STATE STREET GLOBAL ADVISORS

State Street Global Advisors
1 Iron Street
Boston, MA 02210
USA

ssga.com

August 10, 2021

Financial Stability Board
Secretariat to the Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Submitted via email to: fsb@fsb.org

Re: Consultation Report on Policy Proposals to Enhance Money Market Fund Resilience

Dear Sir or Madam,

State Street Global Advisors appreciates the opportunity to provide feedback on the consultative document issued by the Financial Stability Board ("FSB") soliciting stakeholder views on policy proposals to enhance money market fund ("MMF") resilience. State Street Global Advisors is the investment arm of State Street Corporation and, with $3.9 trillion[1] in assets under management, as of June 30, 2021, is one of the largest asset managers in the world. For more information, please visit State Street Global Advisors' website at www.ssga.com.

The March and April 2020 market turmoil was undoubtedly the first true stress test of global financial markets following the implementation of post Global Financial Crisis ("GFC") reform measures. As the magnitude of the COVID-19 pandemic became more apparent, governments responded by effectively imposing a near-total shutdown of global economic activity. This resulted in an exceptional and unprecedented demand for liquidity, with particularly acute pressure being felt in short-term funding markets. In that context, MMF flows were indicative of a 'flight to safety' rather than, as seen in 2008, a 'flight to quality' i.e. investor flows were driven by their prioritization of access to liquidity rather than as a result of concerns regarding the underlying credit quality of investments in MMFs. However, MMFs were not the cause of the pandemic-related market volatility and did not exacerbate market conditions by disposing of their less liquid assets to meet redemptions. Instead, as their primary purpose is the provision of liquidity and the preservation of principal, this seems entirely logical in light of market events and we believe was reflective of prudent risk management.

[1] Assets under management as of June 30, 2021 includes approximately $64 billion of assets with respect to SPDR® products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

In its report, the FSB analyzes and compares the GFC and last year's market events. We welcome that as part of its analysis, the FSB recognizes the differences in the origins of the market stress in March 2020 and the GFC in 2008. While the latter was an endogenous event driven by credit concerns, the former was the result of an exogenous shock triggered by the COVID-19 pandemic that resulted in a sudden and unprecedented increase in the demand for liquidity across instruments and asset classes, including MMFs.

Based on last year's experience, State Street Global Advisors is supportive of efforts being undertaken by policymakers to improve the resilience of short-term funding markets, including money market funds. However, it is important to recognize that the challenges faced by market participants were not limited to MMFs and, as such, an effective solution will not be found through further reforms to MMF regulations alone. In our view, the outcome of the review process and any subsequent reforms should also be targeted at addressing the underlying issues observed during the pandemic-related market stress. In addition, future reforms to MMFs should not undermine their ongoing viability as they continue to play a valuable and crucial role, whether as an investment vehicle for investors, as a source of funding for issuers and the real economy, and as facilitators of liquidity for financial markets more broadly.

With regards to MMF-specific reform measures, the FSB considers a wide range of policy options. State Street Global Advisors supports the proposals that seek to improve the usability of a fund's liquidity. In particular, we strongly support the proposal to remove the link between MMF minimum liquidity requirements, namely the 30% weekly liquid assets ("WLA") threshold, and the potential imposition of liquidity fees and redemption gates. By doing so, MMFs would be able to make use of their available liquidity during times of market stress and most directly address the challenges faced by MMFs during the period of market volatility. In that context, we would support considering the conditionality for the use of liquidity fees, which should be available for use at the discretion of the fund manager and/or the board when in the best interests of the fund and its investors.

However, we do not support the other options considered in the report such as capital buffers, the creation of a liquidity exchange bank ("LEB") or even sponsor support. These options would not be suited to MMFs, make the instrument unviable and, as in the case of sponsor support, would increase the interconnectedness between banks and non-banks.

