Money Market Fund Reforms on the Way

2009-04-16

The push to remake the financial industry’s rules in hopes of softening future boom-and-bust cycles gathered momentum late last month with Treasury Secretary Timothy Geithner urging Congress to create new systems to monitor and control risks.

The request came at the urging of European and Latin American leaders, who prior to the G-20 Summit called for greater oversight in the US markets. In turn, Geithner expressed that crafting SEC rules to make money market funds (MMFs) safer would reduce the risk that account holders might panic or face losses during a crisis.

“The SEC should strengthen the regulatory framework around MMFs in order to reduce the credit and liquidity risk profile of individual MMFs and to make the MMF industry as a whole ... less susceptible to runs,” said Geithner during his testimony on March 26 before the Senate Committee on Banking, Housing and Urban Affairs.

Outlining an aggressive agenda to police the markets, SEC Chairman Mary Schapiro sounded a similar theme during her testimony, while stating that the SEC would act quickly to strengthen the regulation of MMFs by considering ways to improve the credit quality, maturity, and liquidity standards applicable to these funds. “These efforts will be aimed at shoring up money market fund investments and mitigating the risk of a fund experiencing a decline in its normally constant $1.00 net asset value, a situation known colloquially as ‘breaking the buck,’” said Schapiro.

Neither Secretary Geithner nor Chairman Schapiro provided specifics about the SEC's proposals. But while the details of regulatory proposals for reform are in the process of being formulated, the industry has already published proposals of its own.

To read more about the testimony and industry reform proposals, which were detailed in a recent WilmerHale Alert written by counsel Carol Robinson Schepp and associate Michael P. Jewkes, please click here.