CFA Institute

# MONEY MARKET FUNDS SURVEY REPORT

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# MONEY MARKET FUNDS SURVEY REPORT

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# About the Survey

## Background and Purpose

Following the financial crisis and the first wave of regulation, global regulators are focusing on other areas of financial services that may create systemic risk including “Shadow Banking,” which was introduced by the Financial Stability Board in 2011. The International Organization of Securities Commissions (IOSCO) and the European Commission have consulted on Shadow Banking and Money Market Funds (MMFs), and the European Commission is currently consulting on the regulation of UCITS funds, which include MMFs and ETFs.

Many of the proposed reforms take different shapes, but share a common approach: they would impose variable net asset values (VNAVs), capital requirements and/or forms of capital guarantees. MMFs are either “CNAV” funds, i.e. funds with constant Net Asset Value (for example at $1.00), or are “VNAV” funds whose NAV is variable and fluctuates on a daily basis. In some jurisdictions (the US, for example), the market is dominated by CNAV funds, while in others VNAV funds are much more prevalent. In the European Union, CNAV funds represent approximately half of the MMF market and target institutional investors.

Some regulators consider that CNAV funds are inherently prone to “runs” by investors in case of market stress due to their constant value, and therefore require more profound reform. In the US, in response to the Prime Reserve money market fund “breaking of the buck” in October 2008, the Chairman of the SEC is currently proposing to require either a floating net asset value or a stable-NAV coupled with capital requirements and redemption restrictions.

To inform a response to the European Commission, CFA Institute conducted a survey of a sample of members on the issue of money market funds and proposed reforms.

## Methodology

On 27 September 2012, all CFA Institute members in the European Union plus a random sample of 15,000 members in the United States were invited via email to participate in an online survey. One reminder was sent to non-respondents on 3 October and the survey closed on 9 October 2012. 637 valid responses were received, for a response rate of 2% and a margin of error of ± 3.8%. As the number of valid responses per question varies (due to survey logic, drop-offs and no opinion responses), the margin of error also varies by question. Valid responses for each question (N) are noted on each chart.

## Respondent Profile

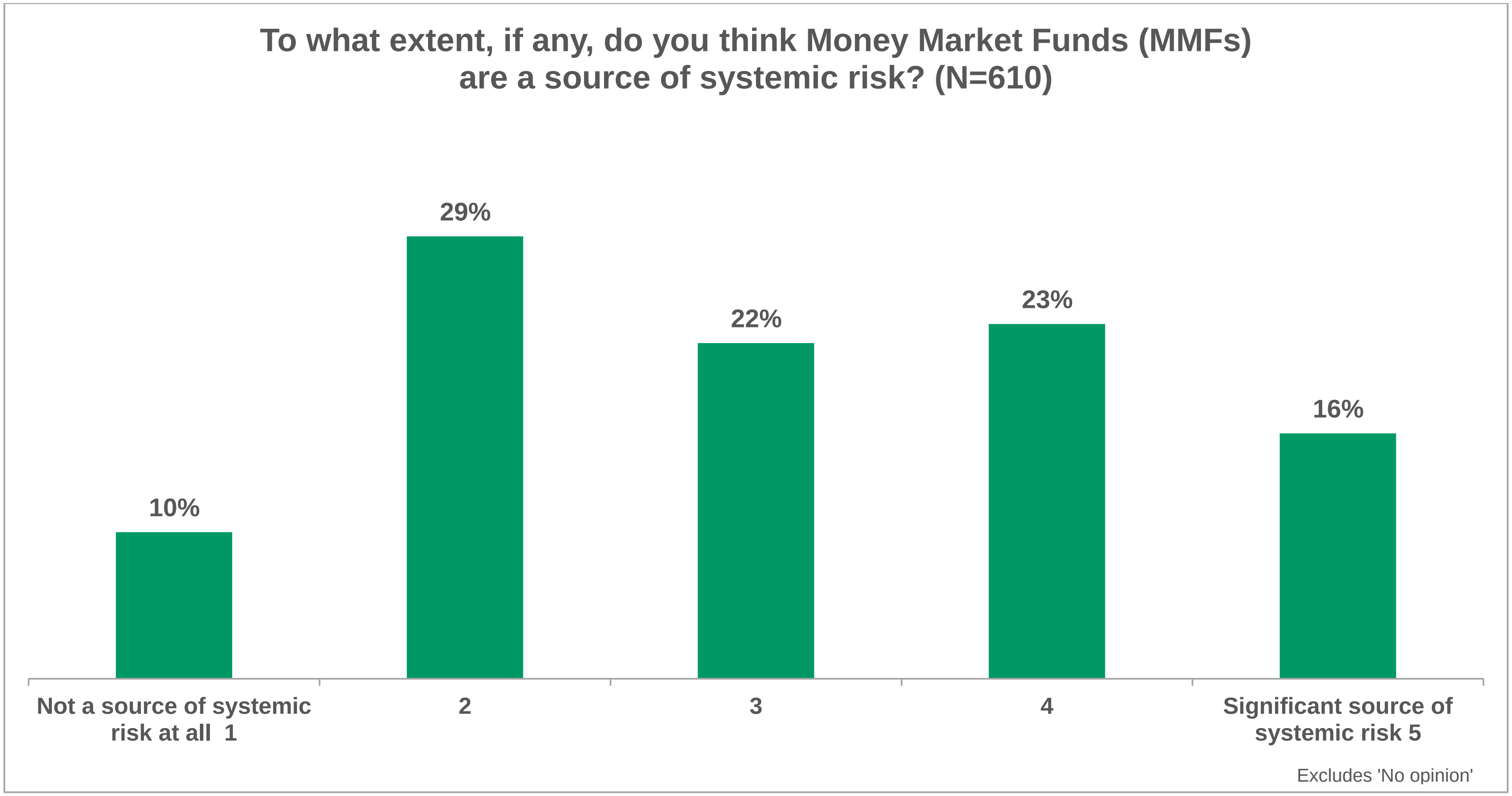
Of the 637 members that responded, 57% are from the Americas and 43% from the European Union. 92% of respondents are CFA Institute charterholders. Global (total) results have been re-weighted to accurately reflect the population (83% from the United States and 17%% from the European Union). Statistically significant regional differences are noted throughout the report. Significance testing (z-test) was conducted at the 95% confidence level to determine statistically significant differences by region.

