MONEY MARKET FUNDS IN 2012
Fundamental Changes to Money Market Funds Could Drive Investors into Less-Regulated Products, Increasing Systemic Risk

Fundamental alteration of money market funds’ operations could drive investors to less-regulated, less transparent markets—increasing systemic risk…

- Investors demand the key features of money market funds, such as a stable $1.00 per share value and ready liquidity. If regulatory changes alter those features, investors would turn to private pools, operated in the United States and overseas, to access a stable net asset value (NAV) product.
- The result: billions of dollars could flow to less-regulated or unregulated cash pools in the United States and offshore.
- These alternatives are not registered with the Securities and Exchange Commission (SEC). Nor are they subject to regulation under the Investment Company Act, including the risk-limiting provisions of Rule 2a-7 governing credit quality, liquidity, diversification, maturity, and disclosure.
- Many such cash pools are outside the jurisdiction of U.S. regulators.
- Flows into these products could well increase systemic risk, since they are not subject to the risk-limiting provisions money market funds follow.

…Or cash held in money market funds could flow to traditional banks or similar products—hurting the economy.

- The flow of cash into banks would significantly reduce the supply of short-term credit to corporate America, unless banks raised significant amounts of capital to be able to support their expanded balance sheets.
- Even if banks could raise the capital to support this expansion, negative consequences would result.
  - The market would be less efficient and the cost of short-term credit would rise.
  - Municipalities would lose an important source of financing in the short-term markets, because banks cannot pass through tax-exempt income and could not replace tax-exempt money market funds.
Institutional and retail investors could put their cash in demand deposits to maintain the liquidity that they had with money market funds, with three results:

- Banks would need to hold more liquid and higher quality assets in order to meet the potential for large withdrawals.
- Uninsured institutional investors would cause bank deposits to become more volatile, particularly during periods of market stress.
- Investors would lose the yield advantage that money market funds offer—which leaves retail investors without any alternatives to access market rates of return.

For more information on money market funds, their role in the economy, ICI’s efforts to make these funds more resilient in the face of adverse market conditions, and the significant risk of undermining money market funds’ value to investors and the economy, please see www.ici.org/mmf5 or www.PreserveMoneyMarketFunds.org.