IDC Independent Directors Council
Promoting Excellence in Fund Governance

Will You Be Ready? Implementing the New Money Market Fund Rules

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Welcoming Remarks

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Good morning, and welcome. It's great to see so many experts from so many parts of the fund industry in one room, focused on one goal—how best to implement the sweeping changes to money market fund regulations that the Securities and Exchange Commission adopted last July.

Fans of the Grateful Dead will remember an album they released in fall 1970 … *American Beauty* was the album's name, and the very last track was a classic Dead anthem titled "Truckin'." During the six-and-a-half years we've spent on money market funds, there were quite a few times when a line from that song came to mind—"What a lonnng, strange trip it's been."

The SEC's vote last July capped a long and intense period of study, analysis, and commentary involving a wide range of parties, including the SEC and other regulators; the industry, as represented by money market fund sponsors and by ICI; investors and issuers in the money markets, including corporate and municipal treasurers; academics; and many others.

At ICI—as at many of your firms—the project often seemed all-consuming. And for its sheer scale, the administrative record amassed before the SEC was unprecedented. Consider just the ICI's submissions.

They start with the 216-page report of the Money Market Working Group—a panel of senior industry executives whose March 2009 recommendations helped form the basis of the SEC reforms to Rule 2a-7 the following year.

ICI also submitted some six major comment letters to the SEC, the Financial Stability Oversight Council, the President's Working Group on Financial Markets, and the International Organization of Securities Commissions. In each case, our comments ran from about 40 to more than 100 pages of research, and close legal and industry analysis.

Then there was the 270-page compendium of research that we provided to the Financial Stability Oversight Council in January 2013.

Over this period we posted nearly 100 *ICI Viewpoints* articles on all aspects of money market funds.

Finally, there were some 300-plus business and municipal groups that we helped enlist in the debate, all of which expressed their strong support for stable-value money market funds as vehicles for both cash management and financing.

Let me remind you—all of this came as ICI and its members dealt with congressional consideration and passage of the Dodd-Frank Act; with that law's implementation by regulators; with other post-crisis regulations, such as the CFTC's Rule 4.5; and as we faced an unprecedented explosion of international regulatory initiatives. What a long, strange trip indeed.

From the outset, we had twin goals in mind and we pursued both of them vigorously: first, to make money market funds more resilient in even the worst market conditions; and second, to preserve those essential features of money market funds that have made them so valuable to our investors and beneficial to the economy.

So, what did our collective efforts on money market funds achieve?

First, we helped set the framework for the 2010 reforms—a comprehensive, thoughtful, balanced set of changes that made money market funds far more resilient in the face of market stresses. These reforms were tested and proven in the U.S. and European debt crises of 2011.

As I noted earlier, those amendments were largely based on the Report of the Money Market Working Group. In the aftermath of the financial crisis, that Report stands out as perhaps the most conspicuous example of an industry spearheading reforms for the benefit of markets and investors. The Institute and its members can take great pride in that achievement.

Secondly, we demonstrated the shortcomings of a wide range of proposals that, for all practical purposes, would have eliminated money market funds as we know them.

Remember, during this long-running and sometimes bitter debate, there were lots of competing ideas about necessary reforms. There were strong advocates for forcing all money market funds to adopt a floating net asset value per share; for placing onerous capital requirements on funds, their managers, or both; and for imposing an ongoing freeze on some portion of every money market fund investor's account.

Each of these ideas found strong proponents among bank regulators. Those most familiar with money market funds and the markets in which they invest—fund sponsors, investors, issuers and, ultimately, a majority of the SEC itself—lined up solidly against them. And they are not in the final rule.

Third, we helped to ensure that the issue of money market fund reform was addressed by the regulator with the expertise, experience, and jurisdiction to do the job best—the SEC, which has successfully regulated money market funds for the past 40 years.

The final rule does not accord fully with our analysis or recommendations. That's clear.

But, surely we were in the arena, spending ourselves in a worthy cause. I am not much one for dancing in the end zone. But it is gratifying to recognize that, through our collective efforts, U.S. investors have retained the benefit of money market funds. That result was by no means assured in the aftermath of the government's intervention following the problems of the Reserve Primary Fund.

We also can take pride in how we participated in the policy dialogue. Through our empirical research and our legal and operational expertise, we brought intellectual rigor and substance to what was, at times, a fraught policy debate.

Our efforts also brought us one *more* thing—a great deal more hard work, in interpreting and implementing the new regulations. And that's why we're here today.

Though the two-year timeframe for implementation granted by the SEC sounds like a long time, you know as well as I do that when it comes to implementation of a 900-page rulemaking that touches just about every part of a money market fund's organization, every second counts.

ICI's lawyers, working with members and with SIFMA, already have combed through the document. At the end of last October, we submitted almost 50 questions to the SEC, looking for clarification on a range of issues. Our first panel today will examine some of the regulatory challenges facing funds as they prepare for the new rules.

While we wait for SEC staff to respond—and we do expect them to respond soon—our Operations team has been hard at work developing a set of common practices and considerations to help members implement the SEC's changes. As part of this task, Operations currently has four groups totaling about 300 people concentrating on distinct work streams:

- How to apply the rule's new definitions of retail and institutional investors;

- How to implement the requirement to round the value of floating-NAV funds to the fourth decimal place;
- How to cope with issues surrounding liquidity fees and redemption gates;
- And finally, how to price and process transactions for floating-NAV funds throughout the day.

These and other operational issues faced by funds and intermediaries will be the focus of our second panel today.

Our third panel will focus on new responsibilities faced by fund boards, which must oversee everything from fund restructuring and new product decisions, to implementation of new liquidity fees and redemption gates, to new stress testing, diversification, and disclosure requirements.

Our fourth and final panel of the day will examine how the new disclosure rules affect the content of a fund's prospectus, statement of additional information, advertising, and website. It also will examine new requirements for Form N-MFP, as well as what's required for the new Form N-CR.

We have a full agenda, for a full room. And a room full, I'm happy to say, of professionals from almost every area of the fund industry. I'm proud of the role that ICI has played in bringing you all together today—as the trade association of the fund industry for the past 75 years, providing this type of member service is a big part of what we do.

Today's conference will provide you plenty of opportunities to hear from and talk to industry experts of all stripes. This will be a working conference—that's one reason why there's no speaker during lunch today.

Instead, we want to provide opportunities then, and throughout the day, for you to exchange ideas, ask pointed questions, and fully examine the merits and challenges of different approaches to the common problems we face when it comes to implementing the new money market fund rule.

Thank you again for your time this morning. Though we face significant complexity and a tight timeline in implementing this rule, we continue to be guided by one overarching goal—to preserve the core features of money market funds that make them so valuable to investors and issuers.

Today, more than 60 million Americans, along with many thousands of businesses, nonprofits, and governments across the country, use these funds for cash management and as a crucial source of short-term financing. Simply put, these funds—born as an innovative solution to the economic problems faced by our nation in the 1970s—remain vital to our economy.

I am confident that our industry will rise to the challenges posed by the new regulatory framework, and will continue to meet shareholders' evolving needs. And just as the industry will continue to serve its customers, so too will ICI continue to serve its members—though research, advocacy, communication, and commitment.

I look forward to our discussion today. Thank you.