

ICI VIEWPOINTS

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The Volcker Illusion: Why Bank Regulation Won't Work for Money Market Funds

By Paul Schott Stevens

Today I submitted the following letter to the editor of the *New York Times*:

Paul A. Volcker opposed the development of money market funds during his days as chairman of the Federal Reserve, and 30 years later he maintains his campaign of misinformation against these funds. His comments to Gretchen Morgenson (“[How Mr. Volcker Would Fix It](#),” October 22) represent another attempt to use the financial crisis—a crisis rooted in banks and banking regulation—to deprive the economy of the enormous benefits that these funds bring investors, businesses, and governments.

Money market funds are subject to the tightest risk-limiting regulations of any financial product. They invest in diversified portfolios of short-term, highly liquid securities. They are required to ensure that the securities they own pose minimal credit risk. And they disclose every security they own to the public every month. Money market fund regulation differs from the bank regulation that Mr. Volcker favors precisely because banks’ portfolios don’t meet those same strict requirements.

Contrary to the writer’s assertion that “few in Washington seem willing to discuss” reform of money market funds, our industry led the way on comprehensive regulations that tightened credit, maturity, liquidity, and disclosure standards. We continue to work tirelessly with the Securities and Exchange Commission and other regulators on measures that will make money market funds more resilient without undermining their critical role in the economy.

Mr. Volcker’s solution—imposing bank-style regulation—would wreak enormous damage by destroying money market funds without solving any problems. After all, the track record of banking regulation was exposed by Mr. Volcker himself, in a remark at the Securities and Exchange Commission’s roundtable on money market funds this past May. Told that the U.S. had approximately 650 money market funds, Mr. Volcker said they should all be converted to banks. “This country could use 650 more banks,” he said. “We just lost about 1,000 during the crisis.”

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

Paul Schott Stevens was President and CEO of ICI.