STATE STREET GLOBAL ADVISORS

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Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Submitted via email: rule-comments@sec.gov

Re: Proposed Rule – Money Market Fund Reforms (File No. S7-22-21)

Dear Ms. Countryman:

State Street Global Advisors, the investment management arm of State Street Corporation[1], welcomes the opportunity to respond to the Securities and Exchange Commission's (the "Commission") request for comments on the proposed rule ("Proposed Rule") on money market fund ("MMF"[2]) reforms[3]. With $4.1 trillion in assets under management[4], State Street Global Advisors is the world's fourth-largest asset manager. For more information, please visit SSGA's website at www.ssga.com.

As described below, State Street Global Advisors strongly opposes the Proposed Rule. While some aspects of the proposal could, if properly calibrated, benefit investors and improve market stability in times of stress, we expect the swing pricing mandate for prime institutional funds to significantly inhibit the viability of such funds as investment or cash management products, most likely effectively eliminating such funds from the marketplace, and unnecessarily and unwisely reducing investment options for our clients.

[1] Headquartered in Boston, Massachusetts, State Street Corporation is a global custodian bank which specializes in the provision of financial services to institutional investor clients. This includes the provision of investment servicing, investment management, data and analytics, and investment research and trading. With $43.7 trillion in assets under custody and administration, and approximately $4.1 trillion of assets under management, State Street operates in more than 100 geographic markets globally as of December 31, 2021. State Street is organized as a United States bank holding company, with operations conducted through several entities, primarily its wholly-owned state-chartered IDI, State Street Bank and Trust Company.
[2] For purposes of these comments, "MMF" refers to money market funds operated within the scope of the Commission's Rule 2a-7.
[3] https://www.govinfo.gov/content/pkg/FR-2022-02-08/pdf/2021-27532.pdf
[4] Assets under management as of December 31, 2021 includes approximately $61 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.

The Value of Prime Money Market Funds

As we noted in our letter to the Commission on April 12, 2021[5], prime MMFs play a crucial role in short-term funding markets. For investors, such as corporate treasurers, state/municipal authorities and pension funds, prime MMFs provide operationally simple, cost-effective investment vehicles that are principally used for cash and liquidity management purposes, such as payroll and day-to-day expenses. While prime MMFs do provide incremental yield over some other similar vehicles, under normal circumstances the return is a secondary consideration. From an operational perspective, investors value the ability to transact in prime institutional funds intra-day, as well as the same-day settlement and treatment of investments in prime MMFs as cash-and-cash equivalent for accounting purposes, which is often a requirement of their internal investment policies.

Similarly, MMFs are an important source of funding for a range of market participants, including governments, corporates and financial institutions, ultimately supporting the activities of the real economy. While assets held in prime MMFs, as a proportion of total MMF assets, have decreased in recent years, it remains sizable[6] and constitutes a substantial amount of funding for market participants that could not easily be replaced.

As a result, eliminating prime MMFs through new regulatory requirements, as we fear would occur under the Commission's Proposed Rule, would have a material detrimental impact on investors and the real economy.

Our Observations from the Market Stress of March 2020

The COVID global public health crisis precipitated a sudden and unprecedented increase in the demand for liquidity, impacting even the safest financial instruments, such as US Treasuries. For MMFs, investors' need for liquidity triggered substantial MMF redemptions, while at the same time liquidity for MMF assets was significantly strained. While credit quality for MMF assets remained high, as liquidity levels declined, MMF investors, fearing liquidity fees or, worse, gates under US MMF rules, accelerated redemptions. The heightened "run risk" for prime MMFs generally abated in mid-March 2020, when the Boston Federal Reserve Bank's Money Market Mutual Fund Liquidity Facility purchase of high-credit quality assets from MMFs provided liquidity to US MMFs and helped restore confidence to the underlying markets.

