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Ignore the IMF's Uninformed Call for a Third Round of Reforms to U.S. Money Market Funds

By Jane Heinrichs and Chris Plantier

A year ago today, the U.S. Securities and Exchange Commission (SEC) voted to adopt sweeping reforms to its rule governing money market funds. The vote capped nearly six years of work to craft a rule that would address issues revealed by the financial crisis while preserving the funds' value to investors, issuers, and the economy. The 2014 reforms built on a first round of reforms adopted in 2010—and will fundamentally alter prime and tax-exempt institutional money market funds when they are fully implemented next fall.

Yet the International Monetary Fund (IMF) seems to think that the SEC hasn't gone far enough. In its recent [Financial Sector Assessment Program report](#) on the stability of the U.S. financial system, the IMF recommends that the SEC require all money market funds—including government funds, not just institutional prime and institutional tax-exempt funds—to float their net asset value (NAV). Just as with many of the proclamations on the fund industry in its most recent [Global Financial Stability Report](#), the IMF offers no credible evidence to back up its recommendation.

"[E]ven this seemingly safest of all short-term assets could give rise to redemption pressures," the IMF posits in its assessment, citing "a real prospect that some Treasury securities were not going to be redeemed on their due dates" during the United States' debt-ceiling crisis in October 2013. "With investors treating their units in the funds as money-like liabilities, together with a commitment to a constant NAV and with no mechanism to manage redemption risks, the scene could again be set for an investor run, albeit under quite different circumstances than in 2008."

This "analysis" fails to acknowledge four important points:

1. Thanks to their abundant liquidity (a diversified mix of U.S. Treasury obligations of various maturities up to 397 days, U.S. government agency securities, and repurchase agreements backed by Treasuries or agencies), government money market funds easily accommodated redemptions during the two weeks leading up to the 2013 debt-ceiling resolution. At the end of September 2013, government money market funds had [daily liquidity of 63 percent of their assets and weekly liquidity of 85 percent](#)—far more than enough to manage the 6 percent of assets that would be redeemed over the next two weeks. Even when they lost 8 percent of their assets in the three weeks leading up to the 2011 debt-ceiling deadline, government money market funds had no problem accommodating the redemptions.
2. These redemptions had nothing to do with a constant NAV. In both instances, they instead reflected a concern that Congress would allow the U.S. government to default on some of its maturing short-term debt. This concern also affected short-term government bond funds—funds with *floating* NAVs—which saw outflows during both the 2011 and 2013 debt-ceiling negotiations.
3. Although all money market funds must hold securities with low credit risk, government securities would see credit losses only if the federal government failed to repay its maturing debt in full or if it allowed a federal agency to default on its outstanding short-term debt. Both of these events are extremely unlikely—and even if one did materialize, it would harm far more than money market funds. Of course, the IMF says nothing about the devastation a U.S. government default would wreak on U.S. banks and the broader financial system.
4. During other periods of market stress, investors moved *into* government money market funds, not out of them—and the funds' so-called shadow NAVs, or mark-to-market price per share, tended to rise, rather than fall. At no time was this clearer than during the 2008 financial crisis, when investors pulled cash from financial institutions and poured it into government money market funds and other safer, more liquid instruments.

The SEC's reforms were informed by sound research and reflect a nuanced understanding of the industry. If the IMF wishes to contribute meaningfully to the regulatory discourse as the industry [moves to implement the reforms](#), following the SEC's approach

would be a good place to start.

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