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September 8, 2023

Financial Stability Board  
Centralbahnplatz 2  
Basel CH-4002  
Switzerland

Re: *Request for Public Feedback on Thematic Peer Review on Money Market Fund Reforms: Summary Terms of Reference*

Dear Dr. Schindler,

ICI Global<sup>1</sup> welcomes the Financial Stability Board's (FSB) invitation for feedback from stakeholders as part of the Peer Review on Money Market Fund (MMF) Reforms.<sup>2</sup> ICI Global and its members are committed to working with international policymakers, including through the FSB, to strengthen financial stability. MMFs are an important part of the financial system, providing a source of direct financing for governments, businesses, and financial institutions, and offering institutions and households an important cash management tool and savings vehicle. It is therefore essential that MMFs remain widely available, well regulated, and transparent.

We are pleased to provide perspectives on two of the key questions posed by the FSB:

- 1) How MMF vulnerabilities differ across jurisdictions depending on MMF structure, investor composition, asset profile and other factors, and
- 2) Operational and other challenges faced by the industry in implementing reforms.

ICI Global, with its membership base across all major jurisdictions in which MMFs are offered, is well positioned to provide responses to these important questions. While the structures of

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<sup>1</sup> [ICI Global](#) carries out the international work of the [Investment Company Institute](#), the leading association representing regulated investment funds. With total assets of \$40.8 trillion, ICI's membership includes mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States (US), and UCITS and similar funds offered to investors in Europe, Asia, and other jurisdictions. ICI's mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. ICI Global has offices in Brussels, London, Hong Kong, and Washington, DC.

<sup>2</sup> FSB, [Thematic Peer Review on Money Market Fund Reforms: Summary Terms of Reference](#) (August 14, 2023) (Terms of Reference).

MMFs differ somewhat across jurisdictions based on the supply of short-term assets, investor demand, funding needs, and the regulatory structures, a common feature among MMFs is that they provide an essential funding source to major public and private sector institutions that are the backbone of economic growth.

Unfortunately, regulators in some key jurisdictions, including the EU and (until recently) the United States, imposed a tie between liquidity thresholds in MMFs and the possibility of imposing fees and gates. ICI research has demonstrated that these regulatory ties were counterproductive and exacerbated strains during the stressed markets of March 2020. We strongly favor their elimination.

We also believe the FSB — in its peer review — has mischaracterized the risks associated with MMFs, including during the March 2020 period. This misreading has led the FSB to push swing pricing as a tool to address the perceived risks for MMFs. We show below that swing pricing would be a risky and damaging approach to liquidity management for MMFs, with excessively burdensome operational challenges.

In considering how FSB member jurisdictions have assessed and addressed MMF resilience, swing pricing should be dropped from the conversation. There are no demonstrable benefits to imposing swing pricing on MMFs, as the tool is unlikely to be effective in reducing the redemption activity that concerns the FSB and will not otherwise enhance MMF resilience or broader financial stability. Rather, the FSB and other policymakers should focus on holistic assessments and reforms of the short-term funding markets, as structural issues in these markets were at the heart of the challenges MMFs experienced in March 2020. We welcome the FSB and IOSCO's upcoming work in this area.<sup>3</sup>

## **I. How MMF vulnerabilities differ across jurisdictions depending on MMF structure, investor composition, asset profile, or other factors**

MMFs have a long track record of providing important benefits to investors and the global economy. They are liquid and diversified cash management tools for institutions and investors and an important source of funding for governments and the private sector. Since MMFs often invest in hundreds of different underlying securities, they provide investors with diversification that would otherwise be difficult to replicate and manage through an individual portfolio or a

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<sup>3</sup> See FSB, [Enhancing the Resilience of Non-Bank Financial Intermediation: Progress Report](#) (November 10, 2022) (2022 NBF Progress Report) at 2, 8.

bank. There are currently \$9.4 trillion of assets in MMFs around the globe, including \$5.5 trillion in the United States, \$1.7 trillion in the EU, and \$2.2 trillion in the Asia-Pacific.<sup>4 5</sup>

MMFs typically invest in short-maturity, high quality assets, with some MMFs permitted to invest a portion of their assets in the securities of private issuers while others are restricted to government securities. While the characteristics and risk profiles vary according to these features and jurisdiction-specific regulatory requirements, vulnerabilities across all major jurisdictions are low. This is because MMFs are highly regulated and transparent.

