ICI VIEWPOINTS

October 21, 2013

‘Sponsor Support’ for Money Market Funds Is Old—and Overblown—News

A story in the October 21 issue of the Financial Times (“Almost 20 money market funds bailed out”; subscription required) takes old numbers and tries to present them as news. Contrary to its suggestion, U.S. money market funds have not incurred threatening losses since the financial crisis of 2007–2009.

At ICI, we’ve looked at every data source available on sponsor support—a study by the Federal Reserve Bank of Boston, data from the U.S. Securities and Exchange Commission, and public filings of fund sponsors. These data show that in almost every case, “support” in 2010 and 2011 reflected sponsors’ decisions to remove very small losses incurred during the financial crisis from their funds’ books. Those actions were caused by the financial crisis—not by later events.

The exceptions? In three cases, the funds’ sponsors bought downgraded securities out of the funds’ portfolios to maintain the funds’ AAA ratings. In three other cases, the sponsors bought the funds’ holdings of British Petroleum securities to limit risks to investors in the middle of the Deepwater Horizon oil spill. At no time was any of those six funds in danger of taking losses or breaking the dollar, and the sponsors received full value when the purchased securities matured.

All of these instances have been well known to regulators and rating agencies for a year. And nothing we have seen since—including the outflows caused by last week’s standoff over the U.S. debt ceiling—indicates that money market funds have needed support “to prevent them from making losses since the 2007-09 financial crisis.”