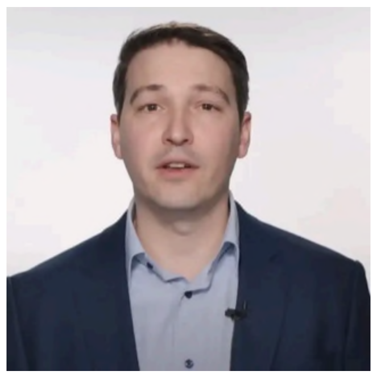
Schwab and Fidelity halt of BlackRock's money-market fund ETF trades was no shock nor was it a straightforward series of events -- or explanations

Altruist, IKBR and Vanguard are cool for now, but Schwab and Fidelity are nearly mum amid questions, like when blocks happened and what's next for Schwab's own money market ETF.

Author Oisin Breen March 25, 2025 at 10:18 PM

0 Comments



Byan Armour: Don't mess with cash management.

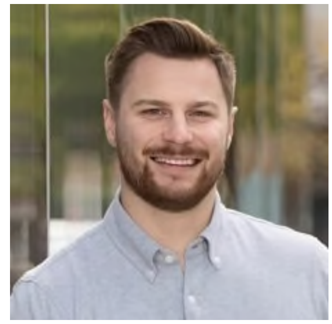
> ***Brooke's Note: The beauty of being a third-party asset manager like BlackRock is that you can skip all that overhead and managerial complexity associated with providing personal service to millions of investors, like Schwab and Fidelity. But closeness to the customer has its privileges, too. In this case, Schwab and Fidelity are protecting their high-volume, high-margin money market funds at BlackRock's expense. And nobody is really complaining that BlackRock got slapped down. There's a primal fairness. So it is odd that Schwab, Fidelity, and BlackRock are keeping the specifics of what happened – seemingly haltingly – and what will happen more than a little vague. We probed to determine just what we still don't know. Will Schwab still launch its money market ETF? Will Fidelity block it from trading? No answers, for now.***

Those who own access to 88 million retail investors make the blackout rules – even for BlackRock.

Charles Schwab & Co. and Fidelity Investments have bluntly rejected BlackRock's effort to sell its new money market fund (MMF) ETFs on their platforms, excluding access to 88 million investors and 20,000 RIAs with a combined $25 trillion of administered assets.

Meanwhile, Schwab has filed with the Securities and Exchange Commission (SEC) to sell its own money market funds packaged in ETFs. See: Schwab chases BlackRock out of the gate with money market ETF.

"Don’t mess with cash management,” said Bryan Armour, Morningstar director of passive strategies research for North America.



Hunter Shoemake: Being around 60% reliant on cash sweeps has consequences.

"Being around 60% reliant on cash sweeps has consequences," adds Hunter Shoemake, a Schwab consultant until last June and now a growth consultant at Hilltop Securities, a Dallas broker-dealer, in a Mar. 24 LinkedIn post.

He is referring to one of Schwab's chief revenue sources – the difference between what it pays in interest on sweep cash and the revenue it makes from reinvesting the money.

Fidelity will also prohibit Schwab from selling its MMF ETF to Fidelity investors, and it blocked Texas Capital Bank's (TCB) comparable MMF ETF, MMKT, which launched Sept. 25 last year.

“Fidelity has generally restricted third-party money market mutual funds on our platform, and this is an extension of that policy,” says a company spokesman via email.

Favoring the house

TCB and BlackRock have no choice but to live with the ban, according to Ari Sonneberg, partner at Boston law firm Wagner Law Group.

Ari Sonnenberg: Move is not 'monopolistic.'

“From a legal perspective, there is nothing BlackRock can do to compel Fidelity and Schwab to offer its money market ETFs,” he explains via email.

"Fidelity and Schwab cannot be prevented from favoring their own products in whatever asset class they choose, he explains.

Nor is the move “monopolistic” because investors can easily acquire BlackRock and TCB MMF ETFs through other broker-dealers, he adds.

Interactive Brokers (IBKR), which confirmed it also has no intention to ban MMF ETFs, raised another potential red flag.

“Recent decisions by some firms to limit access to certain ETFs raise questions about potential conflicts of interest,” a company spokeswoman says, in an email exchange.

Advisor impact

“These moves may not sit well with fiduciary advisors. We do not restrict product access or push proprietary offerings, and we believe that [this] approach is more relevant than ever," she adds.

