

# Money Market Funds: Lessons from Five-Plus Years

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# What I Have Learned

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- Framing of the issue is important
  - The story will drive the policy solutions
- Rashomon Effect
  - Our recollection of an event can be quite subjective and is affected by our vantage point.
- Regulators each have their own expertise
  - The policies that a particular regulator favors will reflect the entities that they regulate

# What I Have Learned

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Framing of the issue is important

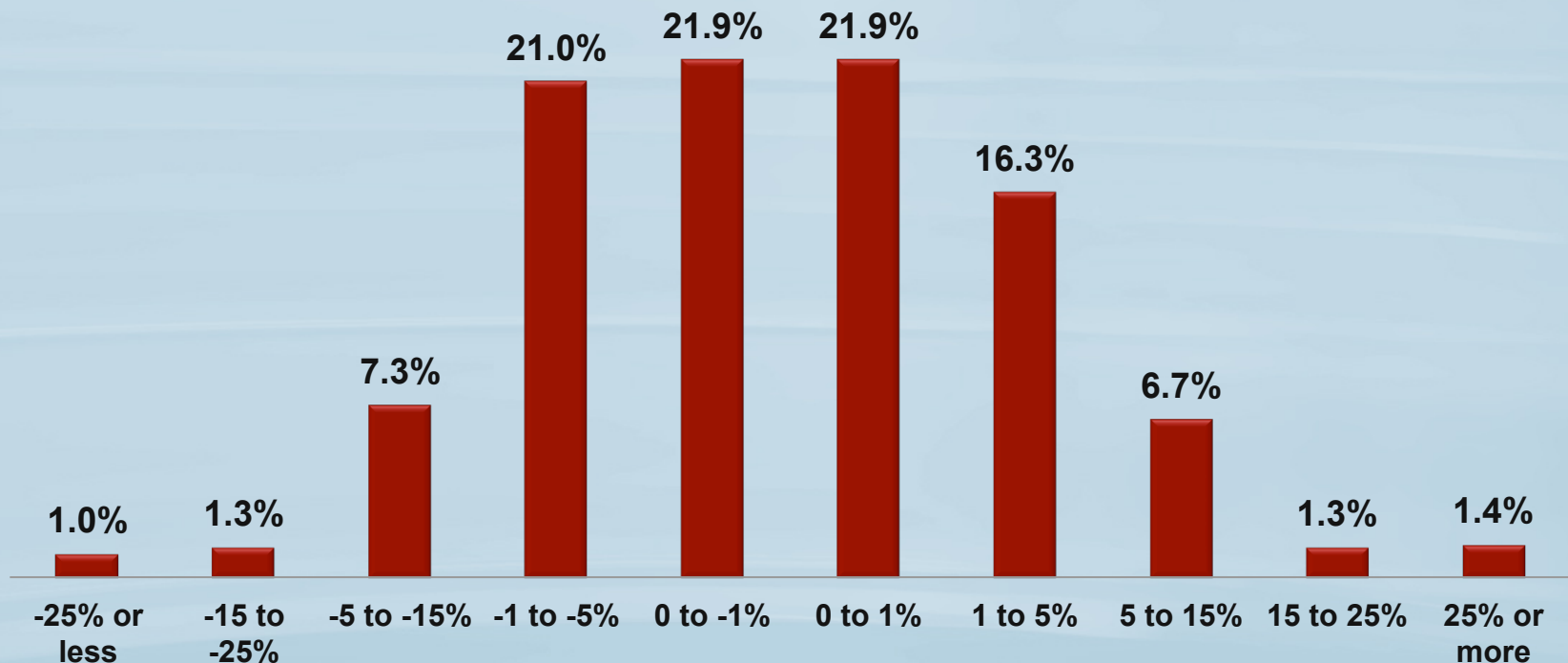
# How Money Market Funds Are Very Different Than Banks and Other Deposit Institutions

How MMFs are very different than banks and other deposit institutions	U.S. prime MMFs	U.S. government-only MMFs	U.S. Banks (average)	U.S. insurance companies (average)	Federal credit union banks (average)
<b>Capital ratios</b> (tier one capital ratio)	100%	100%	10%	10%	9%
<b>Leverage</b>	None	None	90% of assets	90% of assets	91% of assets
<b>Liquidity requirements mandated</b>	Yes	Yes	No	No	No
<b>Weighted average maturity of assets</b>	60 days or less	60 days or less	3+ years*	7+ years*	4+ years*
<b>Transparency</b> (Monthly report of assets and liabilities on website)	Yes	Yes	No	No	No
<b>Deposits guaranteed by U.S. government</b>	None	None	Deposits up to \$250,000	Deposits up to \$250,000	Deposits up to \$250,000

\*Estimated by Charles R. Schwab.  
Source: Charles Schwab & Co., Inc.

