Insights
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Money Market Reform 2024

A New Era for Institutional Prime Money Market Funds

During March of 2020 and the onset of the pandemic, there was broader stress in the short-term funding markets and significant redemptions of Prime Fund assets. In response, the SEC proposed additional regulations to further strengthen the Institutional Prime Fund space during periods of volatility with the goal to disincentivize any first mover advantage.

In October 2024, the final wave of the SEC's money market fund reform rule changes will take effect, marking the most substantial shift since the 2016 reforms. These changes are set to redefine the landscape of Institutional Prime Money Market funds. This transition signifies a pivotal moment for the industry, reflecting the evolving regulatory environment and the drive for greater stability and transparency in the financial markets.

The 2024 reforms are expected to have a profound impact on Institutional Prime Money Market funds, which, as of June, held approximately $650 billion in assets under management (AUM) according to Crane data. Many fund managers have already announced closures or conversions, accounting for over two-thirds of the AUM. The remaining balance will hinge on how comfortable shareholders are with the new rules and the potential application of fees to their redemptions. It is important to note that for those Institutional Prime Fund Investors who understand their cash flows, have multiple sources of liquidity and view Prime Funds as a strategic cash allocation — they may be largely unaffected

Effective October 2, 2024, the SEC's new rule will impact Institutional Prime and Institutional Municipal Money Market Funds. Retail Prime and Municipal Money Market funds will remain unaffected. This distinction underscores the focus the SEC has on Institutional investors.

The new rule states that a when a fund experiences total daily net redemptions of 5% or more of its net assts in a single day, then it must calculate the cost of selling a vertical slice of the portfolio. If the estimated liquidity costs are less than one basis point (0.01%) of the value of the shares redeemed, the fund is not required to apply a fee. If the costs are higher, the mandatory liquidity fee must be applied to all redeeming shareholders. Shareholders who are not redeeming, are not charged the fee.

The fee could be zero or more. If, when pricing the vertical slice of the portfolio, it is determined that there is no change to the prices of those securities then the fee would be zero. The SEC mandates that if a fund company cannot establish pricing or determine the fee, the fund company could apply a default fee of 1%.

Historically, it has been uncommon for institutional prime money market funds to lose 5% or more of their AUM in a single day. However, the SEC believes that in most instances, normal market conditions, such redemptions will not materially impact the NAV, and thus, the fee would not be applied.

Fees are most likely to be applied during periods of market stress, similar to the liquidity-driven event in March 2020. During such times, NAVs of institutional money market funds can fluctuate by more than $0.0001, highlighting the importance of understanding the market conditions under which fees might be imposed.

While most fund closing times are not expected to change, prime funds are expected to convert to a single NAV strike per day. In preparation for these changes, we will convert to a single NAV strike on September 16, 2024. The NAV strike time will be 3 PM ET.

As the reform approaches, it is essential for investors to consider whether Institutional Prime Money Market Funds can still serve their liquidity needs. Given the potential for fees and the uncertainty surrounding redemption costs, these funds may no longer be viable as same-day liquidity vehicles. Instead, they could be viewed as tactical allocations for yield advantage over government or treasury funds. They can continue to offer value as a cash and cash equivalent investment that provides safety and liquidity while generating a yield above a government or treasury money market fund.

Key Takeaway

The SEC's latest rule changes mark a transformative moment for Institutional Prime Money Market Funds. The reforms aim to enhance market stability but also signal the end of these funds' traditional role. The new regulations, driven by investor behavior during periods of market stress, remove the discretionary power of fund managers to implement fees or gates. Investors must now navigate this new era with a keen understanding of the risks and opportunities presented by these regulatory changes.

If you would find value in an in-depth conversation and Q+A for your specific needs, please reach out to your SSGA Cash representative or contact us at uscashclientservice@statestreet.com.