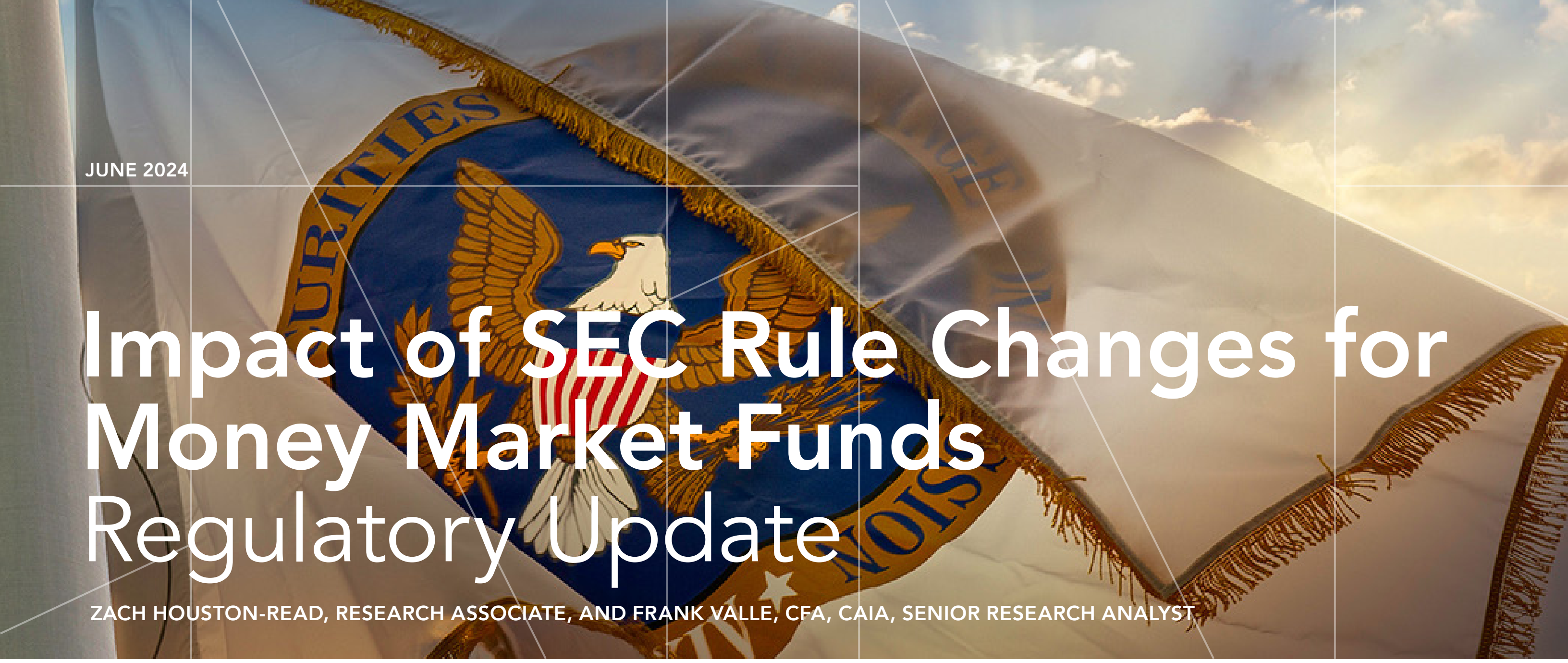

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Impact of SEC Rule Changes for Money Market Funds

Regulatory Update

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RECOMMENDATION: The Security Exchange Commission (SEC) is implementing rule changes for money market funds with the goal of improving transparency, efficiency, and stability. These changes could lead to consolidation within the non-government money market segment. Some managers have announced they will close their institutional prime funds before the October 2, 2024, change takes effect.

