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Dreyfus

NAVIGATING MONEY MARKET FUND REFORM

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The US Securities and Exchange Commission (SEC) approved long-anticipated money market fund reform on July 12, 2023. This reform, which we refer to here as MMF amendments, modifies certain rules that govern money market funds under the Investment Company Act of 1940, as amended, (1940 Act) and is designed to improve resiliency, liquidity and transparency, thereby benefiting underlying investors. We support the MMF amendments.

As the SEC Chair Gary Gensler pointed out, "Money market funds—nearly $6 trillion in size today—provide millions of Americans with a deposit alternative to traditional bank accounts... Taken together, the rules will make money market funds more resilient, liquid, and transparent, including in times of stress. That benefits investors."[1] In the SEC's view, money market funds have a potential structural liquidity mismatch, which can be exacerbated during times of market stress. When investors fear dilution or illiquidity, it can result in large, rapid redemptions that ultimately undermine the operational stability of these funds. The MMF amendments aim to increase resiliency and protect against dilution.

In this investor note, we provide an overview of the MMF amendments, explaining its importance, coverage and timeline. Along with the industry, we have closely watched money market reform developments, and we were an active participant in working toward solutions. We are encouraged by the SEC's thoughtful analysis and consideration of the concerns voiced by fund managers, issuers and investors, including BNY Mellon and Dreyfus. We commend the SEC for their efforts to improve the resilience, liquidity, and transparency of money market funds.

What Are the Main Components of the Reform?[2]

The MMF amendments cover four main areas: liquidity requirements, removal of the tie between weekly liquid asset thresholds and the imposition of liquidity fees and redemption gates, the introduction of a new liquidity fee requirement and the handling of negative interest rate environment, among other amendments, including additional reporting requirements.

Reform	Description
Increase of the Minimum Daily and Weekly Liquidity Requirements	**To provide a more substantial buffer for money market funds to manage significant, rapid investor redemptions in stressed market conditions while maintaining funds' flexibility to invest in diverse assets during normal market conditions, the MMF amendments require increases to the minimum liquidity requirements for money market funds. Under the new minimum liquidity requirements, a money market fund must hold:** • At least 25% of the fund's total assets in daily liquid assets (increase from 10%) • At least 50% of the fund's total assets in weekly liquid assets (increase from 30%)
Removal of Temporary Redemption Gates and the Removal of the Tie between Weekly Liquid Asset Thresholds and Liquidity Fees	**To reduce the risk of investor runs on money market funds and to disincentivize preemptive redemptions during periods of market stress, the MMF amendments remove:** • Money market funds' ability to impose temporary gates to suspend redemptions if a fund's weekly liquid assets fall below a certain percentage of the fund's total assets • The regulatory tie that permits money market funds to impose liquidity fees if their weekly liquid assets fall below a certain threshold
New Liquidity Fee Framework Requirement	**To protect remaining shareholders from dilution and to more fairly allocate costs so that redeeming shareholders bear the costs of redeeming from funds, particularly in circumstances when liquidity in underlying short-term funding markets is costly, the MMF amendments require:** • Institutional prime and institutional tax-exempt money market funds to impose mandatory liquidity fees when a fund experiences daily net redemptions that exceed 5% of net assets, unless the fund's liquidity costs are de minimis • Non-government money market funds to impose a discretionary liquidity fee if the fund's board of directors (or its delegate) determines that a fee is in the best interest of the fund
Amendment to Handling of Potential Negative Interest Rates	**The MMF amendments provide two ways for retail and government money market funds to handle a negative interest rate environment, subject to certain board of director determinations and disclosures to investors:** • Funds may convert from a stable share price to a floating share price • Funds may utilize a reverse distribution mechanism (RDM),[3] which is the process of reducing a fund's number of shares outstanding while the fund maintains a stable net asset value per share

Reform	Description
Other Amendments	**To improve transparency and monitoring of money market funds, the MMF amendments require:** • Standardized calculations for weighted average maturity (WAM)[4] and weighted average life (WAL)[5] based on the market value of securities • Form N-MFP[6] and Form N-CR[7] reporting to conform to amended reporting standards; some noteworthy additions include: – Providing the client type and concentration percentage by class for shareholders with over 5% ownership – Shareholder compositions and concentrations on prime fund ownership – Selling activity of prime funds – Use of liquidity fee and share cancellation or RDM – Increased disclosure of repurchase agreement data – Daily fund yield data of the full month

The MMF amendments will become effective 60 days after publication in the Federal Register.[2] However, the SEC is adopting a tiered approach to the transition periods for the MMF amendments. The SEC has provided for a six-month transition period for funds to comply with certain amendments, including the minimum portfolio liquidity requirements, the discretionary liquidity fee provision and RDM, although they can be implemented as soon as the MMF amendments become effective. Funds will have 12 months after the MMF amendments' effective date to comply with the mandatory liquidity fee provision. The reporting form amendments for N-CR and MFP will become effective on June 11, 2024.

Embracing the Reform

We are currently working with various internal teams to ensure we are prepared to implement the required changes over the associated transition periods. Throughout this process, we are fully committed to ensuring a smooth transition and providing our clients with the necessary support and guidance. Our focus remains on delivering value, maintaining stability, and meeting client needs in the changing regulatory environment, as we have done with other money market fund reforms introduced over the years.

