

ICI VIEWPOINTS

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Money Market Funds: Four Key Points

By Mike McNamee

Later today, the Securities and Exchange Commission will hold a [roundtable](#) on money market funds and systemic risk. ICI Chief Economist Brian Reid will be one of the [panelists](#) at the roundtable, which should be an interesting discussion. Ahead of that discussion, here are four key points worth keeping in mind.

Under New Regulations, Money Market Funds Are More Resilient Than Ever

Following the financial turmoil of 2008, the Securities and Exchange Commission (SEC) and the money market fund industry worked toward a common goal—to make money market funds more resilient under extreme market conditions and to ensure that they could withstand another deep and widespread loss of liquidity in the money markets.

As a result [enhanced SEC regulations were issued in early 2010](#), focusing on a number of key areas: credit quality, maturity, disclosure, and liquidity. These amendments increased money market funds' resilience in adverse markets. The money market fund industry today has at least \$160 billion available to meet redemptions on any given day and \$490 billion available to meet redemptions within five business days—requirements that were not in place in 2008.

The Fund Industry Has Proposed Ways to Make Money Market Funds Even Stronger While Preserving Their Essential Characteristics

While there may be no “silver bullet” for safeguarding money market funds against the severest market distress, the fund industry sees promising ideas for further reform. ICI, for example, has worked extensively with its members to develop a proposal for a [Private Emergency Liquidity Facility for Prime Money Market Funds](#) (LF). The LF would serve as a liquidity backstop for prime money market funds during times of unusual market stress. It would be formed as a state-chartered bank or trust company and capitalized through a combination of initial contributions from prime fund sponsors and ongoing commitment fees from member funds. In the third year, the liquidity facility would begin to issue time deposits to third parties to further build its balance sheet. Our proposal contemplates that all prime money market funds would be required to participate in the LF.

Money Market Funds Play a Vital Role for the Economy, Investors, Businesses, and Governments

Money market funds offer investors diversification and professional management, while operating under rigorous risk-limiting regulations. The monies invested with money market funds, in turn, provide short-term financing for businesses, banks, and governments at all levels—the financial “blood supply” that flows through all sectors of the U.S. economy each and every day. Consider how the \$2.7 trillion in assets managed by more than 640 money market funds affect:

- *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 significant amounts 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.

- *Retail investors*—Money market funds have long provided the only means for households and individuals to obtain access to higher-yielding money market instruments.
- *Institutions*—For businesses, colleges and universities, nonprofit organizations, governmental agencies, and financial institutions, money market funds are a preferred vehicle for cash management.

There Is Broad Support for Money Market Funds and the Stable \$1.00 NAV

Money market fund sponsors have been joined by a wide range of business, government, financial services, and consumer organizations, all voicing support for preserving the fundamental characteristics of money market funds, including the stable \$1.00 per-share price. Here are just a few, with links to their recent comments:

- [AARP](#)
- [American Association of State Colleges and Universities](#)
- [Association of Financial Professionals](#)
- [Consumer Federation of America and Fund Democracy](#)
- [Financial Services Institute](#)
- [National Association of College and University Business Officers](#)
- [National Association of Corporate Treasurers](#)
- [National Association of State Treasurers](#)
- [National League of Cities](#)
- [United States Chamber of Commerce](#)

Please visit our resource page at www.ici.org/mmfs to learn more about money market funds, and www.preservemoneymarketfunds.org to learn more about how a wide array of interests are rallying to preserve the key features of these funds.

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