

MEMO# 28208

June 18, 2014

ICI Comment Letter on SEC Staff Analyses Related to Money Market Fund Reform

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TO: BROKER/DEALER ADVISORY COMMITTEE No. 34-14
BANK, TRUST AND RETIREMENT ADVISORY COMMITTEE No. 28-14
OPERATIONS COMMITTEE No. 33-14 RE: ICI COMMENT LETTER ON SEC STAFF ANALYSES
RELATED TO MONEY MARKET FUND REFORM

The staff of the SEC's Division of Economic and Risk Analysis ("DERA") recently made available to the public certain analyses of data and academic literature related to money market funds. [*] The analyses, which are contained in four separate memos, apparently are intended to assist the SEC in the development of final rules regarding money market fund reform.

The analyses examined:

- The extent to which various types of money market funds are approaching current thresholds for exposures to providers of guarantees and conditional demand features.
- Recent evidence on the availability of "safe assets" in the U.S. and global economies to determine the impact that an increase in demand for government securities would have on securities prices.
- The extent to which government money market funds have exposure to non-government securities.
- The spread between same-day buy and sell transaction prices for certain corporate bonds from Jan. 2, 2008 to Jan. 31, 2009 to create a measure of transaction costs in periods of financial market stress.

In response to the SEC's request for comments, ICI filed a brief comment letter on the DERA studies. The letter was intended to alert the SEC about concerns that ICI had about conclusions reached in the first two of these studies—the extent to which money market funds approach thresholds for guarantees and demand features from a single institution and the availability of "safe assets" in the U.S. and global economies.

As our letter discusses, money market funds generally must limit their exposure to any one

provider of guarantees or conditional demand features (“credit support provider”) for portfolio securities to 10 percent of total assets; however, 25 percent of a fund’s total assets may exceed the 10 percent limit under certain circumstances (“25 percent basket”). Under the SEC’s 2013 money market fund reform proposal, the 25 percent basket would be eliminated and the fund would be prohibited from acquiring any security that would result in its exposure to a credit support provider exceeding 10 percent of the fund’s total assets. The DERA study concluded that few funds make full use of the 25 percent basket. The letter points out that the DERA analysis, however, does not appear to consider the fact that funds, especially single state funds, use the 25 percent basket to gain exposure to more than one credit support provider in excess of the 10 percent limit and therefore understates the extent to which funds use the 25 percent basket. As a result, the letter suggests that if the SEC remains concerned about the extent to which a money market fund can be exposed to a single credit support provider, it should consider adding limitations on individual providers within the 25 percent basket (e.g., a 15 percent limitation on exposure to any one provider within the 25 percent basket).

The letter also raised concerns about the supply of safe assets available to money market funds. The DERA analysis concluded that given the size of the global safe assets market, it did not anticipate a supply problem. The letter notes that the global market for safe assets, which the DERA analysis estimated was \$74 trillion, does not represent the universe of eligible safe assets for U.S. money market funds. Rather, U.S. money market funds are generally limited to high-quality U.S. dollar-denominated securities of short duration (e.g., with a remaining maturity of less than 397 calendar days) and that U.S. government money market funds have an even more limited supply of assets to draw upon. The letter concludes that a better measure of the supply of assets available to meet any increased demand for government securities would be the amount of U.S. Treasury and agency securities with maturities of less than one year and repurchase agreements backed by government securities

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[Attachment](#)

endnotes

[*] See SEC Press Release 2014-56, Staff Analysis of Data and Academic Literature Related to Money Market Fund Reform (March 24, 2014), available at <http://www.sec.gov/News/PressRelease/Detail/PressRelease/1370541253716#.UzCMW84TnQk>.