

MEMO# 26205

May 29, 2012

ICI Global Comment Letter on IOSCO Consultation on Money Market Funds

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TO: ICI GLOBAL REGULATED FUNDS COMMITTEE No. 1-12
ICI GLOBAL SHADOW BANKING TASK FORCE
ICI GLOBAL STEERING COMMITTEE No. 3-12 RE: COMMENT LETTER - IOSCO CONSULTATION ON MONEY MARKET FUNDS

On April 27, 2012, the Technical Committee of IOSCO issued a consultation report, *Money Market Fund Systemic Risk Analysis and Reform Options* (the "Report"). [\[1\]](#) In the Report, IOSCO stated that the Financial Stability Board ("FSB") had asked it to undertake a review of potential regulatory reforms of money market funds that would mitigate their susceptibility to runs and other systemic risk, taking into account national initiatives. The FSB asked IOSCO to develop recommendations by July 2012.

The Report stated that the FSB sought a review of whether money market funds must (1) be encouraged or required to implement a variable NAV; (2) be subject to capital and liquidity requirements if they seek to maintain a stable or constant NAV; and/or (3) whether there are other possible reforms. [\[2\]](#) The Report examines various reform options. For select jurisdictions, the Report describes the regulatory environment of money market funds as well as the impact of the financial turmoil in 2007-2009. The Report describes the United States and Europe as the primary domiciles for the substantial majority of worldwide money market fund assets with stable NAV money market funds constituting the majority of worldwide money market fund assets. Comments on the Report were due on May 28, 2012. [\[3\]](#) ICI submitted a comment letter on May 26, 2012 (attached).

Comment Letter

ICI made the following broad comments in its letter:

- ICI commented that IOSCO (and the FSB) had provided too short a time period and recommended that an extension be provided or that any proposed recommendations to the FSB be available for comment. We also urged the FSB to provide greater transparency regarding its deliberations and the formulation of any recommendations.

- We stated that the lack of a clear, global definition of a money market fund was highly problematic when crafting a universal recommendation. We noted, as described in the Report, that there are tremendous differences globally among funds that would fall within the Report's general description of a money market fund. Without such a definition, the goal of global recommendations raises genuine and serious risks, both locally and globally. Rather than seeking global regulatory reforms, we recommended an exercise to identify features that have improved the operation of these types of funds. This work would be beneficial to markets and investors and would contribute to efforts to seek a common definition.
- We asserted that the variety of differing circumstances for money market funds around the world must inform IOSCO's efforts to develop recommendations for money market funds on a global basis. We stated that a global one-size-fits-all approach is neither advisable nor appropriate.
- We commented that money market funds should not be subject to bank-like regulation. We recommended that IOSCO and the FSB only consider measures consistent with the structure of collective investment funds and tailored for local circumstances, e.g., measures to strengthen fund liquidity, disclosure, portfolio composition. Further, given the role of the money markets for funds, investors, issuers and local economies, we recommended that IOSCO examine measures to strengthen the functioning of the money markets.
- We stated that a focus on the use of amortized cost valuation by money market funds was not an effective or constructive response to addressing the risks identified by regulators. We stated that ICIIG did not support a mandatory move to variable NAV or a prohibition on using amortized cost valuation.
- We encouraged IOSCO and the FSB to engage in further study of national initiatives and reforms of money market funds. We stated that there were significant benefits to be gained by analyzing the costs and benefits of existing money market fund regulation around the world. We also urged policymakers to consider and assess the degree to which money markets have been strengthened by broader reforms impacting the strength and functioning of the global financial system, including (but not limited to) banking and mortgage lending reforms as well as initiatives related to asset back securities, derivatives and rating agencies.

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[Attachment](#)

endnotes

[1] *Money Market Fund Systemic Risk Analysis and Reform Options*, CR07/12, Technical Committee of IOSCO (April 27, 2012) available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD379.pdf>.

[2] Report at pages 2-3.

[3] A coalition of trade associations submitted a letter on May 22, 2012 requesting a 45 day extension of the comment period. The five associations submitting the request were:

the European Fund and Asset Management Association, the International Investment Funds Association, the ICI, ICIG and the Asset Management Group of the Securities Industry and Financial Markets Association.

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