# Nearly 10 Percent of Money Market Funds Have Net Outflows of at Least 5 Percent of Assets in Any Given Week

*Percentage of funds, 2012*



**Weekly flows as a percentage of previous week's assets**

Source: Investment Company Institute

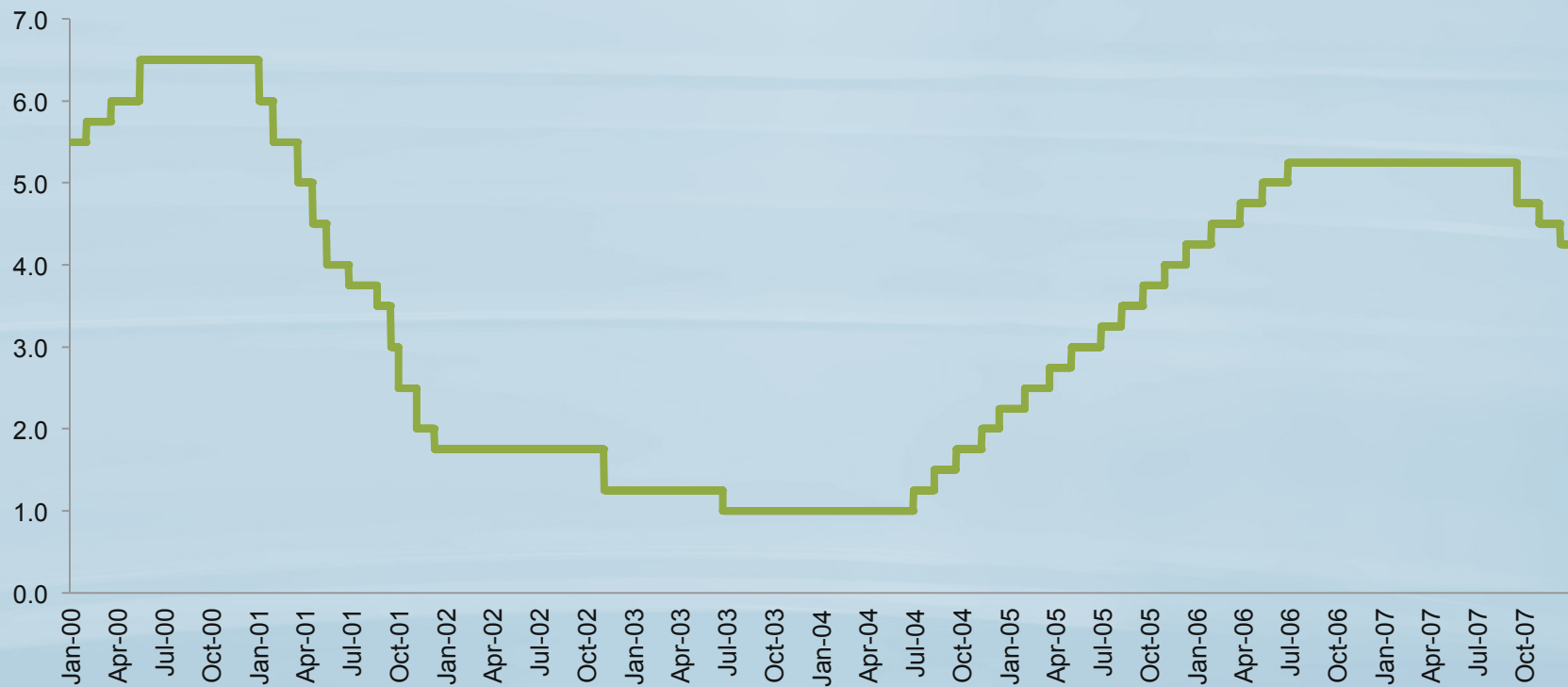
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Rashomon Effect

