

ICI Study: Cost, Operational Complexities of Redemption Restrictions Would Drive Investors, Intermediaries From Money Market Funds

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Washington, DC, June 20, 2012 - Redemption restrictions that the Securities and Exchange Commission (SEC) is contemplating for money market funds would impose costly operational and systems changes on fund complexes, financial intermediaries, and their related service providers, according to a new report released today by the Investment Company Institute (ICI). These operational issues would be likely to discourage financial intermediaries from offering money market funds, ICI found, compounding the likely shrinkage in money market fund assets predicted by investor surveys.

The ICI study, [*Operational Impacts of Proposed Redemption Restrictions on Money Market Funds*](#), suggests that redemption restrictions would likely drive users away from money market funds, drive assets into less-regulated, less-transparent alternatives, and disrupt short-term financing for the economy.

Under the SEC's redemption restriction concept, a portion of every shareholder's account would be deemed "restricted shares" and would be placed in escrow, denying shareholders full use of their cash. Restricted shares would be used to absorb losses if a fund could not maintain its \$1.00 net asset value (NAV)—an event commonly referred to as "breaking the dollar." Investors who had redeemed shares during the 30 days prior to the fund breaking the dollar would be first to absorb losses.

"These redemption restrictions would fundamentally alter a hallmark investor protection of mutual funds—the promise that funds always stand ready to buy back shares at their current net asset value," said ICI President and CEO Paul Schott Stevens. "When you combine the operational burdens with the

negative investor reaction that ICI and others have documented, it's clear that redemption restrictions would turn money market funds into a product that no one would want to offer and no one would want to buy."

Concept Would Mean Costly Operational and Systems Changes

Throughout the 40-year history of money market funds, investors have benefited from the convenience, liquidity, and stability of these funds. To serve investors across a wide range of uses, fund complexes, intermediaries, and service providers have developed intricate and complex systems that allow them, on a daily basis, to communicate and process significant volumes of money market fund transactions on behalf of investors. In order to apply continuous redemption restrictions accurately and consistently across all investors in money market funds, each of these parties, as well as many institutional investors, would need to undertake intricate and expensive programming and other significant, costly system changes.

"The redemption restriction that regulators are considering would clearly impose major systems and operational changes at a very high cost on fund complexes, intermediaries, and service providers," said Kathleen C. Joaquin, chief industry operations officer at ICI and an author of the report. "At the same time, our research with investors shows that a large majority of money market fund investors would be likely to eliminate or cut back their use of these funds if these restrictions are imposed. Fund complexes, intermediaries, and service providers will be hard-pressed to justify undertaking the significant costs of compliance with the restrictions in the face of rapid shrinkage of money market fund assets."

Costs of Operational Changes Likely to Drive Money to Less Regulated Alternatives

As a result, the ICI report suggests that redemption restrictions will lead many intermediaries to make the business decision to migrate to unregulated or less regulated money market investment vehicles or bank deposit products, rather than implement costly changes to their systems. The total effect would be to force users away from money market funds and increase their usage of less-regulated, less-transparent alternatives, as well as to disrupt short-term financing for the economy.

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