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RSC Financial Services Working Group: Vice Chair Report
New SEC Rule Could Destroy the Money Market Mutual Fund Industry

For almost 40 years, money market mutual funds have been an important cash management tool for investors. Forthcoming proposals from the Security Exchange Commission (SEC), which have been reported in the press, will fundamentally undermine the convenience and simplicity of money market funds. These proposals could burden investors with new tax, accounting, and legal hurdles, potentially driving millions of investors out of money market funds. The consequences could damage financing for all sectors of the U.S. economy, from individuals and households to businesses, nonprofit institutions, and state and local governments.

Even though the SEC's extensive 2010 reforms have allowed funds to safely navigate through the distinct market challenges of the past 2 years, the SEC is expected to propose a new round of 2012 "reforms."

The anticipated reforms include a proposal that will force money funds to float their net asset value (NAV) and/or impose capital burdens on these funds. Impairing investors' returns, paired with redemption freezes, would restrict investors' access to their money market fund assets.

Investors require stable NAV funds for cash management. They have repeatedly told regulators that they will not use floating-NAV funds. The proposed changes will not reduce systemic risk or make markets any stronger. Indeed, they could *increase* risk by driving investors into less-regulated, less-transparent products. Money market funds are owned wholly by the shareholder. Capital is costly and will squeeze investors' returns from money market funds—particularly if capital requirements are excessive or are required in the current zero-interest rate environment.

Redemption freezes will deny investors access to their full fund balances, confuse investors who are trying to anticipate and meet cash needs, and reduce investors' returns. Limiting investors' access to their funds could eliminate popular features like check writing and debit-card access, and make money market funds unusable in sweep accounts. According to a recent Letter from the House Financial Service Committee Chairman Bachus and Vice Chairman Hesarling:

> **"The SEC's mandate is to ensure that investors have all the material information about an investment, not to engineer investments so that they are free of any risk. If investors do not understand that their investments in money market funds can result in losses, then the Commission should use its existing authority to enhance disclosures rather than change the fundamental characteristics of money markets**."

Conservatives may be concerned that a if the SEC proposes these new rules on money market mutual funds, American Businesses will be at risk to suffer the loss of the most flexible and liquid tool available for cash management.

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