Given the strong regulatory and transparency frameworks across major jurisdictions, we do not support that the FSB is basing its peer evaluation on two MMF vulnerabilities that purportedly crystalized during the March 2020 turmoil, including what the FSB describes as susceptibility to “sudden and disruptive redemptions” and “challenges in selling assets, particularly under stressed conditions.”

MMFs were not uniquely vulnerable or susceptible to redemptions or strained markets in March 2020.<sup>6</sup> A health crisis forced an economic crisis, which, not surprisingly, disrupted the financial markets. By mid-March, after problems had already appeared in the US Treasury bond market, the short-term funding markets, including the markets for municipal debt, commercial paper, and bank CDs, came under sharp stress as corporations and other investors “dashed for cash” to reduce risk and hoard cash in the face of great economic uncertainty. In the week of March 16, all market participants, not just those investing in US prime and European non-public debt

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<sup>4</sup> Source: International Investment Funds Association, as of the end of the first quarter of 2023.

<sup>5</sup> There are several categories of US MMFs. Government money market funds invest their assets in short-term US Treasury and US agency debt and repurchase agreements backed by Treasury and agency mortgage-backed debt. Prime money market funds invest their assets in all types of money market instruments, including short-term government securities, commercial paper (including asset-backed commercial paper), repurchase agreements, certificates of deposit (CDs), and Eurodollar deposits. US tax-exempt money market funds invest in short-term municipal securities. UCITS MMFs are classified into four different categories, each with specific regulatory requirements, based on their assets and treatment of their NAV: public debt constant NAV (CNAV) money market funds, low volatility NAV (LVNAV) money market funds, short-term variable NAV (VNAV) money market funds, and standard VNAV money market funds. Public debt CNAV and LVNAV money market funds are primarily used by institutional investors.

<sup>6</sup> See ICI, Report of the COVID 19 Market Impact Working Group, [Experiences of US Money Market Funds During the COVID-19 Crisis](#) (November 2020) (Report on US MMFs During COVID-19); ICI, Report of the COVID-19 Market Impact Working Group, [Experiences of European Markets, UCITS and European ETFs During the COVID-19 Crisis](#) (December 2020); ICI, [Letter from Eric J. Pan to Vanessa Countryman regarding Report of the President’s Working Group on Financial Markets: Overview of Recent Events and Potential Options for Money Market Funds \(December 2020\)](#), dated April 12, 2021 (ICI Response to PWG on MMFs).

MMFs, were scrambling for liquidity and were forced to navigate the resulting stress in the short-term funding markets, including the commercial paper market.<sup>7</sup>

MMFs were not “bailed out” and did not cause stresses in the short-term funding markets in March 2020. To prevent economic and financial collapse, governments and central banks around the world introduced a broad array of monetary policy measures and market liquidity programs to help virtually every sector of the economy.<sup>8</sup> MMFs were neither the first nor the largest targets of the government and central bank intervention programs that helped a broad range of financial participants during the COVID-19 crisis.<sup>9</sup>

In our empirical analysis of the experiences of MMFs in March 2020, we found that outflows from MMFs were exacerbated in several key jurisdictions by an artificially created cliff effect caused by the regulatory tie between liquidity thresholds and the possibility of imposing fees and gates. For example, ICI member firms in the United States indicated that by mid-March 2020 institutional investors accelerated redemptions from institutional prime MMFs (which can hold hold private short-term securities) when the funds started approaching (but not reaching) the 30 percent weekly liquid asset threshold imposed by the Securities and Exchange Commission (SEC).<sup>10</sup> The investors in these funds were concerned that reaching 30 percent could lead to the

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<sup>7</sup> See [Report of the President’s Working Group on Financial Markets: Overview of Recent Events and Potential Reform Options for Money Market Funds](#) (December 2020) at 11; European Commission, [Report from the Commission to the European Parliament and the Council on the adequacy of Regulation \(EU\) 2017/1131 of the European Parliament and of the Council on money market funds from a prudential and economic point of view](#) (July 20, 2023) (EC MMFR Report) at 10 (MMFs “faced challenges to sell their commercial papers and certificates of deposit as banks were unwilling or unable to buy back these papers, *including their own papers*” (emphasis supplied)).

<sup>8</sup> For a detailed discussion of these measures, see ICI, Report of the COVID-19 Market Impact Working Group, [The impact of COVID-19 on Economies and Financial Markets](#) (October 2020) (ICI Impact of COVID-19 Report) at 46-58.

