

ICI VIEWPOINTS

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The Reasonable Balance of the 2010 Reforms for Money Market Funds

Financial intermediaries—banks, hedge funds, insurance companies, investment companies, and private equity companies—exist to bring together those who have excess funds with those who need funds. This process naturally entails risk. The only way to eliminate such risks entirely is to eliminate financial intermediaries, an outcome unthinkable for modern economies.

Consequently, regulation of financial entities must strike a balance between the benefits to society of financial intermediation and controlling and limiting risks financial intermediation may pose.

As we discuss in [our recently published paper](#), the [amendments to the rules governing money market funds](#) adopted by the Securities and Exchange Commission (SEC) did just that: they struck a reasonable balance by seeking to strengthen the money market fund product while preserving the benefits of the product both to money market fund investors and to issuers who obtain financing from money market funds.

Moreover, the evidence presented in our paper indicates that the SEC's 2010 amendments are working as intended—namely to reduce any systemic risks that could arise from money market fund investments and to improve investor safety. For example, liquidity levels mandated by the 2010 reforms—and in practice exceeded by fund managers—helped ensure that funds can meet substantial redemption pressures, in turn helping to limit self-fulfilling anticipations and redemptions by investors that a fund might run out of liquid assets with which to meet redemptions.

Nonetheless, driven by a desire to reduce systemic risk further, some securities and bank regulators seek to impose additional regulations on money market funds. Some of [these proposals](#) would come at the cost of eliminating money market funds and the substantial benefits they provide to investors and issuers who obtain financing from money market funds. ICI will continue to work steadfastly to avoid this outcome.

For more on money market funds, please visit ICI's [Money Market Funds Resource Center](#).