INVESTMENT COMPANY INSTITUTE

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MONEY MARKET FUNDS IN 2012
Response to Reported SEC Money Market Funds Proposals

In light of the effectiveness of the SEC's extensive 2010 money market fund reforms, we believe further reforms are unnecessary.

Regulators are reportedly pursuing flawed proposals that will harm investors, damage financing for businesses and state and local governments, and jeopardize a still-fragile economic recovery. The ideas under consideration will:

- drive funds out of business, reducing competition and choice
- alter the fundamental characteristics of money market funds—such as a stable net asset value and ready liquidity—which investors demand.

Money market funds are valued cash management tools for retail and institutional investors alike and provide a critical financing role in the U.S. economy.

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- The SEC's 2010 reforms improved the credit quality, maturity, liquidity, and transparency of money market funds.
- The SEC's 2010 money market fund regulations are working well to protect investors.
- In the summer of 2011, these new regulations were tested by three challenges:
    - European debt crisis
    - U.S. debt ceiling increase and downgrade of U.S. debt
    - Zero interest rates, unlimited deposit insurance for noninterest-bearing checking accounts, and payment of interest on business checking for the first time in 80 years
- These events put pressure on the markets but throughout this time, money market funds managed their portfolios to ensure adequate liquidity and to reduce exposure to Eurozone bank exposures.
- Prime MMF assets declined 10 percent from early June to early August, with outflows totaling $172 billion.
- The 2010 liquidity standards worked well—funds met redemption pressure.
    - As of May 30, 2011, prime money market funds held an estimated $643 billion in daily and weekly liquid assets, well in excess of the amount needed to meet the outflows they experienced over the next several months.

  - The outflows had only a small impact on funds' liquid asset ratios, which remained well above required minimum levels throughout the summer.
  - These outflows caused no turmoil in the money markets despite the significant fund outflows.
- Since 2008, the industry has consistently supported exploring reasonable options to make money market funds more resilient while preserving the fundamental characteristics of money market funds.

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- **alter the fundamental characteristics of money market funds—such as a stable net asset value and ready liquidity—which investors demand.**

- ICI will strongly oppose any SEC proposal that floats the NAV or makes money market funds unusable in daily retail or institutional use.
- The SEC's expected 2012 money market fund changes include proposals to force these funds to float their net asset value (NAV) or to impose capital burdens on these funds, impairing investors' returns, paired with redemption freezes that would restrict investors' access to their money market fund assets.
- Such changes will effectively put an end to money market funds as an investment option for most retail and institutional investors.
  - Investors require stable NAV funds for cash management. They have repeatedly told regulators that they will not use floating-NAV funds.
  - Capital is costly and will squeeze investors' returns from money market funds—particularly if capital requirements are excessive or are imposed quickly in the current zero-interest rate environment.
  - Redemption freezes will deny investors access to their full fund balances, confuse investors who are trying to anticipate and meet cash needs, and reduce investors' returns. Limiting investors' access to their funds could eliminate popular features like check-writing and debit-card access, and make money market funds unusable in sweep accounts.
  - The bottom line: These changes would destroy the value of money market funds for investors and drive investors out of these funds.
- The proposed changes won't reduce systemic risk or make markets any stronger. Indeed, they could *increase* risk by driving investors into less-regulated, less-transparent products.
- A shift to less-regulated investments only pushes assets and risk to less transparent markets, which is contrary to regulators' stated goal for this exercise: making markets stronger and reducing risks to investors and the economy.

Money market funds are valued cash management tools for retail and institutional investors alike and provide a critical financing role in the U.S. economy.

- Killing off money market funds as an investment vehicle would punish investors and destabilize the economy—particularly at a time when the economy remains in a fragile state of recovery.
- Money market funds provide investors with a high degree of liquidity, stability in principal value, and a market-based yield.
- For the 56 million individual money market fund shareholders, these accounts have long provided the only means to obtain access to a market rate, rather than a rate set by a bank.
  - Since 1990, retail investors in prime money market funds earned $210 billion in dividend income more than they would have earned in bank account interest.
- For institutions of all kinds—businesses, nonprofit organizations, governmental agencies, and financial institutions—money market funds are a preferred vehicle for cash management.
- The $2.7 trillion invested in money market funds, earning zero interest, is a testament to investors' demand for this cash management vehicle.
- The $2.7 trillion invested in money market funds provides crucial financing for jobs and the economy:
  - *Jobs* – Money market funds hold more than one-third of the commercial paper that businesses issue to finance payrolls and inventories.
  - *Communities* – Money market funds hold more than half of the short-term debt that finances state and local governments for public projects such as roads, bridges, airports, water and sewage treatment facilities, hospitals, and low-income housing.
  - *Individuals* – Money market funds hold a significant share of the asset-backed commercial paper that finances credit card, home equity, and auto loans.
  - *Government* – Money market funds hold one dollar out of every eight in short-term paper issued by the Treasury.

For more information on money market funds, their role in the economy, ICI's efforts to make these funds more resilient in the face of adverse market conditions, and the significant risk of undermining money market funds' value to investors and the economy, please see *www.ici.org/mmfs* or *www.PreserveMoneyMarketFunds.org*.