NATIONAL ASSOCIATION OF STATE TREASURERS

Government Finance Officers Association

April 12, 2021

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission (SEC)
100 F Street, N.E.
Washington, D.C. 20549

RE: [Release No. IC–34188; File No. S7–01–21] Request for Comment on Potential Money Market Fund Reform Measures in President's Working Group Report

Dear Ms. Countryman,

On behalf of the thousands of state and local finance officers we collectively represent, we appreciate this opportunity to comment on your open notice regarding "Request for Comment on Potential Money Market Fund Reform Measures in President's Working Group Report" (File Number S7–01–21). As both investors who use Money Market Funds (MMFs) to meet cash flow needs and as the issuers of municipal securities who frequently rely on MMFs to meet their credit needs, our members closely followed the unprecedented market events of March 2020 that prompted this workgroup's report.

Our comments are broad in nature in order to accommodate the diverse representation of the municipal market. Municipal market issuers represent states, municipalities, counties and a variety of political subdivisions that rely on MMFs in different ways. A broad-stroke approach that would reduce access to the market and directly impact issuers access to capital and to short-term borrowing facilities. Therefore, the purpose of this letter is to urge the Commission to consider the potential detrimental market impacts of MMF reform. In particular, the application of floating NAV requirements to institutional MMFs posed challenges for issuers of municipal securities both as investors and issuers. Now that the Commission is reviewing additional potential reforms that could expand the floating NAV requirement to retail funds, result in the imposition of increased investor fees, alter market liquidity and impact supply and demand in municipal markets, we offer our insights as a critical stakeholder in this process.

MMF reform in 2014 included amendments to Rule 2a-7 that required institutional prime and tax-exempt funds to use a floating Net Asset Value (NAV). The SEC's reasoning for the 2014 Amendments was that a floating NAV would provide investors with a more frequent and accurate assessment of the value of a fund's assets. Under previous rules, institutional prime and tax-exempt MMFs were allowed to round their share price to $1.00, so long as the actual value of a share does not fall below $0.9950 ("known as breaking the buck"). The SEC's change from fixed to floating was predicated on the belief that investor awareness of the actual value of the fund's assets will make investors less likely to redeem shares in times of economic distress. The amendments created two unintentional and burdensome consequences for state and local governments.

Between January 2016 and April 2018, tax exempt MMFs assets under management fell by nearly 50 percent, from $254 billion to $135 billion[1], as MMF investors, including government investors, preferred or were required to hold stable-NAV government MMF's comprised of Treasury and/or U.S. Agency securities. The lack of investor appetite for floating-NAV tax-exempt MMF's resulted in municipalities issuing variable rate demand bonds seeing their borrowing costs nearly double the Federal Reserve's rate increases over the same period. Many state and local governments determined that issuing variable rate debt to MMFs was excessively costly and opted to issue higher cost fixed-rate bonds. These increased costs are shouldered by taxpayers and ratepayers.

In addition to the impact that the SEC's 2014 actions had on governments accessing the capital markets, there were also implications for the investments that state and local governments use to protect public funds. Many governments have specific state or local statutes and policies that require them to invest in financial products with a stable NAV. The policy reason for this is to ensure that public funds are appropriately safeguarded. MMFs with a stable NAV are a commonly used vehicle by state and local governments for managing operating cash. The municipal issuer community has worked with champions in both the house and the senate to re-introduce a bill that would permit fixed-NAV valuations of municipal money market facilities. This important legislation would lift an unnecessary obstacle that has steered state and local entities into very low yielding U.S. government backed funds or other alternatives from what was already a safe and highly liquid market.

While we recognize the need to thoroughly examine the root causes of the market turmoil seen in March 2020, we caution the Commission to examine the full impact of any potential MMF reform on state and local governments as investors and issuers. We are happy to respond to any additional questions you may have or to provide additional input as needed. Please consider all of our organizations and memberships as resources on this issue and any others in the future.

Best,

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[1] https://www.sec.gov/divisions/investment/mmf-statistics/mmf-statistics-2018-04.pdf, page 4.