The Asset Management Industry
SERVING INDIVIDUAL INVESTORS
INVESTMENT COMPANY INSTITUTE

MEMO# 26176

May 23, 2012

ICI Study on Implications of Capital Buffers for Money Market Funds

[26176]

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TO: MONEY MARKET FUNDS ADVISORY COMMITTEE No. 34-12
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 20-12
SEC RULES MEMBERS No. 41-12 RE: ICI STUDY ON IMPLICATIONS OF CAPITAL BUFFERS FOR MONEY MARKET FUNDS

Last week, the Investment Company Institute submitted a study to the Securities and Exchange Commission on the implications of capital buffers for money market funds. *

In the ICI study, we describe how requiring money market fund advisers to hold capital to support their money market funds would fundamentally change the nature of these funds. The study finds that depending on the size of the capital buffer and the assets covered, a capital buffer could result in advisers shifting to less regulated products or exiting the cash management business altogether. We also explain how these changes would not benefit investors and could lead to greater systemic risk in the economy.

The letter accompanying the study states that as regulators continue to explore the appropriateness of additional money market fund reforms, it is critical that any new regulations be carefully considered 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. The letter then urges the SEC to give full consideration to the results of this study.

Jane G. Heinrichs
Senior Associate Counsel

endnotes

* The full study is available at http://www.ici.org/pdf/ppr_12_mmfs_capital_buffer.pdf.