

ICI VIEWPOINTS

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Rhetoric Versus Reality About Open-End and Money Market Funds

By Eric J. Pan

Last week, in a major speech given at a time when financial regulators are managing a banking crisis, U.S. Treasury Secretary Janet Yellen pointed the finger at open-end funds and money market funds as posing risks to the financial system.

ICI is happy to talk facts about the many strengths that open-end and money market funds bring to the table. These highly regulated investment vehicles serve more than 100 million Americans. And recently investors “looking for safe havens,” to quote the *Financial Times*, are flocking to money market funds amidst the troubles they have seen or experienced with banks.

Money market funds have employed significantly enhanced liquidity management practices over the past 15 years. These products serve as a trusted tool for both investment and cash management. In fact, [ICI's data](#) show that their assets are now at a record high—more than \$5 trillion.

Sec. Yellen has claimed that the “vulnerabilities of the system to runs and fire sales have been clear-cut,” in the case of money market funds. In fact, we only have to look at the events of the past month to see that deposits have moved by the hundreds of billions of dollars *from banks to money market funds* in large part because of a run – at Silicon Valley Bank – and a fire sale, at Credit Suisse! The irony is quite remarkable.

The statement from Sec. Yellen seems to be based on a skewed interpretation of the events of March 2020. ICI has [written extensively](#), based on industry-leading data, about the liquidity events during that month. Our comprehensive analysis of data has shown that money market funds were not the cause of market instability as COVID spread around the globe. And regulation itself—the tie between weekly liquid assets and fees & gates—exacerbated outflows, so much so that the SEC has now proposed doing away with this tie. In other words, Sec. Yellen’s case against money market funds is far from clear cut. It’s worth taking a look at our roundtable discussing this [here](#) and [here](#).

In terms of open-end funds, their track record speaks for itself. We’ve heard talk of “liquidity mismatch” and “first-mover advantage” from various international regulatory groups for years. These kinds of suggestions seem incongruous given that Silicon Valley Bank’s demise owed much to its strategy of funding its holdings of long-term securities with deposits that flew out the door at the first sign of trouble. What is happening with banks in recent weeks shows that any sort of “first mover advantage” is by no means unique to the mutual fund structure. In fact, as shown by ICI’s research, it’s a [universal investor response](#).

When it comes to the impact of COVID on open-end funds, ICI has shown clearly that outflows from bond mutual funds did not amplify stress in the Treasury and corporate bond markets. It’s puzzling why Sec. Yellen would continue to cite figures on bond fund outflows when an [ICI survey](#) shows that the Treasury market became significantly dislocated several days before bond mutual funds began selling Treasury bonds in any appreciable magnitude. Remember, in the financial markets of March 2020, one day was a lifetime. Moreover, bond mutual funds’ small share of Treasury trading volumes – peaking around 5% – indicates their net sales must have had only a minor impact on the Treasury market.

We also should not forget the many significant problems we have identified with the SEC’s proposed swing pricing rules for money market and all mutual funds. Suffice it to say, they appear to be unworkable solutions to unquantified theoretical problems. For more information, you can read ICI’s substantive comments to the SEC [here](#) and [here](#).

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