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July 23rd, 2022

James Ridgwell and Liam Browne
Asset Management and Funds Policy team
Financial Conduct Authority
12 Endeavour Square London E20 1JN
United Kingdom

Submitted via email to: AMFPolicy@fca.org.uk

Re: Discussion Paper on Resilience of Money Market Funds

Dear Mr Ridgwell, dear Mr Browne,

State Street Corporation, including its investment management arm, State Street Global Advisors, (collectively, "State Street") appreciates the opportunity to provide feedback on the UK authorities' Discussion Paper 22/1 on Resilience of Money Market Funds ("MMFs").

Headquartered in Boston, Massachusetts, State Street is a global custody bank which specializes in the provision of financial services for institutional investor clients. This includes investment servicing, investment management, data and analytics, and investment research and trading. With $41.72 trillion in assets under custody and administration and $4.02 trillion in assets under management, State Street operates in more than 100 geographic markets globally.[1] State Street is both a service provider to MMFs (e.g. custody, fund accounting) and a manager of MMFs, through our investment management arm, State Street Global Advisors.

MMFs play an important role in the financial services system and the wider economic ecosystem. They are a low cost, efficient, scalable, and transparent cash management investment tool for investors and an important source of funding for both public and private sector issuers. State Street is therefore supportive of the various ongoing efforts by policymakers to ensure and improve the resilience of MMFs. The regulatory framework introduced by the EU Money Market Fund Regulation is effective and has enhanced the overall resilience of MMFs. However, the market events in March/April 2020 have highlighted some areas where the regulation had not operated as intended. Targeted and proportionate reforms are hence justified, and we believe that striking the right balance when reforming the MMF framework would be beneficial for the UK's attractiveness as a MMF domicile.

Against that background, we would like to highlight the following points regarding MMF reform:

1. **Delinking liquidity thresholds from gates/fees:** State Street strongly supports the proposal to remove the link between MMF minimum liquidity requirements, namely the 30% WLA threshold, and the potential imposition of liquidity fees and redemption gates. By doing so, MMFs would be able to

[1] As of March 31, 2022. Assets under management includes approximately $73 billion of assets with respect to SPDR® products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

make use of their available liquidity during times of market stress and most directly address the challenges faced by MMFs during the period of market volatility.

2. **Ensure the ongoing viability of MMF:** We continue to believe MMFs play a critical and valuable role in financial markets, and that the outcome of the reform process should not deprive investors of a valuable investment vehicle nor issuers of a crucial source of funding.
3. **Retention of stable NAV:** In particular, we do not support the removal of the stable NAV from the Low Volatility NAV (LVNAV) category. There is little, if any, evidence to substantiate the suggestion that the stable NAV was a factor in fund outflows during the March/April 2020 crisis.
4. **Liquidity management tools (LMTs):** It is important that MMFs have a broad range of LMTs at their disposal as well as flexibility regarding the use of LMTs. The choice, calibration and activation of such tools should be left to the discretion of the fund manager. With regards to swing pricing specifically, we do not support its application to MMFs for operational and structural reasons.
5. **Address underlying market structure issues:** Reforms should not be targeted at MMFs alone but also consider underlying structural issues, in both the short-term funding market and fixed-income markets more broadly, for reforms to be truly effective.

State Street is keen to continue being an active and constructive participant in this debate, and we remain supportive of efforts to improve the resilience of MMFs, as well as broader short-term funding markets. We look forward to contributing to these discussions with UK policymakers.

Should you wish to discuss any aspect of our response, please do not hesitate to contact us or a member of our teams.

Sincerely,

Cuan Coulter

Cuan Coulter

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Responses to questions

Q1: At what point might higher minimum liquid asset requirements start to affect the operation of and demand for MMFs? What impacts might you anticipate? How would you quantify that effect for different levels of DLA and WLA? For example, at an additional 20 to 40 percentage points for minimum WLA (as applied to both LVNAV and VNAV funds).

In our view, the current minimum liquid asset requirements are appropriate and sufficient for LVNAV and PDCNAV MMFs. As seen during the March/April 2020 market events, the required levels of 10% DLA and 30% WLA were sufficient to meet investors' redemptions. However, not being able to access that liquidity created difficulties. Because of the 'bright line' created by linking the 30% minimum WLA and the possible use of fees and gates, MMF managers manage liquidity in a way to ensure that liquidity levels stay above the required minimums without having to sell assets during normal times.

