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Secretariat of the Financial Stability Board
c/o Bank for International Settlements
CH-4002
Basel, Switzerland

Submitted via e-mail to: fsb@fsb.org

Re: **Consultative Report: Policy Proposals to Enhance Money Market Fund Resilience**

Dear Sirs/Madams:

Fidelity Investments ("Fidelity")[1] appreciates the opportunity to provide comments to the Financial Stability Board ("FSB") on its consultation report on Policy Proposals to Enhance Money Market Fund Resilience (the "FSB Report") published on June 30, 2021.[2]

Fidelity has long served as a leading provider of money market funds and has extensive experience managing funds in both normal and stressed market conditions. Fidelity first began managing and offering money market funds in 1974. As of March 1, 2020, Fidelity managed approximately $817 billion in money market fund assets and offered a comprehensive suite of money market funds in the United States, including government,[3] prime and tax-exempt funds,[4] to both retail and institutional investors. By April 1, 2020, our assets under management had grown to $927 billion. Fidelity remains the largest provider of money market funds with approximately $894 billion in assets under management as of July 31, 2021, representing approximately 18 percent of the U.S. money market fund industry.

Based on our history of managing and distributing a broad array of money market funds held by millions of fund investors, we believe we are uniquely qualified to provide insights into the events of March 2020 and to offer views on the various reform measures described in the

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[1] Fidelity is one of the world's largest providers of financial services, including investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and many other financial products and services to more than 30 million individuals and institutions, as well as through 13,500 financial intermediary firms. Fidelity submits this letter on behalf of Fidelity Management & Research Company LLC, the investment adviser to the Fidelity family of mutual funds.
[2] *See* Fin. Stability Bd., Consultative Report: Policy Proposals to Enhance Money Market Fund Resilience (June 30, 2021), *available at* https://www.fsb.org/wp-content/uploads/P300621.pdf (the "FSB Report").
[3] We note that the FSB Report refers to "public debt" money market funds. In this letter, we use the label government money market funds, which is the term widely accepted in the U.S. for public debt money market funds. The FSB Report acknowledges that the two terms are synonymous. *See*, FSB Report at 8.
[4] Tax-exempt funds are often referred to as "municipal funds" and invest in municipal securities that are normally free from federal income tax, federal alternative minimum tax (AMT) and/or state income tax. Municipal securities serve as an important source of funding for states and municipalities and can help fund hospitals, educational systems, utilities and other public works projects.

FSB Report. Fidelity previously provided comments[5] to the U.S. Securities and Exchange Commission ("SEC") on the reform options outlined in the President's Working Group Report ("PWG Report"), many of which are reiterated in the FSB's Report.[6] We applaud the work of the FSB and the PWG as productive steps in considering potential reform measures, however, we caution that any reform measures should be narrowly constructed to address the events of 2020, carefully considered to ensure they preserve the availability of money market funds and do not impose harmful unintended consequences on investors or the global economy. As we learned in 2020 in the U.S., fees and gates were not only ineffective at deterring redemptions but accelerated the timing of redemptions given institutional investors' prioritization of access to their capital above all else.

As detailed below in our responses to selected questions in the FSB Report, we believe that:

- Regulators should proceed cautiously and carefully when considering further structural reforms to U.S. money market funds, which are already subject to extensive regulation, testing, oversight, and reporting requirements.

- Any reforms that regulators determine to implement for U.S. money market funds should be narrowly tailored to address the vulnerabilities exposed in March 2020, which were focused on liquidity pressures in institutional prime money market funds.

- By contrast, U.S. government and retail prime funds, which did not experience similar vulnerabilities and have performed well during periods of volatility, including March 2020, should be excluded entirely from further rounds of reform.

- To address the structural vulnerabilities experienced by U.S. institutional prime funds resulting from liquidity pressures, we recommend that regulators consider eliminating the strict tie between current liquidity thresholds and the imposition of fees and gates, in combination with requiring a higher percentage of Weekly Liquid Assets for those funds.[7] We do not believe that these reforms are necessary for any other U.S. money market funds. In the event that these reforms are considered for retail prime funds, which we disagree with, we urge that any new Weekly Liquid Asset percentages be calibrated appropriately by fund type.

- The reform options that do not solve for liquidity related vulnerabilities in U.S. institutional prime funds, which include swing pricing, minimum balance at risk, removal of the stable net asset value (or "NAV"), capital buffers, and variants thereof, should be rejected for the numerous reasons we detail below.

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[5] Fidelity filed a comment letter on the PWG Report with the SEC on April 12, 2021. The letter is available at https://www.sec.gov/comments/s7-01-21/s70121-8662947-235324.pdf.
[6] Request for Comment on Potential Money Market Fund Reform Measures in President's Working Group Report, Release No. IC-34188 (February 4, 2021), *available at* https://www.sec.gov/rules/other/2021/ic-34188.pdf.
[7] We define "Weekly Liquid Assets" in the next section of this letter.

- We note that swing pricing, in particular, has garnered additional attention lately among policymakers and academics. In addition to the substantial operational challenges with implementing it in the United States, swing pricing is based on flawed assumptions about the motivations that drive investors to redeem from money market funds, negating further consideration as a reform option. Even if those assumptions were correct, as we demonstrate below, swing pricing is unlikely to move the NAV of a U.S. money market fund sufficiently to impact redemption behavior.

I. THE EVENTS OF MARCH 2020

Before responding to certain of the Questions posed in the FSB Report, we believe it is important to first discuss our experiences and perspectives on the events of March 2020. As a U.S. money market fund manager, our discussion of the events of March 2020 focuses on our experiences with U.S. markets, funds and investors.

Government Fund Inflows; Institutional Prime Fund Outflows

Volatility in the U.S. equity markets increased significantly in late February 2020 as investors began to recognize that the country would not be spared from the COVID-19 pandemic. Unlike previous crises (including 2008), there was not a gradual buildup to the apex of the crisis; instead, volatility and financial market uncertainty increased significantly in a compressed timeframe. Likewise, the value of the S&P 500 Index declined more than 30 percent between the third week of February through the first half of March.

Investors' broader market concerns began to manifest themselves in inflows into U.S. government money market funds. Assets in government funds increased by $53 billion between February 26th and March 4th and by approximately $95 billion between March 4th and March 11th as investors began seeking the safety and liquidity that government money market funds provide.[8] Over this same period, inflows into Fidelity's government funds totaled $42 billion, an increase of approximately 7.5 percent.

The critical period for U.S. money market funds began on March 11th and extended to March 23rd. The sudden buildup of anxiety regarding the personal threat posed by the pandemic coupled with a desire to limit losses from the equity markets and preserve liquidity resulted in continuing shifts into government money market funds from other asset classes. For example, as retail brokerage customers shed equities, many kept the proceeds from these sales in the government money market funds that serve as their default sweep investment options in their brokerage accounts. Some businesses borrowed under committed lines of credit and invested the proceeds into government money market funds in order to guarantee access to cash for contingency purposes. In addition, institutional investors began moving from institutional prime money market funds to government money market funds to preserve access to their operating

[8] Money Market Mutual Fund Assets, Investment Company Institute, Report: Money Market Fund Assets Historical Data (xls), available at: https://ici.org/research/stats/mmf.

cash. Overall, assets in U.S. government money market funds increased by $249 billion between March 11th and March 18th and another $345 billion between March 18th and March 25th.[9]

As redemptions from institutional prime funds accelerated beginning on March 11th, Fidelity and other U.S. money market fund managers took prudent steps to maintain or increase their funds' liquidity in anticipation of needing to satisfy further redemptions. First, managers discontinued making new investments in securities that do not qualify as weekly liquid assets under SEC Rule 2a-7 ("Weekly Liquid Assets" or "WLA").[10] For investments other than cash or government securities, these securities must have a maturity of five business days or less.[11] Second, as securities with maturities longer than five business days matured, the funds either held the proceeds in cash or invested the proceeds in shorter-dated instruments. Third, some fund managers began actively selling securities with longer maturities (i.e., non-government securities that do not qualify as Weekly Liquid Assets). Fidelity had no need to sell securities in this fashion because, as described further below, the percentages of our institutional prime funds that qualified as Weekly Liquid Assets were higher than that of other institutional prime funds.

Managers of institutional prime funds were able to dispose of these securities in transactions entered into by Friday, March 13th. By the following Monday (March 16th), however, attempts by managers to sell more of these assets were no longer successful because the broker-dealers that had been purchasing these assets the prior week discontinued doing so, likely because of the low margins that broker-dealers make in buying commercial paper. At the same time that institutional prime funds were no longer able to build liquidity by selling commercial paper in the secondary market, redemptions from these funds accelerated even further. In total, institutional prime funds experienced 30% net redemptions in March 2020. Of this amount, two thirds occurred between March 16th and March 21st. Attachment 1 to this letter includes a graph depicting the steep and sudden increase in net outflows from U.S. institutional prime funds during the week of March 16th. Redemptions from Fidelity's two publicly offered institutional prime funds were consistent, with most of the net outflows from the funds occurring during this same week.[12]

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[9] Money Market Mutual Fund Assets, Investment Company Institute, Report: Money Market Fund Assets Historical Data (xls), available at: https://ici.org/research/stats/mmf.

[10] SEC Rule 2a-7(a)(28) defines Weekly Liquid Assets as (i) Cash; (ii) Direct Obligations of the U.S. Government; (iii) Government securities that are issued by a person controlled or supervised by and acting as an instrumentality of the government of the United States pursuant to authority granted by Congress of the United States that : (A) Are issued at a discount to the principal amount to be repaid at maturity without provision for the payment of interest; and (B) Have a remaining maturity date of 60 days or less; (iv) Securities that will mature, as determined without reference to the exceptions in paragraph (i) of this section regarding interest rate readjustments, or are subject to a demand feature that is exercisable and payable, within five business days; or (v) Amounts receivable and due unconditionally within five business days or pending sales of portfolio securities.

[11] SEC Rule 2a-7(a)(28)(iv).

