

SEC adopts money market fund reforms

July 12, 2023 | Client Update | 3-minute read

The SEC's amendments are intended to improve the resilience and transparency of money market funds.

On July 12, 2023, the U.S. Securities and Exchange Commission (the SEC) [adopted amendments](#) to certain rules that govern money market funds under the Investment Company Act of 1940. According to the SEC, the proposed amendments are intended to improve the resiliency and transparency of money market funds, and address concerns raised by the large outflows from money market funds experienced during the COVID-19 pandemic, which contributed to stress on short-term funding markets. SEC Chair Gary Gensler noted that the amendments "will enhance these funds' resiliency and ability to protect against dilution. Taken together, the rules will make money market funds more resilient, liquid, and transparent, including in times of stress. That benefits investors."

The changes adopted by these amendments include:

Increase in portfolio liquidity requirements – The amendments increase the daily liquid asset requirement from 10% to 25%, and the weekly liquid asset requirement from 30% to 50%. Such increase is intended to help money market funds manage significant and rapid investor redemptions in periods of market stress, while maintaining the flexibility to invest in diverse assets during normal market conditions.

Removal of temporary redemption gates and the regulatory tie between weekly liquid asset threshold and liquidity fees – The amendments remove provisions that allowed money market funds to impose temporary redemption gates, and the regulatory tie that permitted money market funds to impose liquidity fees if weekly liquid assets fall below a certain threshold. Such changes are intended to reduce the risk of investor runs during stressed market conditions.

Liquidity fee requirement – Notably, the amendments did not adopt the proposed swing pricing requirement. Instead, the amendments revised the liquidity fee framework by requiring institutional prime and institutional tax-exempt money market funds to impose mandatory liquidity fees on redeemed shares when daily net redemptions exceed 5% of a fund's net assets, unless the fund's liquidity costs are *de minimis*. Non-government money market funds are also required to impose a discretionary liquidity fee on redeemed shares if the fund's board (or delegate) determines that a fee is in the fund's best interest. The amended liquidity fee framework is intended to protect remaining shareholders from dilution, and to allocate costs more fairly so that redeeming shareholders bear the costs of redeeming when liquidity in short-term funding markets is costly.

Other amendments – Among other things, the amendments also permit retail and government money market funds, subject to board determinations and investor disclosures, to manage negative interest rate environments by converting from a stable share price to a floating share price, or by reducing the number of outstanding shares to maintain a stable net asset value per share. The amendments also revise certain reporting requirements to improve transparency and enhance the SEC's ability to monitor money market fund data, and amend Form PF with respect to information large liquidity fund advisers must report for the private liquidity funds they advise.

The rule amendments will be effective 60 days after publication in the Federal Register, and the reporting form amendments will be effective on June 11, 2024. The SEC provided for a 6-month transition period for compliance with certain amendments, including the minimum portfolio liquidity requirements and discretionary liquidity fee provision, and 12 months for compliance with the mandatory liquidity fee provision.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

Leor Landa

+1 212 450 6160
leor.landa@davispolk.com

Gregory S. Rowland

+1 212 450 4930
gregory.rowland@davispolk.com

Michael S. Hong

+1 212 450 4048
michael.hong@davispolk.com

Lee Hochbaum

+1 212 450 4736
lee.hochbaum@davispolk.com

Sijia Cai

+1 212 450 3071
sijia.cai@davispolk.com

Jennifer Grant Cooper

+1 212 450 4492
jennifer.cooper@davispolk.com

Sarah E. Kim

+1 212 450 4408
sarah.e.kim@davispolk.com

Benjamin Milder

+1 212 450 3171
benjamin.milder@davispolk.com

Matthew R. Silver

+1 212 450 3047
matthew.silver@davispolk.com

Leon E. Salkin

+1 212 450 3395
leon.salkin@davispolk.com

This communication, which we believe may be of interest to our clients and friends of the firm, is for general information only. It is not a full analysis of the matters presented and should not be relied upon as legal advice. This may be considered attorney advertising in some jurisdictions. Please refer to the firm's privacy notice for further details.