However, setting higher levels of minimum liquidity would reduce managers' flexibility and the additional liquidity could also become trapped. As a result, we could end up in a situation where MMF managers may have to sell assets more frequently which would go against the objective of creating a usable countercyclical buffer and to further enhance MMFs' resilience during times of stress. Instead, the objective should be to ensure that WLAs are available to be used if required. Furthermore, due to declining yields as a result of higher liquidity requirements, investor appetite and demand would be reduced.

We therefore continue to strongly recommend and advocate for removing the 'bright line' by delinking the minimum liquidity thresholds from fees and gates. This measures, which is supported by a wide range of stakeholders and policymakers, would enable LVNAV MMFs to access their liquidity during times of market stress and volatility.

Q2: What is your view on the feasibility of a requirement for UK MMFs to only invest in public debt? Do you think such an option would need to permit reverse repurchase agreements secured on public debt to be feasible? How should requirements take into account differences in the liquidity between different types of public sector debt?

State Street does not believe that a requirement for UK MMFs to only invest in public debt is feasible. Such a requirement could increase MMFs' susceptibility to shocks, e.g. in the event of a sovereign debt crisis or credit concerns about sovereign risk, such as occurred in the Eurozone in 2011. Furthermore, imposing fixed quotas would reduce the MMF manager's flexibility making it harder to respond to changes in the market environment.

In addition, the impact of such a requirement is expected to vary significantly by currency: the supply and demand of public debt assets denominated in GBP and EUR are very different when compared to such assets in USD, potentially resulting in additional pricing volatility and unnecessary risk.

More specifically, it would not be feasible for UK MMFs to comply with a requirement to invest exclusively in GBP denominated public debt. As also recognized in the Discussion Paper, the lack of supply in the UK Treasury bill and the short gilt market would seriously inhibit the ability of GBP-denominated funds to invest exclusively in public debt assets. The maturity of UK Treasury bills would also have to be considered as the most common bills are issued with a three- and six-month maturity, whilst an MMF has to maintain a weighted average maturity (WAM) of less than 60 days at all times.

Insufficient supply of short-term public debt assets would likely force MMFs to buy longer dated assets to fulfil their obligations. This may be incompatible with MMF WAM requirements and would add to interest rate sensitivity, price volatility and maturity transformation.

In addition, as also noted in the Discussion Paper, having a single investor base dominant in the short-term gilt market would lead to distortions and impair secondary market liquidity.

Although public debt assets will in general be more liquid, liquidity between various issuers can, as the Discussion Paper also suggest, be subject to meaningful divergencies. These are driven by both relative credit worthiness and methods/characteristics of issuance. Such issues become more acute when there is a lack of supply in the underlying government market.

Q3: What is your view on the impact of a maximum limit on holdings of private sector assets? For example, a maximum of 40%? How might issuers respond if there was a change in demand for those assets from MMFs?

In our view, the cap on private sector assets is equivalent to a requirement for MMFs to increase investments in public sector assets. The challenges set out in our response to Question 2 therefore apply here as well.

In general, we do not believe that the introduction of prescriptive private or public debt quotas are a viable policy option given the challenges and risks that such measures would introduce. Instead, it is important that MMF managers retain flexibility and discretion in how they react to changing market circumstances and how they meet a fund's liquidity requirements, always considering the interest of the fund investors. Furthermore, if all MMFs had to hold a minimum amount of public debt, it would increase credit but further limit liquidity in markets. As a result, in stressed markets, it would make public debt holdings harder to sell to provide liquidity as funds would already be holding a much higher percentage of them rather than adding an extra layer of liquidity.

Q4: What is your view on the relative benefits and costs of the different types of asset requirements, such as increasing minimum DLA or WLA, requiring minimum public sector debt holdings, or imposing a maximum limit on holdings of CD/CP (or a combination of those measures)? Please consider increased resilience for MMFs in times of financial markets stress as part of your answer. If possible, please provide data to support your views.

State Street agrees and supports the regulatory objective of enhancing MMFs' resilience, esp. during times of market stress. In our view, this can be best achieved by focusing on improving the usability of MMFs' liquidity, i.e. by removing the link between the 30% minimum WLA and the possible use of fees and gates.