Yet, the ban may have a pretty significant upside for RIAs custodying through Schwab and Fidelity, says Armour.

“Asset managers and platforms can offer cheaper solutions or freebies to investors when they get paid somewhere else in the plumbing, like with sweep accounts and money market solutions,” he explains.

“Investors and advisors [also] aren’t necessarily worse off without money-market ETFs, so long as Fidelity and Schwab can deliver best-in-class alternatives, [and] both Fidelity and Schwab are well-known for their money-market fund chops.”

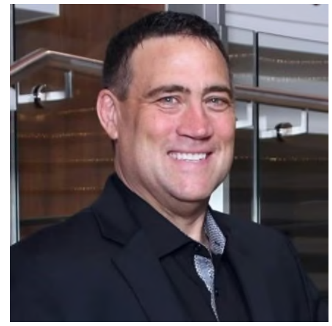
Indeed, MMFs accounted for 7.4%, or $1.46 billion, of Schwab's $19.6 billion 2024 revenues and 5.9%, or $596.5 billion, of the $10.1 trillion in year-end assets under management (AUM), including proprietary and ‘third-party purchased’ MMFs, company data shows.

MMFs, particularly the lower-yielding funds both firms ‘sweep’ brokerage assets into, are also high-margin products that produce outsized contributions to profits, relative to the revenues they generate.

Nasty shock

6 Key Themes Shaping 2025

Neither Fidelity nor Schwab have said when they first began blocking trades of TCB and BlackRock money market ETFs, though they insist that their determinations were made without any prior coordination.



Mike Younkman: I've never seen this with any other ETFs.

The move came with zero fanfare and almost no explanation, outside of a Bloomberg report Mar. 24, which broke the story.

Schwab declined to comment to RIABiz, but a spokesperson told Bloomberg the move fits with its "long-standing approach" to mutual funds.

Schwab faces a contradiction because, historically, it has not blocked ETFs. In fact, Schwab and Fidelity did BlackRock and other ETF issuers a huge solid in 2019 when they eliminated commissions on ETF trades.

But in a reversal, it first blocked TCB money-market-inside-an-ETF (MMKT) in January, according to Mike Younkman, chief investment officer (CIO) at Ankerstar Wealth, which was using those ETFs.

He said he got a nasty shock when the RIA, with $100 million of AUM, simply could no longer place the trades.

Younkman said his firm invested in MMKT because it found that the yields, fees, and duration of debt better fit its investing criteria than Schwab's in-house products.

Fidelity also stopped short of declaring all non-Fidelity money market funds unwelcome with its own carefully worded statement. It called the ban on TCB and BlackRock's ETFs an "extension" of a "general restriction" on "third-party money market mutual funds."

"If you can't beat 'em, block 'em," says Frank Bonanno, managing director at StoneCastle, an RIA cash manager, in an email exchange.

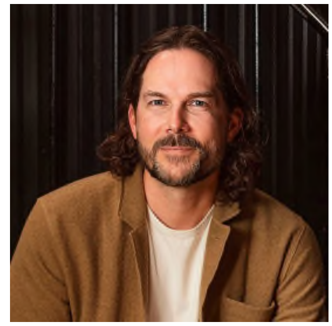
"Cash sweeps and money funds are foundational to Schwab and Fidelity's revenue model ... Now BlackRock's ETF threat is being perceived as another Javelin missile locked in, [so] blocking it signals just how serious they see the risk," he adds.

Denying choice

Blunt force tactics aside, Schwab and Fidelity are wisely using their structural advantages and scale, said Armour.

"From a revenue standpoint, it's smart for Fidelity and Schwab to put a limit on their open-architecture platforms," he added via email. "I wouldn't expect this decision to spread to other types of ETFs."

Yet, TCB chided Schwab and Fidelity for closing their "architecture" at the expense of investors.



Jason Wenk: It's very important to be agnostic on cash.

"It's unfortunate and surprising that Schwab and Fidelity would restrict their clients' ability to purchase MMKT, particularly because the fund offers investors an alternative way to manage cash balances and near-term liquidity needs," says a company spokeswoman via email.

"Investors should retain the choice as to where to invest … [and] Texas Capital remains committed to serving our clients with thoughtful advice, innovative products, and extensive financial services, delivered with integrity," she adds.

Still, it's a stark reminder that BlackRock's crown as the world's largest asset manager is little consolation – or help – in negotiating for financial services shelf space with boots-on-the-ground brokerage firms.