[12] We focus much of our attention in this letter on the experiences of U.S. "institutional prime funds" in March 2020. In doing so, we are referring to those institutional prime funds that are *publicly offered* and are not referring to funds that are privately offered to other mutual funds in the same complex. In our experience, these privately offered funds (which we commonly refer to as our central funds), faced neither the redemption pressures nor liquidity issues experienced by publicly offered institutional prime funds in March 2020. As a result, we believe that the dialog regarding potential reform measures for institutional prime funds should not include these privately offered funds and encourage regulators to exempt these funds from any further regulatory changes.

The combination of accelerating redemptions and fewer options for building liquidity resulted in a decline in the Weekly Liquid Asset percentages for U.S. institutional prime funds. As part of the amendments to Rule 2a-7 adopted in 2010, the SEC now requires all U.S. money market funds to maintain at least 30 percent of their holdings in Weekly Liquid Assets. Then, since the second round of rule amendments adopted in 2014, boards of institutional prime, retail prime and tax-exempt funds must consider whether to impose a liquidity fee of two percent or less or a temporary suspension of (or "gate" on) redemptions when Weekly Liquid Assets fall below 30 percent of the fund's total assets. In addition, if a fund's Weekly Liquid Assets fall below 10 percent of the fund's total assets, the board is obligated to impose a liquidity fee unless the board determines that such a fee is not in the best interest of the fund.[13]

While the original purpose of the liquidity fee and gate provisions was to discourage (in the form of a fee) or outright stop redemptions (through a gate) in non-government money market funds in times of market stress,[14] the potential for the imposition of a gate served as a key accelerant of redemptions from U.S. institutional prime funds in March 2020. To understand why, it is first important to understand how institutional investors use institutional prime funds. These investors (mostly businesses) invest corporate assets in institutional prime funds as a temporary investment until such time as the assets are needed to fund business operations (payroll, rent, etc.). As a result, the investor base tends to be more sensitive to changes in fund characteristics, including liquidity levels, which are published daily on fund websites.[15] Furthermore, because these investors redeem their money market fund assets when cash is needed to fund business operations, they prioritize unfettered access to their cash over all else. When markets are calm and there is no risk that an institutional prime fund will impose a redemption gate, these investors prefer earning the slightly higher yield offered by an institutional prime fund. When even a remote risk of a redemption gate arises, many of these investors prefer to forego the slight yield advantage of an institutional prime fund in favor of ensuring immediate access to cash by switching their investments to a government money market fund.

At the beginning of March 2020, many of the largest U.S. institutional prime funds held Weekly Liquid Assets between 35 percent and 40 percent of their total assets.[16] (Fidelity consistently managed its two publicly offered institutional prime funds at weekly liquidity levels well above many of its competitors' funds. At the beginning of March 2020, Fidelity's funds held 49 percent and 47 percent of their total assets in Weekly Liquid Assets.) The common perception in the industry was that a 5 percent to 10 percent buffer for institutional prime funds above the 30 percent threshold for the board's consideration of a gate was sufficient to weather unexpected redemptions, even in moderately stressed market conditions. While one could argue that the events of March 2020 were extraordinary, it is now apparent that such a voluntary buffer

[13] SEC Rule 2a-7(c)(2).
[14] *See* Money Market Fund Reform; Amendments to Form PF, Release No. 33-9616, IC-31166; File No. S7-03-13 (July 23, 2014), *available at* https://www.sec.gov/rules/final/2014/33-9616.pdf at 40.
[15] SEC Rule 2a-7(h)(10)(ii).
[16] iMoneyNet daily data as of March 2, 2020.

was insufficient to allay concerns by institutional prime fund investors that a gate could be imposed resulting in a loss of liquidity, even if temporary.

Instead, as redemptions in institutional prime funds began in early March, the fear of a redemption gate (even if still remote) took hold among these investors, resulting in accelerating redemptions and, as discussed above, efforts by fund managers to shore up liquidity in institutional prime funds. As the pace of redemptions increased, declining levels of Weekly Liquid Assets (the percentages of which are disclosed daily on fund websites) then fed even further the fear among institutional prime investors that a gate would be imposed.[17] The Weekly Liquid Asset percentages among the largest institutional prime funds fell from between 35 and 40 percent to percentages in the low 30s, with one competitor fund in particular falling from 35 percent to 27 percent in one day on March 19th. Even though the Weekly Liquid Asset percentages for Fidelity's two institutional prime funds began the month significantly higher than those of competitor funds, the contagion effect was apparent. For example, the Weekly Liquid Asset percentages for one of our institutional prime funds declined from 49 percent to a low of 42 percent, though remained well above the 30 percent threshold that would have obligated the fund's Board of Trustees to consider the imposition of a liquidity fee or gate.

The redemption patterns in U.S. institutional prime funds in March 2020 also exposed an inherent problem with the current 30 percent threshold for a fund board's consideration of whether to impose a liquidity fee or gate. Institutional prime funds are unable to deploy the liquidity built into the fund by virtue of the 30 percent Weekly Liquidity Asset requirement in SEC Rule 2a-7. Instead, because institutional investors redeem from prime funds when liquidity levels begin to approach the 30 percent threshold out of concerns that a gate or liquidity fee could be imposed, funds effectively are unable to use the 30 percent of the portfolio held in Weekly Liquid Assets as a source of liquidity. Instead, the additional voluntary buffer of liquidity above 30 percent that investment advisers maintain serves as the *true* liquidity available to fund redemptions and the 30 percent Weekly Liquid Asset requirement has become a floor under which a fund may never fall.

The instability among U.S. institutional prime money market funds eased somewhat following the Federal Reserve's announcement of the Money Market Liquidity Facility, or MMLF, on March 18th. Between March 18th and March 23rd, when the MMLF began full operations, redemptions from institutional prime funds continued, though at a slower pace, while market volatility and liquidity pressures remained elevated. During this five-day period, market participants were working to understand the specifics of the MMLF as well as the MMLF's operational mechanics, during which time the Federal Reserve also made modifications to the securities eligible for participation. Once the MMLF became fully operational on March 23rd, the redemption and liquidity stresses on institutional prime funds eased considerably. As reflected on Attachment 1, net flows for U.S. institutional prime funds were essentially flat between March 23rd and March 30th and eventually turned positive in April.

[17] As mentioned above, money market funds in the U.S. are required by SEC Rule 2a-7(h)(10) to post several statistics each business day on fund websites, including the percentage of the fund's assets that qualify as Weekly Liquid Assets.

Fidelity believes that the key reason the MMLF alleviated redemption and liquidity stresses in institutional prime funds is because the facility allowed institutional prime funds to raise their Weekly Liquid Asset percentages to a degree that lessened investor concerns about the possibility that a redemption gate could be imposed. By March 25th, the Weekly Liquid Asset percentages for most institutional prime funds were in the range of 38 and 49 percent.[18] (The percentages for Fidelity's two institutional prime funds were 53 percent and 61 percent on March 25th.) Once funds were able to raise their Weekly Liquid Asset percentages sufficiently, the impetus for investors to exit the funds (i.e., concerns about access to operating cash because of a possible redemption gate) disappeared.

Once the market crisis had subsided, Fidelity decided to liquidate our two publicly offered institutional prime funds, effective August 2020. Even though we consistently managed these two funds with significantly more Weekly Liquid Assets than our competitors, these funds still experienced considerable redemptions in March 2020. As competitor funds began to experience declines in Weekly Liquid Assets because of rising redemptions and concerns about the possibility of redemption gates took hold, investors also began redeeming from Fidelity's two institutional prime funds even though the funds held significantly more liquid assets. In light of this investor behavior in times of stress, as well as evolving institutional investor preferences (as evidenced by the decline in institutional prime fund assets since 2016), we decided to exit the institutional prime segment of the money market industry because we can better meet our institutional investors' needs with other cash management products.

Experiences of Retail Prime Funds in 2020

The redemptions experienced by U.S. retail prime money market funds in March 2020 were on a significantly smaller scale than those experienced by institutional prime funds. As noted on Attachment 1, net outflows of retail prime funds totaled approximately nine percent between March 13th and March 26th.[19] As of March 1, 2020, Fidelity managed approximately $133 billion in two retail prime funds. (Assets in these funds have since declined to $82 billion.) At the time, approximately 42 percent of these funds' portfolios were comprised of Weekly Liquid Assets. Competitor funds held Weekly Liquid Assets in the range of 38 percent to 43 percent.[20] Similar to our management of our two institutional prime funds, Fidelity discontinued buying securities with longer maturities in the latter half of March in order to meet redemptions and maintain liquidity levels. As longer-dated securities matured, Fidelity reinvested the proceeds in securities with shorter maturities. This process was orderly, manageable and posed no significant concerns.

As in 2008, retail prime funds were inherently more stable in March 2020 than institutional prime funds. The differences in redemption patterns for retail investors in prime funds and institutional investors in prime funds in March 2020 can be explained by the intrinsic differences between the two groups of investors. As noted above, institutional investors use prime funds as a mechanism to invest operating cash on a short-term basis until such time as the

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[18] iMoneyNet daily data as of March 25, 2020.
[19] *Id. See also,* FSB Report at 20.
[20] iMoneyNet daily data as of February 28, 2020.

proceeds are needed to fund business operations. These investors prioritize access to their funds and therefore are acutely sensitive to any possibility of a redemption gate serving to block access to their cash even on a temporary basis. Retail investors, on the other hand, display more stable and predictable redemption behaviors than institutional investors in all market conditions. Retail investors normally invest in prime funds for the same reasons that cause individuals to invest in other asset classes – to seek exposure to a particular asset class as one of several investment positions they may hold. As such, the investments tend to be less transitory (i.e., 'stickier') than investments by institutional investors in a prime fund. Because retail investors are less concerned with immediate, unfettered access to cash to fund other priorities, they are also less sensitive than institutional investors to the possibility of a temporary redemption gate in times of market uncertainty.

II. RESPONSES TO CERTAIN QUESTIONS IN THE FSB REPORT

Question 1. What are the key vulnerabilities that MMF reforms should address? What characteristics and functions of the MMFs in your jurisdiction should be the focal point for reforms?

