MMF LIQUIDITY RISKS: POLICY PRIORITIES

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Enhancing the resilience of Money Market Funds

Money market funds (MMFs) are managed with the aim of providing stability of principal, daily liquidity, risk diversification and returns consistent with money market rates. They are important providers of short-term financing for financial institutions (especially dollar funding for non-US banks), corporations, and governments. They are used by retail and institutional investors to invest cash and manage short-term liquidity needs. MMFs' shares are redeemable on demand and many investors tend to treat MMFs as cash-like. It is therefore important to monitor and, where needed, address vulnerabilities in the MMF sector that may affect financial stability.

MMFs are subject to two broad types of vulnerabilities that can be mutually reinforcing: they are susceptible to sudden and disruptive redemptions, and they may face challenges in selling assets, particularly during periods of market stress. The extent of these vulnerabilities in individual jurisdictions may depend on market structures, use and characteristics of MMFs.

The first type of vulnerability arises from the fact that MMFs engage in liquidity transformation, are used for cash management by investors, and are exposed to credit risk. These features can contribute to a first-mover advantage for redeeming investors in a stress event and thus make individual MMFs, or even the entire MMF sector, susceptible to runs. The second type of vulnerability arises because the secondary markets for the underlying short-term instruments in which MMFs invest are typically not very active. Investors tend to buy and hold these instruments to maturity. As a result, there is limited demand for dealer intermediation services.

> **The March 2020 market turmoil underscored the need for further action to address MMF vulnerabilities.**

In practice, these vulnerabilities have been more prominent in non-public debt MMFs, as illustrated by the large redemptions (and runs) on those funds in the US and Europe in 2008 and 2020. In 2008, redemptions were triggered by a credit crisis following the bankruptcy of Lehman Brothers, and the loss of principal at a large prime MMF in the US that "broke the buck." In contrast, in 2020, pandemic-related uncertainties resulted in a "dash for cash" by corporations and other investors. MMFs in other jurisdictions have also not been immune from stress. For example, MMFs in Japan encountered problems in 2001, following the Enron scandal; as did South African MMFs following the collapse of a bank in 2014.

While some MMF reforms were introduced following the 2008 financial crisis, the March 2020 market turmoil underscored the need for further action to address MMF vulnerabilities. To this end, and following a public consultation, the FSB published policy proposals to enhance MMF resilience in October 2021. These proposals form part of the FSB's work programme to enhance the resilience of non-bank financial intermediation, which is intended to ensure a more stable provision of financing to the economy and reduce the need for extraordinary central bank interventions.

The FSB report describes policy options to address MMF vulnerabilities and their potential effects on MMF investors, fund managers and sponsors, as well as on short-term funding markets. Policy options are grouped according to the main mechanism through which they aim to enhance MMF resilience: imposing on redeeming investors the cost of their redemptions (e.g. through swing pricing); absorbing losses (e.g. through a minimum balance at risk or a capital buffer); reducing threshold effects (e.g. by removing ties between regulatory thresholds and the imposition of fees or gates, and the removal of the stable net asset value); and reducing liquidity transformation (e.g. through limits on eligible assets and additional liquidity requirements).

FSB member authorities are assessing MMF vulnerabilities in their jurisdictions and will address them using the framework and policy toolkit in the report, in line with their domestic legal frameworks. The FSB recognises that individual jurisdictions need flexibility to tailor measures to their specific circumstances. At the same time, international coordination and cooperation on policy reforms is critical to mitigate cross-border spill-overs and avoid regulatory arbitrage. The FSB will, working with IOSCO, review progress made by member jurisdictions in adopting MMF reforms. The review process involves a stocktake by end-2023 of the measures adopted by FSB member jurisdictions, followed by an assessment in 2026 of the effectiveness of these measures in addressing risks to financial stability.

IOSCO also plans to revisit its 2012 Policy Recommendations for MMFs in light of the FSB's framework and policy toolkit. Finally, the FSB and IOSCO intend to carry out follow-up work, complementing MMF policy reforms, to enhance the functioning and resilience of short-term funding markets.

