Independent Directors Council
Promoting Excellence in Fund Governance

Wall Street Journal v. The Facts on Money Market Funds

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ICI President and CEO Paul Schott Stevens sent the following Letter to the Editor to the *Wall Street Journal* on February 3, 2010.

Your editorial, "The SEC v. Investors" (Feb. 3), got it wrong. Wrong on the facts, wrong on the analysis, wrong on the strength of the SEC's rules, and wrong on the mutual fund industry's commitment to its investors.

First, you seriously misstate the law as well as the mutual fund industry's position on credit ratings. Money market mutual funds are forbidden to outsource their credit judgments to rating agencies. Instead, fund advisers, under board oversight, are required to ensure that every security their funds buy is subjected to an independent assessment of credit quality, in addition to any rating assigned by a credit rating agency. This belt-and-suspenders system effectively limits risk and enhances investor protection by providing an important floor on credit quality, below which funds cannot invest.

Second, you totally ignore the serious disruption and damage that investors, markets, and the economy would suffer under the misguided notion of forcing money market funds to give up their commitment to a stable $1.00 net asset value.

Fund investors and borrowers in the money market have been almost unanimous in rejecting the notion of floating these funds' NAV. The $3.3 trillion invested in money market funds provides vital funding to the U.S. economy. Money market funds hold 45 percent of commercial paper, 65 percent of short-term state and local government debt, and 26 percent of short-term Treasury and agency securities. Fundamentally changing the structure of these funds would disrupt this significant flow of financing, as investors have clearly stated that they will exit money market funds to keep the tax and accounting efficiencies that stable-NAV alternatives provide. Those alternatives exist—but they lack the tight limits that bind money market funds and protect their investors. Undermining tightly regulated

money market funds and driving investors toward less-regulated alternatives—that's hardly a formula for investor protection. Nor would it provide any protection against systemic risk.

Throughout the 30-year history of money market funds, the fund industry has placed the highest priority on investor protection and stability. After the Reserve Primary Fund broke a dollar, the Investment Company Institute proposed new, tighter standards for credit quality, maturity, and liquidity, which our members voluntarily pledged to implement. The Securities and Exchange Commission has now gone well beyond those proposals, with rule changes that will impose significant costs on money market funds and their advisers, and a pledge from Chairman Mary Schapiro that the Commission will pursue still more reforms.

Money market funds have an outstanding record of strength, and we are committed to making them more resilient, even in the face of extreme market conditions. We will continue to work to develop regulations and structures that will build investor confidence and provide liquidity in a crisis—without fundamentally undermining the vital role that money market funds play for investors and the economy.

Paul Schott Stevens
President and CEO
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