BNY MELLON | INVESTMENT MANAGEMENT

Dreyfus

Summary of SEC's Money Market Reform Proposal

On December 15, 2021, the US Securities and Exchange Commission (SEC) voted 3-2 to issue a proposal to amend rules that govern money market mutual funds (MMFs). The proposal will have a 60-day comment period (upon its publication in the Federal Register) for fund managers, issuers and investors to weigh in on the efficacy of the proposals before final rules are issued. The proposal also includes compliance periods when certain elements of the reforms would become effective.

Dreyfus will carefully review the details in the SEC's proposal, and we expect to submit a comment letter upon the completion of our review. Below is a high-level summary of the ***material*** changes included in the proposal.

REFORMS	PROPOSED REVISION TO RULE 2A-7
1. Removal of Redemption Gates and Liquidity Fees	• The 2a-7 provisions imposing liquidity fees and gates would be removed. » Eliminates provision for discretionary 2% liquidity fee or redemption gate if the fund's weekly liquid assets (WLA) falls below 30% of its total assets. » Eliminates provision for default 1% liquidity fee if the fund's WLA falls below 10% of its total assets.
Preamble: Although liquidity fees would no longer be required for MMFs, the SEC notes that existing Rule 22c-2 is not just for "market timing" and that a MMF board may voluntarily implement redemption fees (up to 2%) to mitigate dilution from general shareholder activity. Such an approach would need to be disclosed in the fund's prospectus.	
2. Swing Pricing Requirement	• Institutional prime/tax-exempt MMFs must adopt a swing pricing policy. Fund board must approve swing policy and designate the swing pricing administrator. • The swing policy must address the following: » NAV must be adjusted by a swing factor if the MMF has net redemptions for the pricing period. » The swing administrator must compute the MMF's swing factor based on estimates of (a) transaction costs, and (b) "market impact" costs to the extent net redemptions exceed the market impact threshold (4% of NAV or lesser selected percentage).
Preamble: The SEC does not believe the proposal would cause a shift from T+0 to T+1 settlement. However, they acknowledge that an earlier cutoff may be necessary and institutional MMFs striking multiple NAVs per day may need to reduce their striking frequency.	

REFORMS	PROPOSED REVISION TO RULE 2A-7
3. Increases to Portfolio Liquidity Requirements	• Daily liquid asset (DLA) minimum would increase to 25% from 10% (excludes municipal money market funds). • Weekly liquid asset (WLA) minimum would increase to 50% from the current 30% minimum requirement. • The fund board must be notified within 1 day if DLA falls below 12.5% or WLA falls below 25%. A summary of facts must be provided to the fund board within 4 days after the event. Form N-CR filings with the SEC would similarly be triggered by any such event.
4. Addressing Potential Negative Interest Rates (requires capacity to convert to floating NAV)	• This would require government/retail money market funds and transfer agents to have the ***capacity*** to redeem/purchase shares at a floating net asset value (FNAV). • Funds must confirm that financial intermediaries have the capacity to redeem/purchase shares at a FNAV. » If confirmation/determination cannot be made, the financial intermediary may not purchase shares in nominee name/omnibus accounts. • This proposal would also explicitly prohibit a money market fund from utilizing a reverse distribution mechanism (RDM) or reverse stock split to maintain a stable share price.
Preamble: The SEC notes that under current 2a-7 rules, if interest rates turn negative, a fund board could reasonably require a stable NAV fund to convert to a floating NAV to prevent material dilution or other unfair results to investors.	
5. Calculation of WAM/WAL	• The weightings for WAM/WAL must be based on the percentage of each security's market value in the portfolio (not amortized cost).
Preamble: The SEC notes that certain funds were using amortized cost and they wanted uniformity in these calculations.	
6. Changes to Stress Testing	• For stress testing purposes, a MMF must test its ability to maintain sufficient minimum liquidity (instead of WLA of 10%) under specified hypothetical events. • This minimum liquidity level may vary by MMF and should be identified in the MMF's stress testing procedures.

REFORMS	PROPOSED REVISION TO RULE 2A-7
7. MMF Shareholder Data Reporting (Form N-MFP monthly reporting requirements)	• Report the name and percentage ownership of each person who owns of record or is known by the fund to beneficially own 5% or more of the shares outstanding in any share class. (Similar information is already required in the fund's registration statement as filed on Form N-1A.) • Institutional prime and institutional municipal funds must provide the composition of its shareholders by type. • Prime money market funds (institutional/retail) must disclose (in a new Part D of Form N-MFP) the aggregate amount of securities sold for each category of investment. • Disclose the number of instances the fund applied a swing factor over the reporting period. • Increase the disclosure frequency for 7-day gross and 7-day net yields, requiring data for each business day (versus once for end of reporting period).
Preamble: The SEC notes that only 5%+ shareholders who are ***known*** to the MMF must be reported. The SEC notes that funds may not have information about the beneficial owners in omnibus accounts.	

8. Compliance Date	As proposed, the removal of fees and gates would become effective **when the final rule is effective**. The required increases to portfolio liquidity and new N-MFP/N-CR reporting would become effective after **6 months** from when the rule is effective. Swing pricing and negative rate pricing would become effective after **12 months** from when the rule is effective.

Please note the above summary does not include all elements of the SEC's proposal for money market reforms but is representative of the material proposals.

CONTACT US

For more information, please contact your Dreyfus sales representative or call 1-800-346-3621.