shelf-space controls and pay big

The $12-trillion firm steered clear of the retail giants' cash cows until this month, when it launched ETFs that mimic the custodians' best offerings -- albeit with caveats.

Author **Oisin Breen** February 21, 2025 at 10:02 PM

2 Comments

R. Scott Victoria: Mutual funds require an agreement between the broker-dealer [or] clearing firm and the fund company, whereas an ETF would not.

> ***Brooke's Note: The financial lifeblood of the RIA/RIA-custodian relationship is often the money market fees and cash account spreads that their mutual wealth management clients pay to, or allow to be taken by, the RIA custodian. The custodian gets revenue and the custodian in effect shares the revenue with the RIA by waiving any custody fees it might otherwise need to charge. But the system only really works if the RIA can claim to choose the best cash products – even if they are all that the custodian offers. With BlackRock entering the cash game with money market ETFs, this delicate balance of RIA custodian, RIA, and RIA client could be disrupted, though it should accrue to the benefit of the client and the RIA first. Of course, whether a money market ETF is a suitable substitute***

> ***for a conventional money market fund is up for debate and there are caveats galore to what Wall Street has engineered.***

BlackRock became the world's No. 1 asset manager by playing to win but also by playing politely with Fidelity Investments and Charles Schwab Corp.

“Polite” may now be on the outs.

Frank Bonnano: It's a pretty smart way to circumvent restrictions most large firms are placing on MMFs.

BlackRock on Feb. 4, launched iShares Prime MMF (PMMF) and the iShares Government MMF (GMMF). The money market ETFs reported $104.2 million and $26 million in net assets, respectively, in just the first 17 days since launch.

For the first time, BlackRock takes direct aim at a discount brokerage and RIA custody cash cow – cash management money market funds (MMF). (And indirect aim at high-yield FDIC cash accounts.)

BlackRock declined a request for comment, including, specifically, whether avoiding shelf-space fees influenced its decision to launch a MMF ETFs, making it the second firm ever to do so.

Yet, BlackRock executives did not mince words about coming after the $6.9 trillion money-market pie, with a 40/60 split between retail and institutional investors, according to industry figures.

“In 2024, U.S. money market funds surpassed $6 trillion in assets, fueled by the appeal of short-term interest rates,” says Jon Steel, Cash Management's global head of product and platform, in a release.

"As investors seek smarter ways to manage their cash, iShares Money Market ETFs provide a convenient and transparent solution.”

Offering a choice

The BlackRock Prime and Government funds pay 4.29% and 4.18%, respectively, and levy 20-basis-point fees.

In contrast, Schwab's highest-yielding MMF, the Schwab Value Advantage Money Fund (SWVXX), pays 4.19% and its government fund, the Schwab Government Money Fund - Ultra Shares (SGUXX), had a 7-day yield of 4.24%.

The Schwab funds have net fees of 34 basis points and 19 basis points, respectively, and the latter requires a $1 million minimum investment.

Matt Akparian: There's a good chance this starts a cascade of money market ETF launches.

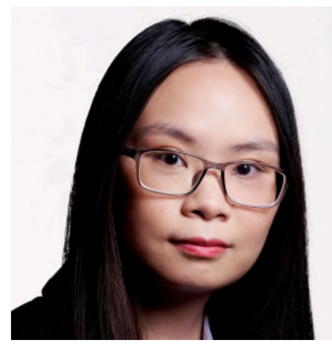
BlackRock emphasizes that its funds offer a “choice” in a market where brokerages largely use proprietary offerings.

“iShares Money Market ETFs unlock access to professional-grade cash management strategies in the convenience of the ETF wrapper," says Josh Penzner, managing director, iShares Fixed Income at BlackRock, in a release.

BlackRock already offers a roster of 133 money market funds to advisors, corporations, banks, foundations, insurance companies and public funds.

Avoiding fees

Until now, laws, economics, fee structures, and even unwritten channel-conflict red lines have kept BlackRock from selling money market funds to investors, directly or through their RIAs and brokers.



Lan Anh Tran: We’re unsure why it was important ... to call themselves a money market fund.