When assessing the various policy options, the FSB considers their impact on broader financial stability as well as possible growth in MMF substitutes. We are very concerned by the FSB's view that pushing cash out of MMFs would not only lead to the growth in substitutes such as bank deposits but also increase financial stability. We would like to re-emphasize that banks, due to balance sheet restrictions, don't have the capacity to absorb the deposits. This is even more prevalent and relevant in periods of market stress. In addition, investors would be likely to move into short duration strategies/direct investments which would introduce much more risk into the system. As a result, the opposite effect would be achieved, i.e. financial stability would be weakened.

Lastly, when considering the policy options ahead of its final report, we strongly recommend that the FSB be guided by the following key principles:

1. **Focus on challenges revealed during the market stress:** Notably, given it was a market-wide liquidity event, reforms should be focused on addressing liquidity risk. This includes ensuring the usability of the inherent liquidity within an MMF.
2. **Address underlying market structure issues:** Reforms should not be targeted at MMFs alone but also consider underlying structural issues, in both the short-term funding market and fixed-income markets more broadly, in order for reforms to be truly effective.
3. **Ensure the ongoing viability of MMFs:** We continue to believe MMFs play a critical and valuable role in financial markets, and that the outcome of the reform process should not deprive investors of a valuable investment vehicle nor issuers of a crucial source of funding.
4. **Avoid the need for external support:** Reforms should mitigate the potential need for external support, whether that be from the public sector or indeed the fund sponsor and/or its affiliates. However, we believe there should also be recognition that during periods of extreme market stress, or ‘black swan’ events, normal market functioning may only be restored through policymaker intervention**.**

State Street Global Advisors is keen to continue being an active and constructive participant in this debate, and we remain supportive of efforts to improve the resilience of MMFs, as well as broader short-term funding markets. We look forward to contributing to these discussions with international policymakers.

Should you wish to discuss any aspect of our response, please do not hesitate to contact me or a member of my team.

Sincerely,

Matthew J Steinaway, CFA

Chief Investment Officer – Global Fixed Income, Currency and Cash
State Street Global Advisors

Responses to questions

Overall

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?

We welcome that in its report, the FSB recognizes the differences in the origins of the market stress in March 2020 and the global financial crisis (GFC) in 2008. The latter was an endogenous event, primarily driven by credit and solvency concerns of certain large financial institutions that subsequently permeated to all aspects of the economy. The market turmoil of March 2020 was the result of a shock exogenous to the financial markets, namely a global public health crisis that precipitated a sudden and unprecedented increase in the demand for liquidity, impacting even financial instruments such as U.S. Treasuries. The impact on MMFs was in line with the broader effect on financial markets. In 2008, outflows were driven by concerns over constant Net Asset Value ("NAV") funds potentially 'breaking the buck', whereas in March 2020, outflows largely represented market participants seeking to build up their liquidity positions, in light of the extreme economic uncertainty brought about by the near-total shutdown of the global economy.

Furthermore, the March and April 2020 market turmoil was a real-life stress test of global financial markets. As the magnitude of the COVID-19 pandemic became more apparent, governments responded by effectively imposing a near-total shutdown of global economic activity. This resulted in an exceptional and unprecedented demand for liquidity, with particularly acute pressure being felt in short-term funding markets. In that context, MMF flows were indicative of a 'flight to safety' rather than, as seen in 2008, a 'flight to quality' i.e. investor flows were driven by their prioritization of access to liquidity rather than as a result of concerns regarding the underlying credit quality of investments in MMFs. However, MMFs were not the cause of the pandemic-related market volatility. While we are not seeking to downplay the severity of the issues faced by MMFs, the significant outflows observed did not instigate, but rather followed the initial dislocation experienced by broader short-term markets, amid an ever-increasing demand for liquidity by investors. Moreover, we disagree with the suggestion that MMFs may have exacerbated market conditions by disposing of their less liquid assets to meet redemptions and sought to build up their holdings of WLA. For fund types for which the primary purpose is the provision of liquidity and the preservation of principal, such as MMFs, this seems entirely logical in light of market events and we believe was reflective of prudent risk management.

