

MEMO# 34963

February 21, 2023

GAO Report on Money Market Mutual Funds

[34963]

February 17, 2023

TO: ICI Members

Money Market Funds Advisory Committee

SEC Rules Committee SUBJECTS: Money Market Funds RE: GAO Report on Money Market Mutual Funds

On February 2, the United States Government Accountability Office (GAO) released a Report to Congressional Committees titled Money Market Mutual Funds: Pandemic Revealed Unresolved Vulnerabilities.[\[1\]](#) This report reviews:

1. the SEC's reforms designed to reduce run risk at money market funds (MMFs) exposed by the 2007-2009 financial crisis;
2. available evidence on the effectiveness of MMF reforms in reducing run risk during the pandemic; and
3. current actions the SEC is taking to reduce run risk at MMFs.

GAO reviewed studies and reports by federal agencies and other stakeholders about the vulnerability of MMFs to runs, analyzed MMF data on changes in fund assets, and reviewed SEC rule releases and related materials. GAO also interviewed officials from the SEC and other federal agencies, industry associations, and MMFs.

The report's findings are summarized below.

What GAO Found

In 2010 and 2014, the SEC revised its MMF rules after some MMFs experienced heavy redemptions during the 2007-2009 financial crisis. Evidence indicates that the SEC's reforms did not prevent runs during the COVID-19 pandemic. Some evidence also indicates that the SEC's reforms may have contributed to the runs. Some investors may have preemptively redeemed MMF shares to avoid incurring a liquidity fee or losing access to their funds under a redemption gate.

In February 2022, the SEC proposed a rule intended to reduce run risk by removing fees and gates, increasing minimum liquidity requirements, and adopting a new method to price certain MMF shares. Industry, academic, and other stakeholders generally support

removing the link between gates and fees and minimum liquid asset levels and increasing minimum liquidity requirements. Moreover, a few stakeholders maintain that the proposed new pricing method could reduce run risk, but stakeholders generally have raised concerns about the method's complexity and cost. Consistent with its guidance, SEC staff conducted economic analyses to support the proposed rulemaking. The analyses were largely qualitative because the SEC does not have data to quantify most of the proposed rule's benefits and costs. As part of the rulemaking, the SEC has proposed amending an MMF reporting form, which could provide it with additional data to monitor run risk at MMFs.

The report notes that while some stakeholders raised concerns about the adequacy of SEC's economic analysis, such as the lack of data or analysis to support the proposed reforms or substantiate their benefits, the GAO found that SEC staff followed its Current Guidance on Economic Analysis in SEC Rulemakings (economic analysis guidance) in conducting the economic analysis supporting the proposed MMF rulemaking.

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Notes

[1] Report to Congressional Committees: Money Market Mutual Funds, Pandemic Revealed Unresolved Vulnerabilities, United States Government Accountability Office (Feb. 2, 2023), available at <https://www.gao.gov/assets/gao-23-105535.pdf> (the "Report").

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