There are many contributing factors to the stress MMFs experienced in March 2020. Most notable, of course, is the unprecedented nature of the public health-driven financial crisis. Also notable is the poor functioning of underlying markets for MMF assets, particularly commercial paper, where liquidity was difficult or impossible to

[5] https://www.sec.gov/comments/s7-01-21/s70121-8663068-235325.pdf
[6] $425B, as of March 30, 2022, or approximately 9% of total US MMF assets. https://www.ici.org/research/stats/mmf

find at any price. Addressing these issues, of course, is beyond the scope of the Commission's Proposed Rule.

There is a strong consensus, however, that provisions of the Commission's current MMF rules directly contributed to the MMF stress in March 2020. As the Commission itself acknowledges in its Proposed Rule, the current requirement linking the possibility of liquidity fees and gates with the weekly liquid asset threshold essentially froze substantial amounts of MMF liquidity, reducing the capacity for redemptions, and greatly increasing the risk of investor "runs" --- not for fear of defaulting assets or degraded NAVs, but from fear of exposure to undetermined redemption fees and gates. Quite simply, MMFs held liquidity buffers, as intended, but were prohibited from using these buffers during the period of market stress.

As we described to the Commission in our April 12, 2021 letter, we strongly urge the Commission to focus reforms on the challenges revealed during the period of COVID-driven market stress, particularly the current features of the Commission's MMF rules that encourage or incent run-like behavior among investors.

Our views on the Proposed Rule

Removal of Weekly Liquid Asset Link to Potential Redemption Fees And Gates

While appropriately-sized liquidity requirements are important, the more critical element of the Commission's liquidity framework reform needs to be a recognition that its portfolio liquidity requirements create buffers that should be available for use by MMFs to meet redemptions in times of stress.

The Commission's MMF rules technically permit MMFs to use liquidity buffers and to drop below the Commission's daily and weekly liquid assets test in times of high redemptions or market stress, provided the funds only acquire liquid assets until fund liquidity is restored. This is a sensible approach which allows funds to tap liquidity needed, allowing funds to meet both immediate and future redemptions.

Since the Commission's 2014 MMF reforms, however, as a practical matter, MMFs have been prohibited from using liquidity buffers as described above. Under changes adopted in the Commission's 2014 final rule, MMF boards must consider possible redemption fees or gates whenever weekly liquid assets drop below the regulatory minimum of 30%. As the Commission notes in the Proposed Rule, investor fear of such fees or gates created a closely monitored "bright line" incenting redemptions and creating "run-risk." As the market conditions of March 2020 evolved, US MMFs were effectively precluded from using liquidity buffers, regardless of the credit quality of the fund's assets, or its actual capacity to meet redemptions, by the regulatory threat of fees or gates.

We support the Commission's proposal to eliminate the "bright line" link between the weekly liquidity measure and potential redemption fees and gates. As noted below, the Commission may want to consider redemption fees in a different construct as an

antidilutive measure in relatively extreme conditions, and without the greater threat of redemption gates, but we expect the Commission's removal of the direct link between fees or gates and specific liquidity "bright lines" will largely eliminate the "run-risk" observed during the COVID crisis, and allow MMFs to more effectively use liquidity buffers in times of stress, as intended.

Proposed Increases in Portfolio Liquidity Requirements

The Commission has proposed to increase its daily liquid asset requirement from 10% to 25%, and its weekly liquid asset requirement from 30% to 50%.

As described in more detail below, we do not view the current regulatory minimum daily and weekly liquidity requirements as the key factor in MMF stress in 2020; rather, it was the regulation-imposed inability of MMFs to use liquidity buffers when needed. Nevertheless, based on our experience, including in March 2020, we agree that an increase in these portfolio liquidity requirements is appropriate, and will, if appropriately calibrated, increase the resilience of MMFs, particularly prime institutional.

