

MEMO# 23333

March 19, 2009

Report of the Money Market Working Group

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TO: BANK, TRUST AND RECORDKEEPER ADVISORY COMMITTEE No. 14-09 RE: REPORT OF THE MONEY MARKET WORKING GROUP

Today, the Investment Company Institute announced that its Board of Governors has received a report ("Report") from the Money Market Working Group and has unanimously endorsed the Group's recommendations concerning new regulatory and oversight standards for money market funds. [*#160](#); In a resolution adopted March 17, 2009, the Board of Governors called for prompt implementation by all money market fund complexes of those practices recommended in the Report that do not require prior regulatory action. ICI formed the Working Group last fall to develop recommendations to improve the functioning and regulation of the money market and money market funds.

After much deliberation and many meetings with market participants, investors, and regulators, and taking into account the need to strengthen the safeguards of money market funds, the Report includes the following recommendations that generally would:

- Impose for the first time daily and weekly minimum liquidity requirements and require regular stress testing of a money market fund's portfolio.
- Tighten the portfolio maturity limit currently applicable to money market funds and add a new portfolio maturity limit.
- Raise the credit quality standards under which money market funds operate. This would be accomplished by requiring a "new products" or similar committee; encouraging advisers to follow best practices for determining minimal credit risks; requiring advisers to designate the credit rating agencies their funds will follow to encourage competition among the rating agencies to achieve this designation; and

prohibiting investments in “Second Tier Securities.”

- Address “client risk” by requiring money market fund advisers to adopt “know your client” procedures and requiring them for the first time to disclose client concentrations by type of client and the potential risks, if any, posed by a fund with a client base that is strongly concentrated.
- Enhance risk disclosure for investors and the market and require monthly website disclosure of a money market fund’s portfolio holdings.
- Assure that when a money market fund proves unable to maintain a stable \$1.00 net asset value, all of its shareholders are treated fairly. For this purpose, a money market fund’s board of directors, or a committee of the board, would be authorized to suspend redemptions and purchases of fund shares temporarily under certain situations, and permanently for funds preparing to liquidate, in order to ensure that all shareholders are treated fairly.
- Enhance government oversight of the money market by developing a nonpublic reporting regime for all institutional investors in the money market, including money market funds, and encouraging the Securities and Exchange Commission staff to monitor higher-than-peer performance of money market funds.
- Address market confusion about money market participants that appear to be—but are not—money market funds.

The Report notes that these recommendations seek to (1) respond directly to weaknesses in money market fund regulation that were revealed by the recent abnormal market climate; (2) identify potential areas for reform that, while not related to recent market events, are consistent with improving the safety and oversight of money market funds; and (3) provide the government detailed data to allow it to better discern trends and the role played by all institutional investors, including money market funds, in the overall money market, and invite greater surveillance of outlier performance of money market funds that may indicate riskier strategies.

The Report consists of eight sections, plus appendices. Section 1 reviews the formation of the Working Group and describes the Group’s work methodology. Section 2 reviews the operation of the U.S. money market, in an effort to provide context for understanding the functioning of this key component of our financial system, including the role of money market funds in that market. Section 3 discusses three primary features of money market funds—return of principal, liquidity, and a market-based rate of return—and the importance of these features to investors. Section 4 provides an overview of the regulation to which money market funds are subject in the United States. Section 5 describes various cash management alternatives to money market funds, both domestically and abroad, as well as overnight sweep arrangements. Section 6 provides a detailed look at the recent credit crisis. Section 7 describes the Working Group’s recommendations listed above. Finally, Section 8 describes reforms suggested by some that the Working Group believes would be more detrimental to the money market than helpful, including proposals that call for money market funds to float their NAVs; proposals for federal insurance of money market funds; and proposals for capital requirements for money market funds.

endnotes

* The Report is available on ICI's website at http://www.ici.org/pdf/ppr_09_mmwg.pdf.

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