NEWS RELEASE

June 19, 2013

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In First Reaction to SEC Proposal, Stevens Praises SEC Process, Cites ‘Gates and Fees’ as Best Reform Option

Baltimore, MD, June 19, 2013 – The Investment Company Institute, in its preliminary reaction to the recent Securities and Exchange Commission (SEC) proposal of two options for the reform of money market funds, made clear its continuing opposition to floating the net asset value (NAV) for any category of money market funds.

ICI President and CEO Paul Stevens, in a speech titled “Top of the Ninth? The State of Play for Money Market Funds” at Crane Data’s Money Fund Symposium in Baltimore, also called the SEC’s proposed alternative—liquidity fees and redemption gates—the best approach. Noting that money market fund reform may be “in the top of the ninth” inning after several years of debate, Stevens praised the SEC for resuming control of the issue and pursuing a thoughtful regulatory process since last summer. He singled out the SEC staff’s economic analysis last fall as a notable contribution.

Floating NAV Remains Wrong Approach

Stevens reiterated the fund industry’s strong belief that floating NAVs, which the SEC would apply to institutional prime and tax-exempt funds under one of its two alternatives, would harm the product, investors, and the economy, while failing to meet regulators’ objectives. “Simply put, forcing funds to float their NAVs doesn’t address the problem that most preoccupies many regulators—how to avert heavy redemptions out of money market funds,” he said.

“Let’s check the count against floating NAVs,” Stevens said. “They don’t address regulators’ goals. They eliminate key benefits to investors. They harm the economy. They increase systemic risk. And they carry immense costs and operational complications.”

Stevens also cited the broad-based opposition of dozens of groups representing individual investors, businesses, state and local governments, and nonprofits to proposals to undermine the stable $1.00 value of money market funds. “Since 2009, hundreds of entities from the private and public sectors across the economy have expressed their opposition to floating NAVs and other ill-considered proposals," Stevens noted. Under a floating NAV, "corporate America could see a significant reduction in the supply of short-term credit," and "the pool of capital that state and local governments use for financing vital needs will shrink or dry up."

While praising the SEC for exempting Treasury, government, and retail funds from its floating NAV proposal, Stevens maintained that it was "a mistake" not to similarly exempt tax-exempt funds.

Liquidity Gates and Fees Most Promising

In contrast to the floating NAV, Stevens said, "[l]iquidity fees and gates precisely address the core problem that regulators express greatest concern about: heavy redemption pressures in periods of market turmoil." If redemption fees were imposed when a money market fund experiences difficulties—based on levels of weekly liquid assets and at the board's discretion—the fees would slow redemptions while still allowing investors access to their cash.

ICI Sees "Potential for Positive Changes" in Remainder of SEC Proposal

Stevens noted that ICI sees "potential for positive changes" in the proposed set of standards on disclosure, reporting, and diversification. "We need more time, however to assess the costs of providing detailed disclosures," Stevens added. He noted that the ICI will explain its views on the SEC proposal more fully when the Institute files a comment letter in September.

"No Basis" for FSOC to Intervene Again

Citing the economic analysis conducted by the SEC staff last fall and the agency's "collaborative process," Stevens said the SEC "should be strongly commended for pursing an appropriate and thoughtful process before bringing the current proposal to a vote."

"Against this backdrop," Stevens said. "it seems clear that the FSOC [Financial Stability Oversight Council] would have no basis for intervening in this regulatory process again."

ICI Supports Measures That Preserve Funds' Key Features and Investor Choice

"From the start, ICI and the fund industry have consistently supported measures designed to make money market funds more resilient, subject to two conditions," Stevens noted. "First, we must preserve the key features of money market funds that make them so valuable for investors and issuers. Second, we must preserve choice for investors by ensuring a robust and competitive global money market fund industry."

Stevens also enumerated a number of very strong concerns about the "substantial and dramatic changes that the European Commission appears to contemplate" for both constant NAV and variable NAV money market funds.

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