FINANCIAL STABILITY OVERSIGHT COUNCIL STATEMENT ON MONEY MARKET FUND REFORM

Short-term funding markets provide a key source of funding for businesses, local governments, and other market entities in support of the U.S. economy. Stresses in the short-term funding markets can impact other financial market participants and the broader economy. Disruptions experienced during the early stages of the COVID-19 pandemic highlighted the importance of resilient short-term funding markets to the stability of the U.S. financial system. Money market funds (MMFs) are significant participants in these markets. The pandemic-induced market volatility demonstrated that disruptions in short-term funding markets, including at MMFs, have the potential to create or amplify financial instability.

COVID-19 Market Stress and Potential Vulnerabilities

In March 2020, in response to escalating concerns about the economic impact of the pandemic, market participants shifted their risk preferences toward cash and other highly liquid assets. This "dash for cash" created stress in both the secured and unsecured components of short-term funding markets. Liquidity pressures experienced by MMFs from rapid redemptions were affected by and subsequently contributed to dislocations in the short-term funding markets during the flight to liquidity and quality among investors. On March 18, 2020, the Federal Reserve, with Treasury approval, established the Money Market Mutual Fund Liquidity Facility with $10 billion of credit protection from the Treasury Department's Exchange Stabilization Fund. Outflows from prime and tax-exempt MMFs subsided and conditions in short-term funding markets improved, supporting access to credit and the recovery in market conditions and economic activity.

Potential Options for Reform

In response to the events of 2020, the President's Working Group on Financial Markets (PWG) released the *Overview of Recent Events and Potential Reform Options for Money Market Funds* (PWG Report) in December 2020. The PWG Report emphasized that future reforms should address structural vulnerabilities in MMFs, improve the resilience and functioning of short-term funding markets, and reduce the likelihood that official-sector interventions and taxpayer support will be needed to halt future MMF runs and address stresses in short-term funding markets more generally.

On February 4, 2021, the Securities and Exchange Commission (SEC) published a request for public comment on the potential policy measures identified in the PWG Report, and today SEC staff briefed the Financial Stability Oversight Council (Council) on the comments it received regarding the potential reform options. The Council is encouraged by the SEC's engagement on this critical issue. Given the interconnectedness of financial institutions and markets, the Council will continue to monitor this initiative in the broader context of efforts by financial regulators to strengthen short-term funding markets and support orderly market functioning, including during periods of heightened market stress.