The top job functions of respondents are portfolio manager (24%), research Analyst (12%), financial Advisor (7%), consultant (6%) and risk manager (6%). 39% of respondents listed other occupations (less than 6% each) and 4% of respondents did not provide an occupation.

## Survey Results

### Money Market Funds and Systemic Risk

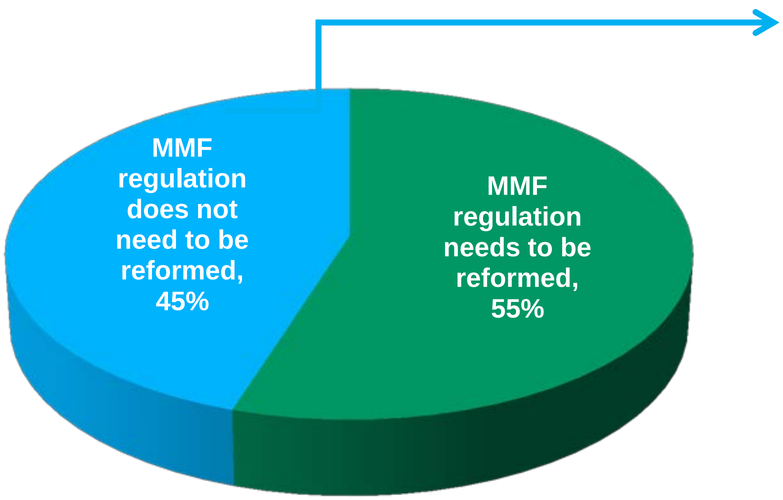
39 percent of respondents think MMFs are a source of systemic risk and 39 percent do not think they are a source of systemic risk. A list of respondent explanations for this question can be found here.



## Money Market Fund Reform

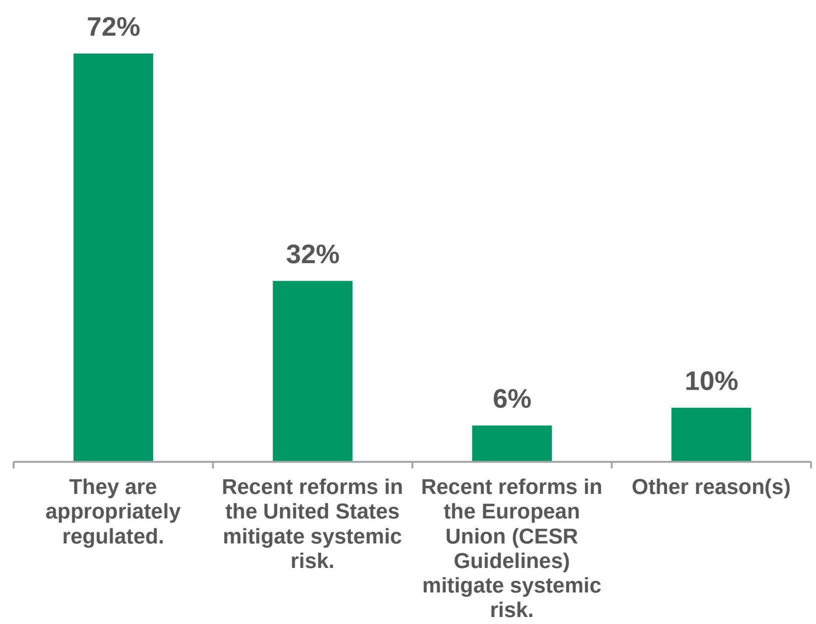
Slightly more than half of respondents (55 percent) think MMF regulation needs to be reformed. Of the 45 percent who do not think MMF regulation needs to be reformed, 72 percent say it is because they are appropriately regulated and 32 percent say recent reforms in the United States mitigate systemic risk. A list of the 'other reason(s)' specified by 10 percent of respondents can be found here.