Using ETFs – in a zero-commission world – may disrupt that paradigm.

Employing an ETF wrapper gets "around the need to be ‘approved’ as a money fund option on the clearing firm platforms, and/or the need to pay a fee to be on a fund supermarket,” says Frank Bonanno, managing director and head of marketing at cash management shop StoneCastle, via email.

"It's a pretty smart way to circumvent restrictions most large firms are placing on MMFs, as they'd likely prefer cash stay in sweep.

"[This] makes it easy to find a likely higher-yielding alternative, without having to use a proprietary fund, or be forced to settle for one that's on platform," he explains.

Value for customers

Spot on, says one analyst from a prominent shop.

Jeff DeMaso: It looks like there's room to undercut

“This is definitely one way to do it,” says Matt Apkarian, associate director for product development at Boston consultancy, Cerulli Associates, via email.

“There's plenty of investors who would love the ability to shop around for money markets, but they can't because the large platforms only allow their own funds."

iShares.

Worth a shot

Yet, analysts and industry insiders are split over precisely who BlackRock's new ETFs will serve.

“I'm not quite sure I ‘get it,’” says Jeff DeMaso, founder and editor of the Independent Vanguard Advisor, via email.

“The pitch here is that this is a ‘money market’ for ETF investors, or maybe, a money market with better liquidity.

"If you're going to get money market returns without the stable price, why not just buy an actual money market fund with a stable price?” he asks.

Peter Crane, president and CEO of mutual fund data firm, Crane Data, also expresses puzzlement.

“I’m still not sure of the attraction either, other than to offer advisors the ETF format that they evidently prefer," he says, via email.

"We’ll see if it flies … [but] given how hot ETFs are, coupled with how hot money market funds are, it’s worth a shot!” he adds.

It'll come down to value for the customer, says Jason Wenk, founder and CEO of the Los Angeles RIA custodian, Altruist, via email.

"So long as it's also great for end clients, [BlackRock] could very well have a lot of success here."

“If you earn 0.2% on hundreds of billions of assets, it's a fantastic business,” he adds.

Staking a claim

Morningstar manager research analyst, Lan Anh Tran counters that – for now, at least – MMF ETFs are likely aimed at advisors and institutions that need an easy-to-hedge MMF product.

“We’re unsure why it was important to them to call themselves a money market fund … [but] these new ETFs are unlikely to be geared towards retail. It’s possible that BlackRock is simply staking [its] claim,” she says, via email.

But they "can be used as collateral given [their] low risk … [and if they're] cheap to short, [they] can also be a funding tool for trading," she explains.

More advanced investors could appreciate BlackRock's new ETFs, if they can stomach the risk, according to Bonanno.

"It's for anyone that's rounding out the more liquid portion of their fixed income portfolio, [who] doesn't mind potential fluctuations, [or] loss to principal on their cash, remote chance or not," he says.

"It's [also] for someone with the constitution to withstand 117 mentions of the word 'risk' in the prospectus.

"Cash should be principal-protected ... anything beyond that is a fixed income conversation, not a cash conversation," he adds.

Jason Wenk: If you earn 0.2% on hundreds of billions of assets, it's a fantastic business.

'Untouched frontier'

BlackRock won't have the market all to itself for long; Vanguard, Fidelity, and State Street et al. will likely launch similar products soon, says Apkarian.

"There's a good chance this starts a cascade of money market ETF launches … it's only going to take a sliver of market share to make a profitable product, and if a firm doesn't do it, others will," he continues.

"So far, it's a fairly untouched frontier, but I think most would agree that there could be significant demand, particularly given the size of the ETF market," he explains.

Jon Steel: iShares Money Market ETFs provide a convenient and transparent solution.

Other asset managers could see the wisdom in coming in and undercutting BlackRock, too, says DeMaso.

"Vanguard's money market funds charge between 0.07% and 0.12%, [so] if Vanguard does come to market, it looks like there's room to undercut iShares," he adds.

