Independent Directors Council
Promoting Excellence in Fund Governance

Money Market Funds: FAQs

Frequently Asked Questions About Money Market Funds

Additional Information about Money Market Funds

- Money Market Fund Resource Center (ICI)
- Money Market Fund Reform Implementation Resource Center (ICI)
- Money Market Fund Statistics (ICI)

What are money market funds, and how do investors use them?

A money market fund is a type of mutual fund that seeks to offer investors a variety of features, including return of principal, liquidity, and a market-based rate of return, all at a reasonable cost.

Investors use money market funds for a variety of reasons. Like other mutual funds, money market fund shares can be bought or sold at any time. In addition, money market funds often provide checkwriting privileges for shareholders. Some investors use money market funds as a “parking place” for cash between investments because money market fund yields are typically competitive with those of most savings accounts. For institutions of all kinds—businesses, nonprofit organizations, government agencies, and financial institutions—money market funds are a preferred vehicle for cash management.

What types of investments do money market funds hold?

Federal regulations prohibit a money market fund from acquiring any investment that is not (1) short-term and (2) determined to present minimal credit risks. “Short-term” generally means that the money market fund can receive its full principal and interest within 397 days.

Money market funds are generally classified as tax-exempt or taxable, depending on the securities in which they invest. Tax-exempt mutual funds invest in securities issued by state and local governments, agencies, and authorities. The interest paid on these instruments is exempt from federal income tax, and is often exempt from state income taxes when paid to residents of the state in which the securities are issued. Taxable money market funds invest in such instruments as U.S. Treasury securities, federal agency notes, certificates of deposit, Eurodollar deposits, and commercial paper. Money market funds also may invest in repurchase agreements that are collateralized by U.S. Treasury and agency securities or other high-quality securities.

Commercial paper is issued by a wide variety of corporations—such as domestic and foreign firms, banks, finance companies, and broker-dealers—and carries repayment dates that typically range from overnight up to 270 days.

How are money market funds regulated?

Money market funds are strictly regulated by the SEC, both as mutual funds generally and pursuant to Rule 2a-7 under the Investment Company Act of 1940. Rule 2a-7 includes several conditions intended to limit risk in a money market fund’s portfolio by governing the credit quality, liquidity, diversification, and maturity of money market fund investments. For more information about each of these conditions, see Summary of Key Money Market Fund Regulatory Requirements.

Does the federal government insure money market funds?

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other federal agency. The Treasury operated a temporary, voluntary guarantee program from September 19, 2008, to September 18, 2009. Since the expiration of the Treasury Guarantee Program for Money Market Funds, money market funds carry no federal insurance or guarantees.

Does the money market fund’s investment adviser or sponsor insure the fund?

An investment in a money market fund is not insured or guaranteed by either the fund's investment adviser or sponsor. In many cases, however, investment advisers and their affiliates have provided financial support to their money market funds.

How many money market funds are there?

Money market funds accounted for 421 of the 8,066 mutual funds available as of year-end 2016, according to ICI's *Investment Company Fact Book*.

What is the percentage of total mutual fund assets held in money market funds?

Money market fund assets account for 17 percent of all mutual fund assets. As of year-end 2016, approximately $2.7 trillion was invested in money market funds. By comparison, equity funds account for 52 percent ($8.5 trillion) of overall assets. (A weekly report on money market fund assets can be found online.)

What are the recent trends in money market fund assets?

In 2016, investors redeemed, on net, $30 billion from money market funds. This modest topline net outflow for the year, however, masks significant shifts in flows for different types of money market funds that was spurred by the final implementation of new rules governing money market funds (see here). In 2016, government money market funds received $851 billion in net inflows, while prime and tax-exempt money market funds saw net redemptions of $765 billion and $116 billion, respectively.

For more information on recent trends in money market fund assets, see the Investment Company Fact Book and ICI's statistics page.

What are retail money market funds?

Retail money market funds are funds that have policies and procedures reasonably designed to limit all beneficial owners of the fund to natural persons (i.e., human beings, not businesses or organizations).

What are government money market funds?

Government money market funds are funds that invest at least 99.5 percent of their total assets in cash, government securities, and/or repurchase agreements collateralized by cash and government securities.

What are institutional money market funds?

Institutional money market funds are money market funds that do not qualify as either retail or government.

What role do boards play in overseeing money market funds?

A money market fund's board of directors is primarily responsible for ensuring that the fund complies with the SEC's conditions to limit risk in the fund's portfolio. For more information, see Money Market Mutual Fund Board of Director Responsibilities.

Where can I find more information on money market funds?

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