ICI VIEWPOINTS

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# ICI's New Data Release: Further Enhancing the Transparency of Money Market Funds

The 2010 reforms to money market mutual funds greatly enhanced the transparency of these funds, giving regulators, analysts, and investors greater insight into important elements of funds' holdings and operations.

The reforms required funds to disclose their entire portfolio holdings to the public on their company websites five business days after the end of each month. Money market funds also are required to file a more detailed disclosure—SEC Form N-MFP—with the Securities and Exchange Commission directly. The SEC releases this more detailed data to the public 60 days after it's filed. The SEC does not, however, summarize the data, leaving the public without noncommercial access to a broad look at holdings across the industry.

To further enhance the transparency and public understanding of money market funds, ICI has decided to release a monthly compilation and summary of taxable money market fund data. Historical data on end-of-month holdings back to December 2010 have been posted on the ICI website, and we will release new data each month going forward. We hope this new data summary will be useful to investors, industry experts, financial analysts, and policymakers, and will help shed light on how the SEC's 2010 money market fund reforms have made the funds' portfolios more robust and resilient.

### What Do Money Market Fund Holdings Data Show?

In 2010, the SEC undertook significant reforms to money market fund regulation. One of these reforms required funds to increase the amount of disclosure that they provide to investors and the SEC about their portfolio holdings.

Rule 30b1-7 of the Investment Company Act of 1940 requires that money market funds report monthly on every security they hold, as well as certain other portfolio statistics, directly to the SEC on Form N-MFP. These requirements include the following data items:

- Types of securities held—title of the issue, CUSIP number (an identifier), and other details
- Issuer of the securities held, which can be used to examine the geographical distribution of the parent companies of the issuers of the securities held by money market funds
- Final legal maturity of each security held, including any "maturity shortening" provisions, such as a demand feature

- Daily and weekly liquidity ratios
- Maturities of overall money market fund portfolios

## Overview of the Summary Money Market Fund Holdings Tables

This section briefly discusses the nine ICI summary tables on taxable money market fund holdings.

Table 1 displays the percentage of government and prime money market fund portfolios held in various types of short-term dollar-denominated securities. Table 1 shows that more than 99 percent of government money market funds are invested in Treasury debt, agency debt, or repurchase agreements backed by Treasury or agency debt as of December 2013. By contrast, prime money market funds predominantly hold certificates of deposit, commercial paper, and repurchase agreements.

Tables 2 and 3 categorize government and prime money market fund holdings by country of issuer, based on the ultimate parent company of the issuer. For example, if a U.S. subsidiary of a German bank enters into a repurchase agreement (backed by U.S. Treasuries) with a government money market fund, this would be counted under the Germany category in Table 2.

Table 4 examines the asset-weighted average maturity profile of government and prime money market funds, based on two measures: the weighted-average maturity (WAM), and the weighted-average life (WAL). The SEC's 2010 money market fund reforms require a money market fund's WAM to be 60 days or less, and its WAL to be 120 days or less. Please refer to ICI's list of frequently asked questions about N-MFP data for detailed definitions of WAM and WAL.

Table 5 reports the daily and weekly liquidity ratios of government and prime money market funds. The SEC's 2010 money market fund reforms require taxable funds to hold at least 30 percent of their assets in securities that are deemed to be liquid within five business days (weekly liquidity) and at least 10 percent of their assets in securities that are deemed to be liquid in one business day (daily liquidity). Government money market funds hold very high levels of weekly liquidity (more than 80 percent on average) because most of their holdings are Treasury debt, short-dated agency debt, or repurchase agreements. Prime money market funds also typically have high weekly and daily liquidity ratios (more than 36 percent and 23 percent, respectively), well above the minimum SEC requirements.

The last four tables provide even greater detail on the maturity structure of taxable money market fund portfolios. Tables 6 and 7 show the maturity distribution of government and prime money market fund holdings by type of security held, respectively, so one can easily see how the short-dated nature of the average money market fund portfolio varies by the type of security. Tables 8 and 9 document the maturity distribution of government and prime money market fund holdings by home country of the issuer's parent.

## Month-to-Month Change and Year-End Effects

Typically, the percentages of money market funds' portfolios dedicated to various types of securities (e.g., commercial paper versus repurchase agreements) vary little from month to month. When significant changes do occur, however, further analysis often is required to determine whether those changes reflect supply or demand factors.

For example, banks and broker-dealers may be less willing than normal to enter into repurchase agreements at year-end. These entities may prefer to hold Treasuries on their books at the end of the year, rather than temporarily sell them to money market funds via an overnight repurchase agreement. In this case, money market funds do not choose to lend less to banks; rather, banks decide not to borrow as much via repurchase agreements and, hence, from money market funds.

This kind of year-end effect appears to have been particularly large at the end of 2013 compared with earlier years. Money market funds managed to find another counterparty to take the place of banks—namely, the Federal Reserve. In 2013, the Federal Reserve began engaging in a new program of fixed-rate, full-allotment, overnight reverse repurchase agreements. Money market funds are among the counterparties to this new program. Late last year, the Federal Reserve increased the effective size of its fixed-rate reverse repo operations, allowing each counterparty to lend the Fed up to $3 billion overnight. On December 31, 2013, $197.8 billion was allotted in the Federal Reserve's reverse repo operations, of which at least $135 billion was allotted to money market funds, according to N-MFP data.

For more on money market funds, please visit ICI's Money Market Fund Resource Center.