'Backlash' possible

Money market ETFs could also threaten current brokerage business models given their reliance on fees generated by proprietary investment products and platform fees. See: Schwab pledges: 'No custody fees and no intention to raise them'.

Yet, torpedoing MMF ETFs would likely spark a sizable "backlash," says TradePMR chief operating officer, R. Scott Victoria, via email.

"Firms may still prevent trading in these types of ETFs, but the perception and backlash would be harsher … since mutual funds require an agreement between the broker-dealer [or] clearing firm and the fund company, whereas an ETF would not."

Ari Sonneberg: The SEC is satisfied at this point.

RIABiz asked Schwab, Vanguard and Fidelity if they intended to launch a similar ETF, and if they currently charge fees to list money market funds on their platform. No firm answered.

They could, however, nix BlackRock's ETF workaround if they choose.

"The one hangup [for BlackRock] would be if large custodians charge transaction fees on the ETF, or require some type of revenue share or listing fee," says Wenk.

"I don't know if that is likely to happen, it's just always a possibility," he adds.

Hard to 'NAV'igate

Investors could also suffer if interest rates ever fell back to zero, DeMaso continues.

Peter Crane: Given how hot ETFs are... it's worth a shot.

"In an extreme case, would iShares step in to keep the fund from falling in price?" he asks.

"Would iShares waive fees on the ETF to keep their yields above zero, as many mutual fund providers did, or would they just let the price erode slowly since there's no unbreakable $1 price to maintain?"

Apkarian counters that although the approach is unproven, market forces will likely keep things ticking.

It's "a bit more risky, but the price discovery mechanism should, in theory, work to protect the principal of the investment," he explains.

Smarter management

BlackRock's entry into RIA and retail cash accounts via ETFs comes at a time of tension between investors, financial advisors, custodians, and asset managers.

At issue are fees, spreads, yields, who gets them – and transparency.

Three smaller custodians speak on MMF listing

- Altruist, Interactive Brokers (IBKR), and TradePMR each state that they do not charge fees for MMF shelf-space on their platforms.
- **IBKR** has no proprietary money market funds of its own, and provides access to 630 money market funds, according to the firm.

Schwab and Fidelity not only guide cash largely to their own funds but are also determined to sweep cash to funds where they collect fatter margins. See: Despite lawsuits, Schwab slashes sweep yields 89% in five months, including two cuts in December -- raising risks for RIAs that don't sort cash, experts say

- **TradePMR** has no proprietary funds, receives no payment from fund shops to list MMFs, and it imposes no MMF restrictions, according to the firm.
- **Altruist** does not charge vendors to list any fund, MMFs included, nor does it use any proprietary funds, according to the firm.

Schwab sweep rates vary but are as low as 0.45% on cash balances, while Fidelity pays about 2.19%.

Crashing markets

Other factors were also at play in BlackRock's retail entry into money markets.

In 2014, the Securities and Exchange Commission (SEC) mandated that all institutional prime and institutional municipal money market mutual funds move to a floating net asset value to ensure institutional investors could not 'break the buck*,' given their propensity for making 'large redemptions' during economic shocks.

Investors will earn interest with MMF ETFs, but their price will fluctuate, which could cause problems, says DeMaso.

"For most investors, a money market means a dollar in and a dollar out, and these ETFs do say 'money market' on the label, so, if one of these ETFs drops, say, 2% … it won't have broken the buck, but I doubt investors will be very happy," he adds.

Market share fight

An SEC rules change in 2023, and the Trump administration's lax regulatory approach helped pave the way.

The SEC is aware that – unlike regular retail-based money market funds, the new ETFs are not pegged to the dollar, so their value can rise and fall.

BlackRock executives also, no doubt, noticed that the big custodians are showing no restraint in competing on its ETF turf.

Schwab promoted Rick Wurster to CEO from the asset management side of the business and Fidelity CEO Abby Johnson also established herself in that realm.

Fidelity was a latecomer to ETFs but now reports managing, under its "Geode" division, $1.5 trillion in assets as of Dec. 31, 2024.

