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Money Market Funds and Liquidity Ratios: Why So High and Stable?

By Chris Plantier

Second in a series of posts about ICI's new data release, a monthly compilation and summary of portfolio data from taxable money market funds. To find out more, read the first post about the new data summary or this list of answers to frequently asked questions.

The SEC's 2010 money market fund reforms require taxable funds to hold at least 30 percent of their assets in securities that are deemed to be liquid within five business days (known as weekly liquidity) and at least 10 percent of their assets in securities that are deemed to be liquid in one business day (known as daily liquidity). In practice, money market funds—especially government money market funds—hold liquidity well above these minimum standards, and these ratios change very little in any given month.

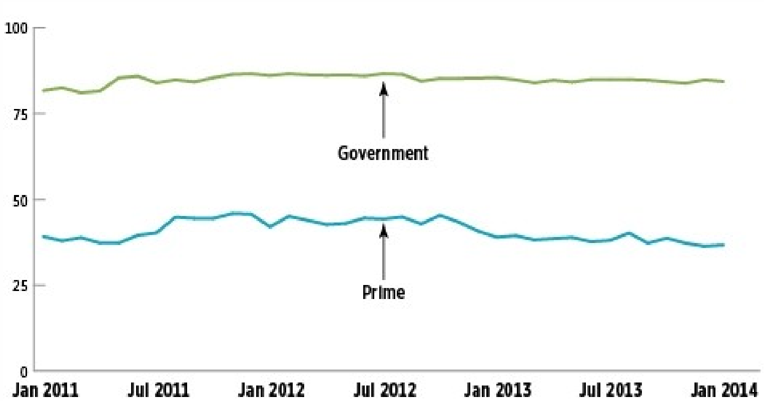
Why is money market fund liquidity so high and stable?

In our latest release of data that ICI members report on SEC form N-MFP, Table 5 shows the daily and weekly liquidity ratios of government and prime money market funds. As discussed last month, government money market funds hold very high levels of weekly liquidity—more than 84 percent of their portfolios on average—because most of their holdings are made up of Treasury debt, short-dated agency debt, or repurchase agreements. Prime money market funds also have weekly liquidity ratios that, at nearly 37 percent, are above the minimum SEC requirements.

Funds' liquidity ratios typically vary little from month to month, even during periods of substantial inflows or outflows. For example, the current data release shows that the average liquidity ratio of prime money market funds rose only slightly, to 36.73 percent in January from 36.36 percent in December.

Weekly Liquidity for Prime and Government Money Market Funds

Percentage of total assets, monthly, January 2011 to January 2013



Note: Weekly liquid assets include securities with a remaining maturity of five business days or less, Treasury securities, and agency securities with a remaining maturity of 60 days or less.

Source: Investment Company Institute

Liquidity ratios also tend to move little from month to month over longer stretches, despite significant market events. For example, the figure above—which shows weekly liquidity for government and prime money market funds from January 2011 to January 2014—indicates that funds maintained stable liquidity ratios in 2011, even in the face of significant uncertainty emanating from the eurozone debt crisis and the political impasse involving the U.S. federal debt ceiling.

The figure also underscores the importance of another aspect of the SEC's 2010 reforms: "know your customer" procedures. These procedures are designed to ensure that a money market fund has sufficient portfolio liquidity to meet anticipated redemptions. By doing so, current high levels of liquidity can be maintained even when outflows occur.

For more on money market funds, please visit ICI's Money Market Fund Resource Center.

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