# The Fed Kept Short-Term Interest Rates Low During Much of the Pre-Crisis Period

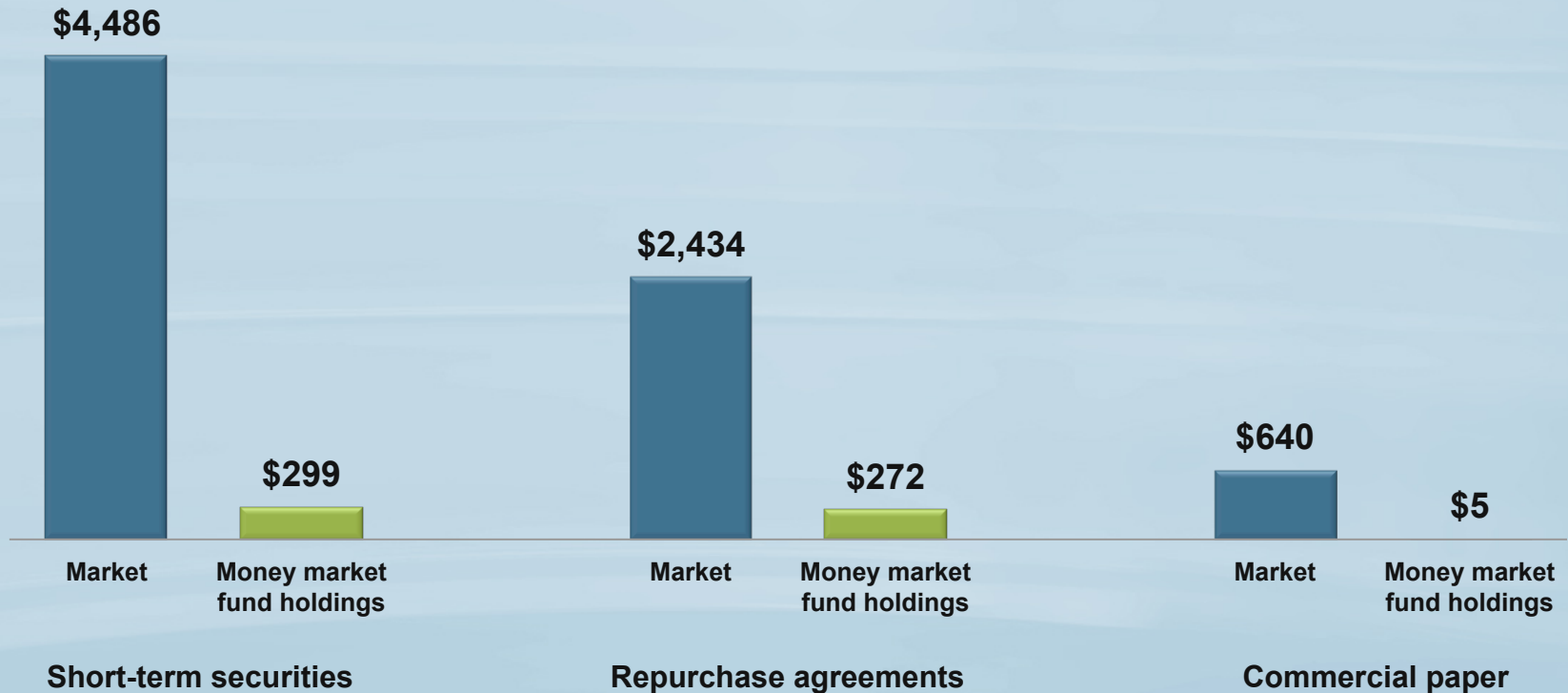
*Percent, federal fund rate, 2000–2007*



Source: Federal Reserve Board

# Money Market Funds Accounted for Small Share of