

MONEY MARKET FUNDS IN 2013

FSOC Fails to Make the Case for Changes to Treasury, Government, or Tax-Exempt Money Market Funds

In its [January 24 comment letter to the Financial Stability Oversight Council](#) (FSOC), ICI explains that the Council's proposal is overly broad in recommending additional regulations for all money market funds. The Council's one-size-fits-all approach in some instances fails to distinguish between the four distinct types of money market funds. Specifically, FSOC has not explained or shown why any additional regulations are necessary for Treasury, government and tax-exempt funds. (See page 40 of comment letter for full discussion of this issue.)

ICI argues all of the FSOC alternative proposals are wholly inappropriate for any money market funds. If, however, 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 for prime money market funds](#).

- **The four types of money market funds differ in the securities they hold, their levels of liquidity, their default risk and investor behavior.**
 - **Treasury money market funds** invest primarily in U.S. Treasury obligations and repurchase agreements (repos) collateralized with U.S. Treasury obligations, trading in deeply liquid markets.
 - **Government money market funds** invest primarily in U.S. Treasury obligations, U.S. government agency securities, repos or agency obligations, trading in deeply liquid markets.
 - **Tax-exempt money market funds** invest in short-term tax-exempt debt.
 - **Prime money market funds** invest in commercial paper and other assets that can produce more yield with additional risk.

- **Further fundamental changes are not necessary for Treasury, government or tax-exempt money market funds.** FSOC has not explained or shown why any additional regulations are necessary for Treasury, government and tax-exempt funds.

- **The characteristics of Treasury, government, and tax-exempt funds—especially investor behavior in redemptions—and their experiences in 2008 show that FSOC's recommendations for reforming them are misplaced.**
 - Treasury and government funds hold securities that trade in deeply liquid markets and have reliably higher credit quality than any other short-term securities.
 - Treasury and government funds saw substantial inflows during the 2008 financial crisis as investors fled from investments in financial institutions toward instruments they viewed as safer and more liquid.
 - Tax-exempt funds are highly liquid and did not experience destabilizing redemptions during the financial crisis and other events.

- **Treasury or government funds could suffer credit losses only if the U.S. government failed to repay its debt in full or allowed a federal agency to default precipitously.**
 - Given the regulators' role in overseeing U.S. government debt, ICI believes FSOC would agree that these events are extremely unlikely—making their proposals to impose further regulations on Treasury and government money market funds quite misplaced.

- **FSOC cites redemptions from government money market funds in the 2011 market turbulence as evidence that funds are vulnerable to “runs”, ignoring the fact that funds met net redemptions without incident or spillover to the broader financial markets during this time.**
 - Further, data from July 2011 shows half of government money market funds had inflows and an additional 25 percent experienced only a small contraction in total net assets that month—making clear investors in government money market funds did not redeem in droves during this period.

- **FSOC asserts that money market fund investors are more likely to react to market events now, but fails to acknowledge that historically investors have moved *into* government money market funds in turbulent markets.**
 - The fact that government money market funds continue to receive net inflows during periods of market stress counters FSOC's unsubstantiated assertion that these funds are susceptible to “runs.”

- **Recommendations for fundamental changes aimed at Treasury and government funds in particular carry troubling implications.**
 - The ICI letter notes: “We find it particularly troubling that FSOC—composed as it is of the heads of U.S. federal financial regulators—would see fit to propose drastic reforms for funds whose portfolios consist almost entirely of short-term Treasury and government securities. Absent implicit concerns about a default by the U.S. Government, these proposals seem wholly misplaced. If these proposals actually are motivated by such concerns, the implications for the financial system hardly can be confined to money market 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 or www.PreserveMoneyMarketFunds.org.