

## ICI VIEWPOINTS

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## The Wall Street Journal Paints a False Picture of Money Market Funds

By Paul Schott Stevens

No one with actual expertise in the money market could recognize the false picture of money market funds that the *Wall Street Journal* paints in a recent editorial ("[A History of Money Funds](#)," June 22).

Money market fund investors are not, as the *Journal* suggests, duped or deluded. These investors know that money market funds are securities, not guaranteed bank deposits, and that they have no taxpayer safety net. And yet investors keep \$2.5 trillion in these funds—at near-zero yields. Why? Because these investors also know that money market funds' strong regulation and careful management have delivered a four-decade-long record of stability.

The financial crisis of 2008 was an intense challenge for money market funds, as it was for every market participant and governments worldwide. But let's be clear about the history of our industry's response to that challenge. From the very outset of the U.S. government's move to impose a [guarantee program](#) on the money market fund industry in September 2008, ICI always argued that the program be temporary and limited. As I said in [October 2008](#):

"Money market mutual funds did not ask for federal insurance for our product. We nonetheless welcomed the guarantee program, because Secretary Paulson regarded it as essential to get ahead of the unfolding crisis by bolstering confidence in money funds and preserving those funds' crucial role in the economy. As subsequent events have proved, his judgment was correct. But we also embrace his concept that the federal guarantee is a voluntary, temporary, emergency backstop. Indeed, there is a strong consensus that it should be nothing more. It is my hope, as I told several journalists on September 19, that credit markets soon will return to normal and the [guarantee] program will never be called upon to pay a claim."

The program worked to calm markets and ended with the taxpayers paying not a penny; in fact, [the Treasury collected more than \\$1 billion on fees paid by the industry](#).

The comprehensive reforms of 2010 made these funds even stronger and more resilient in the face of crisis, and money market participants have seen how reforms will stand up in a crisis. Last summer, the short-term markets faced a perfect storm of three crises at once—the near-meltdown of the eurozone, the standoff over the U.S. debt ceiling, and the historic downgrade of the U.S. government's long-term debt. The fluctuations in money market fund values measured in the thousandths of a penny.

The *Journal* ignores everything that has happened since 2008. Instead, it relies on undocumented assertions by the Securities and Exchange Commission (SEC) about 30-year-old incidents and exaggerated claims about funds' role in the financial crisis to support a destructive regulatory agenda.

The *Journal* swallows without any skepticism the SEC's headline-grabbing factoid claiming 300 instances of sponsor support of money market funds. The SEC provided no context or data to back its claim, but the fact that it had to reach back to the 1970s suggests how little these claims have to say about today's funds.

As discussed at length by ICI economist Sean Collins in [his ICI Viewpoints post yesterday](#), the fact that a fund sponsor provides support does not necessarily mean that the fund is in danger of breaking the dollar. Sponsors may provide support for a number of reasons, including avoiding headline risk of a particular security or securities, to maintain a AAA credit rating for a money market fund, or to respond to investors' concerns regarding their degree of comfort with particular securities.

Corporate finance officers, state and local treasurers, and other investors and issuers have spelled out how structural changes like

floating the value of money market funds will harm investors and undermine the economy. Driving assets out of money market funds into banks or less-regulated, less-transparent alternatives can only increase systemic risk. Less financing, more risk—that's hardly the outcome investors and the economy deserve.

*Paul Schott Stevens was President and CEO of ICI.*

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