INVESTMENT
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1401 H Street, NW, Washington, DC 20005-2148, USA
202/326-5800 www.ici.org

MONEY MARKET FUNDS IN 2012
Directors' Perspective

Money market fund directors have unique responsibilities that are important to the protection of money market fund shareholders.

All money market funds are overseen by a board of directors and, in almost all cases, with a majority of independent directors. Securities and Exchange Commission (SEC) regulations impose significant and specific responsibilities on money market fund directors to protect shareholders' interests in important ways. These include:

- Directors adopt procedures for shadow pricing and periodically review the amount of any deviation between the fund's net asset value (NAV) and the amortized cost price. If the board believes any deviation may result in material dilution or other unfair results to investors or existing shareholders, it must cause the fund to take actions it deems appropriate.
- In cases of a downgrade or default of a portfolio security, directors can require the fund take actions that it determines are in the best interest of shareholders.
- Directors also would play a key role if a money market fund were at imminent risk of "breaking the dollar." Upon a determination by the directors that the deviation between the fund's amortized cost price and NAV may result in material dilution or other unfair results to investors or existing shareholders, among other things, a fund may suspend redemptions and postpone payment of redemption proceeds in order to facilitate an orderly liquidation of the fund. This is a powerful tool that protects shareholders under extreme circumstances by ensuring that all investors are treated equally and that the actions of investors who exit a money market fund first do not harm those who remain.

Money market fund directors have executed their responsibilities on behalf of shareholders with diligence and care during the past 30 years, including during the recent challenging market environment.

Directors are concerned by the impact of possible reforms on money market funds, because these funds provide investors with incomparable benefits.

Independent directors—whose primary responsibility is to look after the interests of fund shareholders—have a keen interest in the potential impact of reform options on fund shareholders.

Money market funds have provided incomparable benefits to investors and the capital markets for nearly thirty years. Money market funds offer investors liquidity, a high degree of safety, and competitive yields, while providing a critical source of funding in the broader economy. For retail investors, money market funds have paid almost one-quarter of $1 trillion more in returns than competing bank products since 1985 ($242 billion, assuming reinvestment and compounding). The 2010 reforms have strengthened the resilience of money market funds.

Floating the NAVs of money market funds would not achieve policymakers' goals.

Forcing money market funds to float their NAVs is unlikely to achieve the policy goal of reducing systemic risk in any meaningful way. Further, this option would eradicate one of the key defining features of money market funds, likely causing many investors to abandon them in favor of other, potentially less-regulated investment options, to the detriment of investors, the capital markets, and the economy.

For more information on money market funds, their role in the economy, ICI's efforts to make these funds more resilient in the face of adverse market conditions, and the significant risk of undermining money market funds' value to investors and the economy, please see www.ici.org/mmfs or www.PreserveMoneyMarketFunds.org.