

## ICI VIEWPOINTS

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## The SEC's Data Dump on Money Market Funds Is Misleading

By Paul Schott Stevens

The Securities and Exchange Commission (SEC) has finally delivered on Chairman Mary Schapiro's June promise to give Congress data to back up [her claim](#) that money market fund sponsors "have voluntarily provided support to money market funds on more than 300 occasions."

Regrettably, the full list exposes just how flimsy the SEC's claims are. The tabulation reveals that the dramatic figure—previewed in an interview with the *Wall Street Journal* two days before the hearing—was more showmanship than science. After the figure was disclosed with such fanfare, it took the SEC fully six weeks to provide any documentation. Even so, the final list lacks crucial detail and appears concocted to create a misleading impression on a vital matter of public policy.

To make matters worse, the SEC frames the list as representing that "sponsor support" was necessary in each instance to rescue a fund on the brink of failure. In Chairman Schapiro's [own words](#): "We know that funds come close to breaking the buck and that's why so many times sponsor support has been needed." That contention takes on added weight with regulators' frequent suggestion that any incident of breaking the dollar is likely to set off a destabilizing run on all money market funds.

We're still in the preliminary stages of our analysis. Our lawyers and economists are chasing down SEC filings and calling fund sponsors for details to test the SEC's allegations—in short, doing the work that the SEC staff should have done before giving the number to the media, making it the centerpiece of the Chairman's Senate testimony, and providing this data to the Senate Banking and House Financial Services committees. But we have already uncovered many, many problems.

The first: numerous incidents on the list don't match the claim that sponsors "provided support" to their funds. In at least 60 cases during the 2007–2008 financial crisis, funds applied for and received *permission* to provide sponsor support—but never put a dime into their funds. Those funds don't belong on a list of sponsor support—particularly not a list in which every fund was inaccurately portrayed as on the brink of breaking the dollar.

An SEC spokeswoman says: "It was not the [SEC] staff's practice to grant such no-action relief [i.e., permission to provide support] if the applicant represented to the staff that the relief was being sought merely as a precautionary measure." That's revisionist history.

In fact, in September and October 2008, the SEC staff encouraged ICI to inform sponsors that the agency would grant liberal permission to support their money market funds in the face of unprecedented market illiquidity. The staff made it clear, however, that it only would grant such relief in advance. Under those terms, some fund complexes filed for relief en masse, even gaining permission to support Treasury and government funds that were enjoying huge inflows, where the probability of credit and liquidity problems was near zero.

Now, the relief that the SEC staff so liberally afforded to funds is being used as a hammer to bludgeon our industry. That's a pattern throughout this list. It includes sponsors that faced heavy pressure from senior SEC officials to "top up" their funds before new portfolio disclosures were unveiled in early 2011. And the list is padded with funds whose sponsors were virtually ordered in 1994 to buy out specific securities—"interest rate floaters"—after the SEC declared those securities inappropriate holdings.

As those examples show, even when funds got actual support, the reason for the support often had little to do with any risk that the fund might break the dollar. Just take the six funds listed as receiving support in 2010. In three cases, the sponsor bought downgraded securities out of the funds' portfolios to maintain the funds' AAA ratings. In three other cases, the sponsor bought the

funds' holdings of British Petroleum securities to limit risks to investors in the middle of the Deepwater Horizon oil spill. None of those six funds was in danger of breaking the dollar.

Then there are the sloppy errors—the \$1.35 million support that's recorded as \$1.35 *billion*, the funds that appear to be listed twice, the incidents placed under the wrong dates, and so forth.

Even if the data were accurate, it would be important to point out that the SEC's current stance is a complete reversal of prior positions. For decades, the SEC has encouraged sponsors to support their money market funds. In 1996, the SEC amended rules to facilitate and enable sponsor support. And in 2010—two years after the 2008 crisis—the SEC again pushed through amendments making it easier for sponsors to provide support, declaring that “these transactions appear to be fair and reasonable and in the best interests of fund shareholders.”

The truth is that sponsor support does help fund shareholders—and the markets. As this list demonstrates, sponsors provide support for a wide range of reasons—to protect a credit rating, to manage risks, to address widespread market illiquidity, and to respond to investors' concerns regarding their degree of comfort with particular securities, among others.

Yes, in some instances sponsor support does prevent a fund from breaking the dollar. But there are two key things to remember. First, the fact that one fund breaks the dollar isn't likely to set off destabilizing runs—just as the failure of a fund in 1994 had no impact at all on other funds.

Second, the sponsors who provided liquidity for their money market funds in 2008 helped keep the financial crisis from getting even worse. Short-term credit markets were frozen after the government allowed Lehman Brothers to fail. Faced with heavy redemption pressures from shareholders fleeing securities issued by financial institutions, sponsors chose to help their funds rather than dumping securities and increasing the downward pressure on markets. The SEC was right to grant permission for relief widely and generously.

Chairman Schapiro acknowledged in her Senate testimony that it “is not...necessarily a bad thing to have sponsor support and prevent a fund from breaking the dollar.” And she took pains to note, “the goal here is not to demonize an industry.”

We are certain that is not Chairman Schapiro's goal.

Nonetheless, one thing is clear. Such slipshod data provides no basis for the sort of drastic changes in money market funds that Chairman Schapiro has been urging.

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