It is important to recognize that under normal circumstances, MMFs meet redemptions from their DLA which are replenished by a roll down of the WLA that they hold. During stressed market conditions, MMFs may find themselves in a position where they need to temporarily dip into their liquidity buffers to meet elevated redemptions. By removing the link between WLA and the use of fees and gates, MMFs' liquidity buffers would be enabled to do so and would not be forced to sell assets into markets suffering from constrained liquidity conditions.

However, as set out in our response to Question 2, we do not believe that the different types of asset quotas or holding requirements would improve liquidity or enhance MMFs resilience.

Q5: Do you agree that the regulatory links discussed in the 'Threshold effects related to liquidity levels' section exacerbate first mover advantage and can drive additional unnecessary investor redemptions in a stress? If so, how much of a problem does it cause and how would you quantify it? Would you support a proposal to remove such links? If possible, please provide data to support your views.

Yes, State Street agrees and recommends removing the so-called 'bright line'.

As seen during the March/April 2020 market stress, investors prioritized access to liquidity. The 30% WLA MMF requirement effectively became a "bright line" that investors were highly sensitive to. While this was particularly the case in the U.S. market, where fees and gates are perhaps not as established as they are within either the Undertakings for the Collective Investment in Transferable Securities ("UCITS") or Alternative Investment Fund Managers Directive ("AIFMD") frameworks, we note this was also a driver behind investor behaviour in Europe, despite the nuances in legislation governing MMFs between the two jurisdictions. In practical terms, this resulted in the counterintuitive scenario whereby MMFs had a substantial portion of their portfolio invested in WLA that was unusable. Furthermore, MMFs became forced sellers in a deteriorating market, in order to hold additional liquidity over and above the regulatory thresholds, as a means to further assuage investor concerns. Indeed, at certain points, data collected by the Institutional Money Market Funds Association ("IMMFA") reveals that some MMFs were holding in excess of 45% of their portfolio in weekly maturing assets.

As such, we support the proposals that seek to improve the usability of a fund's liquidity. In particular, we strongly support the proposal to remove the link between MMF minimum liquidity requirements, namely the 30% WLA threshold, and the potential imposition of liquidity fees and redemption gates. As noted, this may have encouraged investor redemptions, resulting in the counterintuitive scenario whereby funds had high levels of liquidity that was effectively unusable at a time when it was most needed. The removal of these bright lines would allow MMFs to make use of their available liquidity during times of market stress and thereby most directly address the challenges they faced during the period of market volatility.

Q6: What is your view on whether authorities should approve the activation of liquidity fees or the imposition of gates?

State Street does not agree with the proposal that authorities should approve the activation of liquidity fees or the imposition of gates. We believe that the decision to impose fees should be left to fund managers and boards as they are best placed to understand the circumstances of the fund and the needs of their clients. It is quite common for MMFs to have large redemptions, but the manager can plan and build up relevant liquidity (if needed) as investors tend to notify the MMF of upcoming large redemptions.

Q7: Do you agree that the usability of liquidity resources could be improved by changes to how they are defined, such as defining requirements as an average over a period, or allowing authorities to change aspects of the requirements in a stress? What other changes should be considered that might make liquidity resources more usable? Which changes might be most effective at making buffers more usable? If possible please provide data to support your views.

The ability to average liquidity over a period could be beneficial, esp. during periods such as quarter end where liquidity generally is harder to manage. Such a measure would allow MMFs to front-load liquidity over early parts of a month/quarter to carry lower liquidity into these stressed periods, so long as the average minimum is met overall.

However, we do not believe that by changing the definition of liquidity resources or by allowing authorities to make countercyclical adjustment, the usability of liquidity resources can be improved.

With regards to liquidity buffers more generally, it is important to recognize that they do not act as a floor but in fact are there to be used if needed in times of stress. Accordingly, removing the link between minimum liquidity thresholds and the imposition of fees and gates is the most suitable policy option to improve MMFs' resilience.

Furthermore, we would recommend increasing the transparency and education around the potential temporary use of the liquidity buffer by an MMF. As part of that, the UK FCA could provide regulatory guidance and clarification that MMFs can make use of their liquidity buffers in times of stress. Such guidance would help with reducing the stigma attached to a fund using its liquidity buffers. In this respect the recent (non-Handbook) guidance provided by the FCA on parts of the UK MMF Regulation is helpful in that it clarifies elements which may be concerning to investors and notes the broad requirement that any such fund 'adopt as a priority objective the correction of that situation'.

