BETTER MARKETS

PRESS RELEASES

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THE SEC'S MONEY MARKET FUND RULES NEED TO STOP INVESTOR RUNS, PROMOTE SYSTEMIC STABILITY, AND PROTECT TAXPAYERS, NOT MMF PROFITS

WASHINGTON, D.C.—Legal Director and Securities Specialist Stephen Hall issued the following statement on the filing of Better Markets' Comment Letter to the Securities and Exchange Commission (SEC) in response to the agency's proposal on additional money market fund (MMF) reforms:

"The stable NAV, which is still maintained by many MMFs, is a fiction bordering on a fraud that enables regulatory arbitrage and unfair competition while obscuring billions of dollars in government subsidies for the MMF sponsors, as detailed in a comment letter we filed with the SEC today. The ineffective regulation of MMFs is ultimately what allows them to offer a slightly higher yield than bank savings accounts. MMFs get the benefit of de facto government insurance and periodic bailouts, while bank accounts are required to pay deposit insurance and limit their asset mix. This is classic privatization of profits for MMFs in good times and socialization of losses shifted to the public in bad times. Unfortunately, the SEC's proposed rules are just the latest insufficient, piecemeal approach, which will not prevent runs, promote systemic stability, protect taxpayers, or prevent the next MMF bailout.

"Countless everyday Americans and businesses rely on MMFs to manage their cash and earn slightly higher returns than bank accounts. Yet, those MMFs pose unique risks to investors and to financial stability. And these products are gaming the regulatory system to get a free ride from taxpayers—that's how they boost returns. The SEC's proposal will help somewhat, but like prior reforms, these are still inadequate remedies that won't solve the fundamental challenges posed by MMFs. Among other things, the SEC must eliminate the fiction of fixed or stable share pricing, so it is clear to all investors that they can in fact lose money in an MMF. After all, higher returns arise from higher risks, which MMF sponsors and shareholders should bear, not taxpayers. The SEC must also require that all MMFs establish capital buffers, along with additional liquidity provisions, so that they have sufficient funds to satisfy investor withdrawals in good times and bad.

"The core problem is that, contrary to the false impression created by the "stable NAV" that many MMFs are allowed to use, MMFs remain subject to losses and run risk when financial markets are undergoing stress. We saw it in 2008 during the financial crisis and yet again in March 2020 during the market turmoil triggered by the pandemic. As MMF shares lost value and edged toward breaking the buck, millions of investors realized the risk and sought to withdraw their funds. That started a vicious cycle in which the funds sold assets to pay redeeming investors, which drove asset prices down and put more stress on MMF share prices. This threat is compounded by the fact the MMFs don't carry any mandatory capital buffers or government insurance of the sort that protects bank deposits, so investors feel they have to fend for themselves. Both in 2008 and 2020, the government had to intervene with trillions of dollars worth of taxpayer-backed bailouts and liquidity assistance to prevent MMFs from collapsing.

"Over the years the SEC has rightly seen the need for the industry to assume more responsibility for the risks associated with the highly profitable MMF product that they promote and sell. Unfortunately, over the years, the SEC has only been willing to go halfway, and that remains true with the current proposal. It has long been known that only a full package of reforms, including the floating (and fully transparent) NAV, along with meaningful and mandatory capital buffers and liquidity management, will stop the runs, promote systemic stability, and protect taxpayers."

Read our full comment letter here.

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Better Markets is a non-profit, non-partisan, and independent organization founded in the wake of the 2008 financial crisis to promote the public interest in the financial markets, support the financial reform of Wall Street and make our financial system work for all Americans again. Better Markets works with allies—including many in finance—to promote pro-market, pro-business and pro-growth policies that help build a stronger, safer financial system that protects and promotes Americans' jobs, savings, retirements and more. To learn more, visit www.bettermarkets.org.

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