

## Preventing Runs on Money Market Funds

*Industry and federal regulators are moving quickly to ensure that investors are protected.*

By Renuka Rayasam

April 1, 2009

**Coming federal securities rules will mirror money market funds' self-regulatory efforts** already under way. But what the \$4-trillion industry recommends, the Securities and Exchange Commission will require, including precautions that many major firms are already taking. "I think that the industry may well be successful in heading off major reform," says David Hearth, a partner in the investment management practice of Paul Hastings. "These proposals take the emergency off of the problem."

In March, an industry trade association called the Investment Company Institute recommended a set of voluntary standards aimed at boosting transparency, stability and liquidity at the tax-exempt funds. The standards recommend that funds have 5% of their assets accessible to investors within one day and 20% available within seven days. In addition, they call for limiting fund investments to those with Tier I ratings and reducing maturity times from 90 to 75 days. Funds also have to post monthly portfolio disclosures of holdings on their Web sites.

**There's one industry recommendation that the SEC won't swallow** when the agency turns the standards into rules: voluntary suspensions of redemptions for five days if a fund risks breaking the buck, with share values dipping below \$1 apiece. Federal regulators will want to keep that authority for themselves. "It's the kind of thing that historically the SEC staff would want to reserve for its own supervisory role and decisionmaking," says Eric Jacobson, a senior analyst at Morningstar Inc.

One of the concerns of the industry is preventing a flight from funds when federal insurance ends, most likely in September 2009. Last September, after Lehman Brothers failed and the Reserve Primary Fund fell below \$1, investors in money market funds withdrew \$210 billion within two days. They feared they would lose the once-safe investment. To bolster the funds and keep credit moving, the Treasury Department temporarily guaranteed all money market funds.

**The new rules will "restore inward confidence to the industry,"** says Kenneth Kamen, President of Mercadien Asset Management. "We can't expect the government to back them up forever."

*For weekly updates on topics to improve your business decisionmaking, [click here](#).*

---

This page printed from:

[http://www.kiplinger.com/businessresource/forecast/archive/preventing\\_runs\\_on\\_money\\_market\\_funds\\_090401.html](http://www.kiplinger.com/businessresource/forecast/archive/preventing_runs_on_money_market_funds_090401.html)

All contents © 2009 The Kiplinger Washington Editors