JEAN-PAUL SERVAIS

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Towards a more resilient MMF industry

Money market funds (MMFs) play a key role in the short-term funding markets (STFMs). They bring investors with excess cash together with financial institutions, corporations and governments with short-term funding needs.

Although the regulatory framework for MMFs was strengthened in the aftermath of the global financial crisis, the March 2020 market turmoil at the onset of the COVID-19 pandemic revealed that MMFs remain subject to vulnerabilities.

On the liability side, MMFs are susceptible to sudden redemptions. Although MMFs are not homogeneous they share some features, such as the aim to offer capital preservation and daily liquidity, which often cause them to be considered as cash-like and therefore cause them to be used as cash management tools.

In periods of stress, investors may reassess the cash-like nature of their MMF investments and have incentives to redeem, which may be amplified when first mover advantages are present. This vulnerability is not prominent for all MMFs, however. It depends, among other things, on the extent of the liquidity transformation, the extent to which investors use the MMF as a cash management tool, its exposure to credit risk, and the consequences of crossing regulatory thresholds.

On the asset side, MMFs may face challenges in selling assets, particularly under stressed market conditions. This holds in particular for MMFs investing in commercial paper and certificates of deposit, instruments traditionally held until maturity and for which secondary market liquidity is therefore relatively limited.

The FSB, in cooperation with IOSCO, has identified a set of policy options to mitigate MMF vulnerabilities, as well as an assessment framework with regard to the effects of each of these policy options.

MMF vulnerabilities could be addressed through a number of mechanisms, including by passing on costs to redeeming investors, by reducing threshold effects, and by reducing liquidity transformation.

FSB in cooperation with IOSCO has identified a set of policy options to mitigate MMF vulnerabilities.

In this respect, swing pricing, or economically equivalent mechanisms, are key policy measures as they make it possible to impose the costs associated with redemption on redeeming investors, and thereby better align the liquidity offered by an MMF to its investors with the liquidity of its assets.

Another option involves the removal of ties between regulatory thresholds and the imposition of fees and gates, which would mitigate threshold effects by diminishing incentives for pre-emptive redemptions.

Other options include limiting eligible assets by requiring MMFs to invest in more liquid instruments or shorter-term instruments, or by requiring a minimum holding in certain instruments deemed to be more liquid; such an option would reduce liquidity transformation and thus help in turn to mitigate the impact of large redemptions.

A final important option to be considered is eliminating the stable NAV MMFs.

The policy options are a toolkit for jurisdictions to assess and decide on their own reforms. As the characteristics of MMFs and the prevalence of their vulnerabilities vary considerably across MMF types and jurisdictions, flexibility is needed in tailoring measures to existing legal frameworks.

It is now up to the different jurisdictions to draw on the toolkit to adopt reforms that mitigate MMF vulnerabilities. The legal framework should be strengthened in order to enhance the resilience of MMFs, limit their financial stability risks and minimise the likelihood of central bank interventions in the STFM.

In Europe, the EU Commission will start to review the MMF Regulation in 2022. ESMA has already consulted on potential reforms, taking into account the vulnerabilities that were revealed during March 2020.

In particular, in line with the policy toolkit, ESMA has consulted on proposals to decouple regulatory thresholds from suspensions and gates, to require MMFs to use swing pricing or certain equivalent mechanisms, to increase or modify liquidity buffers, to remove or reduce the types of stable NAV MMFs, and to assess the role of sponsor support. The consultation document and the feedback ESMA has received on it will inform ESMA's opinion on the review of the MMF regulation.

The next steps for IOSCO and the FSB on MMFs will include a progress review, which will first encompass a stocktake of the measures adopted by jurisdictions, by the end of 2023, followed by an assessment of the effectiveness of the measures in addressing financial stability risks.