As the FSB Report acknowledges, consideration should be given to existing regulations, the size and structure of the money market fund sector, and the different uses of money market funds by differing investors.[21] Money market funds are subject to extensive regulation in the United States under the Investment Company Act of 1940, together with the SEC's rules promulgated thereunder, as well as oversight by the SEC.

The SEC amended Rule 2a-7 in both 2010 and 2014 introducing significant structural changes, including new requirements regarding asset quality and liquidity, a floating NAV for institutional prime and institutional tax-exempt funds, a mechanism for the imposition of liquidity fees or restrictions on redemptions when funds face liquidity pressures, new requirements for board oversight, the introduction and enhancement of risk identification and monitoring through stress testing, and new disclosure changes providing investors and the SEC with more frequent and accessible information. These changes had the effect of significantly curtailing the risks that some money market funds posed during the 2008 financial crisis. As we detailed above, any vulnerabilities in either the structure of, or regulations governing, money market funds that may have become apparent from the events of March 2020 were limited to publicly offered institutional prime funds, which, largely because of the changes adopted by the SEC in 2014, now represent only a small portion of the overall industry.

As the FSB Report acknowledges, money market funds provide significant benefits to investors, the short-term funding markets and the broader economy.[22] The ongoing dialog regarding potential reform measures must account for these benefits as well as the significant

[21] FSB Report at 5.
[22] *See, e.g.,* FSB Report at 15: "By holding a variety of instruments issued by different counterparties, MMFs also offer investors more diversified credit risk exposures than uninsured bank deposits or direct investment in money market instruments." "MMFs are also an important source of short-term funding for a variety of institutions, businesses and governments, in a number of currencies."

changes to the industry and to the regulation of U.S. money market funds by the SEC through its prior 2010 and 2014 reforms. In addition, any reforms undertaken by regulators must take into consideration the differences in the stresses experienced by the various types of money market funds in 2020.

Based on these key principles, Fidelity encourages regulators to narrowly tailor any reform measures for U.S. money market funds to address vulnerabilities in publicly offered institutional prime funds based on liquidity pressures resulting from substantial institutional investor redemptions. The experiences in March 2020 demonstrated that these redemptions were driven by concerns about access to cash due to the potential imposition of redemption gates. Although redemption gates were intended to discourage or prevent significant redemptions in periods of market uncertainty, the fear of a gate being imposed served to accelerate redemptions from institutional prime funds in March 2020. Furthermore, institutional prime funds were unable to deploy much of the liquidity built into their funds because of investors' concerns with gates. While institutional prime funds now maintain significantly greater levels of liquidity because of the SEC's prior reforms, the fear of a redemption gate being applied negated the benefits such higher levels of liquidity would have otherwise provided.

By contrast, government funds experienced significant inflows while redemptions from retail prime funds were manageable and, in our experience, caused no significant concerns. Thus, we believe that government and retail prime funds should be excluded entirely from further rounds of reform.

Question 2. What policy options would be most effective in enhancing the resilience of MMFs, both within individual jurisdictions and globally, and in minimising the need for extraordinary official sector interventions in the future?

As discussed in more detail below, Fidelity believes the following reform measures, if properly calibrated, could address the remaining vulnerabilities in U.S. institutional prime funds and warrant further consideration by regulators:

- *Removal of Ties Between Regulatory Thresholds and Imposition of Fees and Gates:* In the U.S., removing the set threshold of 30% in Weekly Liquid Assets for the fund board's consideration of whether to implement fees or gates would diminish the incentive for preemptive redemptions by institutional investors and allow funds to more fully deploy their existing liquidity buffers to satisfy redemptions.

- *Countercyclical Liquidity Buffers:* This option achieves the same outcome as removing the tie between liquidity percentages and the board's consideration of fees and gates, provided that the new triggers are automatic and not based on official action from a regulator during a crisis.[23] Requiring official regulator action would spur the same redemption behavior among institutional investors as experienced in March 2020.

[23] The FSB Report includes countercyclical liquidity buffers as a variant of the option to remove the tie between liquidity thresholds and the imposition of fees and gates. (*See* FSB Report at 35.) We have called it out separately here because we believe it is a measure that warrants further consideration.

- *Limits on Eligible Assets; Higher Liquidity Percentages*: Either in combination with removing the thresholds for the imposition of fees and gates or alone, U.S. institutional prime funds could be required to maintain higher percentages of Weekly Liquid Assets, which would remove the propensity for a run to occur. We do not believe it is necessary or appropriate to limit eligible assets further or to restrict funds to only holding government securities.

By contrast, Fidelity strongly opposes the following policy options, and variants thereof presented in the FSB Report, either because the measures are unworkable or would not solve for the remaining vulnerabilities in U.S. institutional prime funds (or both):

- *Swing Pricing:* Swing pricing, which essentially operates as a redemption fee, would not impact institutional investor redemption behavior and presents serious operational obstacles that would need to be solved across the U.S. mutual fund industry broadly before swing pricing could be implemented.

- *Minimum Balance at Risk:* In addition to the significant operational and legal challenges of implementing a holdback of a portion of each investor's redemption for a period of time, this reform option would significantly alter the structure of money market funds to the detriment of funds and investors.

- *Capital Buffers and Requirements Governing Sponsor Support:* These reform options do not address the liquidity pressures (and, thus, investors' redemption patterns) that can occur in U.S. institutional prime funds because they focus on asset quality rather than liquidity. Furthermore, if buffers are funded by retaining rather than distributing income, the buffers would take a significant amount of time to accumulate and, if funded by fund sponsors, managing money market funds would no longer be economically feasible.

- *Liquidity Exchange Bank Membership:* Requiring fund sponsors or money market funds to fund and be members of a liquidity exchange bank is unnecessarily complex, economically unworkable, and would be ineffective at preventing future runs or potential government intervention; rather, this approach could create moral hazard by forcing responsible funds to insure less responsible funds.

- *Removal of Stable NAV:* The events of March 2020 demonstrated that investors in U.S. institutional prime funds prioritize access to their cash above all else and will redeem from institutional prime funds if they perceive any risk that they may lose the ability to remove their cash from these funds same day and at no cost. Floating NAVs (which were already in place for institutional prime funds) were not effective at curbing redemptions driven by market liquidity issues.

<u>Question 3</u>. How can the use of MMFs by investors for cash management purposes be reconciled with liquidity strains in underlying markets during times of stress?

As noted above, the stresses experienced by the U.S. money market fund industry in March 2020 focused primarily on liquidity pressures in institutional prime funds. In contrast, U.S. government money market funds invest in securities that are widely considered to be among the safest and most liquid investments available in all market conditions and experienced significant inflows in March 2020. Retail prime funds did experience heightened redemptions in 2020, though in our view these redemptions were manageable.

We believe that money market funds can continue to provide investors the benefits of cash management (among other investment purposes) even though liquidity strains may arise in the underlying markets in times of stress. These liquidity pressures do not imply that money market funds should not be available as a cash management vehicle. Instead, regulators can reconcile these two potentially competing factors through the adoption of prudent reform measures that properly calibrate fund liquidity across the different types of money market funds. By mandating higher liquidity buffers in certain segments of the industry, liquidity pressures in underlying markets would be less likely to translate into liquidity pressures for funds.

As we describe in further detail below, we believe that the combination of requiring higher Weekly Liquid Assets for U.S. institutional prime funds while also removing the strict tie between the 30% Weekly Liquid Asset requirement and the board's consideration of whether to impose a gate or a fee would be the most effective means for U.S. regulators to address the remaining vulnerabilities in U.S. money market funds. By requiring that institutional prime funds hold a higher percentage of Weekly Liquid Assets, these funds would be less likely to face significant liquidity pressures even if liquidity strains arise in the underlying markets for the portion of their investments held in longer-dated securities (i.e., those securities that do not qualify as Weekly Liquid Assets). In contrast, government money market funds do not require additional reforms because they already invest in securities that remain highly liquid in all market conditions.

Question 4. Does the report accurately describe the ways in which MMFs are structured, their functions for investors and borrowers, and their role in short-term funding markets across jurisdictions? Are there other aspects that the report has not considered?

We strongly agree with the many benefits of money market funds that the FSB highlights in the Report.[24] For decades, money market funds have been attractive investments due to their convenience, high credit quality, and liquidity. Money market funds are utilized by a broad spectrum of investors, from small, individual investors, to large, institutional investors. Money market funds provide millions of individual investors, including retirees, a safe way to earn income on cash awaiting further investment with low risk and low volatility. Institutional investors in money market funds include corporations, pension plans, and state and local governments. Broker-dealers, trustees, pension funds, and charitable foundations also utilize money market funds as an essential cash management tool for their customer assets. Today, while many money market funds offer a relatively low yield in the current near-zero interest rate environment, investors have maintained their investments due to the safety, flexibility, and

[24] *See, e.g.,* FSB Report at 15.

liquidity that these funds provide. Money market funds also provide investors a convenient, cost-effective cash investment option and an attractive complement to bank accounts.

We also believe that money market funds constitute a critical component of the capital markets, allowing issuers to access low-cost funding under a well-defined regulatory framework. By investing in short-term debt instruments, money market funds serve as important providers of short-term funding to financial institutions, businesses and governments. Issuers of short-term debt instruments include the federal government and its agencies, corporations, hospitals, universities, banks, and state and local governments.

Question 5. Does the report accurately describe potential MMF substitutes from the perspective of both investors and borrowers? To what extent do these substitutes differ for public debt and non-public debt MMFs? Are there other issues to consider?