Q8: Under what circumstances do MMF managers consider selling assets to meet redemptions? How might that change as a result of policy options aimed at making liquidity buffers more usable (including policies that aim to reduce threshold effects, and policies that change how liquidity requirements are defined)?

As described above, it is important to recognize that MMFs meet redemptions from their DLA which are replenished by a roll down of the WLA that they hold. Accordingly, an MMF will not be required to sell assets unless its DLA buffer is exhausted.

During the March/April 2020 market events, MMF investors were focused on the 30% WLA threshold given the link to the potential imposition of liquidity fees and gates. As a result, MMF managers maintained liquidity levels in excess of the required minimum. Different from the other policy options considered in the Discussion Paper, removing the 'bright line' would effectively reduce the potential need to sell assets in stressed market conditions as MMFs would be able to make use of their available liquid assets.

Q9: Are you aware of any cases in which a sterling MMF uses or has used liquidity fees or swing pricing? If yes, please provide details if possible.

State Street is not aware of such cases and no SSGA MMFs had to use liquidity fees or swing pricing. Introducing swing pricing would be operationally complex for MMFs to do so and likely to impact their ability to offer T+0 settlement, a key feature of their utility and a central value proposition to investors.

Q10: Do you agree that UK MMF rules should be clear on the need for the manager to avoid material dilution? Please explain your response.

State Street agrees with the view expressed in the Discussion Paper that managers should avoid material dilution by ensuring that the costs of liquidity, when material, are passed on to redeeming investors. Under the current MMF framework, article 34 regulates the application of liquidity management procedures for LVNAV and PDCNAV MMFs.

Q11: Do you think UK rules should be specific on how MMF managers should avoid material dilution in the way their funds are run, for example, with rules and guidance relating to LMTs? Please explain your answer.

In our view, it is important that MMF managers retain a certain level of discretion in the use of LMTs. As market events differ, flexibility is needed re the use of LMTs and it is important that MMFs have a broad range of LMTs at their disposal. As also noted by the Discussion Paper, we believe that prescriptive criteria on mandating and specific parameters and calibration for the application of LMTs should be avoided.

Q12: Do you have any comments on the current MMFR valuation rules in relation to this issue?

In our view, the valuation rules that apply to both LVNAV and PDCNAV MMFs continue to be appropriate.

In the case of LVNAV MMFs, the application of amortized cost accounting and the use of 2-digit rounding allow for maintaining a stable NAV. Any potential mark-to-market losses in the portfolio are not realized unless the assets are sold which should not be required given the high levels of liquid assets that a LVNAV MMF needs to hold, especially if the link between liquidity levels and the imposition of liquidity fees and gates is being removed.

Amortization is an appropriate method of accounting for short-term investments which are typically held to maturity, and in the LVNAV it is only applied to assets under 75 days and only to those within 10bps of the market value. The full portfolio is marked to market at least once a day to ensure that the NAV remains within the 20bps threshold. In the case of PDCNAVs it is appropriate to amortize the whole portfolio and to have a wider limit of 50bps given that these funds hold 99.5% public debt where volatility can be expected to be lower.

Q13: Do you have any comments on the macro-prudential swing pricing option?

State Street is fully supportive of swing pricing as an ordinary LMT across open-ended funds more broadly. Notwithstanding this general position, we have strong reservations regarding the applicability of swing pricing to MMFs. In particular, from an operational perspective, given swing pricing and other types of anti-dilution levies ("ADL") are based on net flows (which are only known at end-of-day), it would be incompatible with the intra-day liquidity and T+0 settlement offered by almost all MMFs, which are key components of their value proposition for investors.

We note this is one of the primary reasons why, to date, swing pricing has not been used for these types of MMFs in jurisdictions such as Europe where this tool is available under UCITS.

In addition, it is not clear whether swing pricing would be effective in addressing market challenges and run-risk during 'black swan' events, such as in March/April 2020. Although the primary objective of swing pricing is to protect remaining investors, it can assist in mitigating first-mover advantage within a given fund. However, swing pricing is not typically utilized to address market-wide events, and where the entire market is effectively moving in one-direction, (i.e. everyone is looking to build up liquidity) it is unlikely to be to able stem market-wide redemption pressure.

