



ICI VIEWPOINTS

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Debt Ceiling Scenarios: ICI Addresses Key Questions Regarding Possible Impact on Money Market Funds

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As [Paul Schott Stevens wrote](#) on ICI Viewpoints earlier, a downgrade or default of U.S. Treasury securities would have grave implications for investors, markets, and economies around the world. This prospect raises a number of questions for funds and their shareholders, particularly for money market funds. We've prepared [a set of "frequently asked questions,"](#) focused on money market funds, to further address the key issues and dispel some of the uncertainty produced by this unprecedented policy situation.

For example, what would be the impact for U.S. money market funds of a downgrade in the credit rating of U.S. sovereign debt (debt issued by the U.S. Treasury or government agencies)?

One of the most important factors is whether any downgrade affects only the U.S. government's long-term credit rating, or applies to both long-term and short-term debt. A money market fund's ability to purchase or hold a rated security depends on the issuer's short-term credit rating.

Most of the discussion to date has focused on downgrades to the AAA/Aaa rating on the United States' long-term debt. However, unless the major credit rating agencies also downgrade short-term debt issued by Treasury and other federal agencies, money market funds would not be affected by any change in the AAA/Aaa rating.

It's important to note that long-term and short-term ratings don't move in lockstep. Further, credit rating agencies would have to cut their ratings on short-term U.S. government securities steeply—by an amount roughly equivalent to eight steps on the long-term rating scale. None of the major credit rating agencies has discussed a downgrade of U.S. government debt of that severity.

We invite you to read the full [FAQs](#), which also cover the following questions:

- Would a downgrade in the short-term credit rating for U.S. sovereign debt force

money market funds to dispose of their holdings of U.S. government debt?

- What credit ratings correspond to First Tier and Second Tier for money market funds?
- Are there credit factors other than ratings that money market funds must consider when buying or holding securities?
- Would money market funds be able to add U.S. government securities to their portfolios if the U.S. government's short-term credit rating falls to Second Tier?
- In the unlikely event that short-term U.S. sovereign debt were downgraded below Second Tier, what would money market funds be required to do?
- What would be the consequences of failure by the U.S. Congress and Administration to raise the debt ceiling by August 2, 2011?
- For a money market fund, what would constitute "default" in a U.S. government security?
- Why might a money market fund's board of directors choose not to dispose of a defaulted or severely downgraded security?

For the sake of investors, policymakers must quickly resolve the matter of the debt ceiling while addressing our nation's longer-term deficit challenges. ICI will continue to follow this issue and to provide information to help people assess the potential impact of these developments on money market funds or other matters of concern to investors.

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