

ICI Urges SEC to Further Refine Money Market Fund Proposal; Opposes Dual Burdens on Funds

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Institute Will Deliver Same Message to Congress in a Hearing Wednesday

Washington, DC, September 17, 2013 - ICI President and CEO Paul Schott Stevens made the following statement today as ICI filed its [comment letter](#) on the Securities and Exchange Commission's money market fund regulatory proposal:

"While ICI welcomes the SEC's decision to exempt Treasury and government money market funds from structural changes, we urge the agency to extend similar exemptions to tax-exempt funds, to preserve the important benefits they provide in the economy. We also offer an alternate method of exempting funds for retail investors from structural changes to preserve individuals' ability to use money market funds. Further, we caution the SEC against imposing dual regulations on money market funds, because doing so would drive investors into products that are less regulated and potentially riskier.

"The SEC and its staff should be commended for the work they've done on this issue. The narrowed scope of this proposal reflects a deep understanding based on extensive exploration of money market funds in and after the financial crisis. It is our hope that, given its clear expertise on the issue, the SEC will recognize the need for further refinement of the proposal and how damaging the imposition of both alternatives would be on funds and, therefore, investors."

Combining and Imposing Both Proposals Does Not Serve Investors or the Economy

After five years of conceptual debate over money market fund regulation, the SEC has proposed two major alternatives. One option would impose a floating net asset value (NAV) on prime and tax-exempt funds held by institutional investors, while the other would impose liquidity fees and redemption limits, or "gates," on funds, triggered when a fund's liquidity has fallen below a set level. Some commissioners also have suggested combining both proposals.

ICI analyzes the two major proposals in depth, pointing out significant concerns. The Institute takes its strongest stance, however, against combining both alternatives to require prime funds and tax-exempt to float their value and to maintain the ability to impose liquidity fees and gates.

"Combining the SEC's two proposals represents far and away the worst outcome for investors," Stevens continued. "The Commission's proposal confronts investors with a choice: sacrifice stability, or face the prospect of losing liquidity under extreme circumstances. We have found that some investors place more of a premium on principal stability, while others value ready access to liquidity more strongly.

"Virtually every ICI member tells us, however, that no investor would purchase a floating-value money market fund that was also subject to constraints on liquidity. Investors have other, less onerous options readily available," Stevens said.

Tax-Exempt Funds Should Be Exempt from Further Regulation

In its comment letter, ICI argues that there is no basis for fundamental structural reform—either floating NAV or fees and gates—for funds that invest primarily in tax-exempt municipal securities. Like Treasury and government funds, tax-exempt funds are not vulnerable to widespread redemptions during crises, and in any case hold enormous amounts of liquidity and securities to meet redemptions. As the largest holder of short-term municipal securities, tax-exempt funds provide important benefits to the economy.

Retail Investors Should Be Allowed to Benefit from Money Market Funds' Key Features

While ICI supports the SEC's intent to exempt retail investors from any floating NAV requirement, it urges a different approach to preserve retail investors' ability to continue to invest in money market funds that provide stability and liquidity. The retail exception

should apply to funds whose investors or beneficial owners are identified by Social Security numbers. This characteristic would be easier and less costly to administer than the SEC's proposal, which would impose limits on daily redemptions on retail funds. It would also effectively preserve stable-value money market funds for savers in retirement plans.

Floating NAVs Would Harm Investors and the Economy

ICI explains imposing floating NAVs on money market funds would not meet regulators' stated goals, is an inefficient means of informing investors about risks, and would place significant tax and accounting burdens on the investors of funds that are not exempt. If, however, the SEC decides to pursue a floating NAV, the SEC, the Department of Treasury, the Internal Revenue Service, and, if necessary, Congress, must first address these significant tax and accounting burdens.

Some Support Liquidity Fees and Gates, but That Option Faces Drawbacks

The SEC's liquidity fee/temporary gate proposal has the support of a number of ICI members because these tools, together with enhanced disclosure, directly address regulators' concerns about redemption pressures on prime money market funds. However, ICI cautions that the proposal has potential drawbacks, including reduced liquidity for investors, tax implications, and operational complexities that would have to be addressed over a number of years.

ICI to Deliver Same Message to Congress in Testimony on Wednesday

Stevens is [testifying](#) Wednesday on Capitol Hill before the House Financial Services Subcommittee on Capital Markets and Government Sponsored Enterprises in a [hearing](#) titled, "[Examining the SEC's Money Market Fund Rule Proposal.](#)"