Treasury's Guarantee Program for Money Market Funds: What You Should Know

Financial Industry Regulatory Authority (FIRA)
Investor Alerts

Treasury's Guarantee Program for Money Market Mutual Funds: What You Should Know

Money market mutual funds play an important role in America’s financial markets, offering a relatively lower-risk alternative for investors who seek stability and liquidity. Market events in the fall of 2008 put a spotlight on the money market fund industry—including the U.S. Treasury Department's temporary guarantee program for the money market fund industry. In creating the guarantee program, Treasury sought to address temporary dislocations in the credit markets.

We originally issued this Alert to answer some of the questions investors may have about Treasury’s guarantee program. Although the guarantee program expired in September 2009, the Alert also helps investors better understand money market funds.

What are money market funds?

A money market mutual fund is an investment company that pools money from investors to purchase short-term investments—such as Treasury bills, certificates of deposit, and short-term bonds (known as commercial paper) issued by large corporations—that meet certain standards set forth by the Securities and Exchange Commission for credit quality, liquidity, and diversification. As of May 2010, there are more than 600 money market funds in the United States—roughly 9 percent of all U.S. mutual funds.

The federal securities laws set limits on the types of investments a money market fund can make. Money market funds have traditionally attracted investors seeking to preserve their principal or who need a short-term place to invest their cash. As with any securities investment, investing in money market funds involves risk—and while rare, investor losses are possible. In contrast to bank money market deposit accounts and other bank savings accounts, money market funds are not insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration. However, as explained below, money market funds were able to participate in a guarantee program offered by Treasury that, from September 2008 to September 2009, insured assets held in money market mutual funds as of September 19, 2008.

What does it mean to "break the buck"?

Like other mutual funds, a money market fund is required to calculate its net asset value (NAV) at least once a day, typically after the U.S. markets close. A fund's NAV is its price per share, which reflects the total value of the fund's investment holdings. Money market funds invest with the goal of maintaining a stable NAV of $1.00 per share. That means that investors can typically expect to get back one dollar for every dollar they invest in the fund, plus any returns (meaning the interest or dividends the fund earns).

A money market fund is said to "break the buck" when its NAV falls below $1.00 per share. In the nearly 40-year history of money market mutual funds, this has happened on only two occasions—in 1994, when a fund lost approximately four cents on the dollar, and in September 2008, when the NAVs of money market funds issued by The Reserve Fund fell below $1.00.

Typically, there has been an expectation that when a money market fund reaches a point where it might break the buck, the investment management firm that sponsors the fund will take action to infuse the fund with cash so that the fund can maintain a stable NAV of $1.00 per share. Most money market funds in the U.S. are sponsored by large financial institutions that may provide assistance in the case of instability.
What Was Treasury’s Guarantee Program?

On September 19, 2008, the U.S. Treasury announced the establishment of a temporary guarantee program to protect shareholders of money market mutual funds—and on September 29, officially opened the program to eligible money market funds. Eligible money market funds included publicly offered funds that were registered with the SEC, were regulated under Rule 2a-7 of the Investment Company Act of 1940, and sought to maintain a stable $1.00 NAV. Both taxable and tax-exempt money market funds were allowed to participate. Eligible funds had to apply and pay a fee to participate in the program—the program was not automatic. The program was not available to any fund that broke the buck prior to the close of business on September 19, 2008.

The program insured shareholder assets in participating money market funds as of the close of business on September 19, 2008. In other words, if a money market fund that participated in the guarantee program subsequently failed to maintain a stable $1.00 NAV, the program would have provided coverage to shareholders up to the amount they owned on the date the program was announced. Treasury’s creation of the program was intended to enhance market confidence and alleviate investors’ concerns about the ability of money market funds to absorb a loss.

Investors could not sign up for the guarantee program on their own. Instead, each money market fund had to have decided whether to participate in the program—and, if so, must have applied by October 8, 2008.

The guarantee program also had the following features:

1. **Limits on the Guarantee**—The insurance provided by the guarantee program extended only to the total value of a shareholder’s account in a participating fund as of the close of business on September 19, 2008. Here are some examples to illustrate how the guarantee program worked:
   
   - Let’s say you owned 200 shares of ABC money market fund on Sept 19 and bought 100 more on September 30. Let’s also assume the fund is participating in the guarantee program and breaks the buck on October 10. Under the guarantee program, you would receive a guaranteed $1.00 per share for the 200 shares you owned on September 19—but your remaining 100 shares would be redeemed at NAV.
   
   - Now let’s say you owned 200 shares of ABC on September 19, sold 100 on September 22, and purchased 50 on September 30. If the fund breaks the buck on October 10, all 150 of your shares would be covered under the guarantee program—even though some of those shares were purchased after September 19. As long as it remains in effect, the guarantee program will protect your investment in ABC up to the amount you held as of September 19.

2. **Tax Issues**—Participation in the program by a tax-exempt money market fund would not jeopardize the tax-exempt status treatment of payments. The Treasury and the IRS issued guidance confirming this point.

3. **Duration**—The program was initially in effect for three months, beginning September 19, 2008, but was later extended through September 18, 2009. Treasury did not extend the program beyond September 18, 2009.

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**Information for Reserve Fund Shareholders**

Because certain of the Reserve money market funds broke the buck prior to September 19, these funds were not eligible for the Treasury guarantee program.

When we first issued this Alert, we stated that investors in the affected Reserve money market funds who needed cash but could not access their holdings in the affected funds should understand their alternatives. These included awaiting implementation of the Reserve’s liquidation and distribution plan, liquidating other investments, or arranging for a loan from their broker (which might require signing a margin agreement). We also stated that each of these choices had consequences that investors should carefully consider before acting.
Where to Turn for Help

If you have questions, be sure to contact your brokerage firm—or the fund company if you purchased your shares directly. If your firm did not resolve the problem to your satisfaction, you can file a complaint online at FINRA's Investor Complaint Center.

Additional Resources

- U.S. Treasury, Frequently Asked Questions About Treasury's Temporary Guarantee Program for Money Market Funds
- SEC, Division of Investment Management Responses to Frequently Asked Questions about The Reserve Fund and Money Market Funds
- SEC, Information for Reserve Primary Fund Investors
- SEC, Focus on Money Market Funds
- FINRA Alert, Investing with Borrowed Funds: No "Margin" for Error

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