We agree with the FSB Report's identification of potential destinations for assets currently invested in money market funds if regulators pursue reforms that curtail portions of the industry. That said, we caution the FSB against considering these as true substitutes for money market funds. For example, banks and money market funds are fundamentally different products. Each has its own business model, risk profile, risk management approach, and set of key constituents. We agree with the FSB Report that bank deposits "offer less diversification for large investors" than do money market fund investments.[25]

Money market reform measures that change the fundamental characteristics of money market funds could cause a significant number of retail and institutional investors to shift assets out of U.S. money market funds into banks and other short-term investment vehicles. We anticipate that this would result in even more concentration of cash in banks, which as the FSB Report notes, are discouraged in some jurisdictions from holding sizable deposits due to the impact on regulatory ratios and profitability.[26] In addition, greater bank deposits would increase the bank concentration risk for the global economy. This, of course, presumes that banks stand ready to absorb the assets that would shift out of U.S. money market funds. In the current environment, where banks are already experiencing an oversupply of reserves and are sensitive to growing deposits, this is unlikely to be the case.

Lacking access to bank deposit products, investors would be forced to look at other investment instruments that have greater risk and do not provide the same transparency and comprehensive regulatory protections as money market funds. These alternatives include investing directly in short-term instruments or certificates of deposit. A rise in direct investments of money market securities would cause short-term investors to have non-professionally managed portfolios that would be less diversified, less regulated and poorly optimized as compared to money market funds. The risk that assets will shift from more regulated jurisdictions, companies and products to those that are less regulated is widely acknowledged. The FSB Report highlights this risk in discussing the unintended consequences

[25] FSB Report at 16.
[26] *Id.*

and limited effectiveness of several proposed money market reform options, including capital requirements and redemption restrictions.

Question 6. Does the report appropriately describe the most important MMF vulnerabilities, based on experiences in 2008 and 2020? Are there other vulnerabilities to note in your jurisdiction?

The FSB Report describes a key vulnerability in money market funds: the susceptibility to "sudden and disruptive redemptions."[27] We acknowledge this vulnerability may be present in the U.S. money market fund industry, but believe that this weakness is limited to publicly offered institutional prime funds. As noted above, retail investors normally exhibit more predictable redemption behaviors than institutional investors in both normal markets and in periods of uncertainty. Retail money market fund investors are not funding business operations and, therefore, do not require frequent, large redemptions. As a result, assets in retail money market funds do not fluctuate as often as or as much as assets in institutional money market funds. Even in times of stress (such as March 2020), outflows are lower to a degree such that fund managers can manage liquidity in these funds without significant concerns. In March 2020, Fidelity and other fund managers were able to meet redemptions in the ordinary course of business and the funds were under significantly less pressure than institutional prime funds.

Institutional prime funds, however, are susceptible to significant redemptions in times of stress, which, in turn, can create liquidity pressures for these funds. As we discuss in detail above, the events of March 2020 served to expose the weaknesses in institutional prime funds. Because institutional investors use these funds as a temporary investment until such time as their assets are needed to fund business operations, these investors can and do redeem significant amounts from the funds even in normal market conditions. In times of stress, when investors are concerned with losing unrestricted access to their assets because of the potential imposition of a redemption gate, redemption activity is heightened further. Given the sharp differences between the experiences and investor characteristics of institutional prime funds on the one hand and retail prime funds on the other, in the U.S. market we believe the vulnerability described in the FSB Report is limited to institutional prime funds. Accordingly, regulators should narrowly focus reform efforts on these funds, which now represent only a small portion of the overall industry. In our view, there is little factual basis to support the application of reform measures to any U.S. money market funds other than institutional prime.

Should regulators determine that reforms for retail prime funds are warranted, though we disagree, we encourage regulators to calibrate the application of any reform measures by fund type based on the stresses that surfaced in 2020. For example, as we discuss further below, if regulators believe that required Weekly Liquid Asset percentages should be adjusted upward, we would argue that the requirements for institutional prime funds should be higher than for retail prime funds. Applying uniform requirements on institutional prime and retail prime funds could unnecessarily penalize retail prime funds, thus impeding the operations of these funds and

[27] FSB Report at 22-24.

reducing their value to investors, which in turn could negatively impact the broader markets in which the funds invest.

While the FSB Report acknowledges that any vulnerabilities are more acute for non-government or "non-public debt" funds,[28] it also claims that these vulnerabilities "may be present in public debt MMFs in some jurisdictions."[29] We strongly disagree with the notion that U.S. government money market funds are subject to the same weaknesses that may be present in institutional prime funds. In our experience, U.S. government money market funds have served as a stable, attractive investment in calm financial markets and as a safe haven in times of market uncertainty. In both 2008 and in 2020, government funds experienced significant inflows and performed well. In particular, in the U.S., the prior amendments to SEC Rule 2a-7 virtually guaranteed that these funds not only would be immune from the pressures that affected institutional prime funds in 2020, but also would be viewed as the safest, most liquid investment option for many investors. SEC Rule 2a-7 now requires that government funds invest at least 99.5 percent of their total assets in cash, U.S. government securities or fully collateralized repurchase agreements.[30] Government securities are inherently stable and are generally perceived to have the lowest credit risk and the greatest liquidity among all securities traded in U.S. debt markets. In light of the strong and consistent record of government money market funds performing well in all market conditions coupled with the robust regulatory regime already in place, the consideration of policy measures for the money market fund industry need not, and should not, include additional measures for government funds.

<u>Question 8</u>. Does the assessment framework cover all relevant aspects of the impact of MMF policy reforms on fund investors, managers/sponsors, and underlying markets? Are there other aspects to consider?

Our views on this Question are included in our response to Question 9.

<u>Question 9</u>. Are the representative policy options appropriate and sufficient to address MMF vulnerabilities? Which of these options (if any) have broad applicability across jurisdictions? Which of these options are most appropriate for public debt and nonpublic debt MMFs? Are there other policy options that should be included as representative options (in addition to or instead of the current ones)?

Before addressing the representative policy options in detail, we first reiterate our view that regulators should not consider additional reforms to U.S. government money market funds. By asking which of the options are most appropriate for public debt funds, the FSB is acknowledging that reform measures may be warranted for these funds. In the case of U.S. government money market funds, reform measures are not necessary and would likely disrupt the operations and effectiveness of these funds. As noted above, U.S. government money market funds have performed well in all market conditions and the SEC previously adopted reforms for

[28] *See, e.g.,* FSB Report at 22 and 24.
[29] *Id*. at 22.
[30] SEC Rule 2a-7(a)(14). The definition of a government security is set forth in Section 2(a)(16) of the Investment Company Act of 1940.

these funds that, in our view, have insulated these funds effectively from the pressures that other segments of the industry may experience from time to time.

Reform Measures that May Successfully Address 2020 Liquidity Pressures

In this section, we discuss the reform options that are intended to manage potential liquidity concerns, which if constructed properly, have the potential to solve the structural vulnerability in U.S. institutional prime funds that became apparent in March 2020 and warrant further consideration.

1. Removal of Ties between Regulatory Thresholds and Imposition of Fees and Gates

As discussed above, the events of March 2020 brought to light one area of vulnerability in the structure and regulation of U.S. money market funds. The strict requirement in SEC Rule 2a-7 for boards of institutional prime funds to consider whether to impose a redemption gate when Weekly Liquid Assets fall below 30 percent served to accelerate net outflows from these funds as Weekly Liquid Asset percentages (which began the month in the 35 to 40 percent range for most of the industry) started to decline. The concern among investors in institutional prime funds about losing unfettered access to their operating cash had the unintended effect of contributing to the very liquidity pressures that the fee and gate provisions in SEC Rule 2a-7 were originally intended to solve.

To eliminate this structural vulnerability as well as reduce the pressures that institutional prime funds can place on the short-term funding markets and the likelihood of government intervention in the future, we support removing the enumerated Weekly Liquid Asset thresholds for the consideration and imposition of fees and gates. In our experience, institutional prime funds currently lose any benefit from investing roughly 30 percent of their holdings in Weekly Liquid Assets – this threshold essentially becomes a floor rather than a buffer.

We agree with the FSB that removal of this linkage may make fund managers more willing to use their Weekly Liquid Asset buffers to meet redemptions, reducing the need to sell less liquid assets.[31] Already, investment advisers are compelled to manage institutional prime funds with some buffer above the 30 percent threshold. As noted above, for most institutional prime funds this is normally in the range of 35 to 40 percent, while at Fidelity it was consistently above 45 percent. Investment advisers view this additional buffer as the true liquidity available to fund redemptions. Removing the set thresholds would provide investment advisers the flexibility to deploy more effectively the significant amount of liquidity built into their holdings that qualify as Weekly Liquid Assets.

By not having such a set threshold, especially for the board's consideration of whether to impose a redemption gate, investors will no longer feel compelled to exit the fund preemptively at the first sign that a fund's Weekly Liquid Assets are beginning to decline. Because the current 30 percent threshold serves as such a seminal marker for institutional prime fund investors, it drives redemption behavior in a manner that, as we witnessed in 2020, can create liquidity

[31] FSB Report at 34.

pressures in these funds. Removing the link between the 30 percent threshold and the redemption gate would reduce the importance of the threshold as a factor in driving investor redemption patterns.

In the Report, the FSB discusses possible variants to the option of removing the tie between regulatory thresholds and the imposition of fees and gates, including requiring funds to obtain permission from regulators before implementing a fee or a gate as well as countercyclical liquidity buffers in which liquidity buffer requirements would be lower in times of stress. Requiring money market funds to obtain regulatory approval before implementing a fee or gate would not reduce the incentive by investors to redeem from institutional prime funds in times of market uncertainty. As noted above, these investors redeem when faced with the possibility of losing access to their assets through the possible imposition of a gate. It is the uncertainty regarding whether a gate will be imposed that, in our view, drove the redemption patterns in March 2020. We agree with the FSB that requiring regulatory approval introduces another form of uncertainty for these investors.[32] In times of market stress, investors will not know whether the fund is or is not seeking approval to implement a fee or a gate. Even if investors were aware that a request had been made, investors likely could not predict whether such approval would be granted by the regulators. This uncertainty would not reduce the propensity for investors to redeem from institutional prime funds in stressed market conditions and, instead, likely would encourage greater redemptions because of the heightened uncertainties regarding the possibility of a redemption gate.