**What is your opinion on the need for reforming MMF regulation? (N=505)**



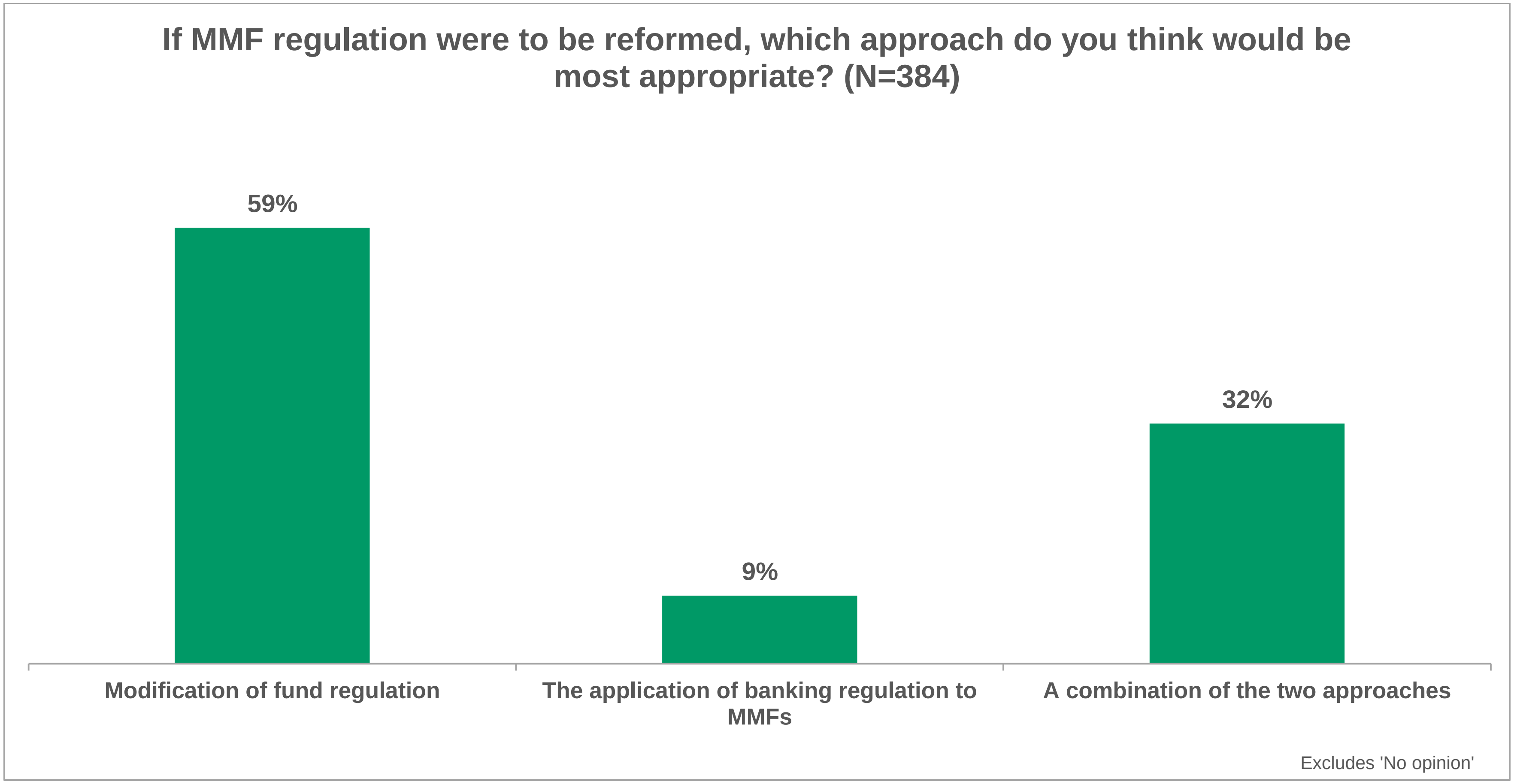

Excludes 'No opinion'

**Why do you think MMF regulation does not need to be reformed? (N=162)**



## Proposed Money Market Fund Reforms

59 percent of respondents think modification of fund regulation would be the most appropriate approach to reform MMF regulation. 9 percent think the application of banking regulation would be most appropriate, and 32 percent think a combination of applying banking regulation to MMFs and modifying fund regulation would be most appropriate. Comments related to this question can be found here.

