

LETTERS TO THE EDITOR & RESPONSES

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Don't Mess with Money Market Funds

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By Paul Schott Stevens

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Money market funds have served as a low-cost, efficient cash management tool prized by all types of investors since 1983.

Key to this success has been these funds' stable net asset value per share, typically \$1.

The Securities and Exchange Commission and other agencies are pondering whether money market funds would weather the next crisis better if those funds were forced to abandon the stable \$1 value and float their NAVs.

The mutual fund industry, which manages \$2.8 trillion in assets in money market funds, is of one mind on this issue: We all agree that forcing money market funds to abandon their stable per-share value is a terrible idea.

But there is no need to listen to us on this score. Listen instead to schools. Listen to supermarkets. Listen to cities and states, and listen to a wide range of businesses.

Over the past two years, these voices and others have resounded against floating NAVs.

Let's start with investors in money market funds: businesses, governments, households, nonprofit organizations, pension funds and others who seek both liquidity and preservation of capital. They have spoken directly to regulators, overwhelmingly in opposition to floating NAVs.

Take the education sector. The stable \$1 NAV, as the Association of Public and Land-grant Universities told SEC officials, provides a "low-cost, convenient and reliable cash management tool."

For K-12 schools, a floating NAV would lead to "needless complication of the reporting systems of public schools and local government entities to reflect variations of value that are inconsequential," the Pennsylvania School District Liquid Asset Fund said.

How about state governments?

Rhode Island's general treasurer told the SEC: "A floating NAV will likely reduce investment

yields, as it increases complexity and drives up administrative costs.” These realities likely would lead to significant shifts in investor behavior, which, in the words of the National Association of State Treasurers, could “potentially destabilize financial markets for both investors and debt issuers.”

How about business?

The Association for Financial Professionals Inc., which speaks for thousands of corporate treasury officials, noted to the SEC that the investment decisions of many buyers of money market funds are driven by return of principal rather than return on principal. Thus, the association said, “the potential of principal loss would preclude money market funds with a floating NAV from being an approved investment alternative” for a large number of institutional investors.

Retail investors would fare no better. Speaking as an adviser to investors who need cash options in their asset allocations, Davenport & Co. LLC was blunt: “Alternative-investment options are wholly un-suited to this purpose.”

Not surprisingly, businesses and governments that depend on money market funds for vital short-term financing also have expressed serious concerns about changes that could disrupt the market for their securities. The National Association of College and University Business Officers has warned the SEC that loss of a stable NAV investment option “could alter both the number of investors and the amount of capital that could be invested in debt issued by colleges and universities, potentially raising the cost of capital for our members.”

Just this month, Caremark LLC, CVS Corp., Safeway Inc. and 14 other blue-chip companies — along with several groups representing treasurers in the corporate, educational and nonprofit sectors — told the SEC that mandating a floating NAV “would make short-term financing for American business less efficient and far more costly, ensuring a severe setback for an economy emerging from recession.”

We in the fund industry couldn't agree more. But don't take our word for it; take theirs.

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