang[e] around how banks are able to intermediate and how commercial paper sits on bank balance sheets to make the most logical intermediary available in these markets when they're needed."[69] Global industry leaders have warned that credit risk has become "increasingly intermediated and held outside the banking sector" demonstrating the importance of "system-wide liquidity conditions for the resilience of the financial system."[70] For example, short-term instruments are traded almost exclusively as over-the-counter instruments, which, during the COVID-19 market crisis, only underscored the need to reassess the market structure for commercial paper and other short-term instruments. Industry participants point out smaller financial institutions are reliant on larger financial institutions to serve as dealers in the commercial paper markets, which under the "single source of liquidity" model grants them a "de facto monopoly" over providing liquidity to the market.[71] In the spring of 2020, "[w]hen the [Board of Governors] granted dealer banks explicit capital relief for secondary market purchases of commercial paper from MMFs, banks immediately became willing to intermediate."[72] Similarly, by changing the balance sheet treatment of highly rated commercial paper (A1/P1/F1) to be high-quality liquid assets for purposes of the liquid coverage ratio, industry participants believe that banks will be incentivized to hold commercial paper during times of market stress, increasing commercial paper's liquidity.[73]

Conclusion

As of the date of this article, it is still too early to know if and what kind of further MMF reforms might emerge, but it is likely that reforms of some nature will be made. In the past, regulators have considered various forms of capital and/or liquidity buffers that might be proposed again. Alternatively, regulators may look at the 2014 Amendments and the COVID-19 market crisis to conclude that they should pursue a lighter regulatory approach by amending current liquidity requirements, including the 30 Percent Minimum threshold for fees and gates. There is also the possibility that the reforms could focus on improving the structure of the short-term funding markets in which MMFs transact. Although some MMF sponsors have determined to close their institutional Prime MMFs, other sponsors and certain institutional investors remain committed to the product, regardless of the path regulators pursue. If the 2010 and 2014 Amendments are any indication, any future reforms will allow for robust public review and comment and a transition period before the relevant compliance dates.

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Post-Script—PWG Report

As this article was going to print, the President's Working Group on Financial Markets (PWG) published a report entitled "Overview of Recent Events and Potential Reform Options for Money Market Funds."[74] In its PWG Report published in December 2020, the PWG emphasizes the need for "financial regulators to examine the events of March 2020 closely, and in particular the role, operation, and regulatory framework for these MMFs, with a view toward potential improvements."[75] The PWG Report outlines ten potential policy measures to increase the resilience of Prime and Tax-Exempt MMFs, without endorsing a particular measure. These measures are: (1) removing the tie between the WLA thresholds and the application of fees and gates; (2) reforming the conditions for imposing redemption gates; (3) imposing a minimum balance at risk; (4) changing MMF liquidity management requirements; (5) requiring MMFs to have countercyclical WLAs; (6) requiring all Prime and Tax-Exempt MMFs to use a floating NAV; (7) imposing a swing pricing requirement on all MMFs; (8) imposing capital (or NAV) buffer requirements; (9) mandating liquidity exchange bank membership; and (10) creating a regulatory framework governing sponsor support of MMFs.

Certain of the reforms proposed by the PWG Report, including imposing a minimum balance at risk, requiring all Prime and Tax-Exempt MMFs to use a floating NAV, imposing capital (or NAV) buffer requirements and mandating liquidity exchange bank membership, were considered as part of the 2014 Reform and were ultimately not included in those reforms by the SEC. Among the new reforms proposed by the PWG Report and one that certain industry participants have supported as discussed above is the decoupling of the 30 Percent Minimum threshold from the imposition of fees or gates. The PWG notes that, in addition to reducing "the incentive for preemptive runs," "diminishing the importance of thresholds" could "give MMFs greater flexibility, for example, to tap their own liquid assets to meet redemptions" in times of market stress.[76]

The PWG Report echoes, in part, many of the ongoing discussions among market participants and regulators, provides additional considerations for the policy debate that is ongoing in the wake of the COVID-19 market crisis and lends significant weight to the push for further reform. However, at this time it is uncertain whether industry leaders will embrace some or all of the PWG Reports' specific recommendations. It is also unclear as to whether any new politically appointed members of the PWG from the incoming Biden Administration will take up the cause of pushing these reforms or prioritize other matters.

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NOTES

1 *See, e.g.,* "What Happened? What Have We Learned From It? Lessons from COVID-19 Stress on the Financial System," Speech by Board of Governors of the Federal Reserve System (the Board of Governors) Vice Chair for Supervision Randal Quarles (Oct. 15, 2020), *https://www.federalreserve.gov/newsevents/speech/quarles20201015a.htm*; Holistic Review of the March Market Turmoil, Financial Stability Board (FSB) (Nov. 17, 2020) (FSB Report), *https://www.fsb.org/wp-content/uploads/P171120-2.pdf*.

2 *See, e.g.,* Remarks of Deputy Secretary Justin Muzinich at the 2020 US Treasury Market Conference, (Sept. 29, 2020), *https://home.treasury.gov/news/press-releases/sm1138*. Mr. Muzinich argues that the 2014 reforms may have simply exchanged one bright line rule ("breaking the buck") for another (dipping below the 30 Percent Minimum), causing investors the same kind of panic to redeem if the line was crossed. *See also* BlackRock Report: Lessons from COVID-19: Overview of Financial Stability and Non-Bank Financial Institutions (Sept. 2020) (BlackRock September Report), *https://www.blackrock.com/corporate/literature/whitepaper/*

viewpoint-lessons-from-covid-overview-financial-stability-september-2020.pdf (asserting that the "30 percent weekly liquidity buffers' linkage with redemption gates and fees became the new 'breaking the buck'.")