As investors prioritized access to liquidity during the peak of the market stress, the 30% WLA MMF requirement effectively became a "bright line" that investors were highly sensitive to. While this was particularly the case in the U.S. market, where fees and gates are perhaps not as established as they are within either the

Undertakings for the Collective Investment in Transferable Securities ("UCITS") or Alternative Investment Fund Managers Directive ("AIFMD") frameworks, we note this was also a driver behind investor behavior in Europe, despite the nuances in legislation governing MMFs between the two jurisdictions. In practical terms, this resulted in the counterintuitive scenario whereby MMFs had a substantial portion of their portfolio invested in WLA that was unusable. Furthermore, MMFs became forced sellers in a deteriorating market, in order to hold additional liquidity over and above the regulatory thresholds, as a means to further assuage investor concerns. Indeed, at certain points, data collected by the Institutional Money Market Funds Association ("IMMFA") reveals that some MMFs were holding in excess of 45% of their portfolio in weekly maturing assets.

As such, we support the proposals that seek to improve the usability of a fund's liquidity. In particular, we strongly support the proposal to remove the link between MMF minimum liquidity requirements, namely the 30% WLA threshold, and the potential imposition of liquidity fees and redemption gates. As noted, this may have encouraged investor redemptions, resulting in the counterintuitive scenario whereby funds had high levels of liquidity that was effectively unusable at a time when it was most needed. The removal of these bright lines would allow MMFs to make use of their available liquidity during times of market stress and thereby most directly address the challenges they faced during the period of market volatility. In that context, we would support considering the conditionality for the use of liquidity fees, which should be available for use at the discretion of the fund manager and/or the board when in the best interests of the fund and its investors.

Finally, for reforms to be meaningful and effective, it is clear that policymakers will also need to consider addressing underlying structural issues in the short-term funding markets. Despite significant market developments, short-term funding markets remain highly intermediated and dependent on banks for the provision of secondary market liquidity. However, as seen in March 2020, MMF managers were unable to utilize secondary market liquidity at a time when it was most needed, as broker-dealers were either unable or unwilling to engage in discretionary market-making, but rather sought to preserve their own balance sheet capacity. This may have been an unintended consequence of post-GFC prudential reforms which, while undoubtedly have improved the resilience of the banking sector, may have altered incentives regarding their market-making activities.

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?

We do not believe that MMFs need to be subject to a wide range of policy proposals. And we are particularly concerned about the majority of the policy proposals considered by the FSB's report, as they would neither address the relevant issues nor would it materially undermine the viability of MMFs. Given MMFs' critical and valuable role in financial markets, proposals that are likely to diminish that role must be avoided.

As set out in our response to question 1, State Street Global Advisors supports the proposal to delink the 30% WLA MMF requirements from the imposition of gates and fees, possibly combined with reforms to the conditions for using liquidity fees. We would recommend considering a customization of liquidity fees to make their application more effective. Measures could include more formalized and detailed policies subject to board-level approval and to discussion with the relevant national competent authority ("NCA"). These protocols could provide high-level guidance for when to impose and how to calculate redemption fees. While these policy measures can be considered and agreed upon at a global level, their exact design and implementation will require specific consideration based on regional/local fund structure and market specificities.

We believe that these measures will further strengthen the robust regulatory frameworks governing MMFs and reduce the potential need for future support from public authorities. Notwithstanding this, we believe there should be the recognition that during periods of extreme market stress, or 'black swan' events, normal functioning may only be restored through policymaker intervention. This was also reflected in comments made by Mark Carney, former Governor of the Bank of England and Chair of the Financial Stability Board, and Gary Cohn, former Director of the U.S. National Economic Council during the Securities and Exchange Commission's ("SEC") Roundtable on Interconnectedness and Risk in U.S. Credit Markets in October 2020.

Lastly, as stated above, any measures targeted at MMFs need to be accompanied by reforms aimed at underlying structural issues in both the short-term funding market and fixed-income markets more broadly. In that context, further consideration should be given to analyzing the impact of prudential regulation on market making activities, market intermediation in times of stress, as well as the underlying market structure as it relates to commercial papers ("CPs") and certificates of deposit ("CDs").

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

The current regulatory regimes applicable to MMFs already aim at allowing these funds to cope with significant outflows by mandating high levels of daily and weekly liquidity levels. A key problem in the March and April 2020 market events was, however, that these liquidity buffers were not usable. Based on last year's events, we recommend the removal of the link between these liquidity thresholds and the use of redemption gates and fees.

