INVESTMENT COMPANY INSTITUTE

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MONEY MARKET FUNDS IN 2012
Money Market Funds are Not Guaranteed

In 2008, in response to the worst financial crisis the United States has experienced since the Great Depression, the federal government constructed a series of programs to help restore liquidity in the markets and confidence in money market funds. One of those programs offered a temporary and limited guarantee to money market funds, the first such guarantee in their nearly 40 year history. The industry did not ask for the guarantee or support its extension. Rather, the government imposed the program on the industry. The program—which expired after one year with no claims—netted the government an estimated $1.2 billion in fees paid by participating funds, with no losses to taxpayers. Since then, Congress has erected significant barriers against the renewal of any sort of guarantee or support program for money market funds.

Money market funds are investments and offer no guarantees. Money market fund shareholders rely upon the credit quality, liquidity, diversification, transparency, and sound management of the portfolio—not on a government or private guarantee—to minimize risks to their investment.

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- Money market funds are investment products that are financed 100 percent through equity.
- Money market fund investors are equity shareholders—not depositors or creditors. A fund's shareholders are the sole owners of the fund and bear all the risk of losses.
- A money market fund's prospectus provides a clear description of all risks and rewards associated with the fund and creates no expectation of an explicit or implicit guarantee by the fund sponsor or government. Even though fund sponsors at times purchase securities from their money market funds to protect their investors from losses and to protect the franchise value of their businesses, they are not required to do so.
- Money market fund shareholders rely upon the credit quality, liquidity, diversification, transparency, and sound management of the portfolio—not on a government guarantee—to minimize risks to their investment.
- A money market fund is an investment product and is not guaranteed—period.

The federal government provided a temporary and limited guarantee to participating money market funds in 2008 and 2009.

- During September 2008, the financial crisis reached a critical stage, characterized by severely reduced liquidity in the global credit markets and insolvency threats to investment banks and other institutions.

- In response, the Federal Reserve announced a series of programs and facilities designed to stabilize the market, which had ceased to function even for very short-term, high-credit securities.
- The Treasury also announced its Temporary Guarantee Program for Money Market Funds, which temporarily guaranteed existing account balances in money market funds that qualified for and elected to participate in the Program. The Program was backed by Treasury's Exchange Stabilization Fund.
- ICI played a significant role in limiting the reach of the Treasury Guarantee Program. It urged from the outset that the guarantee not be open-ended, as Treasury originally contemplated, but instead restricted to account balances as of September 19—the date of the program's original announcement.
- ICI was concerned that markets would be further disrupted under the Program by significant flows of money into guaranteed prime money market funds from banks, Treasury funds, and other cash-like products. Massive dollar flows in the other direction could create yet another wave of volatility when the Treasury Guarantee Program ended.
- The Program expired on September 18, 2009, without receiving a single claim. Instead, Treasury—and, as a result, taxpayers—received an estimated $1.2 billion in fees paid by participating money market funds.
- Other than the one year Treasury Guarantee Program, money market funds have never been insured or guaranteed by the FDIC or any other government agency. No such guarantee is in place today.

Congress erected barriers to future guarantees or support programs for money market funds.

- In the Emergency Stabilization Act of 2008, Congress barred the Treasury from using its Exchange Stabilization Fund "for the establishment of any future guaranty programs for the United States money market mutual fund industry." In addition, in the Dodd-Frank Act, Congress limited the Federal Reserve's ability to establish the types of programs and facilities it used to stabilize the market in 2008. As a result, Congress has erected significant barriers against the renewal of any sort of guarantee or support program for money market funds.

For more information on money market funds, their role in the economy, ICI's efforts to make these funds more resilient in the face of adverse market conditions, and the significant risk of undermining money market funds' value to investors and the economy, please see *www.ici.org/mmfs* or *www.PreserveMoneyMarketFunds.org*.