

ICI VIEWPOINTS

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Wall Street Journal Editorial Ignores “Economic Disruption” of Floating the Value of Money Market Funds

The Wall Street Journal’s [lead editorial](#) today used a flawed analysis to mischaracterize money market funds and the recent efforts to make them more resilient in extreme market conditions. ICI President and CEO Paul Schott Stevens has submitted a letter to the editor in print and online to respond. Here’s the text of his submission:

Letter to the Editor, Wall Street Journal:

Your editorial “Taxpayers and Money Market Funds” (Review & Outlook, May 9) ignores the substantial progress that has already made money market funds more resilient in a financial crisis, while blithely dismissing the economic disruption and proliferation of risks created by a long-discredited “solution.”

The risks of money market funds have always been clearly disclosed, and investors are told in every advertisement, prospectus, and statement that their shares in these funds are not insured. No one can miss the fact that money market funds are not guaranteed.

For almost 40 years, money market funds have had an unmatched record of stability. When cascading bank failures shook the money markets in 2008, our industry tackled the vulnerabilities for money market funds exposed by that episode head-on. Our funds voluntarily raised standards for credit quality, shortened portfolio maturities, and increased disclosure. We endorsed new liquidity standards that now require prime money market funds to have 30 percent of their assets liquid within five business days. At current asset levels, that’s \$490 billion in liquidity.

We took these steps before the Securities and Exchange Commission acted—knowing that reforms would raise costs and constrain yields—because we understand that investors prize the stability, simplicity, and convenience that money market fund provide. How else to explain the fact that stable-value money market funds have 7.5 times the assets of short-term bond funds, which are paying sharply higher yields? The strong demand for money market funds, even with near-zero yields, should give clear warning that fundamental changes to this product will cause severe market disruptions.

We continue to work on sound ideas to reduce risks and make these funds stronger. But the notion your editorial endorses—floating the value of money market funds—does nothing to reduce risks. We saw how that experiment played out with floating-value ultra-short bond

funds in 2008. Those funds' investors pulled out 60 percent of their assets when the funds' values dropped. It's clear that experiencing routine fluctuations of a few basis points does not "condition" investors to sit tight when they're hit by a black-swan market.

While there's little to gain from floating funds' value, the costs are enormous. Key economic players from across the private and public sector have roundly rejected such proposals. Issuers of commercial paper and municipal securities count on money market funds to finance their payrolls, inventories, and public projects from bridges to hospitals. They've clearly said they don't want to see this crucial financing—the lifeblood of the economy—disrupted. Yes, markets will eventually adapt: markets have a way of finding prices that will accommodate even the most harmful policies. But why pile another costly and disruptive regulatory burden on a still-fragile economy, for such illusory gains?

Floating the value of money market funds will drive away legions of investors, including businesses and institutions that are required by law or policy to hold cash in stable-value accounts. Retail investors will also flee, because they want same-day access to their assets that floating-value funds can't provide—and don't want to turn every transaction with their fund into a taxable event.

As you acknowledge, banks can't absorb another \$2.7 trillion in deposits without a significant increase in risk. Institutional investors aren't likely to pour money into undiversified, uninsured bank accounts in any case. So billions of dollars will go searching for stable-value alternatives—which will proliferate in offshore banks and in cash pools that operate without the risk-limiting regulation promulgated by the SEC to protect money market fund investors. The new risks this could create are clear and substantial.

During the brief federal guarantee program for money market funds, taxpayers collected \$1.2 billion in fees from these funds without paying a dime in claims. We're committed to ensuring that taxpayers are never on the hook for money market funds. But the "solution" you advocate is all cost with no benefit. We need to preserve the value and key characteristics of money market funds.

Paul Schott Stevens
President and CEO
Investment Company Institute

The Investment Company Institute is the national trade association for registered investment companies, including money market funds.

For more on money market funds, visit ICI's [money market funds resource center](http://www.preservemoneymarketfunds.org/) and <http://www.preservemoneymarketfunds.org/>.