<sup>9</sup> On March 19, the Federal Reserve provided relief from certain regulatory capital requirements to banks that borrowed under the Money Market Mutual Fund Lending Facility (MMLF), indicating that the Federal Reserve recognized that bank capital standards were indeed restricting the flow of credit.

<sup>10</sup> Although SEC Rule 2a-7 under the Investment Company Act of 1940 imposes specific minimum requirements on the amounts of daily and weekly liquid assets, it does not prohibit a fund from dipping below these requirements. Rather, it provides specific remedies for restoring liquidity in cases where these minimum levels are breached. In particular, whenever a fund’s daily liquid assets account for less than 10 percent of its total assets, the fund is prohibited from acquiring any new asset other than a daily liquid asset. Similarly, if a fund’s weekly liquid assets make up less than 30 percent of its total assets, the fund cannot acquire any new asset other than a weekly liquid asset. These conditional restrictions on fund management are designed to help rebuild a fund’s daily and weekly liquidity levels whenever these levels become too low.

imposition of fees or gates.<sup>11</sup> ICI member firms reported (and ICI data confirmed) that outflows began in some institutional prime MMFs as early as when their weekly liquid assets starting falling below 40 percent and accelerated when those weekly liquid assets fell below 35 percent.<sup>12</sup> Given that investors could not predict whether a fund would impose a fee or a gate if the fund reached this threshold, 30 percent in effect became a hard liquidity floor rather than a liquidity cushion to absorb higher-than-usual redemptions, as it was meant to be.<sup>13</sup>

ICI research has demonstrated that in the absence of this regulatory tie, MMFs would have been far more resilient during March 2020.<sup>14</sup> A simulation by ICI showed that the weekly liquid assets of a hypothetical institutional prime MMF not subject to the regulatory tie would have remained above 20 percent five weeks after outflows began.<sup>15</sup> The constraining regulatory tie forced prime

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<sup>11</sup> This observation was echoed in an October 2020 report by the SEC’s Division of Economic and Risk Analysis, which noted that “some investors may have feared that if they were not the first to exit their fund, then in the event the fund breached the 30 percent WLA [weekly liquid asset] limit, there was a risk that they could be subject to restrictions on withdrawals known as “gates.” This anticipatory, risk-mitigating perspective potentially further accelerated redemptions.” See SEC, Division of Economic and Risk Analysis, [US Credit Markets: Interconnectedness and the Effects of the COVID-19 Economic Shock](#) (October 2020).

US Secretary of the Treasury Janet Yellen, before her nomination as Treasury Secretary, also expressed concern about the fees and gates requirement when she lamented that the SEC’s 2014 MMF reforms “did something that almost all [economists], including most people in the Fed...are very unhappy about, they allowed funds or insisted that they impose gates and redemption fees once liquidity fell below a minimum. Most economists thought that the erection of the gates by one fund would cause outflows [and] contagion as people tried to avoid having that happen to them. I think that’s exactly what happened.” See Remarks delivered at a Brookings Institution webinar, [“A Decade of Dodd-Frank”](#) (June 30, 2020).

<sup>12</sup> ICI members also noted that online trading platforms—which institutional investors use to purchase and sell MMFs—often automatically send investors electronic notices when a fund’s weekly liquid assets drop below a certain amount (e.g., 35 percent).

<sup>13</sup> For example, in the US, a prime MMF’s board can impose fees and gates if a fund’s weekly liquid assets drop below 30 percent. When weekly liquid assets fall below 10 percent, the fund must impose a 1 percent fee on all redemptions unless the fund’s board determines that such a fee is not in the best interest of the fund or that a lower or higher fee is more appropriate.

In the EU, for public debt CNAV and LVNAV, fees and gates are to be considered when the fund’s weekly liquid assets fall below the 30 percent requirement and daily outflows exceed 10 percent. Full gating (suspension) of redemptions or fees become mandatory once weekly liquid assets fall below 10 percent. In addition, in the EU, MMFs can impose partial gates, but in the US only full gates (suspension of redemptions) are possible.

<sup>14</sup> For a detailed discussion of ICI’s research of the March 2020 events and the role of MMFs, see [Letter from Eric J. Pan to ICI Letter to FSB regarding Policy Proposals to Enhance Money Market Fund Resilience: Consultation Report](#) (August 13, 2021) at 7-11; ICI Response to PWG on MMFs at 38-55; and ICI Impact of COVID-19 Report.

