

**MEMO# 22968**

October 6, 2008

# **"Of Black Swans and Money Funds" Paul Steven's Speech to Equity, Fixed Income, and Derivatives Market Conference**

[22968]

October 6, 2008

TO: BOARD OF GOVERNORS No. 9-08  
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INST. MONEY MARKET FUNDS ADVISORY COMMITTEE No. 26-08  
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 31-08  
PRIMARY CONTACTS - MEMBER COMPLEX No. 10-08  
PRIMARY CONTACTS - MONEY MARKET FUNDS No. 2-08  
SEC RULES MEMBERS No. 114-08 RE: "OF BLACK SWANS AND MONEY FUNDS" PAUL STEVEN'S SPEECH TO EQUITY, FIXED INCOME AND DERIVATIVES MARKET CONFERENCE

In his opening address today at the Institute's Equity, Fixed Income, and Derivatives Markets Conference, Paul Stevens recounted recent events that have brought the credit crisis to bear on money market mutual funds. He described in some detail how ICI has responded, working with public officials to restore confidence and preserve the crucial role that money market funds play in the American economy.

Some of the key points in the [speech](#):

- Money market funds are a premier cash vehicle for households as well as corporate America. Just as important, money market funds provide "vital fuel for the financial engines that drive the American economy." As of June, money funds held more than 40 percent of commercial paper, almost one-fifth of outstanding municipal securities, one-fifth of marketable Treasury bills, and at least one-quarter of repurchase agreements.
- Even before the bankruptcy of Lehman Brothers occasioned the "break the buck" announcement by the Reserve Primary Funds, ICI had entered around-the-clock talks with the Federal Reserve, the Department of the Treasury, and the U.S. Securities and

Exchange Commission. The direct involvement of senior executives of member firms kept government officials apprised of strains our members faced in credit markets and helped ensure that the government's proposals could be as effective as possible.

- The fund industry has never tried to use the nation's financial and economic crisis to gain a competitive advantage. In particular, it was ICI that proposed capping the Treasury's temporary guarantee program for money funds to cover only amounts invested as of September 19, 2008. We strongly believe that that program will be, as promised, a temporary, voluntary, emergency backstop. It is our hope that the guarantee program will never be called upon to pay a claim.
- The record of September shows the remarkable resilience of money market funds, but free and liquid trading in the money markets remains elusive.
- ICI is prepared to engage in a thorough examination of how the money market can function better, and how all funds operating in that market should be regulated. But the Institute remains confident that the fundamental strengths of mutual funds—diversification, transparency, strict limits on leverage, professional management, low costs, and innovation—will carry and sustain our funds through this time of turmoil and beyond.

For a copy of the [speech](#). Please do not hesitate to contact me if you have any questions or concerns.

F. Gregory Ahern  
Chief Public Communications Officer

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