Discussion of

You Can't Always Get What You Want (Where You Want It): Cross-Border Effects of the US Money Market Fund Reform

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2014 US MMF Reform

- Structural vulnerability of US-based prime MMFs;
- Two crucial reforms:
  - the introduction of redemption gates and liquidity fees,
  - switch from a constant NAV (CNAV) to a variable NAV (VNAV).
- Effective sample period:
  - July 2014 – May 2017,
  - (June 2017: EU MMF reform.)

In Summary

- Cross-boarder effects of the 2014 reform:
  - euro area MMFs receive significant inflows from foreign investors around the implementation of the US reform,
  - particularly, euro area USD-focused prime CNAVs funds become more attractive (e.g., within-family transfer),
  - negative shock to competition – euro area industry become more concentrated and more exposed to run risks;

- Mechanism:
  - the cross-border flows were motivated by the search for stable net asset value instruments rather than by the introduction of gates and fees,
  - (otherwise there would be no significant flow difference between prime VNAVs and CNAVs...)
  - the US reform had (unintended) stabilizing effects for prime CNAV funds in the euro area.

Overall Assessment

- Great paper!
- First empirical study on the cross-boarder effect of 2014 reform;
- Rigorous design of tests of mechanisms and endogeneity issues;
- Very important financial fragility issue for regulators and practitioners;
- A few comments to improve importance and identification, and rule out alternative explanations.

Comment 1: Investor Clientele

- Where are the inflows coming from:
  - from CNAV or VNAV US funds?
  - from institutional or retail investors?
  - are there switchers among the US funds (between CNAV and VNAV)?
  - cross-sectional difference of number of strikes?

- Endogeneity – difference between CNAV and VNAV funds:
  - they aggregate different investor bases,
  - VNAV funds tend to hold more liquid securities than CNAV funds, and that the difference increases if investor flows are more volatile and investors are more sophisticated (as proxied by lower fund fees),
  - Casavecchia et al. (2022)

Comment 2: Then Why Floating NAVs?

- Fact – inflows to euro area CNAV funds:
  - why in the 2022 US reform, the SEC only removes liquidation fees and gates but keeps floating NAV?
  - even before the 2017 EU reform, in the sample only 30 funds operate under CNAV while 80 under VNAV?
  - for investors, what are the trade-offs between constant and floating NAV?
  - negative interest rates: interest rates on government debt securities have been negative in countries outside the US (challenging for a CNAV fund to maintain a non-negative stable share price?)

- Equilibrium effect – coexistence of CNAV and VNAV funds;
  - investors in VNAV funds are willing to pay a price to access intraday liquidity (total return/net yield).

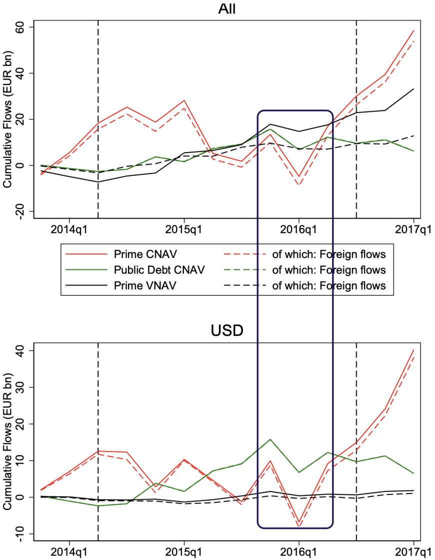
- A sharpen identification (disentangle other channels):
  - US investors switched to EU after 2014, and switched back after 2017,
  - but not...why?
  - (2017–2018: debt ceiling crisis)
  - (swing pricing in the EU)

- "The cross-border flows were motivated by the search for stable net asset value instruments rather than by the introduction of gates and fees:"
  - gates/fees: the reform "permitted a MMF to impose a liquidity fee of up to 2%, or temporarily suspend redemptions for up to 10 business days in a 90-day period, if the fund's weekly liquid assets fall below 30% of its total assets and the fund's board of directors determines that imposing a fee or gate is in the fund's best interests..."
  - no funds want to impose gates/fees;
- 2022 SEC reform:
  - remove liquidity fee and redemption gate,
  - require institutional prime and tax-exempt money market funds to implement "swing pricing".

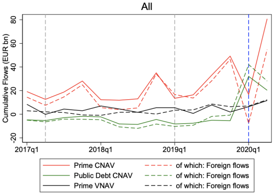
	USD=0				USD=1			
	Mean	Std. Dev.	P50	Num. of Obs.	Mean	Std. Dev.	P50	Num. of Obs.
Flows	-0.004	0.105	-0.011	3,341	0.004	0.099	-0.004	1,761
Fund TNA	2.505	4.7	0.578	3,341	5.091	10.69	0.717	1,761
Family TNA	22.98	34.84	4.491	3,341	31.21	37.84	15.9	1,761
USD	0	0	0	3,341	1	0	1	1,761
CNAV	0.186	0.389	0	3,341	0.677	0.468	1	1,761
Post	0.342	0.474	0	3,341	0.348	0.477	0	1,761

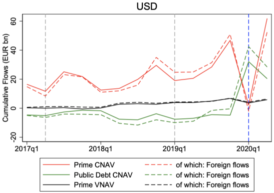
- US-denominated funds are significantly larger and are much more likely to be CNAV?

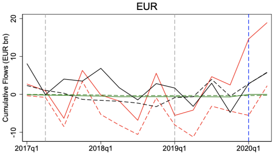
Minor Comments



- Why there is a significant drop for CNAV funds around Q1 of 2016?







- No outflows (even inflows) for EUR-denominated funds during COVID-19?