

MEMO# 26862

January 11, 2013

ICI Draft Comment Letter on FSOC Proposals for Money Market Fund Reform; Comments Due Wednesday, January 16

[26862]

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TO: ACCOUNTING/TREASURERS COMMITTEE No. 2-13
BANK, TRUST AND RETIREMENT ADVISORY COMMITTEE No. 3-13
BROKER/DEALER ADVISORY COMMITTEE No. 3-13
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 2-13
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 1-13
OPERATIONS COMMITTEE No. 4-13
SEC RULES COMMITTEE No. 4-13
SMALL FUNDS COMMITTEE No. 2-13
TRANSFER AGENT ADVISORY COMMITTEE No. 7-13 RE: ICI DRAFT COMMENT LETTER ON
FSOC PROPOSALS FOR MONEY MARKET FUND REFORM; COMMENTS DUE WEDNESDAY,
JANUARY 16

As you know, the Financial Stability Oversight Council ("FSOC" or "Council") has voted to propose recommendations for money market fund reform.* The proposed recommendations were issued under Section 120 of the Dodd-Frank Act, which authorizes FSOC to determine that a financial activity or practice could create or increase the risk of significant liquidity, credit, or other problems and to issue recommendations for more stringent regulation to the primary financial regulatory agency; which in this case would be the SEC. FSOC proposes to determine that money market funds' activities and practices could create or increase these risks and to recommend three alternative reforms to money market funds. These reforms could be adopted in the alternative, in which case a money market fund could choose which reform applied to it. FSOC also requests comments on other possible reforms, including liquidity fees and gates. ICI has drafted a comment letter, which is attached and briefly summarized below.

Please provide any comments regarding the draft letter to the undersigned at jheinrichs@ici.org by Wednesday, January 16, 2013.

Our draft letter begins with a discussion of the predicates required under the Dodd-Frank Act for a proper Section 120 recommendation (pages 5-32). We conclude that the FSOC lacks the authority to make any recommendations regarding money market funds at this time and analyze the misleading and incorrect statements it has used as a foundation for its case for fundamental changes to money market funds. We also note that the Council's proposed determination fails to reflect a nuanced and thoughtful analysis of the various types of money market funds and their comparative risks to the financial system and suggest that the only type of fund even arguably meriting consideration for further reform is prime money market funds (pages 32-40).

Next, we describe the use of liquidity fees and/or gates as a potential reform proposal for prime money market funds that would effectively stop a run (pages 41-49). We then outline our concerns with the FSOC's policy options for further money market fund reform: requiring money market funds to let their share prices float (pages 49-61); implementing permanent restrictions in the form of a "minimum balance at risk" requirement that would bar shareholders from redeeming all of their shares on demand (pages 61-65); and requiring funds to maintain an explicit NAV buffer (pages 66-73). We also discuss our views on possible additional measures, such as more stringent investment diversification requirements, increased minimum liquidity requirements, and shareholder transparency (pages 73-75). Finally, we discuss how the FSOC failed to properly evaluate the long-term economic impact of its proposals as required under the Dodd-Frank Act (pages 75-80).

Also attached are three appendices: Appendix A (Timeline of Major Developments in the Financial Crisis); Appendix B (Regression Analysis of Government and Tax-Exempt Money Market Fund Flows); and Appendix C (Operational Implications of Intraday Gating).

Jane G. Heinrichs
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[Attachment](#)

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