The Beginning of the End of Money Market Funds?

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On January 15, 2009, a steering committee of the Group of Thirty issued *Financial Reform: A Framework for Financial Stability*, which contains two recommendations as to money market funds.[1] Under the leadership of Paul Volcker, former chairman of the Federal Reserve Board and chairman-designate of the Economic Recovery Advisory Board under President-elect Barack Obama, the committee was launched in July 2008 and developed recommendations on prospective financial reform. The Group of Thirty is a private, nonprofit, international body composed of senior representatives of the private and public sectors and academia.

The two recommendations concerning money market funds are set out below:

- Money market mutual funds wishing to continue to offer bank-like services, such as transaction account services, withdrawals on demand at par, and assurances of maintaining a stable net asset value (NAV) at par should be required to reorganize as special-purpose banks, with appropriate prudential regulation and supervision, government insurance, and access to central bank lender-of-last-resort facilities.
- Those institutions remaining as money market funds should only offer a conservative investment option with modest upside potential at relatively low risk. The vehicles should be clearly differentiated from federally insured instruments offered by banks, such as money market deposit funds, with no explicit or implicit assurances to investors that funds can be withdrawn on demand at a stable NAV. Money market funds should not be permitted to use amortized cost pricing, with the implication that they carry a fluctuating NAV rather than one that is pegged at US$1.00 per share.

The first recommendation would provide that only a bank (or special purpose bank) could issue "withdrawals on demand at par" or the assurance of "a stable net asset value," suggesting that bank issuers (and only bank issuers) could sell "funds" with a stable NAV. Whether or not these bank funds would also be registered investment companies, or would be trust funds (or perhaps both) or something else, remains to be seen. The reference to "transaction account services" is also of potential importance, as it implies that the current practice of allowing mutual fund redemptions by "check" would be precluded (although these so called "checks" are typically structured as drafts issued by banks, in fact). In addition, while money market mutual funds do not now provide "assurances" of maintaining a stable net asset value (or transaction account services for that matter) the committee evidently views money market funds as currently "offering bank-like services."

The second recommendation appears to be a call to repeal or revise Rule 2a-7's provisions as to the use of amortized cost valuation by registered investment companies. This would spell the end of money market mutual funds as we now know them. The result would be that money market funds would become fixed-income funds with very short durations and fluctuating NAVs.

These proposals to eliminate money market funds' use of both a $1.00 NAV and check writing suggest the possibility of momentous changes for the money market fund industry.

[1] Available here.

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