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. See: BlackRock rattles giant saber at Schwab and Fidelity.

The New York City firm offered not a whimper of public protest, though it referred RIABiz to its general boilerplate Bloomberg comment.

A BlackRock spokesperson extolled its iShares money-market ETFs by saying they "unlock access to professional-grade cash management strategies in the convenience of the ETF wrapper, providing additional choice and flexibility for investors."

Competitors respond

Floating NAVs, in brief

- Unlike MMF mutual funds, MMF ETFs are not pegged to the dollar, so there's no guarantee of "a dollar in, and a dollar out," when trading.
- The approach was pioneered after a 2014 Securities and Exchange Commission (SEC) ruling that all institutional prime and institutional municipal money market mutual funds move to a floating net asset value (NAV) to ensure institutional investors could not "break the buck." See: SEC forces fund firms to impose hefty back-end MMF fees.

Several other leading RIA custodians and brokerages – Pershing, Altruist and Vanguard included – state they have no MMF ETF bans in place.

Vanguard manages $580.7 billion of MMF assets through six funds. It declined to answer a Mar. 19 request for comment on whether it intended to launch its own MMF ETF.

- A further 2023 SEC update to Rule 2a-7 of the '40 Act eliminated the last technical hurdles to launching floating NAV retail MMFs. See: Alarmed by systemic risks, SEC puts NAVs under spotlight.

Pershing also emphasized its policy of offering access to "non-proprietary" MMFs, and Altruist CEO, Jason Wenk says a ban is off the table.

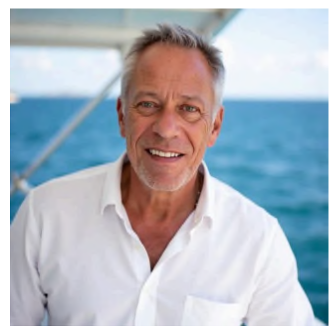
"We have no plans to charge for any ETFs … I feel it's very important to be agnostic on cash," he explains via email.

Unlike many of the largest brokerages and RIA custodians, IBKR, Altruist, TradePMR, and its new owner, Robinhood, do not have an asset management business.

A change of mind?

Yet they too may opt to impose restrictions, eventually, says Philip Waxelbaum, principal of Masada Consulting, via email.

"I expect all retail purveyors to bar the door," he explains.



Philip Waxelbaum: I expect all retail purveyors to bar the door.

Indeed, despite its protestations, Vanguard could easily change its mind and block third-party MMF ETFs, says Jeff DeMaso, editor of the Independent Vanguard Advisor, in an email.

"Vanguard has a history of banning ETFs on its platform, namely leveraged ETFs and anything crypto-related … [and it] has been willing to raise fees to generate revenue, so, I certainly wouldn't rule it out," he says.

TradePMR and LPL Financial did not respond to a request for comment. Robinhood and Goldman Sachs declined to comment.

Schwab manages around $650 billion of MMF mutual fund assets through 50 funds, and Fidelity manages $1.5 trillion through 59 funds.

BlackRock manages $611.7 billion in MMF assets, through 133 funds.

Fund flows

Since launch, BlackRock's iShares Prime MMF (PMMF) and its iShares Government MMF (GMMF) have taken in around $51.5 million of net new assets*, including approximately $46.3 million of inflows, since Feb. 23 – a near 90% bump in the last 30 days.

MMKT's total assets have remained mostly flat this year, at an estimated $45.1 million.

The value of the mutual fund market remains at record highs, accounting for a total of $7 trillion, with a 40:60 retail-to-institutional split. That breaks down to $2.8 trillion in retail MMF assets and $4.2 trillion in institutional MMF assets, according to Mar. 20 Investment Company Institute data.

** Younkman, whose firm trades through Schwab, has no knowledge of when Fidelity introduced its own MMF ETF ban. He was also unable to answer whether the Schwab ban applied to BlackRock's MMF ETFs at launch, or if it was introduced in the weeks following.*

** BlackRock seeded its two MMF ETFs with assets prior to launch. Bloomberg data shows it seeded GMMF with around $25 million, and PMMF with around $100 million.*

** Last June, Fidelity secured revenue-sharing agreements with 'dozens' of ETF issuers, after stating it would impose hefty surcharges on investors buying their funds, unless asset managers sent a greater portion of their revenues its way.*

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.

BlackRock | Fidelity Investments | Charles Schwab & Co. | Texas Capital Bank

POST A COMMENT

Related Moves