ICI VIEWPOINTS

SEPTEMBER 10, 2012

Clearing Away the Misconceptions About Money Market Funds

By Paul Schott Stevens

A recent *New York Times* column contains a slew of mischaracterizations regarding recent developments around money market funds.

Let's start with the negative, misleading headline: "Influence of Money Market Funds Ended Overhaul." The fact is that the structural changes to money market funds recently under consideration by regulators inspired deep and varied opposition from across the country.

True reform for money market funds would recognize the vital role that these funds play for investors and the economy and would make them stronger. That's exactly what the Securities and Exchange Commission achieved with its sweeping 2010 money market fund reforms, with full industry support.

The 2012 proposed changes, however, threatened to destroy the value of money market funds for investors and disrupt a crucial source of financing for businesses, states, counties, and cities. Recognizing these risks, voices throughout the economy—mayors of major cities, members of Congress from both parties, and scores of business and municipal organizations—spoke out against the SEC staff's harmful plans. As a majority of SEC commissioners have stated, this broad-based outcry was a key factor in stopping the proposed changes.

Stewart also mischaracterizes actions taken around money market funds in the financial crisis. Take his comments about the Treasury's Temporary Guarantee Program for Money Market Funds (TGP), which expired in September 2009. He writes:

Though largely unsung at the time, [the TGP] was an important step that staved off a global financial collapse. It also made American taxpayers liable for over $3 trillion, the total assets held by money market funds at the time.

First, it's a clear mistake to describe the TGP as "largely unsung at the time." The program was strongly promoted by the Treasury Department, cited by President George W. Bush as one of the steps taken by the government to restore confidence, publicized by the fund industry, and prominently reported in the press.

As for making "American taxpayers liable for over $3 trillion," we're sorry to see this fiction persist. As we discussed in a previous *ICI Viewpoints* post, the structure of the program ensured that far less was at risk. How? The program *only covered losses*, which in turn were limited by the terms of the program: to file a claim, a fund was required to liquidate as soon as its value dropped by 0.5 percent. And the government's exposure was capped at $50 billion—less than 2 percent of the $3 trillion figure that Stewart and others bandy about.

As it happened, the TGP expired without receiving a single claim. Instead, Treasury and taxpayers received an estimated $1.2 billion in fees paid by participating money market funds. Other than that one-year program, money market funds have never been insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency—as these funds' investor disclosures and advertisements clearly state.

Finally, Stewart—like many other commentators—ignores the likely outcome of the SEC's proposed changes: they would *increase,* rather than reduce, systemic risk. Either forcing money market funds to "float" their value or imposing capital requirements would drive away investors. 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 that may be beyond the reach of U.S. financial authorities.

With the misconceptions continuing to swirl around money market funds, I urge readers to consult our recent work in *ICI Viewpoints* addressing areas where commentators often lose their grasp of the facts.

- The “Susceptible to Runs” Myth
- The False Narrative of 2008
- What Money Market Fund Investors Know
- Investor Protections in the SEC’s 2010 Money Market Fund Reforms
- The Power of the SEC’s 2010 Money Market Fund Reforms

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