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MONEY MARKET FUNDS IN 2013
A Bad Idea: Redemption Freeze for Money Market Funds

The Financial Stability Oversight Council is considering whether to recommend to the U.S. Securities and Exchange Commission that a money market fund, irrespective of market conditions, must delay redemptions of a portion of its shareholders' accounts.

Redemption restrictions would deny investors ready access to all of their funds when cash needs or new investing opportunities arise.

- This concept, known as minimum balance at risk (MBR), would require fund sponsors and intermediaries to restrict 3 percent of a shareholder's highest account value in excess of $100,000 during the previous 30 days. If a money market fund were to suffer losses that exceeded its NAV buffer, these losses would be borne first by the MBRs of shareholders who had recently redeemed.
- A redemption freeze would mark a radical departure from a core mutual fund principle that investors should always be able to redeem mutual fund shares at their current net asset value.

Adoption of an MBR would greatly reduce investor use of money market funds.

- In a recent survey of corporate treasurers and other institutional investors, 90 percent of these investors indicated that they would reduce their use of money market funds, or stop using them altogether, if MBR restrictions were put in place. See *Money Market Fund Regulations: The Voice of the Treasurer*.
- Redemption restrictions would impair popular money market fund features, such as check-writing and debit-card access, and discourage investors and intermediaries from using money market funds in sweep accounts, retirement plans, securities lending, and other investment programs.
- Fiduciaries, such as retirement plans, trustees, and investment advisers, may be legally prohibited from using money market funds with constant redemption restrictions for their clients, because such restrictions would impair clients' liquidity and be punitive in nature.

Redemption restrictions would impose costly operational and systems changes on fund complexes and others.

- Fund complexes, intermediaries, and service providers have developed a myriad of complex systems to communicate and process shareholders' daily transactions. Each of these entities would need to undertake intricate and expensive programming and system changes to apply continuous redemption restrictions accurately and consistently across all investors in money market funds. In the aggregate, estimated costs to the industry to implement the changes required to apply the MBR would reach hundreds of millions of dollars.

- See *Operational Impacts of Proposed Redemption Restrictions on Money Market Funds*.

The added costs and reduced investor demand brought about by an MBR would likely cause an exit from money market funds—with systemic implications.

- Fund complexes, intermediaries, and service providers will be hard-pressed to justify undertaking the significant costs of compliance to implement restrictions in the face of the rapid shrinkage of money market fund assets.
- Many intermediaries would make the business decision to migrate to unregulated or less-regulated money market investment vehicles or bank deposit products where possible, a result that would *increase* systemic risk.
- The flight of investors from money market funds will disrupt the crucial role these funds play in financing jobs, communities, businesses, and the American economy.

For more information on money market funds, their role in the economy, ICI's efforts to make these funds more resilient in the face of adverse market conditions, and the significant risk of undermining money market funds' value to investors and the economy, please see www.ici.org/mmfs or www.PreserveMoneyMarketFunds.org.