As the Commission notes in its Proposed Rule, MMFs already manage liquidity to levels substantially in excess of the current daily and weekly liquidity regulatory standards. US institutional prime funds, for example, typically operate with weekly liquidity over 40%. Such liquidity levels have proved sufficient for effective management of prime funds under normal market conditions, and, we believe, would have been adequate during the events of March 2020, but not for the regulatory "bright line" described above.[7]

Based on our analysis of liquidity needs of prime institutional funds, we recommend slightly lower requirements, perhaps a daily liquid asset requirement of 20% and weekly liquid asset requirement of 40%, which would mandate conservative liquidity management for institutional prime funds, while retaining a distinction between such funds and lower yielding government funds.

Proposed Swing Pricing Mandate

The Commission has proposed mandatory swing pricing for prime institutional funds. Under the Commission's approach, such funds would be required to apply a swing factor NAV adjustment intended to capture any transaction costs from redemptions, and, if redemptions exceed 4% of fund assets in a day, the calculated market impact. The swing factor is intended to estimate the cost of selling a vertical slice of the fund.

The Commission indicates this swing pricing mechanism is intended to avoid "first mover advantage," or, "dilution of remaining investors' interest in the fund." While we currently use similar swing pricing tools as anti-dilutive measures in some

[7] ICI Fees and Gates Simulation Study, see page 14 at: https://www.ici.org/system/files/2021-08/21ltrfsbmmfs.pdf

circumstances, most notably some EU long-term funds (but not MMFs), and are open to considering how to make such tools work in the US context, swing pricing simply does not work for MMFs.

First, implementing swing pricing for MMFs is operationally challenging, or perhaps impossible, without making substantial changes to the MMF investment offering. Capturing (or estimating) the data needed to calculate a swing factor takes hours, not minutes, and would require funds to impose much earlier investor cut-off times, eliminate or reduce the ability of MMFs to calculate multiple NAVs per day and reduce MMFs' ability to offer T+0 settlement. For investors, institutional prime MMFs would become much less useful investment options, most notably through loss of intra-day liquidity.

Second, the concept that all MMF redemptions should carry the full cost of liquidating a vertical slice of the MMF's portfolio is severely flawed, and inconsistent with how MMFs operate. MMFs are designed specifically for short-term investing, and regularly handle large subscriptions and redemptions. MMFs hold liquidity to meet these large redemptions, usually funded through maturing assets rather than secondary market activity. When a MMF does sell assets, it is done strategically, considering multiple factors, including available market liquidity, market pricing, the overall composition of the portfolio, rating agency rules and forecasts of future liquidity needs. The liquidation of a vertical slice of MMF assets is simply not how such funds manage liquidity, and imposing a swing factor based on such an assumption is simply not consistent with how MMFs operate, and would result in inaccurate, model-based NAVs disconnected from the actual liquidity and redemption practices of the fund.

Third, while imposing a swing pricing requirement might discourage investors from investing in prime institutional MMFs at all, due to the risk of rare but unpredictable NAV losses, tax and accounting challenges, and other factors, we do not believe such swing pricing would significantly reduce incentives for investors in prime funds to redeem in times of stress, and therefore would not accomplish the Commission's goals. While we agree with the Commission that the "dash for cash" observed in March 2020 was closely tied to the Commission's rules linking potential fees and gates to the weekly liquid asset measure, we would expect investors to react similarly should the Commission adopt its swing pricing proposal. Investors would still have a strong incentive to redeem holdings in prime funds in the face of possible future large swing factors, and would have the similar incentives as exist in current rules to exit before such NAV reductions are triggered.

In sum, we view the proposed swing pricing for prime institutional funds as operationally flawed, inconsistent with existing liquidity management practices, and unlikely to address the Commission's "first mover" or "dilution" concerns. We believe such an approach will harm investors and US financial markets, and expect such a

mandate would eliminate prime institutional MMFs as a viable option for most, if not all, investors.

