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Tighter Portfolio Standards, Not Floating NAV, Will Equip Funds for Crises

Washington, DC, September 9, 2009 - The Investment Company Institute expressed its generally strong support for the Securities and Exchange Commission's proposals to tighten the regulation of money market funds, but reiterated its opposition to the concept of requiring funds to adopt a floating net asset value (NAV) in place of the \$1.00 stable NAV that money market fund investors prefer.

Reinforcing points made in the March 2009 [Report of the Money Market Working Group](#), ICI said the stable \$1.00 NAV provides shareholders convenience and simplicity in terms of tax, accounting, and recordkeeping. In a [comment letter](#) to the SEC, ICI also detailed the potential negative consequences to the economy of moving to a floating NAV, including:

- an increase of systemic risk to the financial system as institutional investors seek investment opportunities in alternative investments that are not similarly regulated;
- a significant reduction in the supply of short-term credit to corporate America; and
- loss of an important source of financing for municipalities in the short-term markets.

“Stable-NAV funds provide enormous benefits to money market fund investors. In our view, forcing funds to adopt a floating NAV would introduce new and significant risks to the financial system without any offsetting gains,” said ICI President and CEO Paul Schott Stevens. “The SEC has proposed significant steps to reform money market fund regulation and further strengthen an already resilient product. We appreciate the Commission’s leadership on this issue and believe that the proposed improvements to portfolio standards, disclosure, and money fund operations are balanced and should serve funds and their investors well in normal circumstances and during times of severe market

pressures.”

ICI’s comment letter addresses a June SEC rule proposal that raised various concepts for discussion and proposed numerous changes to Rule 2a-7 and other rules that govern money market funds under the Investment Company Act of 1940.

ICI’s letter comments on the various proposals included in the SEC’s proposed Rule 2a-7 amendments in three areas: risk-limiting conditions; disclosure of portfolio securities; and money market fund operations.

The comments, among others, include:

Risk-limiting conditions

- Reiteration of ICI’s recommendation from the Working Group that the SEC impose a minimum 5 percent daily liquidity requirement and a minimum 20 percent weekly requirement for all funds and opposition to establishing two different liquidity requirements for “retail” and “institutional” money market funds, given the difficulty in distinguishing the two.
- Opposition to the SEC proposal that would prohibit money market funds from acquiring any illiquid securities, which would leave funds vulnerable to second guessing by regulators and would stifle competition.
- Continued opposition to a proposal to eliminate the use of credit ratings by nationally recognized statistical rating organizations in Rule 2a-7, and instead ICI recommends requiring fund advisers to designate and disclose three or more NRSROs that funds would look to for all purposes under Rule 2a-7.
- Support for limiting money market fund purchases to first tier securities and a recommendation that the SEC follow the Working Group’s recommendation that would continue to allow a fund to hold a first tier security that is downgraded to second tier after an adviser has purchased the security.
- Support for reducing the weighted average portfolio maturity limit (WAM) from the current standard of 90 days and a recommendation to use a 75 day standard that would reduce interest rate risk without significantly impairing portfolio flexibility during different market conditions.
- Support for a new weighted average life limitation of 120 days that would limit the portion of a fund’s portfolio that could be held in longer term variable-or floating-rate securities.

Disclosure of portfolio securities

- Support for enhancing the SEC’s access to money market fund data through non-public monthly filings of detailed portfolio holdings information.
- Support for requiring money market funds to publicly disclose certain portfolio holdings information monthly, but on a 7-10 day delayed basis and not in conformity with Regulation S-X requirements, which would unnecessarily complicate the required disclosure.

Money market fund operations

- Support for permitting funds to suspend redemptions to facilitate an orderly liquidation of the fund (not just in the event that a fund is unable to maintain a stable NAV) to ensure all investors are treated fairly, and temporarily under other exigent circumstances other than liquidation.
- Opposition to the proposal to require all money market funds to be able to process purchases and redemptions at a price other than \$1.00 per share, citing both high costs of implementation and certain negative consequences in the low interest rate environment.

The ICI also expressed its opposition to a concept for consideration that would require redemptions in kind to satisfy certain large redemption requests, because this method of redeeming shares poses operational challenges for both funds and shareholders and could potentially aggravate an illiquid or declining market.

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