The money market serves as an important financing tool for institutions.

In the United States, the market for debt securities with a maturity of one year or less is generally referred to as “the money market.” For example, the money market is a mechanism for helping borrowers finance short-term mismatches between payments and receipts. The main borrowers in the U.S. money market are the U.S. Treasury, U.S. government agencies, state and local governments, financial institutions (primarily banks, finance companies, and broker-dealers), conduits, and nonfinancial corporations.

Money market funds hold about one quarter of the estimated $11 trillion of taxable money market instruments in which they primarily invest.

The $3.3 trillion invested in money market funds provides vital funding to the U.S. economy. As of December 2009, taxable money market funds held 48 percent of outstanding short-term U.S. agency securities, 45 percent of commercial paper, 15 percent of short-term Treasury securities, 25 percent of repurchase agreements, 25 percent of CDs, and 5 percent of Eurodollar deposits.

Money market funds are also an important source of financing for state and local governments.

Tax-exempt money market funds are a significant source of funding to state and local governments for public projects such as roads, bridges, airports, water and sewage treatment facilities, hospitals, and low-income housing. As of December 2009, tax-exempt money market funds had $397 billion under management. At year-end 2008, these funds accounted for an estimated 65 percent of outstanding short-term municipal debt.

Money market funds are important to investors.

Money market funds are one way for investors to access “money markets,” along with bank sweep accounts, investment portals, offshore money funds, enhanced cash funds, ultra-short bond funds. Money market funds are designed so that their yields track market interest rates, which are typically higher than those offered by competing products such as money market deposit accounts. Indeed, money market investors in the past decade have earned an estimated $200 billion more in dividend income than they would have earned in bank money market deposit accounts.
Money market funds have thrived under strict SEC regulation.

Money market funds are regulated by the SEC and operate under numerous risk-limiting provisions, that govern the credit quality, diversification, and maturity of the money market securities. These provisions help a fund maintain a stable NAV. Other money market products are not similarly regulated by the SEC.

Money market funds provide safety, liquidity, and the convenience of a stable $1.00 net asset value (NAV).

For retail and institutional investors alike, money market funds are cash management tools that provide a high degree of liquidity, stability and a market-based yield, all at a low cost. Other characteristics of money market funds that have made them attractive: high-quality assets, diversification, professional asset management, and economies of scale.