the Growth in Taxable Short-Term Market Before the Financial Crisis

Billions of dollars, 2000–2007:Q2

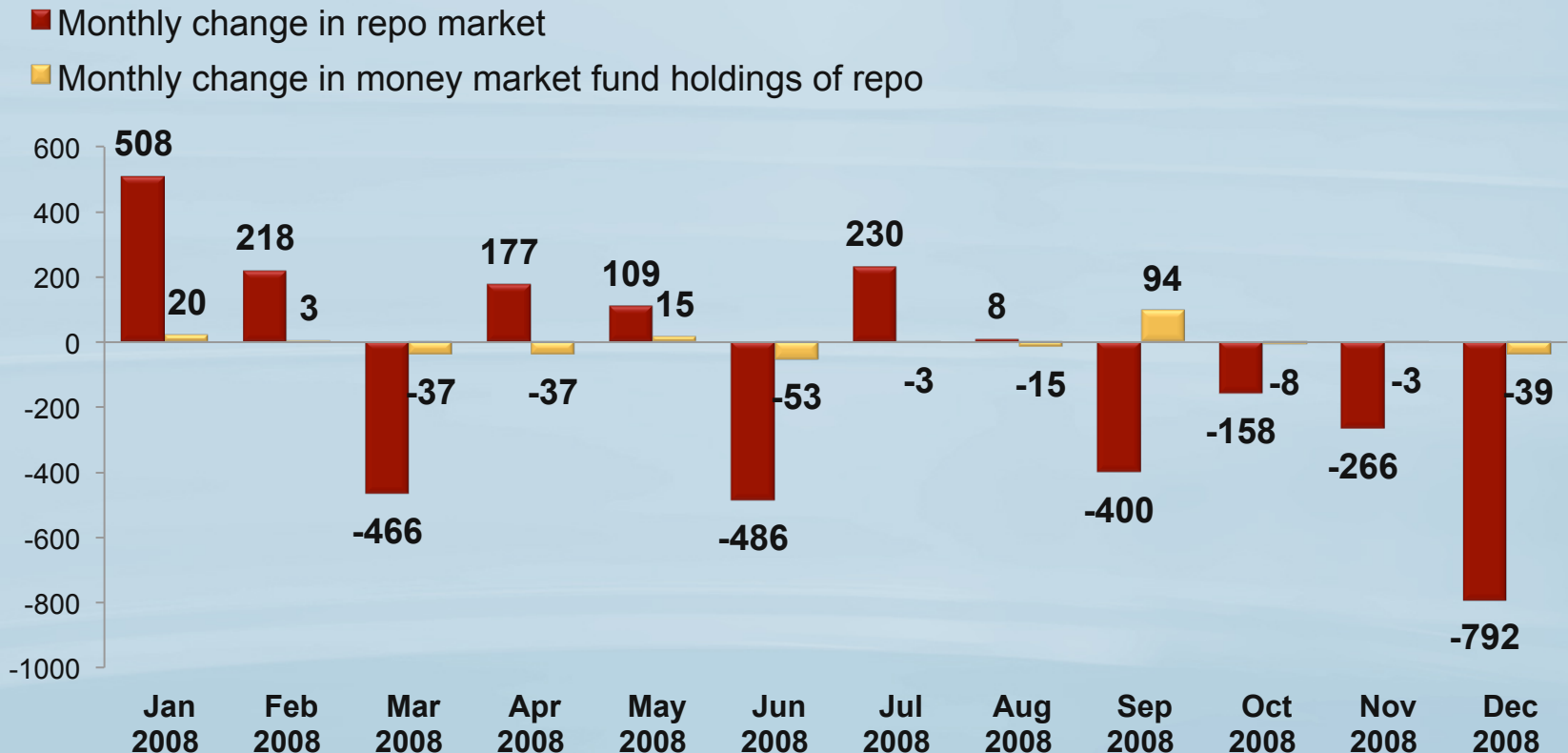


Sources: Investment Company Institute, Federal Reserve Board, and Federal Reserve Bank of New York