Furthermore, we share the view expressed in the Discussion Paper that macro-prudential activation would be challenging for the authorities. They would have to define stress periods and choose relevant parameters as well as having to act swiftly in a stress scenario which is likely to be challenging. In addition, it may not be appropriate to apply a blanket approach across all funds or multiple funds given the different underlying investor bases, flow patterns and portfolio positioning.

Q14: Do you think the investor protection and possible financial stability harms set out for LVNAVs are, or could be material? Please explain and provide evidence, including any relevant data, to support your conclusion on this.

State Street does not support the removal of the stable NAV from the LVNAV MMF category. There is no evidence to suggest that the stable NAV was a factor behind fund outflows during the March/April 2020 market events. Instead, variable NAV funds in both the US and Europe experienced substantially similar levels of outflows demonstrating that the valuation methodology was not a key determinant.

As mentioned before, the link between minimum liquidity thresholds and fees/gates in LVNAVs resulted in the unintended consequence of the regulatory provision contributing to procyclicality. This can be addressed by the targeted reform of delinking.

There is also little or no evidence to suggest that LVNAV collars were a source of instability in the crisis. LVNAV investor redemptions were driven largely by concerns over the 30% WLA bright line, the need for cash resulting from the impact on cash flows of a widespread economic shutdown and the resultant market volatility, and concerns that access to that cash would become restricted. The majority of LVNAVs stayed comfortably within their collars, despite extraordinary market events.

Lastly, we also disagree with the view that offering a stable NAV also creates structural cliff edge at very low interest rates. EUR denominated LVNAV MMFs have operated in a negative interest rate environment since 2015 and have created accumulating share classes to complement pre-existing distribution share classes. Fund managers are operationally prepared to move to accumulating share classes should this be required.

Q15: Do different types of investor (e.g. retail, corporate or financial) value stable NAV offerings differently? What would be the implications for those investors if the stable NAV features of the LVNAV funds were removed?

In particular corporate investors value stable NAV MMFs as these, different from VNAV MMFs, are being treated as cash or cash equivalent for accounting purposes.

Furthermore, LVNAV MMFs are widely used by asset owners such as pension funds, insurance companies as well as local authorities, corporates, collateral managers and liability-driven investment managers for their collateral pools which frequently place cash in MMFs.

Q16: What alternatives are there for MMF users who specifically need capital value preservation? How do the costs and risks of those alternatives compare with MMFs?

We have various concerns with regards to possible MMF substitutes. This is the case in particular with regards to bank deposits as an MMF substitute. At the moment, MMFs are an important outlet for overnight cash investors as an alternative to bank balance sheet deposits. With the increase in global bank reserves due to monetary and fiscal policy since the onset of COVID, bank deposits have surged and caused sharp reductions in bank leverage ratios. With a smaller, more limited set of viable and attractive MMF alternatives, and banks already under pressure to absorb the deposits already in the banking system, there simply may not be enough options for overnight cash investments. This risk may be compounded during periods of market volatility or stress when risk averse or liquidity hoarding behaviour might ensue, and banks will be less and less willing to take on additional deposits or make markets in critical funding markets, which could have a further destabilizing effect.

Regarding investing directly in underlying money market instruments, we note that most investors are not able to do that as they don't have their own internal professional credit risk analysis capabilities. For those that do, they are potentially exposing themselves to more significant liquidity and counterparty risk. When invested in MMFs, investors will benefit from the counterparty risk diversification and laddered maturity within the fund, which ensures there is organic liquidity being generated to meet redemptions. However, should they invest directly, when market conditions are deteriorating rapidly – as was the case in March 2020 – they may struggle to generate the necessary liquidity or generate such liquidity within required timelines, which could further exacerbate market stress.

Furthermore, there are certain investors who, in their search-for-yield and taking into account the above, particularly in the current market environment, may seek alternatives in less visible and more thinly-regulated parts of the market. We believe this would be a sub-optimal outcome from a policy and market stability perspective.

Q17: For investors in sterling government MMFs, what was the impact of moving from distributing to accumulating share classes and the associated end of the stable NAV offering? Were there any implications for the accounting treatment of those MMFs? Were there any other costs associated with the change? If possible please provide data to support your views.

We have no comments here and State Street Global Advisors does not manage sterling government MMFs.

