American Bankers Association

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VIA ELECTRONIC SUBMISSION

Financial Stability Board
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Re: Financial Stability Board, Policy Proposals to Enhance Money Market Fund Resilience: Consultation report (June 30, 2021).

Dear Ladies and Gentlemen:

The American Bankers Association[1] (ABA) appreciates the opportunity to comment on the Financial Stability Board's (FSB) consultation report, *Policy Proposals to Enhance Money Market Fund Resilience* (Report).[2] In reaction to market disruption in March 2020 due to the COVID-19 pandemic, the FSB issued the Report outlining "policy proposals to enhance [money market fund] resilience, including with respect to the appropriate structure of the sector and of underlying short-term funding markets." The Report follows similar inquiries into money market funds (MMFs) in the United States by the President's Working Group on Financial Markets and the Securities and Exchange Commission (SEC).[3]

Our bank members and their affiliates have many relationships with MMFs, including as sponsors of MMFs, as facilitators of bank customer investments, and as issuers of certificates of deposit and commercial paper and other bank funding vehicles purchased by MMFs. Therefore, as participants in the short-term funding markets alongside MMFs, banks have a great interest in ensuring the stability of these markets even through times of stress. Accordingly, we appreciate the importance of examining the role and structure of MMFs in an effort to ensure market stability and the FSB's measured approach in considering the array of policy options. We take

[1] The American Bankers Association is the voice of the nation's $22.5 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $18 trillion in deposits and extend nearly $11 trillion in loans.
[2] Policy Proposals to Enhance Money Market Fund Resilience: Consultation report (fsb.org).
[3] Federal Register: Request for Comment on Potential Money Market Fund Reform Measures in President's Working Group Report.

this opportunity to share comments on MMFs in the United States and principles for policy makers to consider in any reform efforts.

MMF Reforms Should Not Include Changes for Regulated Banks

As participants in the short-term funding markets, banks rely upon stable and well-regulated financial markets. Throughout the COVID-19 pandemic, including during the market turmoil in March 2020, banks have been a reliable source of funding and liquidity for their customers, the markets, and the U.S. economy. Given this source of financial strength, additional regulation for the banking sector to address concerns regarding MMFs would be inappropriate and unnecessary. We appreciate that the FSB Report, while broadly considering the short-term funding markets, is appropriately focused on the feasible reforms to MMFs that have been raised so far.

Reforms Should Balance the Need for Stability with Preservation of Prime and Tax-Exempt Municipal MMFs

As we noted to the SEC in their inquiry earlier in 2021, any reforms in the U.S. should strive to enhance the stability while also maintaining the viability of MMFs, in particular prime and tax-exempt municipal MMFs. Although less popular vis-a-vis government MMFs after the 2014 reforms, prime and tax-exempt MMFs continue to play an important role for stability in our financial markets and as an investment opportunity for institutional and retail investors. These MMFs offer U.S. investors an alternative to government MMFs and bank deposits with potentially higher yields, while also providing a high level of liquidity and transparency to investors. As significant investors in commercial paper and municipal securities, prime and tax-exempt MMFs are important sources of funding for corporations and municipal governments.[4] Significant new restrictions on municipal funds, in particular, may limit local government sources of capital for infrastructure and other needs, as well as limit the public's access to popular tax-exempt investment options.

[4] According to the most recent SEC primer, MMFs hold 22% of the outstanding commercial paper. Available at Primer: Money Market Funds and the Commercial Paper Market (sec.gov). The Federal Reserve Board lists MMFs as holders of over $100 billion in municipal securities, available at The Fed - L.212 Municipal Securities (federalreserve.gov).

Focus Should Be on Feasible Reforms within Existing Regulatory Structure

The reforms outlined in the FSB Report focus on mechanisms to internalize the cost of redemptions on investors, enhance loss absorption of MMFs, remove regulatory thresholds with unintended consequences, and reduce liquidity transformation. We believe the focus should be on those reforms that can be adopted within the existing regulatory structure in the least disruptive way for market participants and investors.

Remove Tie between MMF Liquidity and Fee and Gate Thresholds

As noted in the Report, institutional investors seemingly redeemed in anticipation of the imposition of fees and gates, which an MMF board may impose if the weekly liquid asset (WLA) threshold dips below 30 percent.[5] Many investors monitored this threshold so closely that as it approached 30 percent, they and other like-minded investors redeemed their interest in a first-mover advantage. One of the potential reforms highlighted would be to untie the link between MMF liquidity and the imposition of fees and gates, in order to minimize the incentive for investors to redeem in anticipation of fees and gates at a particular threshold and cause an unmanageable run on the fund. We agree that this reform would mitigate the first mover advantage and urge consideration of that option as an initial reform effort. Nonetheless, we believe the ability of MMF boards to impose fees and gates as warranted after appropriate fiduciary consideration should be preserved.

Potential Increase in the WLA Threshold during Normal Periods

Assuming that the fees and gates requirements are untied from the WLA, we believe that increasing the WLA threshold above 30 percent could provide more liquidity for potential redemptions. Any new threshold considered should balance the need for more liquidity with its effect on the viability of the fund in relation to other investment options that may offer higher yields.

[5] Some industry participants have suggested that the imposition of gates, more than fees, seemed to be driving investor behavior in March 2020.

Establish Countercyclical WLA Requirements

Presuming the WLA is untied from fees and gates and the threshold is increased above the current 30 percent, regulators should consider decreasing the WLA threshold during times of significant market stress through official notice. In such situations, funds would have regulatory acknowledgment of extraordinary market conditions and be alerted to the potential need for funds to use up their reserve of liquid assets to meet redemption outflows. MMF countercyclical measures would be akin to how U.S. regulators encouraged banking organizations to use their liquidity buffers in March 2020.[6]

Conclusion

ABA appreciates this opportunity to comment on the FSB Report and potential regulatory changes to U.S. institutional prime and tax-exempt municipal funds. To balance the need for increased stability as well as the viability of these funds for the investing public, we urge the removal of the tie between the WLA threshold and the imposition of fees and gates, while also potentially increasing the WLA threshold during normal times and lowering it during times of stress.

Sincerely,

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[6] Statement on the Use of Capital and Liquidity Buffers (federalreserve.gov).