

ICI VIEWPOINTS

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Wall Street Journal Editorial Gets It Wrong Again on Money Market Funds

By Mike McNamee

The *Wall Street Journal* posted another misleading [editorial](#) on money market funds. ICI President and CEO Paul Schott Stevens has submitted a letter to the editor in print and online to respond. Here is the text of his submission:

Once again, a *Journal* editorial has misstated the facts and twisted the analysis of important issues surrounding money market funds (“Money-Market Mayhem,” Review & Outlook, June 27).

Your editorial vastly overstates the risks to U.S. money market funds in the Greek debt crisis. For more than a year, U.S. prime money market funds have had no direct holdings of Greek debt, sovereign or private. Yes, these funds hold the debt of European banks. But these are dollar-denominated, short-term liabilities of highly rated global banks that borrow in the U.S. money markets to help finance their U.S. and other dollar-based operations. Of the banks in prime money market funds’ portfolios, in every case the bank’s direct exposure to Greek government debt is less than 1 percent of the bank’s total assets—and for most of the banks, it’s much less.

Your editorial also promotes the myth that the money market fund industry and regulators have failed to address the risks revealed by the financial crisis. This is false. Six months after the Reserve Primary Fund broke the dollar, the fund industry voluntarily adopted higher credit standards, shorter portfolio maturities, greater portfolio transparency, and explicit liquidity requirements for fund portfolios. In January 2010—six months before the Dodd-Frank Act passed—the Securities and Exchange Commission adopted regulations based largely on those standards. These measures have made money market funds considerably more resilient: prime funds, for example, today hold \$660 billion in assets that are liquid within one week, far more than the \$370 billion outflow experienced in the week of Lehman Brothers’ failure. The fact is, regulators did address money market fund risks “before all others.”

What I find most puzzling is the *Journal*’s choice of money market funds as the whipping boy for systemic risk. Money market funds represent a clear case where market discipline reinforces strong regulatory standards. The risks of money market funds are clearly disclosed, as are their portfolio holdings and mark-to-market share values. We tell our investors, in virtually every communication, that money market funds are not insured or guaranteed. Our industry did not ask for a federal guarantee; insisted that the guarantee program be limited; applauded the end of the guarantee program; and has worked hard to ensure that no government guarantee, explicit or implicit, is ever needed again.

“Mayhem” comes in many forms. I would suggest that misstating the facts and twisting the analysis regarding a vital segment of our economy, in a time of global uncertainty, is creating mayhem where none exists.

Paul Schott Stevens
President and CEO
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For more on money market funds, visit ICI’s [money market funds resource center](#) and <http://www.preservemoneymarketfunds.org/>.

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