With a countercyclical liquidity buffer, minimum liquidity requirements could decrease during periods of high net outflows or when the authorities provide temporary relief. As discussed above, the potential for a redemption gate to be imposed, even if remote, served as an accelerant of outflows from U.S. institutional prime funds in March 2020. By lessening the strict application of the 30 percent threshold in certain circumstances, such a proposal could lessen the propensity of institutional investors to redeem from prime funds when Weekly Liquid Asset percentages begin to decline.

In our view, this is an alternative means of seeking the same outcome that the proposal to remove the direct link between liquidity percentages and the board's consideration of fees and gates is intended to achieve. In both cases, the proposals could reduce the salience of the 30 percent Weekly Liquid Asset threshold and improve funds' ability to deploy liquid assets when needed. In addition, because a countercyclical Weekly Liquid Asset requirement is in principle intended to address the liquidity concerns that were the central factor in the stresses experienced in March 2020, we believe that the proposal deserves further consideration.

In analyzing the potential details of such a proposal, we caution regulators against proposing bright line triggering events for when the Weekly Liquid Asset requirements would decrease. Such triggers run the risk of recreating the same structural vulnerability and run dynamics that currently exist in U.S. institutional prime funds because of the 30 percent threshold for a board's consideration of fees and gates. For example, we would object to this

[32] FSB Report at 35.

proposal if the reduction in the Weekly Liquid Asset requirement is not automatic and instead is based on official regulatory action. We agree with the FSB that "requiring permission from the authorities could add further uncertainty regarding the activation of fees and gates and create operational and reputational risk for authorities."[33] To illustrate, if the SEC were to adjust the Weekly Liquid Asset requirement downward, such a move could signal to investors that the SEC is concerned about redemptions, which itself likely would serve as a triggering event for redemptions. In addition, if Weekly Liquid Assets begin to decline, institutional investors may immediately begin redeeming from prime funds out of a concern about *whether* the SEC will reduce the Weekly Liquid Asset requirements or not. Rather than accept the risk that the SEC does not take action, these investors may simply redeem as Weekly Liquid Assets start to decline. If so, then the proposal would not solve the structural vulnerability in U.S. institutional prime funds that became apparent in March 2020.

2. Limits on Eligible Assets; Higher Liquidity Percentages

The FSB Report includes a policy option in which eligible assets for money market funds would be restricted coupled with a requirement to "invest a higher portion of their assets in shorter dated and/or more liquid instruments."[34] The FSB also describes a variant of this approach in which all money market funds could only hold public debt instruments, effectively eliminating all money market funds other than government funds.[35] We note that in the U.S., a limit on eligible assets would be an extension of the limits already included in SEC Rule 2a-7, which currently restricts the types of assets in which funds can invest. While we agree that certain U.S. money market funds should be required to hold higher percentages of shorter-dated instruments, we do not think it is necessary or appropriate to place further limits on eligible assets or to restrict all money market funds to only holding government securities. In the U.S., retail prime, institutional prime and tax-exempt funds remain important components of the short-term funding markets and continue to provide value to investors. As noted above, these funds remain important sources of funding to corporations, hospitals, universities, banks, and state and local governments. Further restricting or eliminating funding by U.S. money market funds would be detrimental to these entities.

The second component of this option in which money market funds would be required to hold a higher percentage of their assets in shorter dated and/or more liquid investments warrants further consideration. In particular, we believe the most effective reforms for the U.S. market would be to combine a new mandate that U.S. institutional prime funds maintain higher percentages of Weekly Liquid Assets with the elimination of the strict tie between Weekly Liquid Asset percentages and the board's consideration of fees and gates. This combination of reforms to the regulation of institutional prime funds would most effectively meet the goals of eliminating structural vulnerabilities in money market funds, improving the resilience of the short-term funding markets and reducing the likelihood of government intervention in the future.

[33] FSB Report at 35.
[34] *Id*. at 37.
[35] *Id*.

Removing the threshold for the board's consideration of fees and gates while also raising the percentage of Weekly Liquid Assets that funds are required to maintain could reduce significantly the risk that institutional prime fund investors will redeem en masse in times of market uncertainty to ensure unfettered access to their cash. While we acknowledge that further analysis is needed on the precise level of Weekly Liquid Assets that institutional prime funds should be required to maintain, in our view, the level can be set in such a fashion that curtails the incentive for institutional investors to redeem in times of market uncertainty.

If regulators do not remove the tie between liquidity percentages and the board's consideration of fees and gates, we nonetheless believe that higher Weekly Liquid Asset requirements could be effective for U.S. institutional prime funds. In such a scenario, however, it is imperative that they not merely raise the threshold for the board's consideration of a fee or gate from 30 percent to the new higher level. Such a change would perpetuate, rather than solve, the structural vulnerability in institutional prime funds that became apparent in 2020. Institutional investors would have the same incentives to redeem from prime funds at the first sign that a redemption gate could be imposed, just at that higher level. Instead, in the case of U.S. money market funds, if the SEC maintains the 30 percent threshold for the board's consideration of fees and gates, the new, higher requirement for Weekly Liquid Assets should be in addition to the existing requirements in SEC Rule 2a-7. In effect, the new higher level would create, by regulation, a buffer above the 30 percent threshold.

As discussed in detail above, the stresses experienced by the U.S. money market fund industry were concentrated in institutional prime funds and we disagree with the contention that reforms are needed for retail prime funds. That said, if higher Weekly Liquid Asset requirements are mandated for both institutional prime and retail prime funds, we urge that the new percentages be calibrated by fund type. Based on the redemption behaviors of investors in both calm markets and in times of market uncertainty (most notably, March 2020) as well as the inherent differences in how retail and institutional investors view their money market fund investments, the requirements for institutional prime funds should be higher than for retail prime funds. We strongly encourage regulators not to impose the same higher percentage in a uniform manner on each of the two types of funds. Depending on the percentage chosen, such an approach could either impose a requirement on institutional prime funds that would be too low and insufficient to alleviate the stresses that institutional prime funds experienced in March 2020 or require retail prime funds to maintain unnecessarily high levels of Weekly Liquid Assets (i.e., a level sufficient to solve vulnerabilities in institutional prime funds).

The FSB Report includes differential liquidity requirements as a variant to the option of limits on eligible assets.[36] We agree that differential requirements would be appropriate provided they are uniform for all funds of a similar type (e.g., all institutional prime funds, all retail prime funds). The Report also suggests, however, that liquidity requirements could be different for each individual fund, such as requirements based on a fund's investor base or the outcome of fund specific stress tests.[37] While we support varying liquidity requirements for U.S.

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[36] FSB Report at 37.
[37] *Id*.

institutional prime funds versus U.S. retail prime funds, we do not support idiosyncratic requirements by fund. We believe that the competitive marketplace for money market funds would operate more effectively if the same liquidity requirements apply to all funds of a similar type (i.e., all U.S. institutional prime funds). Moreover, imposing varying liquidity requirements by fund would lead to investor confusion, which could potentially amplify redemptions. For example, as noted above, Fidelity normally maintained over 45 percent in Weekly Liquid Assets in our two institutional prime funds while most competitor funds maintained lower percentages. If regulators adopted idiosyncratic liquidity requirements, investors may misinterpret higher liquidity percentages in a particular fund as an indication that regulators consider the fund inherently riskier, even if the fund voluntarily maintained the higher percentages for prudent investment management reasons rather than required by rule.

Reform Measures that are Unworkable and/or have No Applicability to Events of March 2020

The below reform options discussed in the FSB Report either are unworkable for a variety of reasons or would not solve for the liquidity-related vulnerabilities in institutional prime funds that manifested themselves in March 2020. We strongly encourage regulators to discard each of these potential measures from further consideration, as discussed in more detail below:

- Swing Pricing
- Minimum Balance at Risk
- Capital Buffers and Sponsor Support
- Require Liquidity Exchange Bank Membership
- Removal of Stable NAV

1. Swing Pricing

The FSB Report identifies as a potential reform option for money market funds the use of swing pricing, a process of adjusting the fund's NAV to pass on to purchasing or redeeming investors certain of the costs associated with their trading activity.[38] Under swing pricing, a fund would adjust its NAV per share by a "swing factor" once the level of net purchases into, or net redemptions from, the fund exceeds a predetermined swing threshold. On a day when there are net redemptions from a fund, the NAV would be swung down to reflect transaction costs associated with trading activity, resulting in redeeming investors receiving a lower NAV.

Fidelity does not believe that the application of swing pricing to U.S. money market funds would have reduced or eliminated redemption activity during the events of March 2020 because (i) shareholders are not motivated to redeem out of a concern with the dilutive costs of redemptions by other shareholders (the theory underlying swing pricing); and (ii) even if shareholders were motivated in this fashion, a fund's NAV would never swing sufficiently to alter shareholder redemption behavior, as we demonstrate below.

[38] FSB Report at 28.

As discussed throughout our letter, consideration of any potential reform option must begin with an assessment of its effectiveness in addressing the liquidity related stresses that occurred in March 2020. The FSB Report theorizes that by internalizing the costs of redemptions, swing pricing will reduce or eliminate the first mover advantage for redeeming investors.[39] The Report postulates that a first mover advantage exists because investors can redeem at no cost, "even when market liquidity is otherwise scare and costly."[40] In other words, an investor will choose to redeem early once liquidity pressures arise in the market out of a concern that, if the investor does not redeem, that investor will be left bearing the costs imposed on the fund when others redeem. To avoid facing the dilutive costs that redemptions by other investors could generate, so the theory goes, an investor is compelled to redeem first.

This notion of a first-mover advantage is inherently flawed because it is based on a misunderstanding of the motivations that drive investor behavior and because the dilutive costs of investor behavior in money market funds are insignificant. In our experience managing a wide array of U.S. money market funds for more than 45 years and interacting directly with investors through our broad and extensive distribution businesses, investors in U.S. money market funds are not motivated to redeem by the potential for bearing a portion of the costs that others' redemption behavior may impose on the fund. This is simply not an impetus that drives investors' redemption behavior. Instead, investors redeem for a variety of other reasons, such as needing to deploy their assets for other uses or adjusting their investment portfolios based on changes in circumstances or risk tolerances. As discussed in detail above, in the stressed conditions of March 2020, investors in U.S. institutional prime funds redeemed in order to protect access to their assets rather than face the prospect of a redemption gate. In our vast experience managing money market funds, to our knowledge shareholders have never been motivated by a desire to avoid the dilutive impact of redemptions by others.