3 *See*, *e.g*., "Vanguard Shifting Prime Money Market Fund to Safer U.S.-Backed Investments," Darla Mercado, CNBC (Aug. 27, 2020), *https://www.cnbc.com/2020/08/27/vanguard-shifting-money-market-fund-to-safer-us-backed-investments.html*; "Panic in the Parking Lot for Cash," Brian J. O'Connor, *New York Times* (Oct. 9, 2020) (Panic in the Parking Lot for Cash), *https://www.nytimes.com/2020/10/09/business/mutfund/money-market-funds-low-interest-rates.html*; "Prime Money-Market Funds Are Under Pressure. Could They Disappear?", *Barrons*, Lewis Braham (Nov. 6, 2020) (Prime Money-Market Funds Are Under Pressure. Could They Disappear?), *https://www.barrons.com/articles/prime-money-market-funds-are-under-pressure-could-they-disappear-51604695169*.

4 The Reserve to give back $1B to Primary Fund investors, Associated Press (Sept. 23, 2009), *https://www.investmentnews.com/the-reserve-to-give-back-1b-to-primary-fund-investors-24119*.

5 "Money Market Funds—What's Next?," *The Investment Lawyer* (June 2011), *https://www.dechert.com/knowledge/publication/2011/6/money-market-funds-whats-next.html*.

6 Treasury Announces Temporary Guarantee Program for Money Market Funds, US Department of the Treasury, Press Release (Sept. 29, 2008), *https://www.treasury.gov/press-center/press-releases/pages/hp1161.aspx*.

7 Federal Reserve Board Announces Two Enhancements to Its Programs to Provide Liquidity to Markets, Press Release, Federal Reserve (Sept. 19, 2008), *https://www.federalreserve.gov/newsevents/pressreleases/monetary20080919a.htm*.

8 *See Money Market Fund Reform*, SEC Rel. No. IC-29132 (Feb. 23, 2010), *https://www.sec.gov/rules/final/2010/ic-29132.pdf*; Money Market Fund Reform: 2010 SEC Amendments, Investment Company Institute (2010), *https://www.ici.org/mmfs/reforms/sec_reforms/statements/10_mmfs_2010sec*.

9 *Id*.

10 *Id*. The "claw-back" requirement of amended Rule 17a-9 is not applicable to an Eligible Security.

11 *Id*.

12 Statement on Money Market Funds Before the Open Commission Meeting, Speech by then Chairman Mary Schapiro (Jan. 27, 2020), *https://www.sec.gov/news/speech/2010/spch012710mls-mmf.htm* (emphasis added).

13 *See* "Statement at Open Meeting Regarding a Rule Proposal on Money Market Reform," Commissioner Troy A. Paredes, *https://www.sec.gov/news/public-statement/2013-06-05-open-meeting-statement-tap; see also Money Market Fund Reform; Amendments to Form PF*, SEC Release No. IC-31166 (June 5, 2013) (Proposing Release), *https://www.sec.gov/rules/proposed/2013/33-9408.pdf*.

14 *Money Market Fund Reform; Amendments to Form PF, Securities and Exchange Commission*, SEC Rel. No. IC-31166 (July 23, 2014) (Adopting Release), *www.sec.gov/rules/final/2014/33-9616.pdf* (citing an industry participant's comment to the Proposing Release).

15 Under Rule 2a-7, a "government money market fund" is defined as a MMF that invests 99.5 percent or more of its total assets in cash, government securities, and/or repurchase agreements that are collateralized fully.

16 Under Rule 2a-7, a "retail money market fund" is defined as a MMF that has policies and procedures reasonably designed to limit all beneficial owners of the fund to natural persons.

17 *See* Adopting Release, *supra* n.14. The Adopting Release notes that "[i]f, at the end of a business day, a fund has invested 30 percent or more of its total assets in [WLAs], the fund must cease charging the liquidity fee or imposing the redemption gate, effective at the beginning of the next business day."

18 *See* Adopting Release at n.103, *supra* n.14.

19 *See* Adopting Release, *supra* n.14; *see also* Form N-CR, Part E.

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20 *See* Form N-CR, Part C (provision of financial support), which requires disclosure on Form N-CR if "an affiliated person, promotor, or principal underwriter of the [MMF], or an affiliated person of such person, provides any form of financial support to the [MMF] (including (i) capital contribution, (ii) purchase of a security from the fund in reliance on [Rule 17a-9], (iii) purchase of any defaulted or devalued security at par, (iv) execution of letter of credit or letter of indemnity, (v) capital support agreement (whether or not the [MMF] ultimately received support), (vi) performance guarantee, or (vii) any other similar action reasonably intended to increase or stabilize the value or liquidity of the [MMF's] portfolio; excluding, however, any (i) routine waiver of fees or reimbursement of fund expenses, (ii) routine inter-fund lending, (iii) routine inter-fund purchases of fund shares, or (iv) any action that would qualify as financial support as defined above, that the board of directors has otherwise determined not reasonably intended to increase or stabilize the value or liquidity of the fund's portfolio."

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22 *See* Adopting Release, *supra* n.14.

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