Potential Additional Anti-dilutive Measures

While the combination of higher minimum portfolio liquidity requirements and removal of the current rule's linkage between potential fees or gates and the weekly liquid asset measure will largely address the liquidity and investor behavior factors contributing to MMF stress in March 2020, we concede some circumstances may still benefit from additional anti-dilutive tools for MMFs. As noted above, swing pricing for MMFs does not work, but there may be circumstances where a fund is unduly stressed, resulting in the need to assess costs on investors beyond that conveyed through a floating NAV. Unlike the Commission's swing pricing proposal, we do not expect such an anti-dilutive measure to be a daily, or even frequent event, but investors, particularly remaining investors in times of high redemptions and low liquidity, would benefit from providing additional tools to MMFs to manage dilution.

As a result, the Commission may want to consider requiring funds, under relatively extreme circumstances, to assess set redemption fees under predetermined fund level triggers.

Should the Commission determine such a measure is necessary, we suggest a fixed redemption fee, perhaps of 1%, which is meaningful enough to protect the fund and remaining investors and to provide a disincentive to redemptions during periods the fee is applied.

With respect to appropriate triggers for a redemption fee, as noted above, we believe the "bright line" weekly liquid asset test for potential fees or gates was a significant contributor to the stress in March 2020, and the Commission should seek to avoid creating a similar dynamic in the future. Nevertheless, we believe the redemption fee trigger needs to be objective and automatic. We expect a redemption fee would be most needed when a fund is experiencing both very high sustained redemptions and significant asset quality or liquidity stress, so suggest a corresponding dual trigger for redemption fees. For redemptions, we suggest a trigger of 5% net redemptions over three consecutive days. To identify funds under stress, we suggest using the Commission's triggering events for N-CR filings, which include defaulting or insolvent portfolio securities, affiliate support, and, under the Commission's proposal, a new "major liquidity event" trigger when liquid assets fall below 50% of the required minimums. These conditions or events all suggest substantial stress on a MMF, which, combined with high redemptions, suggest that a redemption fee is appropriate and probably necessary.

While we acknowledge that the approach discussed above perhaps does not completely eliminate the "bright line" problem of existing rules, we believe such a structure, which only becomes a threat in times of serious stress, would give MMFs the ability to ensure fair treatment of all investors, while permitting MMFs the ability

to manage liquidity and redemptions in most circumstances without incentivizing runs.

Negative Yields --- Floating NAV Conversion

In addition to its proposed changes to address concerns around fund liquidity and “first mover advantage,” the Commission has proposed additional changes to, in effect, pre-position funds to accommodate potential future negative yield environments. Specifically, the Commission proposes to require all fixed NAV funds to certify their ability to convert to floating NAVs in times of negative yields. We oppose this new mandate, and suggest the Commission study this issue further and adopt a more flexible approach.

We are concerned that the Commission significantly underestimates the burden and market disruption that will result from its proposed certification requirement. Fixed NAV MMFs are predominantly used as cash management and “sweep” vehicles, with very frequent and large transaction volumes facilitated by platforms and intermediaries. While a fixed MMF may itself be able to switch to a floating NAV, the system of intermediaries serving investors in the MMF, in many cases, cannot or will not. Certifying the ability to switch to a floating NAV would require MMFs to ensure that this entire ecosystem can support the change, a near impossible task, particularly in the current environment, when negative yields are not imminent or likely in the foreseeable future for US MMFs.

Fixed NAV MMFs already have the ability to switch to floating NAVs, if they so choose. Faced with negative yields, some MMFs may do so, which should certainly be permitted. But most fixed NAV MMFs do not view such a change as in the best interests of their investors, and, should the need arise, will seek other options. Establishing a switch to floating NAV as the only available option for addressing negative yields, and imposing the Commission’s certification requirement on fixed NAV funds, will impede flows to such funds, and deny many investors valuable access to fixed NAV funds as cash management tools.

