

February 27, 2019

The Honorable Mitch McConnell
Majority Leader
US Senate
Washington, DC 20510

The Honorable Chuck Schumer
Minority Leader
US Senate
Washington, DC 20510

The Honorable Mike Crapo
Chairman
Committee on Banking, Housing, and
Urban Affairs
US Senate
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and
Urban Affairs
US Senate
Washington, DC 20510

Dear Majority Leader McConnell, Minority Leader Schumer, Chairman Crapo and Ranking Member Brown:

I am writing on behalf of the Investment Company Institute¹ (ICI) to convey our strong opposition to legislation that would undo some of the Securities and Exchange Commission's (SEC) 2014 money market fund reforms, including the requirement that prime institutional and tax-exempt institutional money market funds float their net asset values (NAVs). The SEC adopted these reforms to make money market funds more robust in times of extreme market stress. Proposed legislation to undo these reforms is unnecessary and will be disruptive to the money fund market.

Since the early 1970s, money market funds have been a steady, predictable mainstay of finance. Today, more than 54 million retail investors, as well as corporations, municipalities, and other institutional investors, entrust some \$3.0 trillion to money market funds as low-cost, efficient cash management tools that provide a high degree of liquidity, stability of principal value, and a market-based yield. Money market funds also serve as an important source of financing for many sectors of the economy. Without these funds, financing for many institutions and individuals would be more expensive and less efficient.

¹ The [Investment Company Institute](http://www.ici.org) (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's members manage total assets of US\$20.7 trillion in the United States, serving more than 100 million US shareholders, and US\$7.0 trillion in assets in other jurisdictions. ICI carries out its international work through [ICI Global](http://www.ici.org/global), with offices in London, Hong Kong, and Washington, DC.

Money market funds owe their success, in large part, to the stringent regulatory requirements to which they are subject under the federal securities laws—including, most notably, Rule 2a-7 under the Investment Company Act. The regulatory regime under Rule 2a-7 has proven to be effective in protecting investors' interests and in sustaining their confidence in money market funds as a valuable tool for managing cash. The SEC has modernized and strengthened the rule from time to time as circumstances have warranted (most recently in 2010 and 2014, as discussed below).

In light of money market funds' experience in the financial crisis, and with the industry's strong support, the SEC in 2010 approved far-reaching rule amendments that enhanced an already-strict regime of money market fund regulation.² The amended rules made money market funds more resilient by, among other things, imposing new credit quality, maturity, and liquidity standards and increasing the transparency of these funds.

The SEC amended Rule 2a-7 again in 2014. The 2014 SEC rules, which took effect on October 14, 2016, focused on two principal reforms.³ The first reform requires prime institutional and tax-exempt institutional money market funds to price and transact in their shares using "floating" net asset values. The new rules also require these funds to calculate their NAVs to four decimal places. (For a fund with a NAV of \$1.00, that means calculating the NAV to one-hundredth of a penny—*i.e.*, \$1.0000.) Government money market funds⁴ and retail money market funds⁵ are not subject to this requirement and therefore may continue to seek to maintain a stable NAV using amortized cost valuation and/or penny rounding.

The second principal reform enables, and in certain cases requires, all non-government money market funds (*i.e.*, all prime and tax-exempt funds, whether institutional or retail) to impose barriers on redemptions (so-called liquidity fees and gates) during extraordinary circumstances, subject to determinations by a money market fund's board of directors.

Supporters of rolling back these reforms have argued that state and local governments have been unfairly disadvantaged by the 2014 reforms—first, by reduced yields on cash investments; and second, by

² Money market funds in fact were the first part of the US financial system to be reformed in the wake of the financial crisis. See *Money Market Fund Reform*, SEC Release No. IC-29132 (February 23, 2010), 75 Fed. Reg. 10060 (March 4, 2010). Taking the initiative to respond quickly and aggressively to the events of fall 2008, ICI formed the Money Market Working Group to study the money market, money market funds, and other participants in the money market, and the financial crisis of 2007-2008. The March 2009 *Report of the Money Market Working Group* addressed these topics and advanced wide-ranging recommendations for the SEC to strengthen money market fund regulation. See Investment Company Institute, *Report of the Money Market Working Group* (March 17, 2009), available at https://www.ici.org/pdf/ppr_09_mmwg.pdf. The SEC's 2010 amendments incorporated many of the report's recommendations.

³ See *Money Market Fund Reform; Amendments to Form PF*, SEC Release No. IC-31166 (July 23, 2014), 79 Fed. Reg. 47736 (August 14, 2014).

⁴ Government money market funds invest at least 99.5 percent of their total assets in cash, government securities, and/or repurchase agreements that are collateralized by cash or government securities.

⁵ Retail money market funds have policies and procedures reasonably designed to limit all beneficial owners of the fund to natural persons.

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increased costs of financing. We respectfully disagree, and as the attached research report details, neither contention appears to be correct. For example, repealing the 2014 rule would not impede cash investments by the overwhelming majority of state and local governments. A review of investment authority for state and local governments of all fifty states and the District of Columbia shows that only two states are precluded from investing in prime money market funds unless they have a stable NAV—48 states are able to do so if they wish.⁶

The Department of the Treasury's Asset Management and Insurance report issued in October 2017 specifically highlighted the 2014 money market reforms as an example of appropriately tailored, activities-based regulation which provided additional transparency and mitigated potential systemic risks.⁷ At the time of these reforms, the mutual fund industry questioned the measures adopted by the SEC, but we are pleased that the reforms ultimately preserved money market funds as a key cash management product for fund investors and a source of financing for businesses and governments. ICI's members have since implemented the reforms across our industry at great expense, and more importantly, have educated the 54 million US money market fund shareholders about the new marketplace. Both markets and investors have adapted very successfully to the current regulatory regime.

Legislation unwinding the SEC's 2014 MMF reforms would only benefit a small minority of investors and would be disruptive to the short-term funding markets. The consensus of our membership is that reopening these reforms is not appropriate or desirable, and we strongly urge you to oppose such efforts.

Thank you for your consideration of our views.

With very best regards.

Sincerely,



Paul Schott Stevens
President and CEO
Investment Company Institute

cc: Members of the US Senate

Attachment

⁶ Investment Company Institute, "The SEC's 2014 Amendments to Rule 2a-7: An Analysis of the Effects on Financial Markets and Investors," *Research Report*, September 18, 2018.

⁷ US Department of the Treasury. October 2017. *A Financial System That Creates Economic Opportunities: Asset Management and Insurance*. (pages 30-31). https://www.treasury.gov/press-center/press-releases/Documents/A-Financial-System-That-Creates-Economic-Opportunities-Asset_Management-Insurance.pdf.