# Money Market Funds Accounted for Small Fraction of the Changes in Repo Market

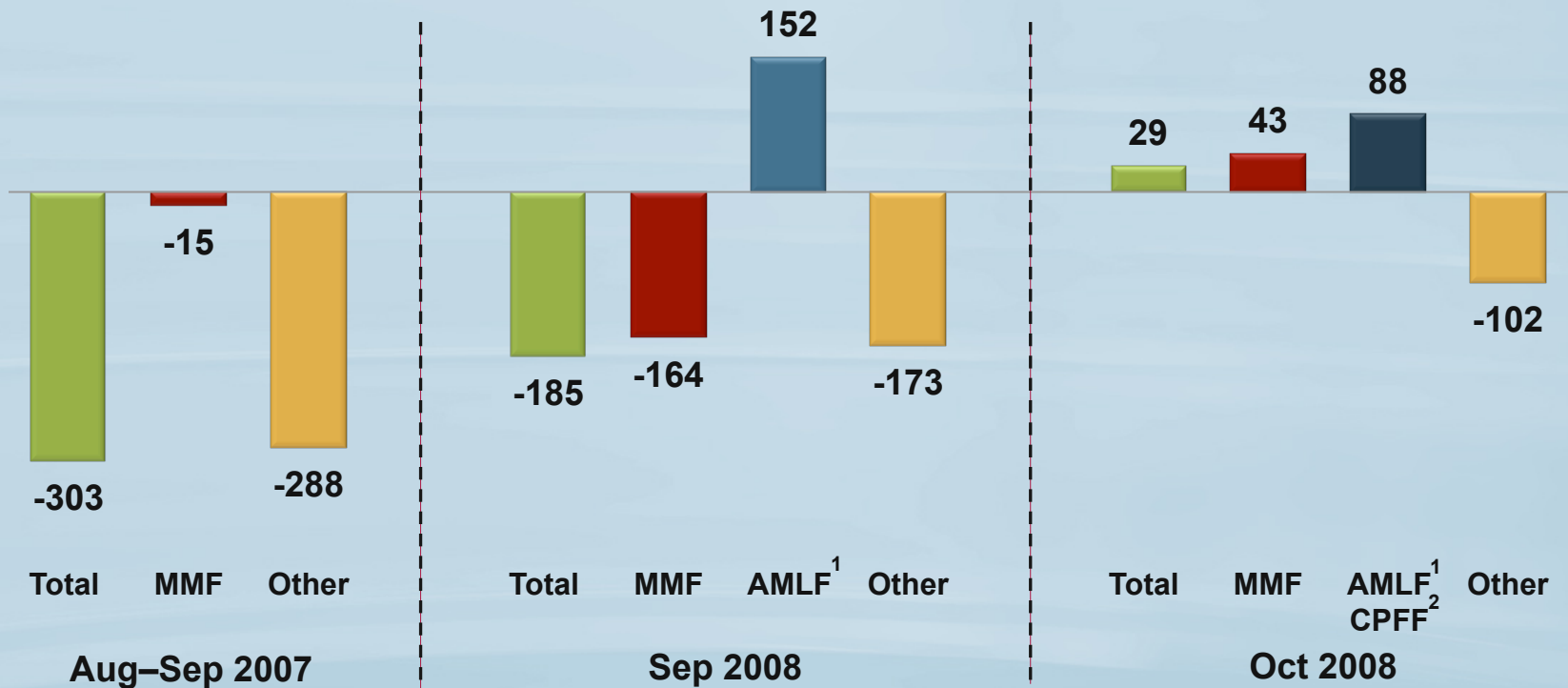
Billions of dollars, 2008



Sources: Investment Company Institute and Federal Reserve Bank of New York

# Investors Other Than Money Market Funds Also Pulled Back from Commercial Paper

Change in outstanding commercial paper, billions of dollars, selected periods, 2007–2008



<sup>1</sup> Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility

<sup>2</sup> Commercial Paper Funding Facility

Sources: Investment Company Institute and Federal Reserve Board

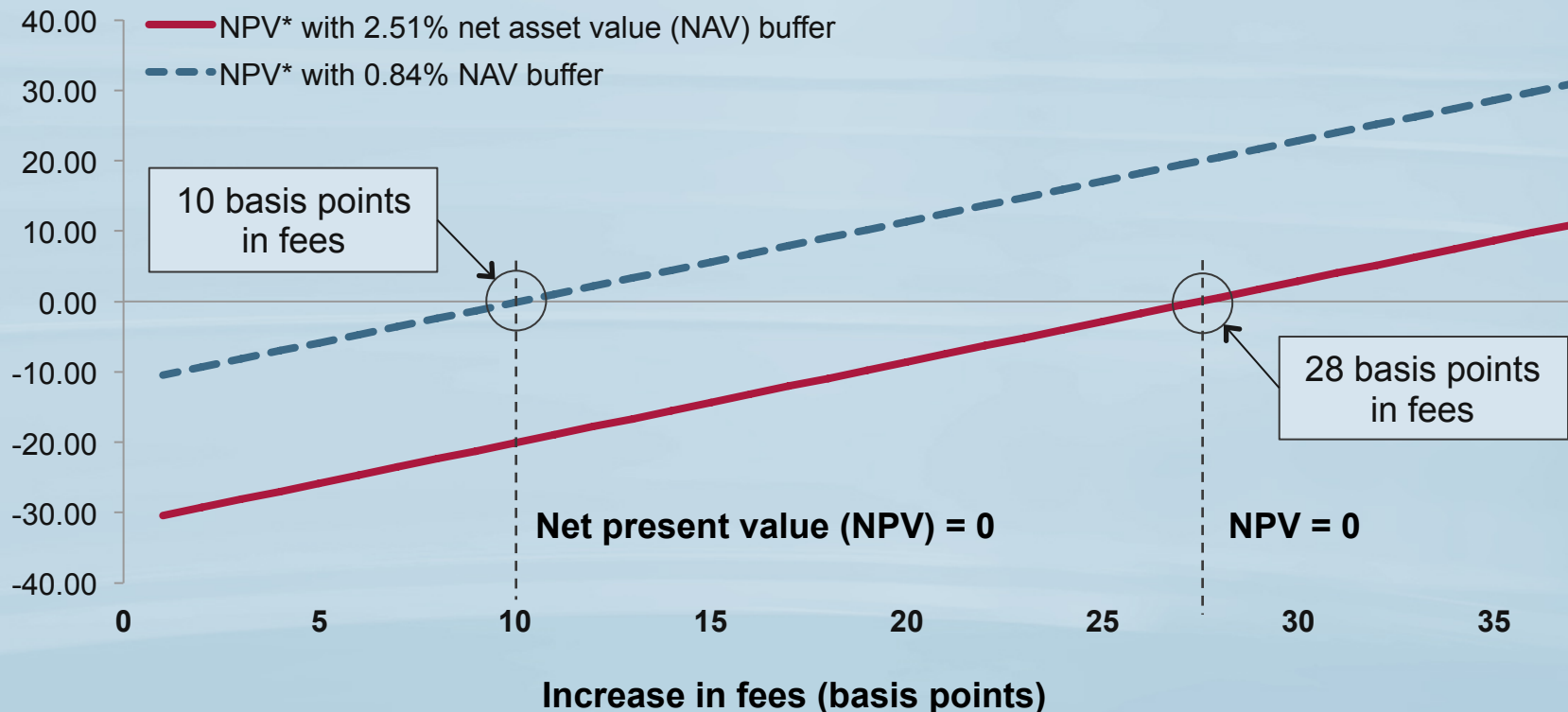
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Regulators each have their own expertise

