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## Changes to Money Market Funds Are Showing Up in Data

By Sean Collins

In July 2014, the Securities and Exchange Commission (SEC) adopted new regulations for money market funds. One major provision of the rule required prime money market funds sold to institutional investors to adopt “floating NAVs”—net asset values that are priced to four decimal points (one-hundredth of one cent for a \$1.00 share). Prime money market funds invest in a range of short-term securities, including commercial paper, large certificates of deposit, and floating rate notes.

Four-decimal-place pricing is designed to capture extremely small fluctuations in the value of a prime money market fund’s portfolio assets. Before the SEC’s rule change, virtually all money market funds were managed to maintain a stable NAV at \$1.00. Once implemented on October 14, 2016, the new rule will allow only government money market funds (funds that invest almost entirely in Treasury and government agency securities) and prime and tax-exempt money market funds sold to retail investors to offer a stable NAV.

Another major provision of the SEC’s new money market fund rule gives the boards of all nongovernment money market funds the ability to impose “fees and gates” if a fund’s weekly liquidity level falls below a regulatory threshold. The SEC’s intention is to provide fund boards with mechanisms to mitigate outflows from money market funds during any future period of market turmoil.

Analysts have predicted that the new rule will lead to a large decline in the assets of prime money market funds and a potentially offsetting rise in the assets of government money market funds. They predict that institutions that have previously invested in prime money market funds with stable NAVs

will be either unable or unwilling to hold floating NAV money market funds with fees and gates, and thus will shift to government money market funds, which under the SEC's new rule can continue to offer a stable NAV without fees or gates.

In anticipation of this trend, many money market fund advisers have announced plans to change their prime funds into government funds in advance of the October 2016 deadline. These changes began to appear last week in the data that ICI reports. On November 5, we released our weekly report on money market fund assets for the week ending Wednesday, November 4. Assets in prime money market fell sharply (\$34.68 billion) while assets in government funds rose (\$18.34 billion).

In coming weeks, as other advisers undertake similar changes, readers can expect to see continued large shifts of assets from prime money market funds to government money market funds. ICI will continue to explain these changes—including their impact on our monthly money market fund reports—as the industry moves toward full implementation of the SEC rule.

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