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## The Verdict: SEC Approves Money Market Fund Reform

By Staff Writers      Published: 2014-07-23

In a 3-2 vote Wednesday, the Securities and Exchange Commission passed a rule that will force institutional prime money market funds (MMFs) to move from a stable \$1 per share net asset value (NAV) to a floating NAV. Additionally, the new rule also allows fund boards to impose two safeguards to stave off runs: liquidity fees of up to 2 percent on redemptions, and temporary suspensions of redemptions, or "gates."

"Today's reforms will fundamentally change the way that money market funds operate," said SEC Chair Mary Jo White. She added that the SEC reviewed thousands of comments on MMF reform. "Today's reforms are the culmination of that process," she said.

There will be a two-year transition period for prime MMFs. "It is imperative that we afford money funds and their investors ample time to make business and investment decisions," said Commissioner Daniel Gallagher.

AFP has long opposed an overhaul of money market funds, as it could greatly reduce investors' interest in utilizing them as a cash management and investment tool. Jeff Glenzer, CTP, AFP's vice president and chief operating officer, commented that "while AFP is pleased with the two-year phase-in of the new MMF rules finally voted on by the SEC, we remain extremely concerned about the future of MMFs as a viable cash management tool, given the imposition of the floating NAV and fees and gates."

White noted that floating the NAV and implementing fees and gates provide more protection together than separately. "I realize they could reduce demand for institutional money market funds, but we cannot shrink from the challenge to reduce the risk of runs," she said.

Commissioner Luis Aguilar added that "rigorous internal analysis" of the ramifications of the proposals greatly helped inform the final rule. He added that the implementation of the floating NAV will not completely prevent runs on funds in times of stress, hence the reason that fees and gates are also essential.

Gallagher admitted to struggling with the fees and gates. He also stressed that the new rule addresses "a three-decade long error" and "should not be seen as heavy-handed act of government."

Commissioner Kara Stein expressed concern that redemption gates are the "wrong tool" to address runs. "Gates will incentive runs and could damage financial system as a whole," she said. Stein concluded that she could not support the rule.

Commissioner Michael Piwowar supports the fees and gates as well as disclosure requirements and stress tests for MMFs. However, he does not support the floating NAV, which he believes could cause institutional investors to pull out of MMFs. In his opinion, the 2010 reforms went far enough. Furthermore, he believes that "money market funds pose no systemic threat to the financial system."

The new rules do not apply to retail and government funds, as they have shown to be less susceptible to redemption runs during times of stress than their prime counterparts.

Regulatory uncertainty about MMFs has played a large part in the reduction of corporate cash invested in them. Since 2007, corporate cash and short-term investment holdings in MMFs have fallen from 31 percent to 16 percent, according to the 2012 AFP Liquidity Survey.

As a cash management tool, corporate practitioners rely on MMFs as both a low-risk safe investment for cash and as a purchaser of corporate loan issuances. For many companies' investment policies, the safety and low yield of MMFs position them as a particularly viable investment tool. Since the rule-change efforts have been underway now for several years, corporate treasurers have leveraged the time to, if necessary, recalibrate their businesses investment holdings.

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