IDC Independent Directors Council

Promoting Excellence in Fund Governance

Media Advisory: Reporting on Money Market Mutual Funds

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In recent months, press accounts have erroneously described certain investment pools or cash-management vehicles—such as the Florida Local Government Pool—as “money market funds,” “like money market funds,” and “essentially money market funds.” While there may be certain similarities between these vehicles and traditional money market mutual funds (MMF), there are important and fundamental differences as well.

To avoid misleading or confusing readers, viewers or listeners, it is very important to be clear about these distinctions. The following is a brief description of the key differences between traditional money market mutual funds and other types of cash-management vehicles.

Money Market Funds

A true money market fund:

- Is a type of mutual fund offered to individuals or institutions that invests in high-quality, short-term securities that are judged to present minimal risk;
- Is registered with and regulated by the U.S. Securities and Exchange Commission (SEC) and operates under SEC Rule 2a-7, which sets strict requirements regarding the credit quality and maximum maturity of eligible investments, the diversification of the fund’s portfolio as well as its overall average maturity (see below); and
- By adherence to these requirements, seeks to maintain a constant $1 net asset value per share by minimizing the fund’s exposure to interest rate and credit risk.

Money market mutual funds are subject to strict safeguards under the Investment Company Act of 1940 and the rules adopted under that Act. In particular, Rule 2a-7 has been instrumental in the successful operation of money market funds since its adoption in 1983. These safeguards include:

- **Credit Quality** - Generally, investments can only be made in securities that are in the top two categories of creditworthiness as rated by a nationally recognized ratings organization or, if unrated, of comparable quality. In addition, portfolio managers, as delegated by the fund board, must make their own determination that an investment poses minimal credit risk at the time of purchase. This involves performing their own due diligence, entailing research into the creditworthiness of the issuers of individual securities.
- **Diversification** - Generally, no fund can place any more than 5% of its portfolio in any one issuer.
- **Maturity** - Funds are limited to an average weighted maturity of no more than 90 days, although maturities are typically shorter even under normal market conditions. These maturities are typically shortened significantly during turbulent markets.

Cash-Management Vehicles

Some examples of investments labeled in the press as “money market funds” include: many state- or local government-sponsored investment pools offered to cities, counties, school districts and agencies to help them manage payrolls and other operating costs; cash-management vehicles for institutional and high-net-worth traders in commodities markets; and “enhanced cash” funds offered typically to institutional investors seeking higher returns. These products are:

- Typically not registered with the SEC and generally not subject to the strict 2a-7 rules that govern MMF investments and operations.
- Usually seek higher rates of return than those of MMFs, and therefore may entail a higher degree of risk.
- Generally are open only to sophisticated investors, government entities, or institutions.
- Usually have minimum initial investments that can be as high as $1 million.

For more information on money market funds, see Frequently Asked Questions About Money Market Funds or contact the ICI Media Relations Group at 202-326-5838. In addition, the SEC’s EDGAR database contains useful information about whether a particular investment is a registered money market mutual fund.

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