ICD
Treasury First

April 12, 2021

Ms. Vanessa Countryman, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

Dear Ms. Countryman,

As a provider of an independent investment portal, servicing over $5 trillion in money market fund trading annually, Institutional Cash Distributors (ICD) brings together corporate institutional investors and the fund companies that offer money market products and other short-term investments. In this capacity, ICD offers the President's Working Group (PWG) an informed perspective on corporate investor behavior, particularly as it relates to prime money market funds (MMFs). It is with this insight that we recommend the removal of the tie between MMF liquidity and fee and gate thresholds to be the only policy measure that should be considered for prime and tax-exempt MMFs in the Request for Comment on Potential Money Market Fund Reform Measures in President's Working Group Report **(File No. S7-01-21).**

ICD believes that the exit from prime MMFs in March 2020 was triggered by the concern over fees and gates, not from a fundamental flaw with the instruments themselves. In fact, data from our client base of over 400 institutional investors[1] show that the exit from prime MMFs was an orderly one, with outflows spread evenly over a five business-day period from March 13-19. Even at the lowest point of the crisis (March 23), 30% of ICD's client base invested in prime MMFs either increased or maintained their positions. Furthermore, of the 70% of our clients who reduced their prime MMF holdings, 43% still retained some of their investment positions. Based on ICD trading data, redemptions in Prime MMFs indicate a portfolio rotation rather than a "run" on these investment products.

When the commercial paper market seized in mid-March, prime MMFs had ample liquidity to cover significant redemptions. As redemptions outpaced purchases, however, the weekly liquidity assets (WLA) of some funds were heading towards 30%. Many of our clients decided to redeem their prime MMFs because they were concerned a gate would be imposed if weekly liquidity fell below 30%.

The PWG report details two financial crises over the 50-year history of money market funds, during which time prime and tax-exempt MMFs were supported by official sector intervention. The catalysts for these two events – the credit issues precipitating the 2008 global financial crisis and the liquidity crisis brought on by impacts of the COVID-19

[1] Analysis of 378 companies on ICD Portal between March 2, 2020 and April 8, 2020.

pandemic in March 2020 – were fundamentally different, and therefore require regulatory reform to be viewed through different lenses.

In September 2008, there was a run on MMFs after the Reserve Primary Fund "broke the buck" due to the value of their Lehman Brothers holdings diminishing after the bank's bankruptcy filing. At that time, institutional investors counted on the rating agencies' AAA ratings for money market funds. Had they wanted to, investors would have had difficulty analyzing underlying fund holdings as this information was not widely available at that time. When news surfaced of the Reserve Primary Fund breaking the buck, investors were unable to differentiate between low and high-risk funds, forcing them to aggressively reduce prime MMF investments.

The 2010 MMF regulatory reform and the subsequent 2014 amendments rolled out by the SEC, as well as enhancements developed by technology companies like ICD, dramatically reduced future risks of a run on MMFs due to credit issues.

Select SEC reforms on MMFs included:

1) Higher credit quality
2) Monthly reporting on fund holdings
3) Increased MMF liquidity requirements (30% weekly, 10% daily)
4) Reduced weighted average maturity (WAM) from 90 to 60 days and restricted weighted average life (WAL) to 120 days

With MMF holdings now readily available and easily viewable by risk averse institutions and the SEC through MMF reporting and ubiquitous industry technology, MMFs are highly transparent. Reform and industry enhancements enabled MMFs to operate without issue during the 2011 U.S. budget impasse and the European debt contagion, when the industry realized large redemptions. While these regulations would have prevented the 2008 run on MMFs, they did not prevent the March 2020 crisis because the latter was a rush for liquidity across the market - exacerbated in the MMFs by an artificial liquidity floor - not the result of flawed or risky investments or concerns about the credit quality of MMF portfolios.

MMFs have been an important part of the financial marketplace for nearly 50 years. For corporate investors, these instruments provide safety, liquidity and some yield for cash set aside to pay bills, fund payroll and finance strategic initiatives. They also provide valuable sources of funding.

One of the hallmarks of U.S. capital markets is a broad set of corporate borrowing options. Effectively eliminating Prime MMFs as an investment vehicle will significantly restrict corporate funding options and have a significant down-stream impact for smaller borrowers. As of June 2020, Prime MMFs accounted for 22% of the total Commercial Paper market[2]. The impact of reducing corporate borrowing options will make large corporations more dependent on commercial banks for funding which in-turn would squeeze-out smaller corporations who rely on these banks today.

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[2] SEC: Primer: Money Market Funds and the Commercial Paper Market, https://www.sec.gov/files/primer-money-market-funds-commercial-paper-market.pdf

We believe that while MMFs have been strengthened throughout the years by regulatory and industry enhancements, the proposed option that will further fortify these instruments is the removal of the tie between MMF liquidity and fee and gate thresholds. Any further actions will significantly diminish the effectiveness of these products.

Sincerely,

Tory Hazard
Chief Executive Officer
Institutional Cash Distributors, LLC (ICD LLC)