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Dispelling Misinformation on Money Market Funds

By Brian Reid

The ongoing attention to U.S. prime money market funds' exposure to the debt crisis in Greece has brought three questions to the fore:

- Are U.S. money market funds invested in the "periphery countries"—Greece, Italy, Spain, Portugal, and Ireland—that are seen at risk in a debt crisis?
- Why are U.S. money market funds investing in European banks?
- What risks do those investments pose for U.S. money market funds and their investors?

The answers to those questions can be summed up in four points:

- U.S. prime money market funds have no direct exposure to Greek, Portuguese, or Irish government or bank debt. Their holdings of Spanish and Italian bank debt are minimal and have fallen substantially since last autumn.
- U.S. money market funds have plenty of sound reasons to invest in large, well-capitalized banks with extensive U.S. and global operations—whether those banks are headquartered in the U.S. or Europe.
- It would take a rapid collapse of one or more large European banks to have any impact on U.S. money market funds and their investors. The market is not anticipating any such collapse.
- Regulators and money market funds themselves have put greater safeguards in place to strengthen these funds since the financial crisis.

Those are the facts. Unfortunately, there's been a lot of misinformation and misunderstanding surrounding these matters. To clear the air, I've written a detailed article for ICI's Money Market Fund Resource Center. I hope you'll take a look.

Brian Reid was Chief Economist of the Investment Company Institute.