But in order to address the problems identified last year, policymakers need to consider addressing issues in short-term funding markets given their highly intermediated and bank-dependent characteristics. In that context, the impact of post-GFC prudential reforms need to be analyzed and option to alleviate liquidity shortages in times of market stress be explored.

Forms, functions and roles of MMFs

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 welcome the holistic overview of the types of MMFs as well as their functions and benefits to investors, issuers and the financial ecosystem overall.

MMFs play a crucial role in short-term funding markets. For investors, such as corporate treasurers, state/municipal/local authorities and pension funds, MMFs provide an operationally simple, cost-effective investment vehicle that is principally used for cash and liquidity management purposes. This reflects the nature of such investments, which typically represent cash for short-term financing requirements, including payroll and day-to-day expenses. While MMFs do endeavor to provide investors with a relatively advantageous yield position, in a flat/declining interest rate environment, this is only a secondary consideration. From an operational perspective, investors value same-day settlement and the treatment of investments into MMFs as cash-and-cash-equivalent for accounting purposes, which is often a requirement of their internal investment policies.

Similarly, on the assets side and for issuers, MMFs are an important source of funding for a range of market participants, including governments, corporates and financial institutions, ultimately supporting the activities of the real economy. For example, in the U.S., while the assets held in prime MMFs as a proportion of total MMF assets, have decreased in recent years, they remain sizable: the Investment Company Institute ("ICI") estimates that assets held by prime MMFs stood at USD 526bn as of March 3, 2021. This constitutes a substantial amount of important funding for a variety of market participants which could not be easily replicated. Collectively, MMFs remain significant holders of CPs.

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?

Due to their specific features and the important role that they play in the broader financial ecosystem, MMFs cannot be easily substituted especially without increasing the risk for the users of/investors in MMFs. In the U.S., AuM in government debt MMFs grew after the 2016 U.S. MMF reforms, but total assets in U.S. prime funds remain significant, showing investors strong demand for this product. In addition, while government debt funds are available as a possible alternative in the U.S., this is less the case in Europe due to the lack of a deep and well-diversified public debt market.

Having considered the FSB's report, we have various concerns with regards to possible MMF substitutes and their description. This is the case in particular with regards to the description of bank deposits as a substitute that would also increase financial stability. At the moment, MMFs are an important outlet for overnight cash investors as an alternative to bank balance sheet deposits. With the increase in global bank reserves due to monetary and fiscal policy since the onset of COVID, bank deposits have surged and caused sharp reductions in bank leverage ratios, so much so that, for example in the U.S., temporary relief was granted by regulators for the Supplementary Leverage Ratio ("SLR"). With a smaller, more limited set of viable and attractive MMF alternatives, and banks already under pressure to absorb the deposits already in the banking system, there simply may not be enough options for overnight cash investments. This risk may be compounded during periods of market volatility or stress when risk averse or liquidity hoarding behavior might ensue, and banks will be less and less willing to take on additional deposits or make markets in critical funding markets, which could have a further destabilizing effect.

Regarding investing directly in underlying money market instruments, we note that not all investors have this capability internally. For those that do, they are potentially exposing themselves to more significant liquidity and counterparty risk. When invested in MMFs, investors will benefit from the counterparty risk diversification and laddered maturity within the fund, which ensures there is organic liquidity being generated to meet redemptions. However, should they invest directly, when market conditions are deteriorating rapidly – as was the case in March 2020 – they may struggle to generate the necessary liquidity or generate such liquidity within required timelines, which could further exacerbate market stress.

Furthermore, there are certain investors who, in their search-for-yield and taking into account the above, particularly in the current market environment, may seek alternatives in less visible and more thinly-regulated parts of the market. We believe this would be a sub-optimal outcome from a policy and market stability perspective.

For a further, more detailed, assessment of the various suggested substitutes, please refer to the response submitted by the IMMFA.

Vulnerabilities in MMFs

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?