Q18: If stable NAV was no longer permitted for UK LVNAV MMFs, and assuming no other changes (e.g. to liquidity requirements), what do you expect to happen to demand for LVNAV funds relative to VNAV funds? What value would there be in retaining LVNAV as a UK MMF type?

As set out above, the ability to maintain a stable NAV is an important feature for the investors in these MMFs. Removing the stable NAV is therefore expected to lead to a significant number of investors leaving the product and possibly MMFs overall. An LVNAV structure with a fluctuating NAV would just be a different type of VNAV with high liquidity requirements without little to no additional benefit to investors. Furthermore, it would be a less attractive structure for clients given the ambiguity around the accounting treatment of such a modified LVNAV structure.

Q19: Should UK public debt CNAV MMFs continue to be permitted to operate with a stable NAV?

State Street strongly believes that public debt CNAV MMFs should be permitted to operate with a stable NAV. They serve an important role for investors due to their limited volatility and also play an important role especially in times of market stress when they offer a 'flight to quality' option.

Q20: In what way might these three types of liability side policy options (reducing dealing frequency, imposing notice periods, and imposing minimum settlement periods) impact MMFs' ability to meet MMF investor needs? How might investors respond to these options? How might it affect investor liquidity management? What alternative cash management options do investors have, and what costs and risks are associated with the alternatives?

State Street does not support the three suggested types of liability side policy options. They all would negatively affect the liquidity of MMFs thereby reducing their utility for investors. We therefore would expect to see a collapse in investor demand if these policy options were implemented.

Investors in particular value the ability to access their cash on a same day basis and therefore use MMFs as an important liquidity management tool. The suggested policy options would remove that ability affecting investors' ability to effectively manage their liquidity. More importantly, in times of market stress, these proposed measures are likely to result in more pre-emptive redemptions by investors which goes against the objective of enhancing the resilience of MMFs.

Q21: Which investors value intra-day settlement vs end of day settlement (T+0), T+1 or T+2 day settlement?

The access to their cash the same day (i.e. on a T+0 basis) is an important feature for the vast majority of our clients and investors who use MMFs as part of their daily cash management tools, such as liability-driven investors, collateral managers, local authorities and corporate treasurers.

Q22: The UK authorities are not aware of any MMFs in non-UK jurisdictions imposing limits on dealing frequency, or having non-zero notice periods, as a matter of general practice. Do you have any information to the contrary?

State Street does not have any information to the contrary.

Q23: Do you agree with our assessment that policy options to increase the liquidity of MMFs' assets could achieve the outcome of reducing MMF liquidity mismatch such that these liability side options may not become necessary?

State Street agrees with the assessment that the focus should be on fund liquidity. Removing the link between liquidity thresholds and the possible imposition of liquidity fees and gates would be most effective and would render such liability reforms unnecessary.

Q24: Would liquidity-based redemption deferrals introduce the sort of regulatory threshold problems covered in the 'Threshold effects related to liquidity levels' section?

Yes, in our view, liquidity-based redemption deferrals would introduce such regulatory threshold problems since unfettered access to cash is crucial to the investor and would be expected to result in similar investor behaviour to what we saw in March/April 2020, i.e. pre-emptive redemptions.

As a result, we agree with the Discussion Paper's conclusion that a focus on asset side liquidity is preferable to liquidity-based redemption deferrals.

Q25: Is there a way to design liquidity-based redemption deferrals which avoids threshold effects? Would such a design be useful for MMF managers or investors or both?

We do not see a way to design liquidity-based redemption deferrals without introducing threshold effects.

Q26: On what occasions has redemption-in-kind been used for MMFs in the past? Under what kind of circumstances or conditions might it be used in the future? What benefits does it provide to investors?

Redemption in kind may be a useful tool to have available in a fund prospectus but only for use in a wind-down scenario not as a liquidity management tool. In such a situation, where a fund is being wound down and assets being liquidated to pay back investors, investors would be given the choice of taking delivery of the assets and holding them to maturity, rather than realising less value through a forced sale. Only those investors with custody arrangements or their own settlement accounts would be able to avail themselves of the option. Such a scenario would clearly take place over a more extended period of time than the normal redemption of an MMF and would therefore serve no purpose in terms of liquidity management.

In our view redemption in kind therefore does not bring investor benefits unless in a wind-down scenario.

Q27: What are the current barriers to offering redemption-in-kind to investors, either in normal or in stressed market conditions? How might those barriers be reduced or overcome?