<sup>15</sup> In this simulation, the fund starts with \$10 billion. Using data from for funds with weekly liquid assets greater than 35 percent, the fund experiences daily outflows of 3.3 percent of its assets or 15.4 percent at a weekly rate

MMFs' to divest longer-dated securities in favor of securities that qualified as weekly liquid assets, reducing these funds' resilience and increasing their dependence on financial intermediaries.<sup>16</sup> Indeed, the US SEC subsequently admitted that this tie was a significant, and perhaps the predominant, cause of the stresses prime institutional MMFs experienced in March 2020 and recently eliminated it in regulatory amendments.<sup>17</sup>

In the EU, the European Commission (EC) also concluded that the regulatory tie caused similar market dynamics to those in the United States during the March 2020 turmoil.<sup>18</sup> What had been intended as a liquidity buffer for funds instead became a hard liquidity floor. As the weekly maturing assets (WMA) holdings of certain USD-denominated MMFs approached the regulatory minimum of 30 percent, some investors may have been concerned about the increasing possibility that fund managers would make use of available liquidity management tools (*i.e.*, liquidity fees or redemption gates). While the connection between the use of LMTs and liquidity levels is not automatic in the EU MMF Regulation, a breach of minimum WMA holdings of 30 percent can potentially trigger the imposition of redemption gates or fees. Fund managers were compelled to not use their WMA holdings to finance increased redemption requests in March 2020, fearing that a breach of the minimum WMA level would induce further redemption requests as investors anticipated the imposition of liquidity management tools.<sup>19</sup>

We encourage the FSB and the official sector respondents to the Peer Review to recognize that MMFs provide a crucial funding and cash management tool and are not uniquely susceptible to redemptions or market strains. In order to enhance the resilience of MMFs and the financial

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under the “no fees or gates” scenario. Using data from Figure 3.20 for funds with weekly liquid assets at 35 percent or less, the fund experiences daily outflows of 6.1 percent of its assets under the “fees or gates” scenario. In both cases, the fund starts with 35 percent in weekly liquid assets. Assets with a maturity of greater than weekly convert to weekly at a rate of 6.4 percent per week, which is roughly consistent with a fund that holds weekly liquid assets of 35 percent and an average maturity of 30 days (the average maturity of institutional prime money market funds at the end of February 2020). Funds meet redemptions with weekly liquid assets and portfolio sales. This paper assumes that the fund is able to sell 5 percent of its longer maturing assets (*i.e.*, non-weekly liquid assets) without any haircuts. *See* Report on US MMFs During COVID-19 at 34-35.

<sup>16</sup> *See* ICI Response to PWG on MMFs at 38-55.

<sup>17</sup> SEC, [Money Market Fund Reforms: Form PF Reporting Requirements for Large Liquidity Fund Advisers; Technical Amendments to Form N-CSR and Form N-1A](#), Release Nos. 33-11211; 34-97876; IA-6344; IC-34959 (2023 SEC MMF Amendments) (July 12, 2023).

<sup>18</sup> EC MMFR Report at 21 (“The results of the stakeholder consultation and the recent market developments show that there could be scope to further increase the resilience of EU MMFs, notably by decoupling the potential activation of liquidity management tools from regulatory liquidity thresholds.”). *See also id.* at 11.

<sup>19</sup> *See id.* at 18.

system, the regulatory ties between liquidity thresholds and redemption restrictions, which exacerbated outflows in March 2020, should be removed across jurisdictions.

## **II. Operational and other challenges faced by the industry in implementing MMF reforms**

Several jurisdictions are considering swing pricing as a liquidity management and anti-dilution tool for MMFs. The FSB itself argues that, by externalizing the costs of redemptions, swing pricing would reduce or eliminate any potential first mover advantage for redeeming investors or dilution for investors remaining in the fund.<sup>20</sup>

ICI Global and its members strongly oppose the imposition of swing pricing for MMFs. As far as we know, swing pricing has never been used in any jurisdiction by an institutional MMF. In addition to being untested, there is no empirical evidence to support the theory that swing pricing would discourage redemptions in a strained market environment. As the FSB has acknowledged, the costs associated with imposing swing pricing “may not be sufficient to dissuade investors from redeeming in a liquidity shock where cash needs are primary.”<sup>21</sup>

In 2021, the US SEC proposed provisions that would require MMFs to implement swing pricing.<sup>22</sup> MMF stakeholders, including ICI, vigorously opposed this proposal, and the US SEC’s recently released final rule does not include such a requirement.<sup>23</sup> The final rule does include other unexpected measures, which were not part of the consultation, and the industry has not yet had time to assess these.