Institutional prime and tax-exempt money market funds will be impacted by these rule changes. In particular, the extra yield offered by prime funds — 10–20 bps over government money market funds — could come at the cost of the potential liquidity fee (described on page 2). If investors choose to remain in prime money market funds, it is important to choose funds with large assets under management that are diversified across a significant number of investors to minimize the odds of reaching the 5% withdrawal threshold. However, many investors — especially those with small cash allocations — will be better off utilizing a government money market fund to remove the risk of a mandatory liquidity fee. Allocating to a government money market fund will also ensure a rapid settlement of funds. Clients with a significant percentage of assets held in cash should be strategic with cash and implement a cash tiering strategy.

BACKGROUND: Over the past year, the SEC has been phasing in regulatory changes for money market funds resulting from adopted amendments to Rule 2a-7. These amendments were passed on July 12, 2023, in response to the stress that money market funds faced at the start of the pandemic in March 2020 when investors rapidly pulled more than $130 billion dollars from money market funds. As a result, the Treasury and Federal Reserve had to step in to provide emergency liquidity facilities to shore up the short-term funding market. The changes primarily focus on institutional prime and tax-exempt money market funds, which have historically been more susceptible to investor runs.

Below is a timeline of these changes as well as which fund types are impacted:

Rule Reform	Money Market Fund Type Affected			Date
	Government	Prime	Muni/Tax-Exempt	
Removal of redemption gates	N/A	Yes	Yes	10/2/23
Permission to use reverse distributions in negative interest rate environment	Yes	Retail Only	Retail Only	10/2/23
Discretionary liquidity fees	N/A	Yes	Yes	4/2/24
Increased portfolio liquidity requirements	Yes	Yes	Yes	4/2/24
WAM and WAL calculation specification	Yes	Yes	Yes	4/2/24

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Rule Reform	Money Market Fund Type Affected			Date
	Government	Prime	Muni/Tax-Exempt	
Enhanced reporting requirements	Yes	Yes	Yes	6/11/24
Mandatory liquidity fees	N/A	Institutional Only	Institutional Only	10/2/24

RULE REFORM SUMMARIES:

Removal of redemption gates: This prevents funds from suspending/gating redemptions in the event of market turmoil and will improve investor confidence in fund liquidity.

Permission to use reverse distributions in negative interest rate environments (RDM): In the event of a negative interest rate environment where government securities have negative yields, funds are permitted to offset the negative interest income by cancelling shares in shareholder accounts. This allows the fund to maintain a stable NAV of $1.00.

Discretionary liquidity fees: Allows non-government funds to impose a discretionary liquidity fee for redeeming shareholders if the fund board decides it is in the fund's best interest. Government money market funds may opt in.

Increased portfolio liquidity requirements: Increases the minimum daily liquid assets from 10% to 25% and the minimum weekly liquid assets from 30% to 50%. These increases are meant to ensure that money market funds have an adequate amount of short-term assets available in the event of elevated liquidity needs.

WAM and WAL calculation specification: Mandates that funds calculate the weighted-average maturity and weighted-average life of their portfolios based on each security's market value, rather than amortized cost. The SEC limits overall WAM to 60 days or less and WAL to 120 days or less. Previously, there were differences in how funds calculated these metrics. This change standardizes these metrics and improves comparability and transparency across funds.

Enhanced reporting requirements: Improves the record keeping and documentation requirements for funds to provide more transparency on fund operations.

Mandatory liquidity fees: This is the most significant of the above changes. It requires non-government funds to impose a mandatory liquidity fee if net redemptions exceed 5% of net assets on a single day. Once the 5% threshold is reached, the fund must apply the liquidity fee to all the shares redeemed on that day. The fee is based on transaction costs and is not subject to a hard limit. No liquidity fee is required if liquidity costs are de minimis, which is defined as less than 1 basis point of net assets. The purpose of this rule is to transfer the liquidation costs from shareholders who remain in the fund to shareholders who redeem from the fund, thus incentivizing investors to remain in the fund during times of market turmoil. This change will take effect starting October 2, 2024.

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