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Getting the Facts Right on Money Market Funds

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This week, I testified before Congress at a hearing on the issue of money market funds and recent regulatory proposals from the Securities and Exchange Commission (SEC) that would amend the rules governing these funds.

The hearing provided an excellent opportunity to continue to educate Congress on the benefits that money market funds bring to investors and to the economy as a whole. In my testimony, I emphasized the Institute's views on making sure that regulatory proposals do not upset the crucial role that money market funds play.

As has been the case consistently in the debate around money market funds, the question of these funds' recent history was raised. Unfortunately, one of my fellow panelists—Sheila Bair, chair of the Systemic Risk Council at the Pew Charitable Trusts and formerly chair of the Federal Deposit Insurance Corporation (FDIC)—made misleading comments in this regard. With accusations of "revisionist history," she declared that the money market fund industry was in a "panic" in 2008 and demanded a "bailout."

I've been in Washington long enough to know that bad history makes for bad policy. So let's correct the misleading statements and review the facts around the federal government's support of money market funds in 2008. The program, which expired in 2009, was known as Treasury Guarantee Program for Money Market Funds (TGP).

- In 2008, the fund industry did not ask for support for money market funds.

The historical record, as far as ICI is concerned, is clear. During the darkest days of September 2008, the fund industry was working around the clock with government regulators as they managed a severe crisis. Though we welcomed government intervention on money markets funds, we did not ask for it. Indeed, when I spoke of this at length in a speech on October 6, 2008—just weeks after the failure of Lehman Brothers—here's what I said:

One important fact is this: 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 19th, that credit markets soon will return to normal and the guaranty program will never be called upon to pay a claim.

- The TGP never paid a claim and in fact netted a profit for American taxpayers.

The TGP was limited and temporary, as the ICI had urged during its creation. The program served its purpose and ended, as planned, in September 2009 without a single claim. In fact, the Treasury and U.S. taxpayers received an estimated $1.2 billion in fees paid by participating money market funds.

- Regulators have made great strides in strengthening money market funds.

As we all know, the federal government has taken extraordinary steps to address what occurred in the financial crisis. One of those steps is that Congress has created new restrictions that make it very difficult for the federal government to impose programs like the TGP.

Another is that the Securities and Exchange Commission has greatly improved the resilience of money market funds through a number of reforms adopted in 2010—reforms that were thoroughly tested in 2011 during market stresses caused by the standoff over the U.S. federal debt ceiling and by deteriorating conditions in eurozone debt markets. I discussed these developments at the hearing this week, but you can also learn more in an extensive paper we published on the subject earlier this year.

Facts like these—not misleading statements or charges of revisionism—should inform the discussion around money market funds.

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