Ongoing Client Communication

We understand the importance of keeping our clients informed about regulatory changes and their implications. We will continue to proactively communicate with our clients to explain the MMF amendments and how the changes may impact their investments. We are committed to ensuring that our clients have a clear understanding of the money market fund reform and its effects.

Investment Review

The MMF amendments prompt us to review our investment strategies and assess their alignment with the new regulations. Our goal is to ensure that our investment strategies continue to meet the needs and objectives of our clients, while adhering to the regulatory requirements.

Operational Adjustments

Similar to the rest of the industry, the money market fund reform necessitates operational adjustments. We will update our systems and processes to accommodate the new requirements, in conjunction with our business partners.

Compliance & Risk Management

Compliance and risk management remain core to our process. We will continue to analyze and digest the regulatory changes to ensure our investment practices and operations align with the MMF amendments. We are also reviewing our integrated risk management framework to anticipate and mitigate potential risks associated with the new reform.

While expected, the SEC's money market fund reform is a significant regulatory change aimed at enhancing resilience, liquidity and transparency of money market funds. We strongly believe that Dreyfus is well positioned to continue to be a trusted partner by delivering high-quality cash management investment solutions in the space.

John Tobin

Chief Investment Officer

John is the Chief Investment Officer for Dreyfus. John is responsible for the investment management for Dreyfus' money market mutual funds, Undertakings for Collective Investment in Transferable Securities (UCITS), cash separately managed accounts (SMAs) and ultra short ETF. He also manages the firm's collective short-term investment trusts.

John returned to Dreyfus from J.P. Morgan Asset Management, where he was Managing Director, Global Head of Portfolio Management for the Global Liquidity business, a position he had held since 2001. In that role, John oversaw the Global Cash portfolio management teams across the U.S., EMEA, and Asia. His team was responsible for AUM across seven currencies. While at J.P. Morgan, John was a senior member of the Global Liquidity Operating Committee (GLOC). He also held the Vice-Chairman role for both the Global Cash Investment Policy Committee (GCIPC) and Trading Practices Oversight Committee (TPOC).

John began his financial career at Dreyfus in 1991, trading money market securities. Subsequently, he spent three years as a principal and senior portfolio manager at State Street Global Advisors, managing short duration portfolios prior to joining J.P. Morgan in 2001.

John earned a BBA in finance from Hofstra's Zarb School of Business and an MBA from the MIT Sloan School of Management.

Christine Algozzini

Chief Operating Officer

Christine is the Chief Operating Officer for Dreyfus responsible for operational oversight of Dreyfus money market/short duration fixed income products.

Prior to her current role, Christine was the Director of Operations for Dreyfus where she supported the growth and maintenance of all Dreyfus money market funds, offshore liquidity funds, private money funds, subadvised money market funds, and BNY Mellon short-term collective funds.

Christine joined the Dreyfus Investment Accounting & Support department in 2002 as an accountant. From 2008 through 2016, she served as Operations Manager with responsibilities focused on cash availability, buying power and reconciliations.

Christine holds the Series 7 and 24 FINRA licenses. She earned a Bachelor of Business Administration from Hofstra University.

Oksana Miller
Senior Product Strategist

Oksana is a senior product strategist responsible for new product development and product management of Dreyfus' suite of money market funds, separately managed accounts and exchange-traded fund. She is also responsible for driving innovation throughout our product suite.

Oksana joins us from VanEck where she was a senior product manager, covering active equity and debt strategies as well as ESG and sustainable investing. She was responsible for new product development, product management and client coverage. With over a decade of experience in the asset management and private equity space, Oksana held various positions in research, new product development, product management and global client coverage.

Oksana is a member of the CFA Institute and CFA Society New York. She received a Master of Public Administration from New York University and a Bachelor of Arts from Horlivka State Institute in Ukraine.

Endnotes

1. Source: The SEC. Data as of 7/12/2023. https://www.sec.gov/news/press-release/2023-129
2. Source: The SEC. Data as of 7/12/2023. https://www.sec.gov/files/33-11211-fact-sheet.pdf
3. RDM is essentially the mirror image of dividend reinvestment. Instead of using dividends to purchase additional shares, RDM covers negative yields by canceling shares. Source: BNY Mellon.
4. WAM is a measure of the average effective maturity of all of the underlying money market instruments in the fund, weighted to reflect the relative percentage ownership of each instrument. WAM calculations allow for the maturities of certain securities with periodic interest rate resets to be shortened. Generally, for money market funds, WAM can be used primarily as a measure of relative sensitivity to interest rate changes.
5. WAL is a measure of the average final maturity of all of the underlying market instruments in the fund, weighted to reflect the relative percentage ownership of each instrument. Unlike WAM, WAL calculations do not allow maturities to be shortened for periodic interest rate resets. Accordingly, WAL will generally be higher than WAM.
6. Form N-MFP is used for monthly reports of money market funds to report information about the fund and its portfolio holdings for the preceding month.
7. Form N-CR is the public reporting form that is to be used for current reports of money market funds required by section 30(b) of the 1940 Act and rule 30b1-8 under the 1940 Act.

Disclosure

For more market perspectives and insights from our teams, please visit www.dreyfus.com.