

MONEY MARKET FUNDS IN 2012

A Bad Idea: Proposed Redemption Freeze for Money Market Funds

Regulators are now considering subjecting money market funds to “redemption restrictions” that would deny investors full use of their cash. The money held back from an investor’s account would be used to absorb losses if a fund can’t maintain its \$1.00 value. Published reports say regulators may propose freezing up to 5 percent of an account’s assets for 30 days following each redemption.

Regulators’ stated goal is to discourage investors from “running” from money market funds under adverse market conditions. But they plan to impose this asset freeze under *all* market conditions—imposing a costly and troublesome burden on investors even when there is virtually no risk of a money market fund failing or facing redemption pressure.

These restrictions would:

- **Deny investors ready access to all of their funds** when cash needs or new investing opportunities arise.
- **Damage the liquidity, transparency, and usefulness** that money market fund investors desire and depend upon.
- **Impair popular money market fund features**, such as check writing and debit card access.
- **Impose hundreds of millions of dollars in added expenses** on investors, funds, and financial intermediaries.
- **Discourage investors and intermediaries from using money market funds** in sweep accounts, retirement plans, securities lending, and other investment programs.
- **Mark a radical departure from a core mutual fund principle** that investors should always be able to redeem mutual fund shares.
- **Create a novel and potentially harmful experiment on the \$2.68 trillion¹ held in money market funds**—and on the investors, businesses, and state and local governments that depend upon them.

With these restrictions, money market funds would no longer be usable in a wide range of basic consumer and investor transactions—like holding escrows and mortgage proceeds during the closing on a house sale, or holding the proceeds from a stock sale while a retiree shifts money among investments.

With added costs and reduced investor demand, many fund sponsors are likely to stop offering money market funds, eliminating important options for investors while also reducing competition and increasing risks in the industry.

¹ As of January 25, 2012

The loss of liquidity, transparency, and convenience caused by these restrictions is likely to drive investors out of money market funds, with severe consequences for systemic risk and the economy:

- **Banks cannot absorb the \$2.68 trillion now invested in money market funds.** Most institutional investors do not view an undiversified holding in an uninsured (or underinsured) bank account as having the same risk profile as a diversified short-term money market fund.
- **Instead, many of those assets could end up in less-regulated cash pools** that lack the requirements for credit quality, liquidity, maturity, and transparency applied to money market funds, and may be beyond the reach of U.S. financial authorities.
- **The flight of investors will disrupt the crucial role money market funds play in financing jobs, communities, businesses, and the American economy.**

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 or www.PreserveMoneyMarketFunds.org.