MEMO# 26069

April 23, 2012

ICI Submits Results of Survey of Institutional Investors' Views Regarding Money Market Fund Reform

[26069]

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TO: MONEY MARKET FUNDS ADVISORY COMMITTEE No. 26-12
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 15-12
SEC RULES MEMBERS No. 31-12 RE: ICI SUBMITS RESULTS OF SURVEY OF INSTITUTIONAL INVESTORS' VIEWS REGARDING MONEY MARKET FUND REFORM

Last week, the Investment Company Institute submitted a letter to the Securities and Exchange Commission with the attached report, Money Market Fund Regulations: The Voice of the Treasurer, regarding corporate treasurers' and other institutional investors' views and likely reactions to changing the fundamental nature of money market funds.

The ICI commissioned Treasury Strategies, Inc. to conduct the research. Treasury Strategies surveyed more than 200 organizations about how they use money market funds; their views on floating net asset values, capital requirements, and redemption holdback concepts; and how those concepts would change their use of these funds. Estimates based on the survey results indicate that a floating net asset value or a redemption holdback will drive 60 percent or more of institutional assets out of money market funds. The results show that imposition of capital buffers on money market funds will have a much smaller impact on institutional assets (a reduction of 13 percent) when the question makes no mention of any loss of yield caused by the buffers. Follow-up questioning, however, shows that if a buffer reduced the yield of those funds by just 2 to 5 basis points, a large majority of the respondents would decrease their use or discontinue their use altogether. The survey provides the first clear analysis of the degree to which institutional investors would move their short-term investments away from money market funds if the SEC puts these concepts in place.

The letter accompanying the report states that the reform options currently under serious consideration by the SEC would undermine money market funds' value to investors, effectively destroying these funds. The reforms also would disrupt the supply of credit to businesses, state and local governments, and consumers, particularly during a transition period prior to the implementation of any of these reforms when investors likely would rapidly move short-term investments from money market funds and into alternative products and investments. Treasurers responding to the survey reported that they would move their holdings currently invested in money market funds to a variety of options, including bank checking accounts, separately managed outside accounts, government securities, commercial paper, local government investment pools, unregistered cash pools, repurchase agreements, and offshore funds. To the extent that these products or investments are either less regulated or less transparent than money market funds, the letter cautions the SEC that implementing these reforms could well increase the risks to the financial system and reduce regulators' ability to monitor financial markets.

The letter urges the SEC to carefully consider any new money market fund regulations to ensure that they are consistent with creating a stronger, more resilient product that serves the needs of short-term investors and borrowers, without imposing harmful, unintended consequences on financial markets or on the U.S. economy. Finally, the letter urges the SEC to give full consideration to the results of the report.

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Attachment