In light of our comments in response to Question 26, we do not see any viable options to overcome these limitations. Instead, the application of LMTs would be a more effective means of allocating the cost of liquidity.

Q28: Do you have any other comments on the use of redemption in kind for MMFs?

State Street does not have any further comments.

Q29: Do MMF managers effectively manage investor concentration? If you are a manager, how do you monitor investor concentration in practice?

By having robust KYC procedures in place, we ensure to have a good understanding of the investors in our funds and their investment patterns/behaviours. We focus on ensuring that our funds have a diverse investor base with a wide range of investor types who are expected to require access to their invested cash at different times.

Furthermore, we track large client flows over time and study them for cyclicality or identifiable patterns to the money movement. This is a valuable input in constructing portfolio maturity schedules and appropriate liquidity buffers. We also maintain communication with larger holders over time to better understand their cash flow needs and position funds accordingly and perform stress tests with reference to investor type.

In addition to our own internal monitoring of investor concentration, it is also something that rating agencies consider and monitor closely when rating MMFs.

Q30: What is your view on hard limits, or a maximum percentage any one investor (or several investors or investor types) could invest in any one MMF?

State Street does not support hard limits or maximum percentages for an investor or investor group. In light of the existing KYC procedures and the ongoing monitoring, we do not believe that such measures are necessary.

Q31: What is your view on disclosing to investors in general the degree of investor concentration? For example, the percentage held by the top 10 shareholders of an MMF?

Under current rules, SSGA already discloses large investors in the annual and semi-annual reports. We do not believe that further public disclosure to investors would be beneficial as it may risk influencing investor behaviour in a negative way.

Q32: Do you have any views on the additional 'policies to absorb losses'?

State Street agrees with the view in the Discussion Paper that loss absorbing solutions are not optimal. Due to the lack of leverage employed by MMFs, they should not be required to hold loss-absorbing capital. Such a requirement would render them uncompetitive due to the cost of capital versus the risk/returns that they offer.

Q33: Do you have any views on underlying money market issues?

Reforms should not be targeted at MMFs alone but also consider underlying structural issues, in both the short-term funding market and fixed-income markets more broadly, in order for reforms to be truly effective.

Despite significant market developments, short-term funding markets remain highly intermediated and dependent on banks for the provision of secondary market liquidity. However, as seen in March 2020, MMF managers were unable to utilize secondary market liquidity at a time when it was most needed, as broker-dealers were either unable or unwilling to engage in discretionary market-making, but rather sought to preserve their own balance sheet capacity. This may have been an unintended consequence of post-GFC prudential reforms which, while undoubtedly have improved the resilience of the banking sector, may have altered incentives regarding their market-making activities.

Q34: Are there other threshold effects that may act to exacerbate MMF redemptions in a stress that have not been covered in this DP?

State Street has no further comments.

Q35: Are there any other potential rules changes to address MMF vulnerabilities that could have net benefits? If possible please provide data to support your views.

In our view, there are no other rule changes that would be beneficial for enhancing MMFs' resilience.

Q36: What are the advantages and disadvantages of MMFs as cash management type products for different types of users compared to other solutions, such as bank deposits? Are there any barriers to persons who need cash management services from using bank deposits, instead of MMFs? Do MMFs provide unique benefits to certain kinds of end users, and if so what are these? Would any of the possible reform options in the DP significantly impact MMFs' ability to provide these specific benefits?

Our clients and investors value and use MMFs as they are a low cost, efficient, scalable, and transparent cash management tool in addition to allowing them to generate market-based returns with more diversified credit risk and ongoing credit monitoring. LVNAV and PDCNAV more specifically have the additional benefit that they are designated cash or cash equivalent under certain accounting rules which provide additional benefits. Removing the ability to use amortized cost accounting (combined with two decimal rounding) would therefore significantly reduce their utility for investors and force them to look for other, riskier, options.

When compared to bank deposits, and in addition to concerns about banks' ability to absorb additional cash balances set out above, MMFs offer diversified collateralized risk versus single exposure bank counterparty, and access to issuers that may otherwise not be available to many investors.

MMFs therefore are an important additional tool in the overall liquidity management toolkit and are difficult to be replaced.

Q37: Should the UK authorities consider rule changes to the information MMFs are required to disclose to investors?

State Street does not consider any changes to disclosure rules necessary.