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August 5, 2011

The Lingering Threat of Floating NAVs

Despite widespread opposition from dozens of business, municipal, and investors groups, regulators continue to ponder the question of whether money market funds should be required to abandon the stable $1.00 net asset value (NAV) in favor of a floating NAV.

Press reports indicate that regulator interest in floating the NAV has picked up recently. Some of this interest centers on floating NAVs as part of "buffer" proposals, but regulators reportedly are still considering imposing floating NAVs as a standalone policy.

Reuters, July 21, 2011:

[SEC Chairman Mary Schapiro] said that doing away with the $1 standard and allowing net asset values (NAV) to "float" is one of several issues under discussion. "I would say nothing has been decided," Schapiro told the Senate Banking Committee at a hearing on the one-year anniversary of the Dodd-Frank financial oversight law.

Reuters, July 25, 2011:

"We still need to make further progress in reducing the risk that money-market funds could be a source of instability resulting from an unanticipated credit shock," [Boston Federal Reserve President Eric Rosengren] wrote. "While several proposals have been suggested, some combination of capital buffers, floating rate NAVs and enhanced disclosure seems the best way forward."

The Wall Street Journal, July 26, 2011:

To increase stability and reduce the funds' "susceptibility to runs," the [Financial Stability Oversight Council] recommended that the Securities and Exchange Commission consider changes such as moving to a floating share price, instead of a fixed $1 price, and imposing capital buffers to absorb losses.

ICI—like so many other groups representing businesses, governments, and nonprofits—remains steadfastly opposed to forcing money market funds to float their NAVs. The reasons are simple:

- Floating NAVs historically have not prevented investor runs, and wouldn't do so in the future. Indeed, floating NAVs would not reduce—and very likely would increase—systemic risk.
- Investor demand for a stable NAV fund would remain. Many investors might turn to less-regulated, riskier funds to fill that demand.

- Stable NAV funds meet investor needs while providing strong regulation.
- Undermining money market funds would threaten the economy by shutting down a key channel of finance. Money market funds provide more than half of the short-term funding for state and local governments and one-third of the financing for businesses' commercial paper.

As this debate unfolds, ICI will continue its efforts to further strengthen money market funds without undoing the key characteristics that have made them such an important part of our economy and markets. To learn more about money market funds, visit our resource page at www.ici.org/mmfs and www.preservemoneymarketfunds.org.