It is understandable why this motivation has not existed given that transaction costs for generating liquidity in money market funds are miniscule. In normal market conditions, money market funds rarely incur costs when satisfying redemptions. Even in institutional prime funds, where redemptions tend to be more significant than for other types of U.S. money market funds, redemptions can normally be met with cash on hand or by the proceeds of securities maturing within the next business day. Even in periods of stress, we do not believe that the swing factor would move the NAV by an amount sufficient to deter redemptions. The events of March 2020 demonstrated that institutional investors prioritize access to cash over all else. This was reflected in the rapid shift of assets from institutional prime funds to government funds stemming from concerns over potential gates. Imposition of an additional, relatively insignificant fee would not have been effective in slowing or eliminating redemptions by these same investors.[41]

[39] FSB Report at 29.
[40] *Id*. at 28.
[41] The FSB Report acknowledges this limitation ("…these costs may not be sufficient to dissuade investors from redeeming in a liquidity shock where cash needs are primary"); FSB Report at 29.

To prove this, Fidelity calculated what a hypothetical swing factor would have been for three Fidelity money market funds in March 2020 based on bid-ask spreads.[42] While we note that retail prime and retail tax-exempt funds currently transact at a stable $1.00 NAV, we conducted our analysis for these funds based on a floating, market-based NAV with four decimals, similar to the manner in which investors in institutional prime funds transact. We compared bid, mid and ask prices for every security in each fund for each business day in March 2020. We note that, for each day, the analysis assumed that a pro-rata slice of the full portfolio is liquidated to satisfy redemptions.

Currently, Fidelity and many other U.S. fund complexes value the securities held in money market and bond funds for purposes of computing fund NAVs at the bid price of the securities. We understand that fund complexes in Europe currently employ swing pricing in non-money market funds, such as bond funds, and that such fund complexes normally price securities at the mid price. In that context, on days when large redemptions require the application of swing pricing, such funds can, in essence, move down to the bid price when swinging the NAV. For Fidelity and many other U.S. fund managers, such a move is not possible. Because we already price securities in money market and bond funds at the bid price, accounting for bid-ask spreads when calculating the swing factor will not result in a downward movement of the fund's NAV on days when swing pricing is to be applied. For purposes of our analysis, we assumed hypothetically that Fidelity values securities at the mid price following the European model for bond funds.

Our analysis demonstrates that even on the most volatile market days, the swing factor would have adjusted the market-based NAVs by at most $0.0001. Furthermore, this insignificant adjustment to the fund's NAV would only have occurred on certain days in the month. In our view, this insignificant and immaterial move in the NAV would not have caused investors to alter their redemption behaviors. It is important to consider too that March 2020 represented the most significant market dislocation since 2008. If NAVs would adjust by such an inconsequential amount during a period of considerable market stress, we fail to see how it would ever be effective in solving for the supposed first mover advantage.

Perhaps recognizing that swing factors will rarely if ever be sufficient to alter investment behavior, the FSB Report notes that regulators could mandate a minimum swing factor in periods of crisis.[43] If we assume that regulators adopt swing pricing rules in a manner that requires funds to adequately account for the full dilutive costs of redemptions on funds, we question why regulators would then need to override that framework in periods of stress. In our view, this variation on swing pricing is not intended to ensure that redeeming investors bear the costs of their redemptions, but instead would serve as a minimum redemption fee that regulators require money market funds to impose during stressed conditions. A government-imposed swing factor

[42] As noted below, the SEC previously adopted optional swing pricing for non-money market U.S. mutual funds. The SEC allows funds to take into consideration the near-term costs on the day the NAV is swung, including spread costs, transaction fees and the costs of borrowing to satisfy redemptions. (SEC Rule 22c-1(a)(3)(i)(C).) We note that for U.S. money market funds, transaction fees are negligible, and funds generally do not borrow to satisfy redemptions.

[43] FSB Report at 30.

also assumes that all funds are experiencing similar stresses, when in fact they may have more than ample liquidity. Not only is this contrary to how U.S. money market funds operate today, but it invites moral hazard. As we note in our discussion above on countercyclical liquidity buffers, reform measures that are dependent on actions being taken by regulators during a crisis create uncertainty among investors which, in turn, serves as an impetus for preemptive redemptions rather than a deterrent. We agree with the FSB Report that the potential for intervention by regulators in periods of stress can spur redemptions if "investors anticipate that authorities would require activation of swing pricing for all MMFs."[44] If investors become concerned that regulators may impose a redemption fee as market conditions begin to deteriorate, investors will respond by redeeming rather than facing the risk of the fee being imposed.

The FSB Report itself cites challenges to swing pricing that preclude its further consideration as a reform option, including the inability to design and calibrate an effective swing pricing mechanism acknowledging that, "evidence suggests that without guidance or requirements from authorities, fund managers may implement swing pricing inadequately or may not use it."[45] The FSB also acknowledges the operational issues for money market funds that offer same day settlement or multiple NAV strikes per day, and the risk that fund managers/sponsors may determine that implementation is too costly and therefore exit the sector.[46] For many of the same reasons, the SEC previously declined to permit the use of swing pricing for U.S. money market funds, while making it optional for other mutual funds.[47] In its Swing Pricing Adopting Release, the SEC reasoned that money market funds' already extensive liquidity requirements and ability to impose a liquidity fee for redemptions "serve a similar purpose as the NAV adjustments contemplated by swing pricing."[48] These liquidity requirements, the SEC concluded "could accomplish comparable goals to swing pricing" and are a "more appropriate tool for money market funds to manage the allocation of liquidity costs than swing pricing."[49]

At the time, the SEC decided to make swing pricing optional for mutual funds (other than money market funds) and provided a two-year extended effective date due to the lack of existing infrastructure and substantial operational challenges that made mandatory adoption virtually impossible.[50] Nothing has changed in the intervening years to address, or remove, the obstacles to using swing pricing for U.S. mutual funds. Tellingly, we are not aware of any large fund

[44] FSB Report at 51.
[45] *Id.* at 29.
[46] *Id*.
[47] *Investment Company Swing Pricing*, Release Nos. 33-10234, IC-32316, 81 FR 82084, at 25 (Nov. 18, 2016), available at https://www.sec.gov/rules/final/2016/33-10234.pdf ("Swing Pricing Adopting Release") (permitting mutual funds, except money market funds and ETFs, to use "swing pricing" under Rule 22c-1 under the Investment Company Act of 1940).
[48] Swing Pricing Adopting Release at 24.
[49] *Id.*
[50] *See id*. 61-62 ("The Commission acknowledges the operational challenges noted by commenters that will need to be addressed by industry participants. Because of these concerns, we believe the adoption of swing pricing in the U.S. as a new (optional) anti-dilution tool will likely require considerable lead time for many funds that will need to coordinate and implement the necessary operational changes with intermediaries and service providers in order to effectively conduct swing pricing for new or existing funds. Additionally, as noted by commenters, we understand that certain funds, intermediaries and service providers may incur substantial costs in doing so.").

sponsor who has adopted swing pricing for use solely in the United States. This impediment, we believe, continues to make mandatory swing pricing for *any* open-end mutual fund in the United States, including money market funds, untenable.

The predicate for using swing pricing, and the fundamental challenge with implementing it in the United States, is the inability of fund complexes to receive and review complete daily investor flow information in sufficient time to know, or make reasonable high confidence estimates of, investor activity to determine if a fund's NAV should be swung. This limitation is primarily attributed to the existing complex and multifaceted system that exists for mutual fund processing, a sizable portion of which is done through intermediaries in the United States.

The calculation of a fund's NAV is a rigorous process that takes place in a short time frame typically at the end of the day. In practice, funds typically cut off investor subscription and redemption orders, value portfolio securities and calculate their NAVs as of the close of the New York Stock Exchange, normally 4 p.m. Eastern Time (ET).[51] Once calculated fund NAVs are then disseminated through a variety of methods to the fund's transfer agent, intermediary distribution partners, media outlets, and investors, ordinarily between 6:00 p.m. and 8:00 p.m. ET. Fidelity generally strives to finalize fund NAV calculations by the 6:05 p.m. ET media deadline in order to enable prompt and complete publication in newspapers and on financial websites. To adopt swing pricing a fund would need to obtain timely and reasonably accurate daily investor subscription and redemption information in order to determine if its swing threshold had been breached and if a NAV adjustment was to be made. Notwithstanding changes to the funds' NAV calculation and dissemination times, this investor flow information would need to be received daily between 4:00 p.m. and 6:00 p.m. ET.

While a subset of the Fidelity funds' trade records are kept directly on Fidelity's own platforms, Fidelity, and much of the industry in the United States, also use intermediaries extensively to support the distribution of the funds. Intermediaries such as broker-dealers, retirement plan recordkeepers, fund supermarkets, and financial advisers, are essential to the distribution of mutual funds in the U.S. and are the mechanism by which most retail investors buy and sell funds. Intermediaries are generally independent from the mutual funds they sell and aside from any contractual obligations related to selling fund shares, the intermediary determines its own operating model, processing routines and technology systems.

In the United States, intermediaries are not required to provide the fund's transfer agent with their net/gross activity, by the time the fund's NAV is calculated, provided they follow certain guidelines outlined within the "forward pricing" rule (Rule 22c-1 of the Investment Company Act of 1940). In practice, most fund orders managed through intermediaries are transmitted through the Fund/SERV® processing utility administered by DTCC's National Securities Clearing Corporation. Fund orders transmitted through this channel are not required to be transmitted to the transfer agent until 8:30 p.m. ET. Beyond that, retirement recordkeeping systems are not currently configured to create fund orders until they receive a fund's NAV. This

[51] The FSB identifies an additional disadvantage exists for those money market funds that offer same day settlement and strike their NAV more than once per day (to allow intraday purchases and redemptions for any orders received prior to a given NAV strike). FSB Report at 29.

sequence of events creates a problematic circular dependency given that funds who adopt swing pricing will require the investor orders (or reliable estimates) to determine their NAV. In current practice, this retirement account activity is executed overnight through DTCC's Defined Contribution Clearance & Settlement service and communicated to the funds' transfer agents thereafter. For these reasons, in today's operating environment, a significant portion of the fund's actual investor orders cannot be known within the timeframe that a fund's swing pricing operation would be conducted.