IOSCO may also revisit its 2012 Policy Recommendations for Money Market Funds, taking into account the policy toolkit. In response to the feedback from the public consultation on the FSB's policy proposals to enhance MMF resilience, the FSB and IOSCO also intend to carry out follow-up work to enhance the functioning and resilience of the STFM.

FRANCESCO MAZZAFERRO

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The European Systemic Risk Board's recommendation on money market funds

The 2020 financial market turmoil showed that the regulatory changes after the global financial crisis (GFC) had not sufficiently mitigated systemic risk in the money market fund (MMF) sector. The 2017 MMF Regulation[1] set out rules to limit the contagion channels that appeared during the GFC and to make MMFs more resilient to shocks. During the market turmoil at the onset of the COVID-19 pandemic, MMFs investing in private debt instruments experienced acute liquidity strains due to large investor redemptions and lack of liquidity in the markets for those instruments. It was not until central banks took exceptional monetary policy measures that the functioning of short-term debt markets improved and liquidity strains in MMFs eased.

The events of 2020 revealed the underlying tension in the liquidity transformation performed by MMFs. As they offer on-demand liquidity to investors, MMFs are often perceived to be cash-like instruments. But they also invest in financial assets that are not reliably liquid – particularly in times of stress, when MMFs face redemption requests. Liquidity mismatch can be particularly acute for MMFs investing mainly in commercial paper and certificates of deposit, as the market for these instruments is fragmented. This tension between the "deposit-like features" and the "fund-like features" of MMFs remains a source of systemic risk.

The policy response has to ensure MMFs' resilience while reducing the need for central banks to step in during crises. MMFs perform two main functions in the real economy and the financial system: they provide short-term funding to issuers (mainly banks and non-financial corporations) and are used by investors (notably institutional investors and corporate treasurers) to manage liquidity. After the forthcoming regulatory reform, they should continue to act as the key intermediaries in the financial system, while being able to absorb potential shocks instead of amplifying or spreading them.

> **Policy has to ensure MMFs' resilience while reducing the need for central banks to step in.**

Against this backdrop, the European Systemic Risk Board (ESRB) has issued policy recommendations to address persisting MMF vulnerabilities. The Recommendation on money market funds[2], addressed to the European Commission, reflects policy discussions at the international level, including consultations by the European Securities and Markets Authority[3] and proposals from the Financial Stability Board[4]. It reflects the spirit of the ESRB's 2012 Recommendation[5] to reduce the "deposit-like features" of MMFs and to increase the features that make them similar to other investment funds. This is why the ESRB has not proposed measures such as own funds requirements to increase the loss-absorbing capacity of MMFs.

The aims of the policy recommendations are as follows.

Recommendation A aims to reduce threshold effects embedded in regulatory requirements that might provide first-mover advantage and provoke runs. It proposes that low volatility net asset value (LVNAV) MMFs have a fluctuating NAV. It also advises removing regulatory trigger effects (using liquidity fees and redemption gates) when MMFs breach liquidity requirements.

Recommendation B aims to reduce liquidity transformation. It calls for higher liquidity requirements for variable NAV and LVNAV MMFs, as well as mandatory public debt holdings alongside daily and weekly maturing assets. To encourage MMFs to use liquidity buffers to meet redemptions, the Recommendation suggests that MMFs could hold less liquidity in times of stress than normally required.

Recommendation C aims to impose redemption costs on redeeming investors. It proposes that all MMFs have at least one liquidity management tool (LMT) that passes trading costs on to departing and incoming investors (anti-dilution levies, liquidity fees or swing pricing for MMFs with a fluctuating NAV). To facilitate the use of LMTs, the Recommendation calls for criteria to be established for their application in all market conditions.

Finally, **Recommendation D aims to enhance monitoring and stress-testing frameworks.** To provide national and EU bodies with better information to identify the systemic weaknesses of MMFs, it proposes system-wide stress tests, higher reporting frequency and wider data collection and sharing.

