

## ICI VIEWPOINTS

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## Forcing Money Market Funds to “Float”: Hurting Investors, Increasing Risk

By Paul Schott Stevens

It's rare to see the *Wall Street Journal* editorializing in favor of regulation for regulation's sake. But in repeatedly endorsing the Securities and Exchange Commission's campaign to force money market funds to “float” their per-share price (“[Republicans Against Reform](#),” Review & Outlook, June 11), the *Journal* supports new rules that will harm investors without helping taxpayers or the financial system.

The stable \$1.00 net asset value (NAV) of money market funds reflects market reality, not accounting fiction. In fact, investors already know that money market fund portfolios can change in value. But money market funds consistently deliver a \$1.00 share price by carefully managing their portfolios of short-term, high-quality assets.

As a result, fluctuations in money market fund portfolios are miniscule: During the worst of the eurozone crisis in 2011, the prime money market funds with the greatest exposure to the eurozone saw their NAVs drop by 0.00009 percent—less than one one-hundredth of a penny. Neither the SEC, the Federal Reserve, nor the *Wall Street Journal* has made an empirical case that forcing funds to “float” in such tiny increments would have any effect on investor behavior.

Instead, what the floating NAV would do is force millions of individual and institutional investors to give up the convenience, stability, and liquidity of money market funds. It would force hundreds of billions of dollars into too-big-to-fail banks and into alternative funds that operate without the risk-limiting rules and transparency applied to money market funds. Rather than making the financial system safer, the floating NAV would increase risk in hidden pockets.

The Temporary Guarantee Program for money market funds, imposed by the Treasury Department in September 2008, earned taxpayers \$1.2 billion in fees paid by funds, and didn't pay any claims. The program was small and temporary because the fund industry insisted on limits to prevent a destabilizing run from bank deposits to money market funds—as the *Journal's* editors know from our conversations.

Calls for structural changes to money market funds ignore the very real costs of this fruitless regulation—damage to investors, damage to financing for business and state and local governments, and damage to the financial system through increased risk. Legislators who want the SEC to make its case before imposing those costs should be praised, not scolded.

For more on money market funds, visit ICI's [money market funds resource center](#) and [www.preservemoneymarketfunds.org](http://www.preservemoneymarketfunds.org).

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