A subset of mutual fund advisors have voiced support for adopting swing pricing for mutual funds[52] in the United States, largely due to their use of swing pricing in Europe (and thus ability to leverage pre-existing systems), and their lack of reliance on intermediaries for distribution. There are fundamental differences between fund operations in the U.S. and Europe that do not allow swing pricing to serve as a one-size-fits-all approach. These differences include earlier trading cut-off times, the greater use of currency-based orders (compared to the prevalence of share or percentage based transactions in the U.S., which contributes to confidence in the accuracy of fund flow details), and a higher portion of direct-sold funds in Europe.

In light of the ineffectiveness of the application of swing pricing to money market funds, due to the negligible impact of transaction costs resulting from redemptions from these funds, together with the operational hurdles that require broad industry reforms, Fidelity strongly opposes the pursuit of mandated swing pricing for U.S. money market funds and other mutual funds.

2. Minimum Balance at Risk

Fidelity also strongly opposes policy measures implementing a minimum balance at risk (MBR) requirement, which is essentially a continuous redemption restriction. The FSB Report correctly identifies the fatal flaws of an MBR, which include "significant operational adjustments" for funds, intermediaries, and service providers due to the need to convert existing systems to calculate, restrict, and holdback the MBR, inequitable treatment for investors in stable NAV and floating NAV funds, calibration challenges, and investor confusion. We also believe that application of an MBR requirement to money market funds will alter the product significantly, "diminishing their attractiveness for cash management by making MMF shares less liquid" and drive investors and intermediaries away from money market funds to unregulated or less-regulated investment options or "concentrate that participation among fewer MMF managers," causing disruption to the short-term financing markets -- making funding sources for borrowers "less diverse and more costly." [53]

There are serious accounting, operational and legal challenges to implementing an MBR-type mechanism that extend beyond the control of money market funds to intermediaries and service providers who would need to undertake intricate and costly system changes to be able to calculate, restrict, and holdback the portion of an investor's shares to comply with the MBR. We

[52] Notably, many of the supporters of swing pricing for mutual funds oppose its use for money market funds for many of the same reasons we note above.
[53] FSB Report at 31.

agree with the FSB that "the effect on accounting treatment requires further exploration, particularly as it may play an important role in whether investors continue to use MMFs as a cash management tool." The exorbitant costs associated with the operational and technology changes required under the MBR approach would discourage fund sponsors, intermediaries, and service providers from remaining in the money market fund business and would drive investors to other products that do not impose continuous redemption restrictions.[54] The MBR framework poses particular challenges for intermediaries that establish omnibus accounts for underlying investors in money market funds, including banks, broker-dealers, trust companies, and retirement plan sponsors. In these cases, the allocation of shares and trades across underlying investors is not always transparent or available to the fund, creating additional obstacles to reporting the size and balance of MBRs to the underlying investor.[55] The FSB Report also identifies potential legal impediments to enacting an MBR requirement, including state law limitations on allocating losses to different shares within a single share class. [56]

The significant obstacles detailed above far outweigh any purported benefits that an MBR requirement would provide. The FSB does not offer any data or analysis to support the theory that "the MBR could materially reduce the first mover advantage from potential losses in a MMF because investors remaining in that fund would no longer bear losses disproportionally" and will face a "trade-off between liquidity and capital preservation."[57] To the contrary, the FSB Report acknowledges that the MBR "would be unlikely to prevent large redemptions due to an aggregate increase in the demand for liquidity" and its "effectiveness could be diminished if parameters are not set appropriately."[58] Further, *assuming* that an effective MBR requirement could be determined, and *assuming* that the overwhelming operational challenges could be overcome, whether an investor would even understand the functioning of the MBR for it to achieve its purported goals is uncertain at best. Indeed, the FSB Report recognizes that the MBR's novelty "may result in investor confusion or unease, particularly when it is first introduced."[59]

Enacting an MBR requirement will alter significantly one of the simplest and well understood financial products available today and result in unintended consequences for the product and potentially the short-term funding markets more broadly. Rather than limiting redemptions, investors will arguably be more likely to redeem in times of stress in order to avoid the draconian impact of the MBR. Or they will invest less or stop investing altogether in money market funds, in favor of other products where their investment is not "locked up" in stable or

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[54] The FSB Report discusses a measure in which shareholders could redeem only a portion of their redemption request on a particular day with the size of the portion determined by the liquidity of the fund. While the Report includes this as a variant to the limits on eligible assets, we view it as a variant to a minimum balance at risk because, in both cases, an investor's redemption is only met partially on the day the redemption is made. (*See* FSB Report at 38.) This option, which the Report labels "liquidity-based redemption deferrals," would share many of the same operational challenges that preclude a minimum balance at risk from serving as an effective reform option.
[55] *Id.* at 31.
[56] *Id.* ("In some jurisdictions, subordinating MBR shares to other shares in the fund may create the need to convert existing MMF shares or issue new subordinated shares because of restrictions on allocating losses to a subset of shares in a single class.")
[57] *Id.*
[58] *Id.*
[59] *Id*.

stressed times. Neither of these results effectively advance the overarching goals for money market reform and therefore weigh strongly against an MBR requirement.

3. Capital Buffers and Sponsor Support

The FSB Report suggests options such as capital buffers (structured in a variety of ways) or explicit sponsor support as potential resources to supply liquidity or absorb losses and fluctuations in the value of a money market fund's portfolio in the event of stress.[60] While these options may create loss absorption capacity and a loss sharing mechanism for fluctuations in the value of assets as a result of asset quality or credit events in the financial markets, these options do not address the management of liquidity pressures and would not have remedied the issues experienced by a subset of money market funds in March 2020.[61] These reform options would also alter fundamentally the money market fund model by requiring fund families to provide a level of insurance on the funds they manage – a concept that is counterintuitive to the structure of mutual funds, including money market funds, whereby fund investors and not fund sponsors, own the funds they invest in and share in the risks and rewards of the securities held by the fund.

Capital buffers and sponsor support, which is proposed as a variant option, are simply not economically feasible for sponsors of money market funds (including large sponsors). Money market funds are already a low revenue business for fund sponsors, in comparison to other investment products. Requiring sponsors to take on a financial burden to support these types of funds will likely result in fund sponsors limiting, or exiting altogether from, these products, which would be detrimental to investors and the capital markets by forcing investors to less regulated products and reducing the availability of money market funds as funding sources. The FSB acknowledges that sizable capital buffers "would make it costlier to operate MMFs," challenging to calibrate and define "the events in which it would absorb losses," and take substantial time to build to adequate levels, particularly in a low interest rate environment.[62] While in theory, advisers could seek to pass along to investors the cost of providing a capital buffer to absorb investment risks (with the approval of investors in the funds), in a very low interest rate environment, doing so would raise fund expense ratios, dropping net returns below zero, thus making the product unattractive for both investors and sponsors.[63] The FSB also acknowledges that capital buffers, however structured, would be complex,[64] which would place a further drag on a fund's yield, and could unfairly disadvantage current investors, who would

[60] FSB Report at 32-33 and 52-54.
[61] *Id*. at 32 ("A capital buffer would not mitigate incentives to redeem or inhibit large redemptions that stem from an aggregate increase in the demand for liquidity.")
[62] *Id.*
[63] Particularly in the current very low interest rate environment where advisors are already waiving, voluntarily, billions of dollars in fees to maintain positive yield in the money market funds, adding additional costs that would serve to reduce yield is ill-advised.
[64] FSB Report at 32. ("Buffer size is important, as concerns that a buffer is too small to absorb potential losses could trigger pre-emptive redemptions by investors who wish to exit the fund before the buffer is depleted.")

disproportionately bear the negative impacts of the capital buffer while it is being created, for the benefit of future investors.[65]

In any case, we do not believe that capital buffers or sponsor support affect investor behavior resulting from a drive for liquidity rather than credit or asset quality concerns in funds. As discussed above, in times of market stress, as borne out in March 2020, institutional investors shift their assets from institutional prime funds into government funds to preserve their unfettered access to cash when needed, and are willing to forego the slight yield advantage of a prime fund to ensure they can access their cash when needed to fund business operations. Capital buffers would not have prevented or reduced in any way the wave of redemptions from U.S. institutional prime funds in March 2020 because, as noted above, these investors were not concerned about asset quality but rather the potential for losing access to their cash because of redemption gates being applied. The extra amount of capital that a buffer would provide has no bearing on the liquidity available in a fund to meet redemptions.

Furthermore, even if the events of March 2020 had involved asset quality issues, U.S. institutional prime funds already operate with a floating NAV, which effectively addresses asset quality in a manner analogous to capital buffers. A capital buffer is intended to provide a cushion against a stable NAV fund breaking the buck when the fund's underlying market value NAV begins to deteriorate because of asset quality issues. As the value of the securities in a fund declines, the buffer (in theory at least) serves to delay or prevent the fund's NAV from decreasing to the point that the fund can no longer maintain the stable NAV. In an institutional prime fund, however, investors routinely experience fluctuations in a fund's NAV driven by changes in the valuation of the fund's holdings. By investing in the fund, these investors have already accepted the risk of NAV fluctuations, which are a normal, daily occurrence. When decreases in the NAV of a floating NAV fund occur, the investor is experiencing a deterioration in the investor's capital in that fund. In addition to the significant challenges detailed above, there would be no reason to require a capital buffer for institutional prime funds in order to prevent NAV fluctuations and such a buffer would have no bearing whatsoever on whether investors redeem because of rising concerns with a fund's liquidity.