The Recommendation will contribute to the upcoming MMFR review. No single measure can address all systemic vulnerabilities of MMFs: the reforms proposed need to be assessed as part of a package that will increase resilience in the MMF sector and reduce systemic risk.

1. *Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds (OJ L 169, 30.6.2017, p. 8).*
2. *Recommendation of the European Systemic Risk Board of 2 December 2021 on money market funds (ESRB/2021/9).*
3. *See "EU Money Market Fund Regulation – legislative review", Consultation Report, ESMA, March 2021.*
4. *See "Policy Proposals to Enhance Money Market Fund Resilience", FSB, October 2021.*
5. *Recommendation of the European Systemic Risk Board of 20 December 2012 on money market funds (ESRB/2012/1).*

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Building a resilient and proportional regulation for Money Market Funds

Money market funds (MMF) are an important instrument for a sound financial system and real economy as they provide short-term funding for issuers and are used as cash lending vehicles by investors as an alternative to other financial instruments, such as bank deposits.

This means that MMF can act as substitutes - both to issuers and investors - to banking intermediation instruments. However, there is an underlying tension between the different objectives of MMF, in particular between providing principal stability and offering daily liquidity – and this tension, as we have seen recently, might result in systemic risks under severe market stress situations.

The MMF liquidity resilience was tested in March 2020, since several funds, particularly those with low volatility net asset value (LVNAV) faced significant outflows. Intervention from public authorities and in particular central banks prevented traumatic outcomes such as funds breaking the 'collar' that would result in a variable net asset value disadvantageous conversion.

On another front, MMF that invested in private debt experienced particularly acute liquidity constrains caused by a combination of high-level redemptions rates and lack of liquidity in money markets. This led to concerns that those liquidity constrains could in fact amplify the effects of the pandemic shock to other parts of the financial system.

In this scope, it was globally acknowledged that the financial market turmoil revealed several systemic vulnerabilities that called for a thorough reassessment of the MMF market functioning and rules in the context of a post-global financial crisis regulatory reform. This was done is record time and we are now facing the moment for decisions.

I believe the key objective should be to enhance MMF resilience while preserving their useful functions. This includes addressing the structure and functioning of the sector and of the underlying short-term funding markets, as this would minimize systemic risks and the need for future interventions from central banks and other public authorities.

Our objective should be enhancing resilience, while preserving MMF's main functions in the economy.

For that matter we should begin by recognizing some challenges. For example, the specific nature of MMF's assets and liabilities, and the maturity and liquidity transformation that they embrace, can pose challenges to financial stability. Despite this, targeted and efficient amendments to MMF regulation could be used to minimize such risks, while maintaining some (but not all) cash-like beneficial features of MMF.

First, removing first-mover advantage is of paramount importance. In this way, changes should be introduced to make MMF less procyclical, especially in market stress situations. In addition, measures such as decoupling regulatory thresholds from imposed suspension of redemptions or gating mechanisms would be welcomed.

Second, the implementation of additional liquidity management tools, such as increasing liquidity buffer requirements and allowing its usage in times of stress, could also be used as relevant countercyclical measures. The composition of that buffer could allow efficient diversification of liquid instruments, without minimum exposures to public debt – similarly to other prudential requirements in the financial sector.

Third, all MMF should have the possibility to use a liquidity management tool appropriate to a fund's concrete situation allowing it to reflect redemption costs for departing investors and avoid dilution.

Moreover, I believe we should take this opportunity to promote a paradigm shift: eliminate constant or low volatility net asset values funds that are sustained on the valuation of amortized costs. The current paradigm simply does not reflect market value best practices. Liquidity and credit risks associated with the MMF's assets would be better reflected through changes in their net asset values to match mark-to-market value of their respective assets. Additionally, such a change could also reduce current investors' incentives to redeem when they perceive that the underlying value of the assets has fallen below the stable net asset value and is at risk of falling below a threshold at which the fund must change its valuation and reprice its shares.

