

MEMO# 24811

December 23, 2010

ICI Draft Comment Letter on PWG's Report on Money Market Fund Reform Options

[24811]

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TO: MONEY MARKET FUNDS ADVISORY COMMITTEE No. 69-10
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 54-10
SEC RULES COMMITTEE No. 68-10 RE: ICI DRAFT COMMENT LETTER ON PWG'S REPORT ON MONEY MARKET FUND REFORM OPTIONS

As you know, the President's Working Group on Financial Markets ("PWG") has released its report, entitled Money Market Fund Reform Options ("Report"). [1] The Report does not make specific reform recommendations. Rather, the PWG requests that the newly-established Financial Stability Oversight Council consider the options presented in the Report and identify and pursue those "most likely to materially reduce MMFs' susceptibility to runs." The Report also indicated that the Securities and Exchange Commission, as the regulator of money market funds, would seek comment on the Report. The SEC has now published its request for comment. [2]

ICI has prepared a draft comment letter, which is attached and summarized below. Please note that the appendix cited in Section III.A. of the draft letter is not attached.

Comments on the Report are due no later than Monday, January 10, 2011. Please provide your comments in writing to Jane Heinrichs at jheinrichs@ici.org or Frances Stadler at frances@ici.org by Wednesday, January 5.

The SEC requests comments on the options described in the Report both individually and in combination. The Report discusses seven options for further reform of money market funds. These include: (1) floating NAVs for money market funds; (2) a private emergency liquidity facility for money market funds; (3) mandatory redemptions in kind; (4) insurance for money market funds; (5) a two-tier system of money market funds, with enhanced protection for stable NAV money market funds; (6) a two-tier system of money market funds, with stable NAV money market funds reserved for retail investors; and (7) regulating stable NAV money market funds as special purpose banks. The Report also discusses the possibility of imposing enhanced constraints on less regulated money market fund substitutes to address concerns that new requirements for money market funds will reduce

their appeal to many investors.

Summary of Comments

ICI's draft letter examines each of the reform options with a view towards preserving our fundamental convictions: that money market funds serve valuable purposes for investors and the economy and that this highly successful product—including its essential characteristics—should be strengthened and preserved.

With this in mind, our comments begin with an overview of the U.S. money market to provide context. Next, the draft letter describes the regulation of money market funds, including the SEC's recent reforms. We then examine each of the reform options outlined in the Report.

Our examination of those reform options and other reform ideas has led us to the same conclusion the PWG apparently reached; namely, that there is no "silver bullet" for making money market funds even more secure in the event of severe market distress. The draft letter explains that each option has its drawbacks, ranging from potential detrimental impacts on money market funds, their issuers, and investors, to complicated regulatory, structural, and operational hurdles. Despite these challenges, we believe the option of a private emergency liquidity facility for prime money market funds has the most promise for addressing policymakers' remaining concerns with the least negative impact. The letter explains our support for such a facility, sets forth a proposed design, and explains how our design would address various potential issues the Report identifies.

The draft letter also notes our continued strong opposition to requiring money market funds to float their NAVs. The draft letter states that we believe this and each of the other remaining options presented all have serious flaws in that they would not improve liquidity during periods of market stress, would increase rather than decrease systemic risk, would adversely impact the market, or would result in some combination of the foregoing. While we are unable to support any of these suggested approaches, the letter proposes one additional measure: a rule mandating that intermediaries provide information to facilitate money market funds' ability to comply with "know your investor" requirements. Greater transparency around investors owning shares through intermediaries would mitigate risk by improving money market funds' ability to manage liquidity needs.

Jane G. Heinrichs
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[Attachment \(in .pdf format\)](#)

endnotes

[1] The Report is available at <http://www.treasury.gov/press-center/press-releases/Documents/10.21%20PWG%20Report%20Final.pdf>.

[2] SEC Release No. IC-29497 (Nov. 3, 2010), available at <http://www.sec.gov/rules/other/2010/ic-29497.pdf>.

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