Swing pricing presents a number of operational and implementation challenges. First, to successfully implement swing pricing, a fund needs timely and reasonably accurate daily flow information before calculating the fund’s NAV. Without it, the fund would be unable to determine with certainty whether it has crossed its swing threshold on a given day. Second, swing determination is complicated in cases where a fund needs to obtain fund flow information from intermediaries, such as broker-dealers, platforms, and portals, which generate much of the funds’ order volume and fund flow activity.<sup>24</sup> Third, swing pricing is particularly challenging for

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<sup>20</sup> FSB, [Policy Proposals to Enhance Money Market Fund Resilience: Final Report](#) (October 11, 2021) (FSB Policy Proposals) at 28.

<sup>21</sup> FSB Policy Proposals at 27.

<sup>22</sup> SEC, [Money Market Fund Reforms](#), SEC Release No. IC-34441 (December 15, 2021).

<sup>23</sup> See 2023 SEC MMF Amendments at 306-10.

<sup>24</sup> For a discussion regarding how the industry distribution model in the US and the use of intermediaries complicates the use of swing pricing, see ICI, “[Evaluating Swing Pricing: Operational Considerations](#),” (November 2016).

MMFs that price multiple times per day and have same-day (T+0) settlement. This feature is particularly important for some corporations, government entities, not-for profits, and other institutional investors to manage their day-to-day operating cash, meet payroll and other liabilities, and maintain appropriate levels of liquidity on a daily basis.

While the operational challenges are a major reason for our opposition to swing pricing for MMFs, we would also note that swing pricing is not necessary for MMFs because they already have the option to use anti-dilution levies/liquidity fees. The FSB recognizes such fees as “economically equivalent” to swing pricing.<sup>25</sup> Since MMFs are subject to extensive liquidity requirements, have the option to use anti-dilution levies or liquidity fees under certain conditions, and remain sensitive to price volatility, optional liquidity fees that are delinked from fees and gates (i.e. no regulatory ties) are more appropriate for MMFs than swing pricing.

As the FSB examines the operational challenges in implementing potential reforms, swing pricing stands out as a measure that would undercut the important economic role of MMFs without enhancing resilience of the sector or financial stability more broadly.

## **Conclusion**

Regulatory ties between liquidity thresholds and mandatory redemption fees or gates have proven to be problematic for MMFs by contributing to investor uncertainty. They should be repealed, as recognized by several major jurisdictions in which MMFs are offered.

Swing pricing — a tool that the FSB has identified as a potential “solution” to address the perceived vulnerabilities associated MMFs — would not enhance resilience of MMFs or the financial system. Swing pricing would create excessively burdensome operational challenges without clear benefits, not even addressing the FSB’s specific, though misguided concerns about the vulnerabilities associated with MMFs. Swing pricing as a liquidity management tool for MMFs should not be pursued.

We encourage the FSB and other policymakers to study the experiences of the short-term funding markets in different jurisdictions during stressed periods *holistically*, rather than intensely focusing only on certain sectors.<sup>26</sup> Such an approach could be used to develop market-

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<sup>25</sup> See FSB Policy Proposals at 26.

<sup>26</sup> See e.g., EC MMFR Report at 15-16. (“The turmoil in March 2020 revealed certain structural vulnerabilities, data gaps, and regulatory uncertainties on European short-term funding markets. ... The short-term funding market is an

based recommendations to improve the functioning of the short-term funding markets, which were the root cause of the challenges in March 2020. We therefore welcome the forthcoming work of the FSB and IOSCO on the short-term funding markets.<sup>27</sup>

We would welcome the opportunity to present our views in more detail to FSB members. If you have any questions, please feel free to contact Corrado Camera or me at +32 499 050501.

Sincerely,

/s/ Michael N Pedroni

Michael N. Pedroni  
Chief Global Affairs Officer, ICI, and  
Head of ICI Global

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over-the-counter dealer intermediated market. There is evidence that this short-term funding market is fragmented and opaque ... secondary market activity (bid, offer, price, volumes, etc.) is almost entirely opaque. This makes price discovery challenging, creates inefficiencies in these markets, and leads to difficulties for MMFs to appropriately monitor risks in a stress situation.”).

<sup>27</sup> See 2022 NBFi Progress Report at 2, 8.