As the Commission describes in its Proposed Rule, there are other tools available which would allow funds to address a negative rate environment, particularly a Reverse Distribution Mechanism (“RDM”). The Commission takes a negative view on the use of RDMs. We disagree, and suggest the Commission reconsider, and allow use of RDMs as an option for fixed NAV MMFs to pass on negative yields to investors.

Under an RDM, negative yields and the associated decline in value of a MMF’s portfolio, would be passed on to investors through pro rata reductions in their share holdings. The NAV would remain fixed, but the end result would be identical to the Commission’s proposed fixed to floating NAV approach: investors’ holdings in the fund would be reduced by an amount reflecting the negative yields of fund assets.

While the economic outcome would be the same, the RDM is a far superior method in many, or most, circumstances. The RDM approach has numerous advantages. It does not require the wholesale revision of MMF sweep and other infrastructure described above, and, while significant operational changes will still be required to implement, is much more compatible with the existing system operated by transfer agents. Using an RDM vs. switching to a floating NAV aligns better with investor expectations and systems, allowing functions such as retail check-writing and wire transfers to proceed without disruption. RDMs allow boards to consider more effectively the time frame for negative yields, passing lower yields on to investors in discrete, transparent and planned events, rather than open-ended changes to the NAV approach with uncertain return to the fixed NAV.

The benefits of using RDMs were seen in Europe after the 2008 global financial crisis, when RDMs were used effectively to address negative interest rates at the European Central Bank.[8] While the use of RDMs by UCITs funds was subsequently prohibited under an EU legal interpretation, there is little question of the effectiveness of RDMs in addressing negative yields, and the investor preference for RDMs over floating NAVs.

The Commission's mandate for certification of ability for a fixed NAV MMF to convert to a floating NAV in times of negative yields is overly limiting and premature. We urge the Commission, through further consultation with the public, to develop an approach to negative yields for fixed NAV MMFs that includes the option of using RDMs.

Compliance Dates

The Commission proposes an immediate effective date for removal of the redemption fee and gate proposal (along with related disclosure requirements), a 12-month compliance period for its swing pricing and negative yield-related proposals, and a 6-month compliance period for all other aspects of the proposal, including the new reporting requirements.

We support the immediate effective date for removal of the redemption fee and gates proposal, which will be simple to implement, and will immediately address the most important flaw in the Commission's MMF rules revealed during in the COVID crisis.

We are concerned that the other proposed effective dates are too short. Each of the Commission's proposed changes will require substantial implementation effort.

The swing pricing and negative yield related provisions will, in particular, require significant restructuring of the market, impacting both MMFs themselves and numerous other entities outside of the Commission's MMF regulatory perimeter. We recommend a 24-month implementation period for any changes in these areas.

[8] http://firds.esma.europa.eu/webst/20180119_Reply%20to%20Mr%20Maijoor%20on%20MMF.pdf

The Commission's other proposed changes, including increased liquidity requirements and new reporting, will also require substantial and complex implementation efforts. We recommend a 12-month compliance period for these aspects of the Commission's proposal.

Conclusion

While we support the Commission's efforts to address weaknesses in US MMF regulation revealed during the COVID crisis, particularly the removal of the current rule's "bright line" liquidity trigger for possible fees and gates, we have, as noted above, significant concerns with the Commission's Proposed Rule, which we believe will effectively eliminate institutional prime funds as a viable investment product, due largely to the Commission's unneeded and unworkable swing pricing proposal. We urge the Commission to reconsider its proposed swing pricing mandate for prime institutional MMFs.

Please feel free to contact me at matthew_steinaway@ssga.com should you wish to discuss the contents of this submission in greater detail. We welcome the opportunity to further engage with the Commission on the topics raised in the Proposed Rule and we stand ready to provide whatever assistance may be appropriate.

Sincerely,

Matthew J. Steinaway, CFA
Chief Investment Officer - Global Fixed Income, Cash and Currency
State Street Global Advisors