As suggested by commenters, the amendments we are adopting today will impose a default liquidity fee of 1%, that may be raised or lowered (or not imposed at all) by a fund's board. As discussed below, we are persuaded by commenters that 2% may be higher than most liquidity costs experienced when selling money market securities in a crisis, and may thus result in a penalty for redeeming shareholders over and above paying for the costs of their liquidity.[289] We are also persuaded by commenters that fund boards may be reluctant to impose a fee that is lower than the default liquidity fee for fear of being second-guessed—by the market, the Commission, or otherwise.[290] Accordingly, commenters supporting the 1% default fee have persuaded us that 1% is the correct default fee level.

Furthermore, analysis by Commission staff of liquidity costs of certain corporate bonds during the financial crisis further confirms that a reduced default fee of 1% is appropriate.[291] DERA staff estimated increases in transaction spreads for certain corporate bonds that occurred during the financial crisis.[292] Relative to transaction spreads observed during the pre-crisis period from January 2, 2008 to September 11, 2008, average transaction spreads increased by 54.1 bps for Tier 1 eligible securities and by 104.4 bps for Tier 2 eligible securities during the period from September 12, 2008 to October 20, 2008. These estimates indicate that market stress increases the average cost of obtaining liquidity by an amount closer to 1% than 2%.[293]

We received a number of comments on DERA's analysis of liquidity costs.[294] Some commenters agreed that DERA's analysis supports a default liquidity fee of 1% and that 1% is the appropriate level for the fee.[295] Other commenters, however, took issue with DERA's methodology in examining liquidity costs and, one commenter suggested a default fee ''as low as'' 0.50% may be appropriate.[296]

As discussed in the Proposing Release, we have attempted to set the default liquidity fee high enough to deter shareholder redemptions so that funds can recoup costs of providing liquidity to redeeming shareholders in a crisis and so that the fund's liquidity is not depleted, but low enough to permit investors who wish to redeem despite the cost to receive their proceeds without bearing disproportionate costs.[297] Based on the comments we received on the proposal, we believe that a default fee of 1% strikes this balance. Although we have looked to the DERA study as confirming our decision based on comments we received supporting the 1% fee, we recognize commenters' critiques of the methodology used in the DERA analysis. We also note, however, that DERA acknowledged in its memorandum that its samples were not perfectly analogous to money market fund holdings, but that the samples nevertheless ''provide estimates for costs of liquidity during market stress since the selected securities have similar time-to-maturity and credit risk characteristics as those permitted under Rule 2a–7.'' [298] Moreover, at least one commenter who took issue with DERA's samples agreed, based on its own independent analysis, that a default liquidity fee of 1% is appropriate.[299] Furthermore, because we recognize that establishing any fixed fee level may not precisely address the circumstances of a particular fund in a crisis, we are permitting (as in the proposal) fund boards to alter the level of the default liquidity fee and to tailor it to the specific circumstances of a fund. As amended, rule 2a–7 will permit fund boards to increase (up to 2%), decrease (to, for example, 0.50% as suggested by a commenter), or not impose the default

BlackRock II Comment Letter; Fidelity Comment Letter.

[289] *See, e.g.,* SIFMA Comment Letter (''Our members' consensus is that a redemption fee of 100 basis points will adequately compensate a money market fund for the costs of liquidating assets to honor redemptions in times of market stress, and avoid imposing a punitive charge on shareholders.''); Fidelity Comment Letter (''We have examined the liquidation costs for our money market funds that sold securities during the period immediately following the bankruptcy of Lehman Brothers and determined that the highest liquidation cost was less than 50 basis points of face value. Recognizing that liquidation costs in a future market stress scenario may be greater, we think it is reasonable to set a liquidation fee at 100 basis points or one percent.'').

[290] *See* SIFMA Comment Letter.

[291] *See* DERA Liquidity Fee Memo, *supra* note 111.

