

## MONEY MARKET FUNDS IN 2013

### *Temporary Gates, Liquidity Fees, and Enhanced Disclosure Offer Promising Tools to Make Prime Money Market Funds More Resilient*

In its [January 24 comment letter to the Financial Stability Oversight Council](#) (FSOC), ICI argues that if FSOC can demonstrate that changes are needed for prime money market funds, ICI would support a recommendation to the SEC that it implement temporary gates and fees as outlined below for prime money market funds. This temporary liquidity gate/fee measure would be coupled with enhanced public disclosure.

Unlike the FSOC's proposal for full-time redemption restrictions, the ICI proposal would not limit investors' access to their shares during normal market conditions, and thus would not change the fundamental characteristics of money market funds or their value to investors and the economy. (See page 49 of comment letter for further detail on this topic.)

- **Temporary restrictions on redemption, or “gates,”** would be triggered if the liquidity levels of a specific fund fell to specified levels (objective triggers).
- **Temporary gates would prohibit investors from redeeming** to provide time for that fund to restore liquidity or achieve an orderly liquidation.
- **Liquidity fees**, if determined appropriate by a fund's board, would allow redeeming shareholders access to liquidity if they need it, but would impose a fee to compensate the fund and remaining investors for the potential cost to the fund of the withdrawal and to protect remaining shareholders.
- **Enhanced disclosure** would allow investors and regulators to frequently monitor funds' mark-to-market prices and liquidity levels. Enhanced disclosure would encourage an even higher level of conservative portfolio management.
- **These tools will address regulators' concerns about redemption pressures on these funds.** A fund-by-fund liquidity-based trigger for gates aligns precisely with the goal of stopping large and unexpected redemptions: it has the immediate effect of suspending further redemptions. A liquidity-based trigger for fees introduces immediate “redemption frictions,” because it exacts a substantial cost for liquidity when liquidity is at a premium.
- **In contrast, none of the three FSOC alternatives would stop redemption pressure in a financial crisis.**
- **U.S. and European funds used redemption restrictions and gates** during the financial crisis to good outcome.
  - Industry experts indicate that such tools can be used to:
    - provide breathing room for a fund to assess market conditions;
    - create a “circuit breaker” against growing shareholder redemptions; and
    - achieve a more orderly liquidation of the fund if ultimately necessary.
- **Regulators must consider tax and operational implications** of imposing liquidity gates and fees on prime money market funds.

## Redemption restriction/gate, liquidity fee concept

### Criteria for tools

- Redemption restrictions (gates) and, if imposed, liquidity fees would be temporary.
- The redemption restriction would be imposed if a fund's "weekly liquid assets" (generally, assets that can be liquid by their terms within five business days) fall to a specific "trigger point." The same trigger point would apply to all prime funds.
- ICI recommends a trigger point between 7.5 percent and 15 percent of weekly liquid assets—that is, between one quarter and one half of the current minimum weekly liquid asset level required under Rule 2a-7.
- This achieves a necessary balance between a level that is high enough to ensure that the fund still has some liquidity remaining, but low enough to ensure that the trigger point likely would not be reached during normal market conditions.
  - This proposal differs from the regulators' Minimum Balance at Risk proposal that would put in place continuous redemption holdbacks, regardless of market conditions, which would force investors to pay a premium for liquidity at all times.
- Funds would be required to disclose to the SEC, their shareholders, and the public whenever imposing either a redemption gate or liquidity fees.
- The use of gates and fees would be a temporary option (lasting, for example, no longer than 30 days) designed to compel a prime money market fund to address its portfolio liquidity issues or start an orderly liquidation.

## Enhanced disclosure proposal

Liquidity gates and fees would be coupled with measures to enhance further the transparency of prime money market fund portfolios. These measures would benefit both investors and regulators.

- ICI recommends that prime money market funds would be required to make more frequent public disclosure (via their websites) of both their mark-to-market share price and their weekly liquid asset levels.
  - Currently, money market funds are required to disclose their mark-to-market share price every month, but with a 60 day lag. They are not required to make any disclosure of their weekly liquid asset levels.
  - Some money market funds are already moving voluntarily in the direction of frequent (including daily) disclosure of mark-to-market per-share values.
- This kind of ongoing portfolio transparency will encourage an even higher degree of conservative portfolio management for prime money market funds and would give investors and regulators greater insight into current holdings and liquidity for these funds.

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).