

ICI VIEWPOINTS

JULY 18, 2011

Let's Preserve America's Financial Standing in the World

By Paul Schott Stevens

The impasse between Congress and the Administration over increasing the U.S. Treasury's borrowing limit and dealing with long-term budget deficits has raised many questions about the impact on American investors and investments, including mutual funds. At ICI, we share the deep concern that many feel about policy actions that could undermine the full faith and credit of the U.S. government.

While we at ICI naturally focus on the possible impact of the looming fiscal challenges on mutual funds, it's most important to remember that U.S. Treasury securities are the most widely held investments in the world. Any downgrade or default in those securities will adversely affect investors, markets, and economies across the globe—with severe impact on interest rates, stock prices, investor confidence, and the day-to-day activities of businesses and consumers.

Everyone involved in asset management is currently thinking through the effects of a possible downgrade or default of U.S. Treasury securities and how to address concerns as they arise. At ICI, we are consulting with member fund companies and regulators to address any issues that funds or their investors might face during this period of uncertainty.

One area that has garnered particular attention is money market funds. We do not expect that a downgrade of U.S. Treasury debt would preclude money market funds from holding U.S. Treasury securities. A default in which Treasury failed to repay its debt could affect the valuations of Treasury securities for money market funds—as it would for all other investors.

No one can say with certainty how the debt-ceiling impasse will play out, or how credit rating agencies or markets will view these events. This uncertainty highlights the critical need for policymakers to resolve the debt ceiling and longer-term deficit issues immediately to reassure markets and investors. It is imperative that Congress and the Administration take the necessary steps to preserve our nation's financial standing in the world and help ensure that the American economy moves towards restored prosperity.

Paul Schott Stevens was President and CEO of ICI.
