

## **MONEY MARKET FUNDS IN 2012** *SEC's 2010 Money Market Reforms Are Working*

**Money market funds in 2012 are safer than they've ever been—and are better equipped than the funds of 2008—thanks to new SEC regulations put into place in response to the financial crisis.**

**In 2010, the Securities and Exchange Commission (SEC) adopted significant amendments to money market fund regulations, improving the credit quality and disclosure, shortening the maturity, and increasing the liquidity of fund portfolios.**

- *Credit quality:* Amendments to Rule 2a-7 raised credit standards by requiring funds to hold at least 97 percent of their assets in securities with the highest short-term credit rating or securities that are of comparable quality, as determined by the Board.
- *Maturity:* The amendments reduced interest rate risk and credit spread risk by shortening the weighted average maturity of money market funds' portfolios by one-third (from 90 days to 60) and imposing a new limit on a money market funds' weighted average life (120 days).
- *Disclosure:* Under the SEC amendments, money market funds are required to disclose every security in their holdings every month, so regulators and investors will better understand funds' portfolios.
- *Liquidity:* The SEC amendments impose for the first time explicit liquidity requirements. Taxable money market funds are required to maintain 10 percent of their assets in cash or securities that can be liquidated in one day ("daily liquidity"), and all funds are required to maintain 30 percent of their assets in cash or securities that can be liquidated within five business days ("weekly liquidity"). As substantial as they are, those requirements are minimums—and in practice, money market funds have substantially exceeded those standards. Funds also must adopt "know your investor" procedures to help them anticipate the potential for heavy redemptions and adjust their liquidity accordingly.

**Since that time, money market funds have managed through three distinct challenges that resulted in outflows from funds during the summer of 2011:**

- Europe's ongoing sovereign debt crisis
- U.S. debt-ceiling impasse and downgrade of U.S. debt rating
- Zero interest rates, unlimited deposit insurance on non-interest-bearing checking accounts, and payment of interest on business checking for the first time in 80 years
  - Prime MMF assets declined 10 percent from early June to early August, with outflows totaling \$172 billion.

**Money market funds managed through these events and redemption pressures—evidence that the 2010 liquidity standards worked well.**

- As of May 30, 2011, prime money market funds held an estimated \$643 billion in daily and weekly liquid assets, well in excess of the outflows they experienced over the next several months.
- Outflows in the summer of 2011 had only a small impact on funds' liquid asset ratios, which remained well above required minimum levels throughout the summer.
  - For prime funds, from April through December, daily liquidity remained in excess of 24 percent of assets (10 percent required), while weekly liquidity ranged from 39 percent to 45 percent (30 percent required).
- The outflows had no significant effect on funds' mark-to-market values deviated from \$1.00 by less than 2 basis points.
- These outflows caused no turmoil in the money markets.
- Today's funds are better positioned to meet redemption challenges.

For more information on money market funds, their role in the economy, ICI's efforts to make these funds more resilient in the face of adverse market conditions, and the significant risk of undermining money market funds' value to investors and the economy, please see [www.ici.org/mmfs](http://www.ici.org/mmfs) or [www.PreserveMoneyMarketFunds.org](http://www.PreserveMoneyMarketFunds.org).