6-24-2009

Speech by SEC Chairman: Statement at SEC Open Meeting

Mary L. Shapiro
Speech by SEC Chairman: 
Statement at SEC Open Meeting

by

Chairman Mary L. Schapiro

U.S. Securities and Exchange Commission

Washington, D.C.
June 24, 2009

Good morning. This is an open meeting of the U.S. Securities and Exchange Commission on June 24, 2009. Today, we are considering a recommendation from the Division of Investment Management that the Commission propose rules to enhance the regulatory regime for money market mutual funds.

Money market funds are mutual funds that serve as cash management vehicles for both retail and institutional investors. These funds, which hold roughly $3.8 trillion in investor assets, have become a mainstay of our capital markets. As of December 2008, about one-fifth of U.S. households' cash balances were held in money market funds. And as of January 2008, approximately 80 percent of U.S. companies used money market funds to manage at least a portion of their cash balances.

Money market funds seek to maintain a stable net asset value of $1.00 per share. But, because these funds are securities products, they are not immune from the risk of loss of principal.

This was evident last fall when the Reserve Primary Fund's net asset value fell below $1.00 or 'broke the buck.' That event spurred a significant wave of redemptions from money market funds, principally from institutional 'prime' money market funds that invested in short term commercial paper of corporate issuers. It also increased the instability in the credit markets and impacted thousands of investors who could not redeem their Reserve Primary Fund holdings at the $1.00 price they had come to expect.

In addition, there were ripple effects for other money market funds. For example, during the week of September 15, 2008, investors withdrew approximately $300 billion from prime money market funds, or 14 percent of the assets held in those funds.

Today the Commission is considering proposals that would strengthen money market fund regulation to help avoid the types of events experienced last fall. Most significantly, the proposals we are considering would enhance the risk-limiting requirements of rule 2a-7, the rule that principally governs the operations of money market funds. This is an immediate concern.

The proposals would establish new liquidity requirements for money market funds, so that the funds are required to hold specified percentages of their assets in cash or highly liquid securities. This will enable money market funds to be better positioned to meet demands from investors who want to redeem their shares on a short term basis. The proposals also would enhance the quality of money market fund investments by strengthening the credit quality and portfolio maturity requirements of rule 2a-7.

In addition, the proposals would enhance the Commission's ability to monitor money market funds. For example, the proposals would require money market funds to disclose their portfolio holdings on a monthly basis.

This information would be available to money market fund investors through fund Web sites and the Commission's Web site. This Web site disclosure will benefit investors who want additional information about their money market fund and its risk characteristics.
Finally, and very importantly, the package we are considering today contains a recommendation to request comment on more fundamental changes to money market fund regulation. Specifically, the Commission is seeking comment on whether to require that money market funds have the ability to redeem investors in kind in order to stem the dilutive effect of redemptions and maintain a stable net asset value.

In addition, the Commission would like comment on whether money market funds should no longer be permitted to use the amortized cost method of valuation and maintain a stable net asset value of $1.00. I will be very interested in commenter views on whether a so-called 'floating NAV' would better protect investors from runs on money market funds and other abuses, or whether the efficiency of the $1.00 NAV is more beneficial to investors.

I note that in its white paper on Financial Regulatory Reform issued last week, the Treasury Department supported the SEC's efforts to strengthen the money market fund regulatory framework by reducing the credit and liquidity risk profile of money market funds, as we are voting to propose to do today. In addition, the white paper recommended that the President's Working Group on Financial Markets prepare a report assessing whether more fundamental changes are necessary to better protect money market funds from runs. In particular, the white paper noted eliminating the ability of money market funds to maintain a stable NAV. The SEC, as a member of the President's Working Group, looks forward to sharing the insights that we learn from commenters in the development of the PWG report.

I believe that the proposal the Commission is considering today will go a long way toward better protecting investors and making money market funds more resilient to short-term market risks.

A number of the issues we are considering were discussed in the 'Report of the Money Market Working Group,' published by the Investment Company Institute. I thank the ICI for the recommendations contained in the report, which represented a very constructive first step toward reform of the regulation of money market funds. And I thank our staff for building on those recommendations to develop the comprehensive set of proposals we are considering today.

For now, I'll turn the meeting over to Buddy Donohue, Director of the Division of Investment Management, to hear more about the Division's recommendation. Before I do that, however, I would like to thank our staff who have shared their expertise to make this proposal a strong, thoughtful and well-crafted piece of work: Buddy Donohue, Bob Plaze, Hunter Jones, Penelope Saltzman, Diane Blizzard, Thu Ta, Daniele Marchesani, and Sarah ten Siethoff from the Division of Investment Management; Jim Overdahl, Woodrow Johnson, and Amy Edwards from the Office of Economic Analysis; and David Becker, Meridith Mitchell, Jeff Singdahlsen, Lori Price and Vince Meehan from the Office of the General Counsel; and Jennifer McHugh from my own office.