

## ICI VIEWPOINTS

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## Money Market Funds and European Debt: Setting the Record Straight

By Sean Collins and Chris Plantier

Recent events in Greece have drawn the media's attention to indirect exposure that U.S. money market funds may have to European sovereign debt through their holdings of securities issued by European banks. Unfortunately, [some of those stories](#) have landed far from the mark and require correction. Here are some of the facts that the media is missing:

- 1. A recent [Moody's Investor Service announcement](#) regarding certain French banks reaffirms the highest rating for those securities that money market funds hold.** While Moody's recently announced it is reviewing the long-term ratings for three French banking groups, the same announcement reaffirmed Moody's highest rating on those banks' short-term paper. Thus, any exposure that U.S. money market funds have to these French banks is deemed of the highest short-term credit quality. Under U.S. Securities and Exchange Commission regulations money market funds are required to hold the vast majority of their assets in short-term securities that have received the highest short-term rating.
- 2. Comparisons between Lehman Brothers in 2008 and French banks in 2011 are misleading and inappropriate.** French banks have much higher required capital ratios than Lehman Brothers did in 2008. These are large, profitable banks, and their direct exposure to Greek government debt is a small fraction of their capital. Also, French banks have access to liquidity facilities from the European Central Bank.
- 3. U.S. money market funds have no direct exposure to Greek sovereign debt, and they have managed and continue to manage any indirect exposure.** The Eurozone has been experiencing debt and financial concerns for more than a year now. Throughout this period, prime money market funds and other investors have reacted to changing developments. As fiduciaries to their shareholders, money market funds are constantly examining the quality of their portfolio and the creditworthiness of investments—going above and beyond any credit rating agency ratings. Over time, this analysis has led prime money market funds to reduce their exposure to certain European sectors and names.
- 4. Money market funds are more resilient today than they were in 2008** In 2010, the SEC amended [regulations](#) that raised these funds' standards for credit quality, shortened portfolio maturities, improved disclosure, and imposed for the first time explicit liquidity requirements for fund portfolios.
- 5. The safety of money market funds derives from their holdings of low-risk, liquid assets, not from a government guarantee.** Some media reports have compounded their errors on the Eurozone crisis by incorrectly reporting that money market funds carry some sort of government guarantee. Let's be clear: Money market funds have never been backed by the Federal Deposit Insurance Corporation, and they are not now backed by any governmental agency, explicitly or implicitly. In 2008, the U.S. Treasury put into a place a temporary guarantee program for money market funds, to help calm the markets. That program expired in 2009 after collecting \$1.2 billion in fees without paying a single claim. Money market funds make clear in prospectuses, advertisements, and on their websites that they are not guaranteed and there is risk of loss of principal. Money market funds are a low-risk investment, but not a no-risk investment.

- Learn more about [money market funds](#).

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