[292] *See id.*

[293] DERA obtained information on trades in Tier 1 and Tier 2 eligible securities, as defined in rule 2a–7 from TRACE (Trade Reporting and Compliance Engine) between January 2, 2008 through December 31, 2009, and formed a Tier 1 and a Tier 2 sample. TRACE provides transaction records for TRACE eligible securities that have a maturity of more than a year at issuance. Money market instruments, sovereign debt, and debt securities that have a maturity of less than a year at issuance are not reported in TRACE and hence DERA's sample differs from what money market funds hold. Nevertheless, the samples constructed from TRACE provide estimates for costs of liquidity during market stress since the selected securities have similar time-to-maturity and credit risk characteristics as those permitted under rule 2a–7. DERA included in the samples only trades of bonds with fewer than 120 days to maturity and with a trade size of at least $100,000. DERA classified bonds with credit ratings equal to AAA, AA+, AA, or AA− as Tier 1 eligible securities. The average days to maturity for Tier 1 securities in the sample is 67 days, which roughly reflects the 60-day weighted average maturity limit specified in rule 2a–7. Bonds with credit ratings equal to A+, A, or A− represent Tier 2 eligible securities. The average days to maturity for Tier 2 securities in the sample is 28 days, which is somewhat lower than the 45-day weighted average maturity limit required by rule 2a–7.

[294] *See, e.g.,* Comment Letter of SIFMA (Apr. 23, 2014) (''SIFMA II Comment Letter''); Comment Letter of Dreyfus Corporation (Apr. 23, 2014) (''Dreyfus DERA Comment Letter''); Comment Letter of Invesco (Apr. 23, 2014) (''Invesco DERA Comment Letter'').

[295] *See* SIFMA II Comment Letter (''Data in the [DERA] Liquidity [Fee Memo] support that a lower default level [from the level proposed] will effectively compensate money market funds for the cost of liquidity during market turmoil. . . . A 100 basis point (1%) default level for the liquidity fee will more closely approximate the fund's cost of providing liquidity during a crisis period for a portfolio comprised largely of Tier 1 securities.''); Dreyfus DERA Comment Letter (''We read [DERA's analysis] and interpret the average spread calculations contained [in the DERA Liquidity Fee Memo] to support a [default liquidity fee] of 1% and not 2%, as proposed.''); Fidelity DERA Comment Letter (supporting a 1% liquidity fee and suggesting the empirical market data examined by DERA in its Liquidity Fee Memo is ''critical in order for the SEC to determine the size of a liquidity fee,'' but noting that the methodology in DERA's analysis ''overstates the estimates of absolute spreads.'')

[296] *See* Invesco DERA Comment Letter (suggesting concerns with the data and methodology used in DERA's analysis); BlackRock DERA Comment Letter (suggesting the methodology used in DERA's analysis was not ''the appropriate methodology to measure the true cost of liquidity in MMFs,'' particularly the use of TRACE data); Comment Letter of Federated Investors Inc. (Liquidity Fee) (Apr. 23, 2014) (''Federated DERA II Comment Letter'') (suggesting it generally agrees with DERA's methodology, but believes that a more appropriate default liquidity fee may be ''as low as'' 0.50% because ''use of [TRACE] bond data as the basis for spread analysis led DERA to find significantly larger spreads than it would have found had it based its analysis on the short-term instruments in which MMFs actually invest''); *see also* Fidelity DERA Comment Letter (supporting a 1% default liquidity fee, but suggesting that the spreads cited in DERA's analysis are higher than those it has seen it its experience and that its independent analysis reflects average spreads between 0.12% and 0.57% during the week immediately following the Lehman Brothers bankruptcy).

[297] *See, e.g.,* SIFMA Comment Letter; Fidelity Trustees Comment Letter; Fidelity Comment Letter (suggesting a 2% fee would be punitive); *see also supra* note 281.

[298] *See* DERA Liquidity Fee Memo, *supra* note 111. Some commenters suggested we should analyze liquidity spreads in actual money market fund portfolios. *See* Federated DERA II Comment Letter; BlackRock DERA Comment Letter; Fidelity DERA Comment Letter. However, as one commenter acknowledged, this information is not publicly available, and we note that only one commenter on the DERA Liquidity Fee Memo provided specific information in this area. *See* BlackRock DERA Comment Letter; Fidelity DERA Comment Letter (providing specific information on spreads during the financial crisis and stating that a 1% default liquidity fee is appropriate). We believe one data point is not adequate for us to draw conclusions on liquidity costs in money market funds during the crisis.

[299] *See* Fidelity DERA Comment Letter.