We welcome that in its report, the FSB recognizes the differences in the origins of the market stress in March 2020 and the GFC in 2008. As set out in our responses above, the GFC was primarily driven by credit and solvency concerns whereas the market turmoil of March 2020 was the result of an exogenous shock, i.e. the COVID pandemic. As a result of the pandemic, a global public health crisis that precipitated a sudden and unprecedented increase in the demand for liquidity, impacting even financial instruments such as U.S. Treasuries.

However, we disagree with the report's statement that a key vulnerability is that the underlying instruments held by private debt MMFs are illiquid even in normal market conditions. In our view, this finding omits that these instruments are usually held until maturity in normal market conditions thereby resulting in low(er) levels of trading. Whilst we agree that efforts need to be undertaken to improve the underlying liquidity in these instruments, they were not the only short-term money instruments subject to dried up liquidity in 2020's market events. Instead, broad market illiquidity was witnessed across the market affecting also much more liquid markets, including U.S. treasuries. Therefore, we believe it is important to differentiate between illiquid securities and securities that become illiquid as a result of unprecedented market conditions and would recommend further analyzing the events in the short-term markets in March and April 2020, especially with regards to the impact of prudential regulation on market making activities, market intermediation in times of stress as well as the underlying market structure as it relates to CPs and CDs.

Policy proposals to enhance MMF resilience

7. Does the report appropriately categorise the main mechanisms to enhance MMF resilience? Are there other possible mechanisms to consider? Should these mechanisms apply to all types of MMFs?

State Street Global Advisors does not believe that there are other mechanisms that need to be considered. The FSB report is already very thorough and considers a broad range of policy options. Importantly, we do not see a need to subject MMFs to a wide range of policy changes. Instead, as set out in our response to question 1, State Street Global Advisors supports the proposal to delink the 30% WLA MMF requirements from the imposition of gates and fees, possibly combined with reforms to the conditions for using liquidity fees.

8. 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?

While the FSB has considered all aspects, we are concerned by the view expressed in the report that pushing cash out of MMFs would not only lead to the growth in substitutes such as bank deposits but also increase financial stability. We would like to re-emphasize that banks, due to balance sheet restrictions, don't have the capacity to absorb the deposits. This is even more prevalent and relevant in periods of market stress. In addition, investors would be likely to move into short duration strategies/direct investments which would introduce much more risk into the system (and risk which is less transparent to the regulators). Overall, financial stability would not benefit from money being pushed out of MMFs. Rather the opposite would be the case.

Furthermore, a number of the policy proposals considered in the report, such as capital buffers, the creation of anLEB or even sponsor support, would not be suited to MMFs, make the instrument unviable and, as in the case of sponsor support, would increase the interconnectedness between banks and non-banks.

9. 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 non-public debt MMFs? Are there other policy options that should be included as representative options (in addition to or instead of the current ones)?

As set out in response to questions 1 and 2 above, State Street Global Advisors strongly believes that removing the link between the 30% WLA MMF threshold and the imposition of fees, gates and suspensions is most suited to further enhance the MMF regulatory frameworks, especially in the U.S. and Europe. The use of liquidity fees (as opposed to swing pricing) in that context should be considered. This combination of measures would improve the resilience of MMFs, by enabling them to use the inherent liquidity within the fund during periods when it is most needed and also dampen the notion of first-mover advantage amongst investors.

As to the other policy options presented in the FSB's report, our view is that reforms must seek to address the challenges observed during the market volatility, notably in that it was a market-wide liquidity event. In this regard, we see little merit in considering previously proposed reform options that may have been more targeted at addressing credit risk. Similarly, reforms should aim to reduce or eliminate run-like behavior among investors. Based on these considerations and as most of the options considered in the report are either unworkable, impractical or will effectively make MMFs unviable, as also recognized in the report, State Street Global Advisors does not consider the other options to be appropriate or suitable.

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?