Additional measures outside the specific MMF domain could also be considered, namely those that aim at better understanding the characteristics of MMF's investors and the regulatory regime in which they operate. Management companies should have such data available upon request by supervisors.

In conclusion, I believe that the full package of measures to be adopted should be proportionate and chosen with caution. We must avoid MMF becoming unviable instruments, which would force capital to flow to other less transparent alternatives. Importantly, the measures should incentivize MMF to become more resilient in stress situations without hampering their very important economic role in normal times.

GERRY CROSS

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Money market funds – a case for reform

Following a period of unexpected fragility in the money market sector in the early days of the COVID 19 pandemic, it is important that resilience is strengthened.

The period of intense market turbulence in March-April 2020 was characterised by a flight to safety. This dynamic gave rise to significant liquidity pressures including in the short-term private debt markets where MMFs play a large role. The stresses that developed and fears of contagion prompted central bank intervention.

Money market funds have regulatory daily and weekly liquidity thresholds linked to liquidity management features such as gating, imposition of fees or suspension, all of which are designed to protect the MMF in the face of significant outflows. One dynamic revealed by this period of marked stress was that these thresholds – combined with the perception of potential cliff effects - served as a pinch point which fuelled redemptions at the height of the crisis as investors sought to liquidate MMF positions before liquidity management features were invoked.

The outflows experienced by European private debt funds and Prime MMFs in the US appear to have resulted in corresponding inflows to the perceived safe-haven of European and US government MMFs, which are structured as constant NAV (CNAV) funds.

Globally, there is an emerging consensus on the need for refoms to enhance MMF resilience, with the FSB having issued its final report identifying potential areas for improvement in October 2021 and the European Commission set to conduct a review of its legislative framework in 2022 following on from work by ESMA and the ESRB.

Care should be taken to avoid identifying "silver bullet" solutions. Reform needs to be multi-faceted given the broad impact of the 2020 stresses across private debt fund types.

In the first instance, the unforeseen consequences of features built into the current MMF regulatory framework need to be addressed. One is the need to decouple thresholds for MMF daily and weekly liquidity from any rigid imposition of gates and fees. These features were designed to diminish the potential for stress within a MMF, rather than serve as an aggravating factor.

There is an emerging consensus on broad parameters of changes necessary to enhance MMF resilience.

There is also a need to enhance the quality and composition of liquidity buffers held by MMFs. Whilst the calibration in terms of precise levels of liquidity and portfolio composition remain subject to debate (including the extent of public debt holding in private debt MMFs), the necessity to have a more resilient buffer is apparent. The potential negative impacts of holding additional low yielding assets could be mitigated somewhat by building an element of cyclical releasability into buffers, albeit subject to clear rules on usage and replenishment and the maintenance of sufficient minimum levels through the cycle.

The role of liquidity management tools, such as swing pricing or anti-dilution levies is also garnering much attention. It is important that investor incentives to be early to withdraw money from MMFs – the so-called "first mover dynamic" is removed, or at least significantly reduced. It is appropriate that those investors redeeming from MMFs should bear the transaction costs, including liquidity premia, associated with redemption. This not only helps to address any misalignment in the incentive for withdrawing, but it is also in the best interests of remaining investors in the MMF. This fulfils objectives both of investor protection and the financial stability concerns of public authorities.

Increased reporting on key areas from MMFs as well as developing more system-wide approaches to stress testing should enable authorities to have a better understanding of the potential spillover risks from different sectors, as well as the second-round effect of asset disposals, including the likelihood of further redemptions and adverse pricing impact in a stressed market environment.

Implementation of these reforms will significantly enhance resilience across all types of money market funds. What was clear from the period of market turbulence in the March-April 2020 period was that the different types of private debt money market funds – including both variable (VNAV) and low volatility NAV (LVNAV) funds – were significantly impacted. While further measures may be needed to reflect differences amongst fund types, these should remain proportionate and should seek to retain the benefits to European capital markets and its economy that are provided by its well-developed and differentiated money markets sector.

