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The Facts Missing From a Wall Street Journal Column on Money Market Funds

By Mike McNamee

Misinformation lurks in a recent column from *Wall Street Journal* Money & Investing editor Francesco Guerrera, "Hidden Dangers Lurking in Money Market Funds." Given the vital role that money market funds play in our economy, regulators and investors alike need the best information possible on this topic. So let's correct the record with a few key facts.

- **Fact: Money market funds are transparent, and their risks are clearly disclosed.**

Guerrera writes that "Individual investors and companies perceive money-market funds as 'safe'…This attitude overlooks the fact that, unlike banks, these deposits aren't federally insured so in the event of a run, investors are at risk of losing money."

Yet nearly every communication from a money market fund tells investors that these funds are not insured or guaranteed. Investors receive thorough disclosure of their risks. And with current portfolio disclosure—every money market fund is required to list every security it owns—money market funds are by far the most transparent investment available.

- **Fact: Investors value money market funds because of their convenience, stability, diversification, and regulatory framework.**

Despite what they know about those risks—and despite yields stuck near zero for months—investors still have entrusted $2.5 trillion to money market funds. Why? Corporations, state and local governments, and nonprofit institutions, as well as groups representing individual investors, have told regulators again and again that they value money market funds for convenience, stability, diversification, and regulatory protections. You can find their voices at preservemoneymarketfunds.org.

- **Fact: Managers of money market funds are managing risks.**

Guerrera writes that investors in Europe's banks are "spooked" by the pullback of funding from U.S. money market funds and frets that those banks are too dependent on short-term financing.

Look at the level of sovereign debt in some European countries, the political crisis those debts are causing, and the amount of those debts on the books of European banks. It takes quite a stretch of the imagination to assert that those banks' stocks are falling because U.S. money market funds are adjusting their holdings.

It's true that the Europe debt crisis has put a spotlight on U.S. money market funds' role in funding those banks. But fixing the banks' funding formulas is a matter for bank regulators to address. Money market funds, as we've documented, are doing their job of managing risks for their investors.

- **Fact: The fund industry is working with regulators to advance sound ideas to make money market funds more resilient without harming their value to the economy.**

Since 2008, the fund industry has been deeply engaged in constructive dialogue with regulators. The first result was a package of reforms, completed in 2010, that brought higher credit quality, shorter maturities, more transparency, and higher levels of liquidity to money market funds. The industry continues to work toward strengthening this essential component of America's economy and finances. See our record at www.ici.org/mmfs.

- **Fact: Forcing money market funds to “float” their value is the worst possible idea for reform.**

Guerrera gets this one right, and we’re glad to see the *Wall Street Journal* looking for “more viable” solutions. We just wish the good sense wasn’t buried amid so much misinformation.

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