INVESTMENT COMPANY INSTITUTE

MEMO# 26198

May 29, 2012

ICI Files Comment Letter with IOSCO and SEC on Money Market Fund Reform

[26198]

May 29, 2012

TO: MONEY MARKET FUNDS ADVISORY COMMITTEE No. 37-12
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 22-12
SEC RULES MEMBERS No. 45-12 RE: ICI FILES COMMENT LETTER WITH IOSCO AND SEC ON MONEY MARKET FUND REFORM

On April 27, 2012, the Technical Committee of the International Organization of Securities Commissions ("IOSCO") issued a consultation report, Money Market Fund Systemic Risk Analysis and Reform Options (the "Report"). [*] In the Report, IOSCO stated that the Financial Stability Board 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, and develop policy recommendations by July 2012.

ICI submitted a comment letter to IOSCO and the SEC on May 25, 2012, which is attached and summarized below.

ICI's letter began by recounting the progress the SEC and the U.S. fund industry have made toward their shared goal of strengthening the resiliency of the money market funds. Despite this progress, the letter noted that the calls for further reform continue. To this end, the letter asserted that we remain committed to working with regulators on this important issue, but we submit that this process should be guided by two principles. First, we should preserve those key features of money market funds (including the stable $1.00 per-share NAV and ready liquidity) that have made them so valuable and attractive to investors. Second, we should preserve choice for investors and competition by ensuring a continued robust and competitive global money market fund industry.

The letter then provided a brief discussion of why the difficulties that the money market and U.S. money market funds faced during the financial crisis of 2007-2008 do not support the conclusion that money market funds are particularly susceptible to runs, as some claim. We then reviewed how the SEC's 2010 amendments have made U.S. money market funds more resilient and how their experience under these new requirements during last summer’s market events should help inform IOSCO’s consultation and recommendations. Indeed, we asserted that so far-reaching were these reforms that today’s money market fund industry is dramatically different from that of 2008.

Next, the letter examined three policy options identified in the Report. First, we explored the proposition that all money market funds should let their share prices float—a structural change for the U.S. money market fund industry that would not reduce systemic risk but instead, could increase it. Next, we discussed the idea that money market funds or their advisers should maintain capital against money market fund assets—an idea that not only alters the product but could cause significant industry contraction. Finally, we discussed the implementation of permanent redemption restrictions in the form of a “minimum balance requirement”—a concept that not only would be prohibitively costly to implement, but also is contrary to the fundamental nature of a mutual fund.

Finally, with respect to a number of the other options outlined in the Report, to the extent we have previously examined those approaches, the letter summarized our views and provided links to our more detailed, earlier comment letters.

Jane G. Heinrichs
Senior Associate Counsel

Attachment

endnotes

[*] 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.