

MEMO# 24245

April 19, 2010

ICI Letter on Basel Committee's Proposed Standards Regarding a Global Framework for Banks' Liquidity Risk Management

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TO: INTERNATIONAL MEMBERS No. 7-10
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 13-10
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 11-10
SEC RULES MEMBERS No. 35-10 RE: ICI LETTER ON BASEL COMMITTEE'S PROPOSED
STANDARDS REGARDING A GLOBAL FRAMEWORK FOR BANKS' LIQUIDITY RISK
MANAGEMENT

The Basel Committee on Banking Supervision ("Committee") has proposed standards to establish a global framework to strengthen the supervision and monitoring of a bank's liquidity risk management, including the control of liquidity risk exposures. [\[1\]](#) Central to its efforts, the Committee has proposed regulatory standards to achieve separate but complementary objectives: (1) a liquidity coverage ratio to promote short-term resiliency of the liquidity risk profile of banks and (2) a net stable funding ratio to promote resiliency over a longer term with more stable sources of funding. The Institute has prepared a letter to the Committee that is limited to the Committee's recommendation concerning the net stable funding ratio and the treatment of "money market mutual funds."

The letter states that we are particularly supportive of the Committee's approach in the net stable funding ratio that would, under certain circumstances, give supervisors the flexibility to consider various liquidity risk factors regarding "money market mutual funds" based on their national circumstances. The letter notes that there is no global harmonized definition

of a money market fund and the Committee has not defined the term “money market mutual funds” in its work. In fact, the letter states that there are important and substantial differences among money market funds around the world. In addition, the letter states that it is important to note that some of these funds, but not all, may be subject to specific national rules. Given the diversity in national approaches to money market funds, the letter states that flexibility is especially important because national supervisors will need the ability to consider the risk factors that should be appropriately applied to the money market funds in their jurisdiction. For example, in the United States, money market funds would typically refer to registered investment companies that seek to maintain a stable net asset value, typically at \$1.00 per share, and comply with Rule 2a-7. Such funds are highly regulated and clearly defined under a specific regulatory framework of the Investment Company Act of 1940. Consequently, the letter concludes that a US money market fund should be evaluated and treated differently under this ratio than an unregulated or less regulated fund.

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[Attachment](#)

endnotes

[1] Basel Committee on Banking Supervision, Consultative Document, International Framework for Liquidity Risk Measurement, Standards and Monitoring, December, 2009 ("Document"), available at <http://www.bis.org/publ/bcbs165.pdf>.

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