# Capital Proposals Would Require Prime Funds to Increase Their Fees as Much as 28 Basis Points to Pay For Capital

Billions of dollars



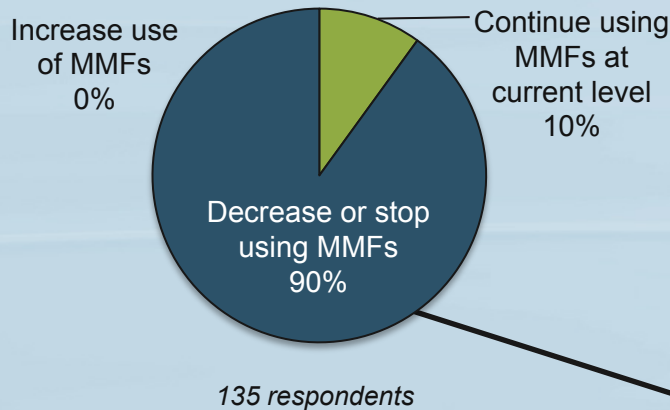
\*Ten-year stream of net cash flows discounted at a 5 percent rate.

Source: Investment Company Institute

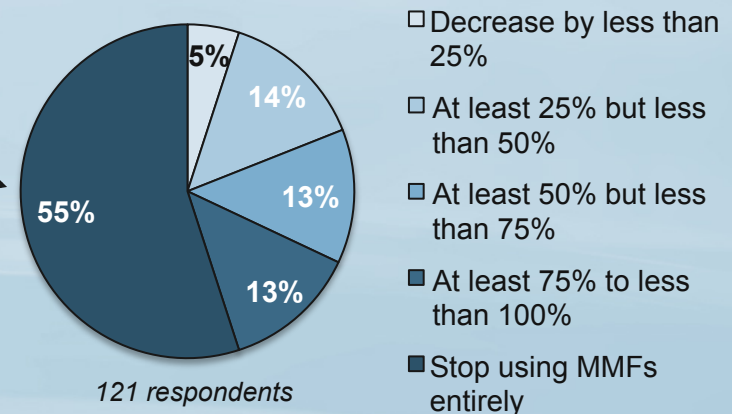
# Institutional Investors Would Significantly Decrease or Stop Using Money Market Funds with a Minimum Balance at Risk

*If a redemption holdback was enacted and your organization would decrease or discontinue use of MMFs, by how much would your investment decrease?*

## Current MMF Users



Of the current MMF users that responded that they would stop or decrease use of MMFs, 81 percent said that they would decrease MMF usage by at least 50 percent. Total corporate assets held in money market funds would decrease by an estimated 67 percent.



Source: Treasury Strategies

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