Removal of ties between regulatory thresholds and imposition of fees and gates

As stated above, State Street Global Advisors strongly supports removing the link between regulatory thresholds and the imposition of fees and gates. Removing this link would allow MMFs to make use of its available liquidity during times of market stress. In that context, we disagree with the FSB report's statement that if implemented, it would increase uncertainty for investors regarding the use of fees and gates and that MMFs may be reluctant to use them due to stigma. In our view, the benefit of being able to use the available liquidity buffers in a countercyclical way outweigh by far any potential risks should the measure cause such uncertainty. Furthermore, the FSB highlights that MMF managers might be more willing to use the available liquidity for investment purposes rather than for maintaining the regulatory thresholds. This is not realistic in our view as the minimum liquidity thresholds can only be breached passively and cure period requirements like in the EU Money Market Fund Regulation provide against that.

Authorities activating fees

This option assumes that the link between thresholds and the imposition of a liquidity management tool ("LMT") remains. However, we believe that the link should be removed. Also, from an operational perspective, this variant has the disadvantage that it involves a time delay which is not a workable solution in times of market turmoil. We believe that the decision to impose fees should be left to fund managers and boards as they are best placed to understand the circumstances of the fund and the needs of their clients.

Investor concentration limits

Fund managers are managing investor concentration risk already today. Our main concern is that assumptions based on investor type could be misleading as individual behavior can vary significantly within a category of clients. The regulatory frameworks in the U.S. and EU already cover investor concentration risks as well as 'know your customer' ("KYC") requirements. This is underpinned by credit rating agency criteria that monitor portfolio coverage for such concentrations on an ongoing basis.

Countercyclical buffers

Similar to our concerns regarding the authorities activating fees, this variant would also involve delays due to decisions that need to be taken by regulators. In addition, it would also retain the link between thresholds and the imposition of gates and fees thereby not addressing one of the key problems identified during last year's market turmoil. However, by cutting the link between thresholds and gates and fees, the buffers can actually be used in a countercyclical way as was intended.

With regards to the option of adding a countercyclical buffer to the existing buffers, we do not believe that it will result in the change in investor behavior that is intended. Instead, the 'bright line' would remain. Also, this would only be effective for market-wide issues. In the case of fund-specific risks, this would only be limited use and could even create contagion risk in the wider market.

Swing pricing

State Street Global Advisors is fully supportive of swing pricing as an ordinary LMT across open-ended funds more broadly. Notwithstanding this general position, we have strong reservations regarding the applicability of swing pricing to MMFs. In particular, from an operational perspective, given swing pricing and other types of anti-dilution levies ("ADL") are based on net flows (which are only known at end-of-day), it would be incompatible with the intra-day liquidity and T+0 settlement offered by almost all MMFs, which are key components of their value proposition for investors.

We note this is one of the primary reasons why, to date, swing pricing has not been used for these types of MMFs in jurisdictions such as Europe where this tool is available under UCITS.

In addition, it is not clear whether swing pricing would be effective in addressing market challenges and run-risk during ‘black swan’ events, such as in March and April 2020. Although the primary objective of swing pricing is to protect remaining investors, it can assist in mitigating first-mover advantage within a given fund. However, swing pricing is not typically utilized to address market-wide events, and where the entire market is effectively moving in one-direction, (i.e. everyone is looking to build up liquidity) it is unlikely to be able stem market-wide redemption pressure.

Minimum Balance at Risk (“MBR”)

This proposal ignores the type of investors in, and the value proposition presented by, MMFs. Rather than discourage investors from redeeming, limiting investors’ access to their cash or expressly introducing a mandatory first-loss-absorbing element into their investment is likely to push them out of MMFs altogether. Furthermore, as also acknowledged in the FSB report, MBR may affect the accounting treatment of MMFs as ‘cash equivalent’ into question. Investors that need to have access to their cash and that are looking for cash preservation when investing in MMFs would be unlikely to continue to use MMFs if MBR was introduced.

Capital buffer

State Street Global Advisors does not support the requirement for MMFs to hold minimum capital buffers, which are generally not common features for investment funds. Operationally, it will be difficult to calculate what is deemed to be a sufficient buffer. Similarly, as noted also in supporting academic literature, capital buffers are intended to protect investors against credit-related losses. As such, the suitability and appropriateness of capital buffers in addressing market-wide liquidity events, particularly of the magnitude of March 2020, is not immediately clear. Separately, we do not believe that capital buffers may help curb risk-taking by the fund. In the context of fund holdings, the stringent regulatory framework applicable to MMFs, particularly in relation to minimum liquidity and portfolio composition, will ensure that MMFs already invest in sufficiently diversified high-quality, highly liquid assets. On the contrary, in order for the maintenance of a capital buffer to be economically viable, a manager may be incentivized to take on more risk. Furthermore, if there are penalties or costs associated with accessing or using these buffers, it may further entrench the ‘bright line’ effect.

