

Your Money Market Funds Are Safe

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For 40 years, money market mutual funds have worked exceedingly well, providing substantial benefits to investors. Crucially, they've done so without receiving a dime of taxpayer funds.

Money market funds offer a convenient way for millions of individuals and institutions to invest their short-term cash. They offer stability, liquidity and income at a very reasonable cost. They give small investors the same access to competitive investments that previously were available only to large investors.

Money market funds are also a linchpin of the U.S. economy, providing an important source of funding to states and municipalities for building schools, roads and bridges. In fact, 65% of all short-term debt of states and municipalities is owned by money market funds. They also fund banks and other lenders, making it possible for Americans to buy homes, purchase cars, and send their children to college. Additionally, major companies enjoy attractive short-term funding from money market funds that purchase short-term debt issued by businesses, nonprofits and governments.

Yet the many benefits of money market funds are at risk of disappearing. Why? Because one fund at one firm, the Reserve Primary Fund, during the worst economic crisis since the Great Depression, dipped below the stable \$1 per share price that money market funds strive to maintain. Ultimately, that fund's shareholders were given 99 cents per share.

Although this was only the second instance in the 40-year history of money market funds in which a fund dipped below the \$1 per share value, some critics are now suggesting that funds comply with draconian measures. They argue that money market funds should be required to submit to banking regulations with bank-like capital requirements, or abandon their stable \$1 share price. Either move would seriously undermine money market funds, while creating a more monopolistic position for banks. This would have terrible effects on investors and our economy.

Why would we regulate money market funds with rules that were intended for banks when the banking industry has experienced unprecedented difficulties? More than 350 banks have collapsed since the start of the financial crisis, including 40 so far this year. Those that survived required hundreds of billions of dollars of taxpayer money during the economic downturn, which was brought on in part by poor practices of many in their own industry.

In contrast, money market fund shareholders received temporary support during the crisis from the federal government through a fee-based insurance program, which cost the government nothing as no money market funds needed these resources. Indeed, this temporary support earned the U.S. Treasury (and, thus, taxpayers) approximately \$1.2 billion.

Others are advocating that money market funds abandon the fixed \$1 share price, instead allowing share value to float each day. They contend that under this model, shareholders might be less inclined to redeem shares during market turmoil. But recent history shows just the opposite. During the downturn, ultra short-term funds with floating share prices experienced significant outflows and lost a much greater proportion of their assets than money market funds.

If a floating share price is adopted, some predict – and we agree – that investors would shift their savings to banks, which currently hold more than \$8 trillion in deposits, compared to \$2.7 trillion in assets for money market funds. It's important to remember that the banking system is significantly larger today than it was prior to the start of the financial crisis in 2007. Funneling trillions of dollars into this one sector will only narrow the landscape of choices for investors and increase risks to our economy. The pressure on the Federal Deposit Insurance Corporation, which is already dealing with the collapse of so many banks, would dramatically increase, raising serious questions about whether there is sufficient capital in the banking system to avoid a government bailout in a market environment similar to 2008.

Critics also argue that investors may be unaware of the investment risks in money market funds because of their perceived similarity to bank savings accounts. But our millions of interactions with our customers over the years show us that shareholders do understand these risks. In fact, by U.S. Securities and Exchange Commission (SEC) mandate, money market literature states that a money market fund "is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency."

In the aftermath of financial meltdown, money market funds have been considerably strengthened. The SEC adopted a comprehensive set of amendments to Rule 2a-7 of the Investment Company Act of 1940, which regulates the maturity, quality, liquidity and diversity of the assets in which funds can invest. Although the existing rule had worked extremely well, the SEC decided to make money market funds even "more resilient to short-term market risks," as the commission

put it in February 2010. These changes have created more than \$800 billion of new liquidity in the system, which will enable money market funds to navigate market volatility without government support.

The industry has suggested several ways to further increase the resiliency of money market funds during extreme market stress, and they should be explored. But we shouldn't adopt rules that will jeopardize the viability of funds for investors and issuers and put undue strain on an already weakened banking system.

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An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.

Interest rate increases can cause the price of money market securities to decrease.

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