Getting satisfaction

The new BlackRock ETFs take advantage of both the 2014 Floating NAV Rule change, and 2023 SEC updates to Rule 2a-7 of the '40 Act, which, together, opened the door to money market ETFs.

"Money market ETFs did not evolve until recently, primarily because ETFs typically have a fluctuating NAV, whereas money market funds historically … had a stable NAV," says Ari Sonneberg, partner at Wagner Law Group, via email.

Now the SEC "is satisfied" that current regulations address the risk MMFs "might collapse," and asset managers are confident MMF regulations have stabilized, he explains.

Markets aligned

The SEC's 2023 reforms also increased minimum MMF liquidity requirements from 10% of total assets to 25% on a daily basis, and from 30% of total assets to 50% on a weekly basis, according to a report by white-shoe law shop, Ropes & Gray. See: SEC forces fund firms to impose hefty back-end fees on money market fund investors who sell into financial panics.

Additionally, the reforms eliminated redemption gates that stopped investors from withdrawing money from funds; imposed liquidity fees so investors pulling funds during a run must pay a toll to withdraw assets and gave MMF fund boards the ability to reduce the number of shares to maintain share price, the report states.

Now, both regulators and asset managers are far more aligned, according to Bonanno.

"The SEC resisted for years, largely pinned to the stable NAV issue ... [and] the potential of exacerbated liquidity runs in times of stress ... [but] regulators have since acquiesced, likely due to consumer demand and increased controls around ETFs," he explains.

Indeed, MMF ETFs break with established precedent, while retail MMFs in mutual fund wrappers remain pegged to a one-dollar valuation.

Certain institutional funds also now operate with a 'floating' net-asset value (NAV), as a result of regulation introduced after the 2008 crash. See: Alarmed by systemic risks, SEC puts NAVs under spotlight.

* *Texas Capital Bank Private Wealth Advisors, a subsidiary of Texas Capital Bank in Austin, Tx., launched the first money market ETF, MMKT, in Sept. 25, 2024. It holds a mix of US government debt and cash.*

** Only two MMFs have, in fact, ever broken the buck, the Primary Reserve Fund in 2008, and the Community Bankers US Government fund in 1994, but the New York Fed stated, in 2013, that 28 MMFs would have broken the buck in 2008, if the asset managers behind them had not stepped in.*

** The total value of money market fund assets topped $7 trillion for the first time last November. In the first week of February, the MMF market posted inflows of $5.48 billion. In the second week, it posted outflows of $9.55 billion, the ICI reports.*

Dublin-native and Edinburgh-based Oisín Breen has spent seven years writing about finance, including five whirlwind years diving into the advisor world for RIABiz. A widely published and well regarded poet with two full collections under his belt, Breen is also an academic in English Literature with a deep fondness for his Scottish rabbit, Hessell. @Breen

Brooke Southall and Keith Girard contributed to the editing of this article.

ETFs

Jason Wenk

BlackRock | TradePMR | Frank Bonanno | Altruist | Jeff DeMaso | Ari Sonneberg | Peter Crane | cash | Matt Apkarian

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(2) COMMENTS

Stephen

February 22, 2025 — 1:41 AM

The analysis regarding SEC yields and expenses is wrong. First, SEC yields are inclusive of expense ratios, so the statement that the new BlackRock ETF fund yields are "before 20-basis-point fees" is just simply incorrect. Further, as of 2/21/25, SWVXX has a 7-day SEC yield of 4.19% and an expense ratio of 34bp --- not 4.34% and 19bp, respectively. The author mistakenly used data for SNAXX, the Ultra Shares, despite saying "only the latter has a $1M minimum", even though SNAXX also has a $1M minimum. While SNAXX (4.34% 7-day SEC yield) yields higher than PMFF (4.29% 7-day SEC yield), PMFF has a 10bp pickup on yield over SWVXX (4.19%). Notably, SWVXX has nearly 2x the amount of net assets as SNAXX due to not having a $1M minimum. With no minimum and having the lions share of assets for Schwab money funds, it's clearly a better comp to PMFF.

Oisín Breen

February 22, 2025 — 4:24 AM