Removal of stable NAV

State Street is strongly opposed to the proposal to potentially eliminate stable NAV funds. These funds offer a valuable proposition to both investors and issuers, which could not be easily replicated by alternatives. In light of this, any proposal which does not permit these funds to continue to perform their important functions will be to the detriment of a range of market participants and financial markets more broadly.

We do not believe requiring all MMFs to adopt a floating NAV to be a solution nor do we believe it is justified based on the experience of MMFs during the market stress in March and April 2020. As has been commented on by various policymakers, both VNAVs and stable-NAV MMFs experienced significant outflows. As such, from our perspective, it is not clear how this would reinforce the resilience of the sector.

Limits on eligible assets

While increasing the level of liquidity buffers it the simplest way to enhance fund liquidity, MMFs already hold very substantial amounts of liquidity, often in excess of the high regulatory minimum requirements. As described above, the problem in 2020 was not the lack of liquidity but rather the inability to use that liquidity, forcing funds to sell other assets. However, in this context, we would recommend considering the removal of the 17.5% cap on the ‘highly liquid’ assets up to 190 days which can count towards the 30 % WLA for European MMFs. These assets generally refer to sovereign, supranational or agency debt and the cap, therefore, appears to be an unnecessary additional constraint. Given the objective is to ensure that funds have sufficient liquidity that is usable, the restriction makes little sense. Furthermore, these assets could be included in the overnight liquidity ratios which would result in increasing MMFs overnight cash/holdings.

Limit MMFs to government debt

Limiting MMFs to government debt would result in particular challenges in Europe due to supply constraints of Sterling and Euro denominated short-term government debt. Furthermore, investor demand for public debt MMFs in Euro and Sterling has been limited in Europe so far.

Redemption in kind

Operationally, redemptions in kind are not a viable option due to the time required. It is likely that arranging a redemption in kind would take longer than liquidating and providing cash to the investor. Also, it would only be feasible for institutional investors since it requires a custody account to receive securities. Not all MMF investors have such accounts.

Non-daily dealing

The ability to provide same day liquidity is key to MMF utility. Removal of this capacity would affect ‘cash equivalence’ which is also a very important factor to some investors, particularly corporate investors.

Liquidity-based redemption deferrals

Similar to the non-daily dealing alternative, this option would remove certainty for investors around same day liquidity which is a key MMF feature. In addition, deferral triggers would likely result in first mover advantage by incentivizing investors to redeem early in cases of stress, which would have possible contagion effect to the wider market.

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?

Please see our response to question 10 for our views on the variants of the representative option to remove the ties between regulatory thresholds and imposition of fees and gates. With regards to the other variants, these are all connected to options that would ultimately result in making MMFs either operationally unworkable or economically unviable. Consequently, we disagree with and do not support the variants listed in the report.

For a further, more detailed, assessment of the different variants, please refer to the response submitted by the IMMFA.

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?

Stress testing is a very helpful tool and an important element of the broader framework for managers when assessing liquidity risk. The stress tests highlight potential consequences of, or conditions that might lead to, extreme scenarios, helping to identify risks that may not have been taken into account by the investment team. While reforms to stress testing may improve preparedness and be more informative for managers and NCAs, we do not believe it will necessarily enhance the resilience of the MMF sector nor how managers respond to rapidly deteriorating market conditions, as was the case in March and April 2020. One reason for this is the data used in stress-testing may not fully correspond with real-life market conditions. We believe that this approach, which provides NCAs with regular information while enabling them to request more information when they deem necessary, is sufficient.

