

ICI Chairman's Welcoming Remarks at 2011 Money Market Funds Summit

Welcoming Remarks

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Investment Company Institute

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As Prepared for Delivery

Good morning. I'm Ed Bernard, Vice-Chairman of T. Rowe Price Group, and I'm here today in my role as Chairman of the Investment Company Institute to welcome you all to our Money Market Funds Summit.

Just about two weeks ago, the Institute hosted another meeting—its annual General Membership Meeting—where we had the honor of hearing from Treasury Secretary Timothy Geithner. When he was asked about money market funds, Secretary Geithner gave a pretty good description of what we're trying to do here today. As he said, the challenge we face is "to figure out how to bring a little bit more resilience into that system—without depriving the economy of the broader benefits that those funds provide."

Secretary Geithner went on to say: "I think it's hard."

Boy, don't we know it.

It's been 32 months—to the day—since the Reserve Primary Fund broke the dollar, and we've been working nearly every day since toward finding the balance that Secretary Geithner described. Our industry and our financial regulators have devoted enormous resources to the hunt for solutions. We've considered a wide range of ideas, but there's still no consensus on any proposal that will give us all comfort that we can take the next step, without undermining the significant economic and investor benefits that money market funds provide. That's true even after the President's Working Group Report and the Securities and Exchange Commission's Roundtable last week.

It's not even clear how close we are. Are we on the three-yard line, or the 20?

At times like these, it helps to stop and remind ourselves of the basics. What do we know now, 32 months after the crisis, about money market funds and reform? Let me mention three things.

First, we know we've come a long way. Even if there's debate as to whether we're in the Red Zone, I hope and believe everyone agrees we're a lot closer to the goal line.

Just six months after Reserve, ICI's Money Market Working Group came forward with a solid set of recommendations to raise standards for credit quality, shorten portfolio maturities, increase disclosure, and impose liquidity standards on money market funds for the first time ever. Our funds voluntarily adopted those measures.

After the Money Market Working Group Report, the SEC followed through with reform of Rule 2a-7. It was a comprehensive update, implemented relatively quickly. Six months before Congress passed the Dodd-Frank Act, long before the rules to implement that law have been written, regulators had substantially closed the vulnerabilities exposed by the liquidity crisis that affected money market funds.

Now, our funds are more transparent, more resilient, and more liquid than ever. It's important to remind ourselves of that.

Let me just pause here to note how proud I am of the way we approached this issue. When bank failures caused the money markets to freeze and money market funds encountered problems, the mutual fund industry, led by ICI, dove in alongside the regulators to address them. And when the immediate crisis faded, we didn't put our heads down and say, "OK—that's over—now make it go away."

Instead, we pulled our industry leaders together in six months of dedicated effort. They produced a substantial study that reconstructed the events, analyzed the weaknesses in markets and funds, and made solid recommendations—proposals that were not cost-free to our funds or their sponsors. We also responded to the Treasury Department's call to examine the idea of a private emergency liquidity facility, devoting significant resources to fleshing that idea out in great detail. We've kept working the issue, right up to today's conference. And of course, we won't be stopping our efforts on behalf of these funds any time soon.

A second thing that we know, and we need to remind ourselves: money market funds don't exist in a vacuum. The landscape in which they operate is very different today. The crisis has changed how other players in the money markets behave. And to the degree that financial regulatory reform has made banks and other financial institutions more secure, money market funds will be less susceptible to systemic problems, like the liquidity freeze in September 2008.

Finally, we have solid evidence that investors still value and prize the core features of money market funds—stability, simplicity, and convenience. How else can we explain the fact that institutional and individual shareholders still have a combined \$2.7 trillion in money market funds—after months of yields near zero, and when those investors could get significantly higher returns in short-term bond funds with the click of a mouse?

This strong demand should give clear warning that we must get the balance right, because fundamental changes to this product will cause severe market disruptions.

In our sessions today, we're going to take what we know and try to advance the debate. This morning, we'll look at how the broad money markets and the competitive landscape have changed since the crisis. [Page 3](#)

After lunch, we'll examine the impact of the SEC's Rule 2a-7 reforms. Then we'll look forward, as our final panel lays out everything we've learned about the leading ideas for further changes—ideas to bolster liquidity, provide various kinds of buffers for funds, or to change the structure of funds.

And throughout the day, the panelists want to hear what's on your mind ... to address the questions you have. So please participate and make this an interactive event. You'll find blue cards where you can write your questions, and ICI staff will bring them up to the moderator.

It promises to be a day of stimulating discussion and learning, and I know you're looking forward to it. So let's get started, with our keynote speaker—Bill McNabb, Chairman and CEO of Vanguard Group.

Vanguard manages \$1.7 trillion in U.S. mutual fund assets, including \$162 billion in money market fund assets. Bill joined Vanguard in 1986, and became CEO in 2008. Bill and his colleagues at Vanguard have provided a trusted voice of reason throughout the financial crisis and the financial reform discussions that have followed. We are pleased to have here this morning to kick off our Summit with his keynote address. Please join me in welcoming Bill McNabb.