In that context the policy objective is to ensure that MMFs are reformed, so as to permit them to fulfil their economic function in a way that is resilient to shocks and which minimises the need for extraordinary central bank intervention in markets.

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Improving the European MMF regulatory framework to enhance resiliency

The COVID-related market events of March 2020 present a unique opportunity to reflect on a live stress test of all segments of global financial markets and draw conclusions about how to improve the resilience of market structures and participants alike. Money Market Funds (MMFs) are one of the first areas of focus by international regulators in this reflection. BlackRock supports efforts to ensure that the regulatory framework for MMFs is robust. MMFs play a critical role for many end-investors; reforms must enhance their resilience, while preserving their utility.

In March 2020, European MMFs experienced varying levels of outflow pressures across currencies and fund structures, but none breached regulatory thresholds. This is despite the fact that the ECB and Bank of England asset purchase programmes had minimal impact on MMFs, as they focused on ensuring that non-financial corporate issuers (a very small segment of European MMFs' investment universe) were able to access primary markets, unlike the US Federal Reserve's dealer support programs which were aimed at providing liquidity in secondary markets for all types of commercial paper and certificates of deposit.

We believe that reforms should be based on observable vulnerabilities and calibrated to reflect the real strains European MMFs faced in these market conditions.

We are pleased to see that many regulators have identified the linkage between redemption gates and fees and MMFs' Weekly Liquid Asset (WLA) buffer as a vulnerability. De-linking these provisions is one improvement in the regulatory framework that seems to be widely agreed upon in both the industry and regulatory community. This will reduce procyclical pressures on MMFs by removing the key incentive that drove asset sales in many MMFs in both the US and Europe in March 2020.

Further reforms to improve the liquidity buffers in MMFs are also important areas for focus. In considering how MMFs can meet outflow pressures, cash on hand and Daily Liquid Asset (DLA) levels are most relevant. That is because MMFs, unlike other kinds of mutual funds, are designed to meet net redemptions from cash, rather than by selling assets – this is also why swing pricing, a critical liquidity risk management tool for many open-ended mutual funds, is inappropriate for MMFs.

March 2020 was a test for European MMFs; they performed well in challenging circumstances.

Ensuring all types of MMFs have minimum DLA levels commensurate with potential daily outflow levels ensures MMFs can meet redemptions in market stresses. Calibration could be based on historic flow patterns across a variety of market conditions. This is a more direct way of addressing MMF resilience than, for example, minimum government debt buffers. Such buffers, while they may be designed to achieve the same result, do so in a less direct way, requiring the holding more cash-like securities rather than holding more cash. They can also have unintended consequences, such as exposing the MMF to price volatility risks due to the limited amounts of high-credit-quality, short-dated government debt in Euro and Sterling, forcing MMFs to turn to secondary markets.

However, raising DLA levels across the board will not be as straightforward in Europe as it might be in the US. Euro and Sterling markets, in particular, suffer dislocations around quarter- and year-end which prevent many users (not only MMFs) from placing cash overnight on and around these dates. Finding a solution to this problem would allow the most direct, and appropriate, policy response to promote MMF resiliency.

Finally, as the debate also coincides with the scheduled review of the MMFR framework in 2022, there has been considerable focus on one of the key new fund structures created by the Regulation in 2018, the Low-Volatility NAV (LVNAV) MMF. These funds have worked well since their creation, with none breaching regulatory levels in March 2020 despite the stressed conditions, and they are valued by many different types of end-investors.

Looking at data around outflow pressures versus mark-to-market price deviations in LVNAVs, there is no clear evidence from March 2020 to support the hypothesis that the 20bps 'collar' accelerates redemptions or creates 'cliff-edge' effects. In fact, in Europe, the two kinds of MMFs that experienced the most significant outflows in March 2020 were Euro-denominated Standard VNAV funds, and US Dollar-denominated LVNAV funds (where some of the most significant MTM deviations were actually above the rounded share price of the fund).