We are fully supportive of efforts to improve transparency in short-term funding markets in Europe. Providing detailed information on both the asset- and liabilityside of MMFs is already a feature of current MMF reporting obligations; nevertheless, we are open to exploring further if and how this can be augmented to ensure policymakers have the information they need. We would like to highlight one point of caution in this context: While MMFs are an important segment in short-term funding markets, they are not the only participants. Therefore, if the intention of policymakers is to obtain a more granular understanding of market-wide dynamics, this will not be achieved through additional disclosures by MMFs only.

Considerations in selecting policies

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

As set out in the introduction to our response, when selecting policies, the FSB's considerations should be underpinned by the following key principles:

1. **Focus on challenges revealed during the market stress:** Notably, given it was a market-wide liquidity event, reforms should be focused on addressing liquidity risk. This includes ensuring the usability of the inherent liquidity within an MMF.
2. **Address underlying market structure issues:** Reforms should not be targeted at MMFs alone but also consider underlying structural issues, in both the short-term funding market and fixed-income markets more broadly, in order for reforms to be truly effective.
3. **Ensure the ongoing viability of MMFs:** We continue to believe MMFs play a critical and valuable role in financial markets, and that the outcome of the reform process should not deprive investors of a valuable investment vehicle nor issuers of a crucial source of funding.
4. **Avoid the need for external support:** Reforms should mitigate the potential need for external support, whether that be from the public sector or indeed the fund sponsor and/or its affiliates. However, we believe there should also be recognition that during periods of extreme market stress, or 'black swan' events, normal market functioning may only be restored through policymaker intervention.

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?

As per our comments above, we recommend removing the tie between regulatory thresholds and the potential imposition of fees and gates. The use of liquidity management tools (delinked) should be maintained. We suggest that these provisions apply to all European fund types to foster greater consistency.

15. To what extent should authorities seek to align MMF reforms across jurisdictions? Is there a minimum set of policies or level of MMF resilience that *should be considered at the international level to avoid fragmentation and regulatory arbitrage?*

The report is right to recognize the differences between jurisdictions. In our view, it is important to reflect the different market dynamics between the U.S. and Europe. For instance, the report correctly notes that currency of denomination is an important consideration. The U.S. market benefits from one currency, the deepest treasury market in the world and significantly better data transparency. Another point of divergence is the definition of an MMF, which is broader in Europe. European reforms have been successful in improving fund resilience and we continue to support the European prohibition on external support.

Short-term funding markets ("STFMs")

16. Does the report accurately describe problems in the structure and functioning of STFMs and how these have interacted with MMFs in stress periods?

As set out previously, the 2020 market turmoil was characterized by a drying up of market liquidity in the short-term markets affecting a broad range of assets, including MMFs. MMF managers were unable to utilize secondary market liquidity at a time when it was most needed, as broker-dealers were either unable or unwilling to engage in discretionary market-making, but rather sought to preserve their own balance sheet capacity. This may have been an unintended consequence of post-GFC prudential reforms which, while undoubtedly have improved the resilience of the banking sector, may have altered incentives regarding their market-making activities.

Furthermore, we would like to re-emphasize our disagreement with the report's statement that even in normal markets, the underlying instruments held by private debt MMFs are illiquid. This view does not take into account that in normal market conditions these instruments experience lower levels of trading as they are usually being held until maturity.

Given the experience last year, State Street Global Advisors supports analyzing and addressing underlying structural issues in short-term funding markets which remain highly intermediated and dependent on banks' market making activities. In that context, possible unintended consequence of post-GFC prudential reforms on banks' ability and willingness to make needs to be considered.

17. What other measures should be considered to enhance the overall resilience of STFMs? How would those measures interact with MMF policy reforms and how effective are they likely to be in preserving market functioning in stress times?

We don't have any specific measures to suggest at this stage. However, we believe that further analysis should be undertaken regarding how the functioning of the underlying market for short-term debt can be improved. The measures listed in Box 6 of the FSB report should be considered as part of that. Also, we would like to re-emphasize the need to further analyze the impact of prudential regulation on banks' ability to make markets and to assess possible policy options as a result.

Additional considerations

18. Are there any other issues that should be considered to enhance MMF resilience?

There are no other issues that should be considered.