The FSB Report proposes another variant for external liquidity support through a liquidity exchange bank ("LEB") that would be structured as a commercial bank, funded by money market funds or other "stakeholders."[66] The LEB would purport to serve as a source of external liquidity support during periods of market stress and stand ready to purchase eligible instruments from money market funds at fair value. Although the objective of this reform option is to address liquidity challenges experienced by some money market funds during periods of market stress, the proposal is an unnecessarily complex and costly means to provide additional liquidity to funds. We strongly agree with the FSB's acknowledgement that this option is

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[65] FSB Report at 32. ("because the cost of providing such a buffer is likely to reduce net yields of MMFs, a capital buffer may reduce demand for MMFs among yield-sensitive investors and cause growth in potential MMF substitutes, especially those that pay higher yields"). Depending on how the capital buffer is structured (whether as sponsor-provided capital or as a subordinated share class which requires shareholder approval to enact), there are potentially a host of other accounting, administrative, tax and legal issues that fund sponsors and investors may face.
[66] *Id*. at 33 and 53.

"untested" and gives rise to moral hazard.[67] In addition, policy makers have acknowledged in prior rounds of money market fund reform the many challenges with establishing an effective LEB, which ultimately makes such a proposal unworkable.[68]

The FSB also noted and agreed with the PWG's assessment that "an LEB would face considerable legal obstacles in the US." Even worse, a LEB's reported lack of capacity could serve to accelerate runs, thereby undercutting the goals for reform.[69] If investors in U.S. institutional prime funds in particular perceive any risk that the resources available for the LEB to deploy are insufficient, there is little incentive for those investors to remain in prime funds as Weekly Liquid Assets begin to decline. We anticipate that these investors will not accept this risk and, as they did in March 2020, will instead shift their investments into government funds.

4. Removal of Stable NAV

The FSB Report includes the elimination of the stable NAV as a possible reform option. In the U.S., institutional prime funds already transact at the floating NAV and, thus, eliminating the stable NAV would most likely apply to retail prime funds.[70] As detailed above, Fidelity strongly urges that any reform efforts in the United States pursue a narrowly tailored approach to address a clearly defined problem, namely, the structural vulnerabilities in institutional prime funds posed by the current fee and gate thresholds in SEC Rule 2a-7. Expanding floating NAVs for all U.S. prime funds would introduce unnecessary reforms for a sector of the market that, in our view, does not require further regulation.

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[67] FSB Report at 33. (e.g. "the business model of an LEB is untested. If it relies on access to central bank support as part of its business model, the LEB would give rise to concerns that it formalises central bank backstops and institutionalises moral hazard.")

[68] *See, e.g.,* PWG Report at 32-33 ("The LEB would need significant capital to both be in a position to provide meaningful liquidity for MMFs in stress events and be seen as a credible liquidity backstop. Building adequate capacity from MMF income could take several years, particularly in a low interest rate environment. Moreover, the need to comply with applicable leverage-based capital requirements on a continuous basis – even during periods of peak usage under stress – could render the LEB's lending capacity insufficiently robust in extremis."); Money Market Fund Systemic Risk Analysis and Reform Options Consultation Report, Technical Committee of the International Organization of Securities Commissions, 27 April 2012, at 32, available at https://www.iosco.org/library/pubdocs/pdf/IOSCOPD379.pdf. (noting "the attendant challenges with establishing an effective facility may render the option unworkable. …for a liquidity facility to be effective, its structure and operations would have to be carefully designed to ensure that the facility has sufficient capacity during a crisis and that the facility itself is not vulnerable to runs. A depleted facility could trigger or amplify a run on MMFs. Sufficient capacity likely would only be possible through discount window access, as the MMF industry may not be able to raise sufficient capital without undue leverage. However, discount window access may raise complicated policy considerations."); and the FSB Report at 54 ("This option likely would face significant operational, governance, and legal hurdles. Prior proposals have envisioned complex setup procedures and challenges around governance arrangements and oversight.")

[69] FSB Report at 54. ("In addition, depending on how the LEB would be allowed to support MMFs in episodes of stress, its operations could lead to a shift of risks from MMF investors (and sponsors) to the LEB, which would be a leveraged financial institution, and this could increase risks to financial stability outside the MMF industry").

[70] In the United States, we are not aware of any serious consideration of a floating NAV for government money market funds. We strongly agree that such funds are not in need of further reform and that the introduction of a floating NAV for such funds would unnecessarily harm the product and the critical role that such funds play in the funding markets.

The FSB Report correctly acknowledges that "the March 2020 episode showed that VNAV [floating NAV] funds can also experience large redemptions, as exemplified by outflows from French VNAV funds."[71] U.S. institutional prime money market funds with floating NAVs also experienced significant redemptions in March 2020. The FSB Report's acknowledgment regarding the limitations of a floating NAV is consistent with assertions in the PWG Report reflecting that a floating NAV requirement would not affect institutional money market funds "which have historically been the most vulnerable to runs but already have floating NAVs."[72] Simply put, a floating NAV was not effective in addressing the liquidity issues experienced in March 2020 and there is no reason to consider expanding it to all U.S. prime money market funds.

We disagree with the implication that reform measures should be considered for U.S. retail prime money market funds, redemptions from which posed no significant concerns in March 2020. That said, if regulators pursue reforms for these funds, we fail to see how adopting a floating NAV for all retail prime funds would address liquidity in these funds or improve the resiliency of the product in any way. Because the floating NAV did not prevent outflows in institutional prime funds in March 2020, there is no plausible justification for now requiring a floating NAV for retail prime funds and, for the avoidance of doubt, we certainly do not see any justification for considering any such reform for government (or public debt) money market funds. On balance we do not believe that the unverified benefits of a shift away from stable NAV money market funds would have a positive impact on the broader short term funding markets and agree with the FSB that it may result in less diverse and more costly funding sources for borrowers.[73]

Question 10. Does the summary assessment of each representative option adequately highlight the main resilience benefits, impact on MMFs and the overall financial system, and operational considerations? Are there any other (e.g. jurisdiction-specific) factors that could determine the effectiveness of these options?

Our views on this Question are included in our response to Question 9.

Question 11. Is the description of variants and the comparison of their main similarities/differences vis-à-vis the representative options appropriate? Are there other variants to consider?

Our views on this Question are included in our response to Question 9.

Question 12. Are measures to enhance risk identification and monitoring by authorities and market participants appropriate complements to MMF policies? Which of these measures are likely to be most effective and why? Are there other measures to consider?

[71] FSB Report at 36.
[72] PWG Report at 29.
[73] FSB Report at 36.

Following prior rounds of money market fund reform, U.S. funds are now required to have written procedures that provide for periodic stress testing of the fund's portfolio and the reporting of the stress test results to the fund's board. Under SEC Rule 2a-7, the stress tests must evaluate a fund's ability to maintain at least 10% of its total assets in Weekly Liquid Assets and a fund's ability to maintain a stable NAV.[74] The tests must consider certain hypothetical concurrent events such as increases in short-term interest rates, downgrades or defaults on particular holdings and a widening of spreads compared to indices. A fund's board must determine the frequency of the stress tests and must receive the results of the tests at its next regularly scheduled meeting.[75] In addition to required stress testing, prior rounds of reform also introduced additional disclosure requirements such as Form N-MFP and additional website disclosure. Taken together, we believe these changes increased transparency, reduced risk and were positive developments for the U.S. money market fund industry.

While we do not object to further dialog regarding potential enhancements to the SEC's current stress test requirements, we note that the existing requirements for U.S. money market funds have been effective in their current form. If regulators intend to consider additional stress test requirements, we would consider the details of such proposals carefully, though at this time we do not believe changes are necessary.

<u>Question 13</u>. Are the key considerations in the selection of policies to enhance MMF resilience appropriate? Are there other considerations that should be mentioned?

We agree with the FSB Report that policy options should focus on "jurisdiction-specific MMF vulnerabilities."[76] We cautioned the SEC in our response to the PWG Report against applying a one-size-fits-all approach on funds in the United States. This is also true internationally. The reform measures that may best serve the purposes of solving for vulnerabilities in the structure or regulation of money market funds will differ by jurisdiction because of inherent differences in current regulation, market structure and investor bases. In addition, within the U.S. market alone, we believe that reforms should be limited to institutional prime funds and that, if regulators pursue measures for retail prime funds, those measures should be calibrated accordingly. We note that the FSB acknowledged this view in the Report by noting that, "MMFs used by institutional investors to manage liquidity may be more susceptible to runs than those used by retail investors, which could imply that policy measures need to be stronger in the former than the latter."[77]

In addition, as we discussed above, government money market funds should be excluded from any further rounds of reforms in the United States. Following the amendments to Rule 2a-7 adopted in 2010 and 2014, we believe that further restrictions on, or changes to the structure of, government funds are neither necessary nor appropriate.

[74] The stress test requirements for U.S. money market funds are set forth in SEC Rule 2a-7(g)(8).
[75] Fidelity's money market funds currently conduct quarterly stress tests.
[76] FSB Report at 42.
[77] *Id*.

Question 14. Which options complement each other well and could potentially be combined? What are the most appropriate combinations to address MMF vulnerabilities in your jurisdiction? Which combinations are most effective for different MMF types and their functions?

Our views on this Question are included in our response to Question 9.

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Fidelity would be pleased to provide further information, participate in any direct outreach efforts the FSB undertakes, or respond to questions the FSB may have about our comments.

Sincerely,

cc: The Honorable Randal K. Quarles, Vice Chair, Board of Governors of the Federal Reserve System and Chair, Financial Stability Board

The Honorable Gary Gensler, Chairman, U.S. Securities and Exchange Commission
The Honorable Allison H. Lee, Commissioner, U.S. Securities and Exchange Commission
The Honorable Hester M. Peirce, Commissioner, U.S. Securities and Exchange Commission
The Honorable Elad L. Roisman, Commissioner, U.S. Securities and Exchange Commission
The Honorable Caroline A. Crenshaw, Commissioner, U.S. Securities and Exchange Commission

Sarah ten Siethoff, Acting Director, Division of Investment Management