March 2020 was a strong test for the European MMF sector and for the MMFR regulatory framework; for the most part, they both performed well in challenging circumstances. Drawing on this experience, it is clear that targeted improvements to the regulatory framework for MMFs can be made, but it is also clear that short-term funding markets overall should be made more resilient.

Without addressing market structural problems, MMF reforms could further disintermediate the investor base, reduce transparency and increase the potential for systemic risk.

DENNIS GEPP

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Money market funds and the sound functioning of the money market ecosystem

Any potential reform to money market funds (MMFs) should be fully supported by data and be designed to enhance their safety and resilience. In considering the events of March 2020 it is important to remember that the stresses observed were not due to the vulnerability of MMFs but by a global economic shock to the system, resulting from the decisions of governments around the world to shut down their economies to prevent the spread of Covid-19.

In its Investment Funds Statistics Report, the International Organization of Securities Commissions (IOSCO) analyses the reasons for the US Treasury market dislocation in March 2020 and cites: *"general widespread uncertainty of the economic impacts of COVID-19; regulation that has limited banks and dealers' ability to warehouse asset inventory; liquidity impact of the "working from home" environment, which impairs the networks that traders rely on to execute trades; and the role of leverage in the system."* IOSCO advises that *"any assessment of the role of individual players in the marketplace during this stress event needs to be viewed through the lens of market-wide interactions".*

This is why, in addition to certain critical enhancements to MMFs globally (especially removing the improper linkage between liquidity fees/gates and liquidity levels) Federated Hermes agrees with the Financial Stability Board's (FSB) recognition of the critical need to improve the functioning of the short-term funding markets (STFMs). These are an integral part of the money market ecosystem and need to be designed so that they remain open even in stressed times.

While the FSB is right that a review is warranted, it is vital that a full STFM reform is conducted alongside, not subsequent to, any reform of MMFs.

In addition to focusing on improving the STFM, the FSB, the European Securities Market Authority (ESMA) and now the U.S. Securities and Exchange Commission (SEC) has identified that delinking liquidity and the potential imposition of fees and gates must be a top priority. This linkage has proven to be an unintended negative consequence of the regulations. However, we continue to observe a lack of appreciation of the benefits delinking will have on money market funds and the positive impact delinking would have had during the March 2020 liquidity events.

It is vital that a full STFM reform is conducted alongside, not subsequent to, any reform of MMFs.

Removing the improper link between the liquidity thresholds and a fund's potential imposition of fees and gates would remove one of the major incentives for artificially high redemptions that were observed in March 2020. In addition, delinking would have freed 30% or more internal liquidity that MMFs could have utilised to meet all redemptions with no market consequences as they held levels of liquidity more than sufficient to cover the redemptions experienced by MMFs during March 2020. With this link removed, there is no need to require MMFs to hold higher amounts of liquidity, as an additional 30 to 40% will have been made available simply by delinking.

The other policy options the FSB and SEC advance are either unnecessary or inappropriate. In particular, swing pricing, whilst applicable to non-MMF products, has never been applied to a MMF (whether in the U.S., EU, or any other jurisdiction), and any requirement to implement it would be a de facto elimination of MMFs as a viable product for investors. Investors have been clear that they will not invest in a MMF with swing pricing, as this would eliminate the fund's ability to provide intraday and same-day settlement.

As a result, any future "dash for cash" or credit crisis would not be mitigated – but rather shifted away from highly regulated, transparent MMFs to unregulated, longer dated and less transparent vehicles which would certainly have far greater effects on financial stability. Swing Pricing is also entirely redundant should MMF Boards retain the ability to implement a targeted and well-timed liquidity fee designed to pass on the cost of liquidity to redeeming shareholders in times of stress.

It is critically important that MMFs remain a viable product available for global investors and, for that to occur, MMFs must retain their ability to provide investors with daily liquidity, a market yield and a high quality, diversified investment portfolio.