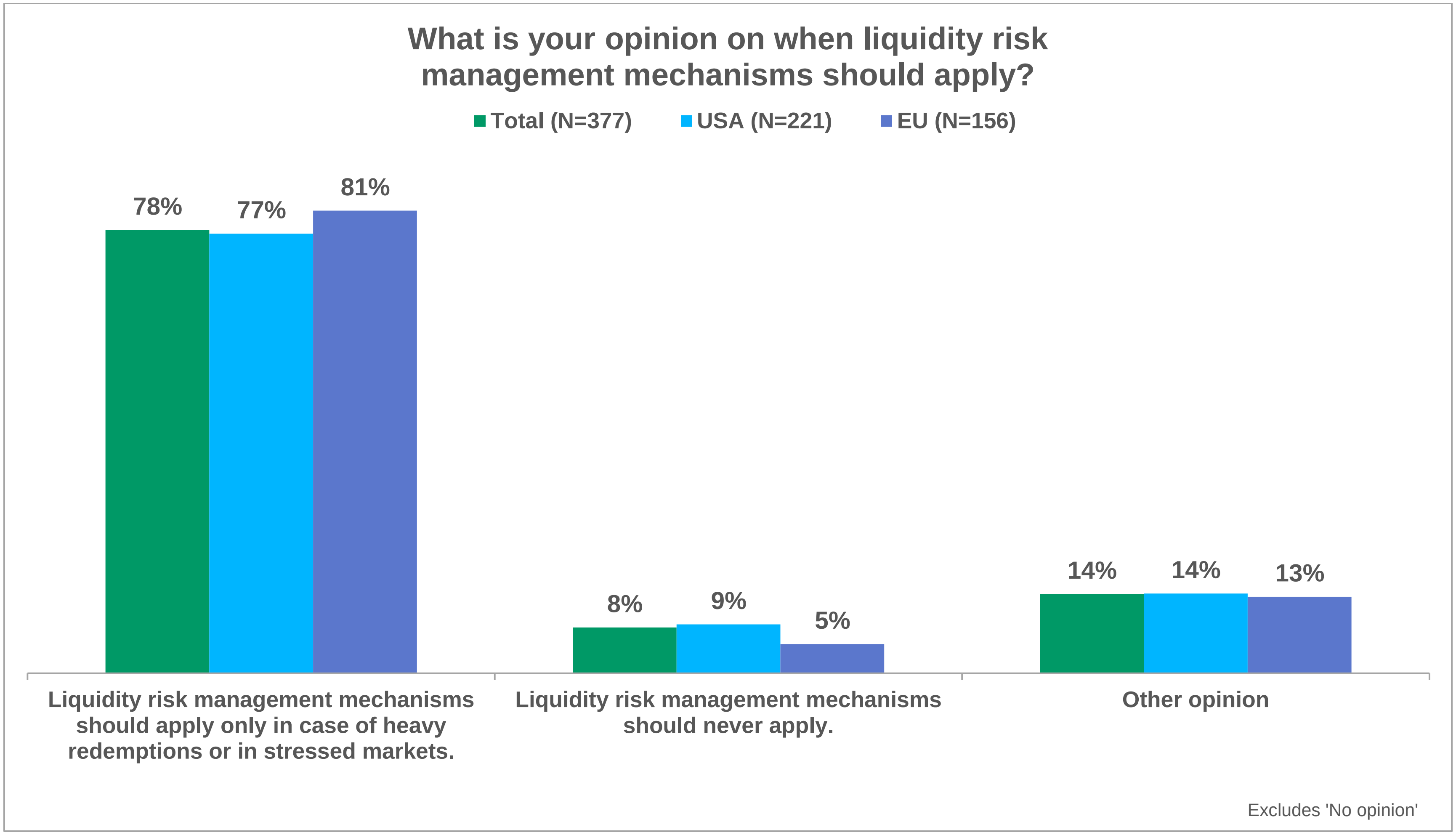


The top three proposed reforms that respondents agree with include 'All MMFs should have liquidity risk management mechanisms to manage "runs" on the funds' (85 percent), 'Disclosure to retail investors regarding investment risks and the lack of guarantees for all MMFs should be strengthened, particularly for CNAV MMFs as they may provide a false sense of security' (78 percent), and 'MMF sponsors that provide capital guarantees to investors should be subject to capital requirements' (75 percent). Significant differences between respondents in the United States and European Union are highlighted in purple. Comments on the proposed reforms and additional reform ideas can be found here.

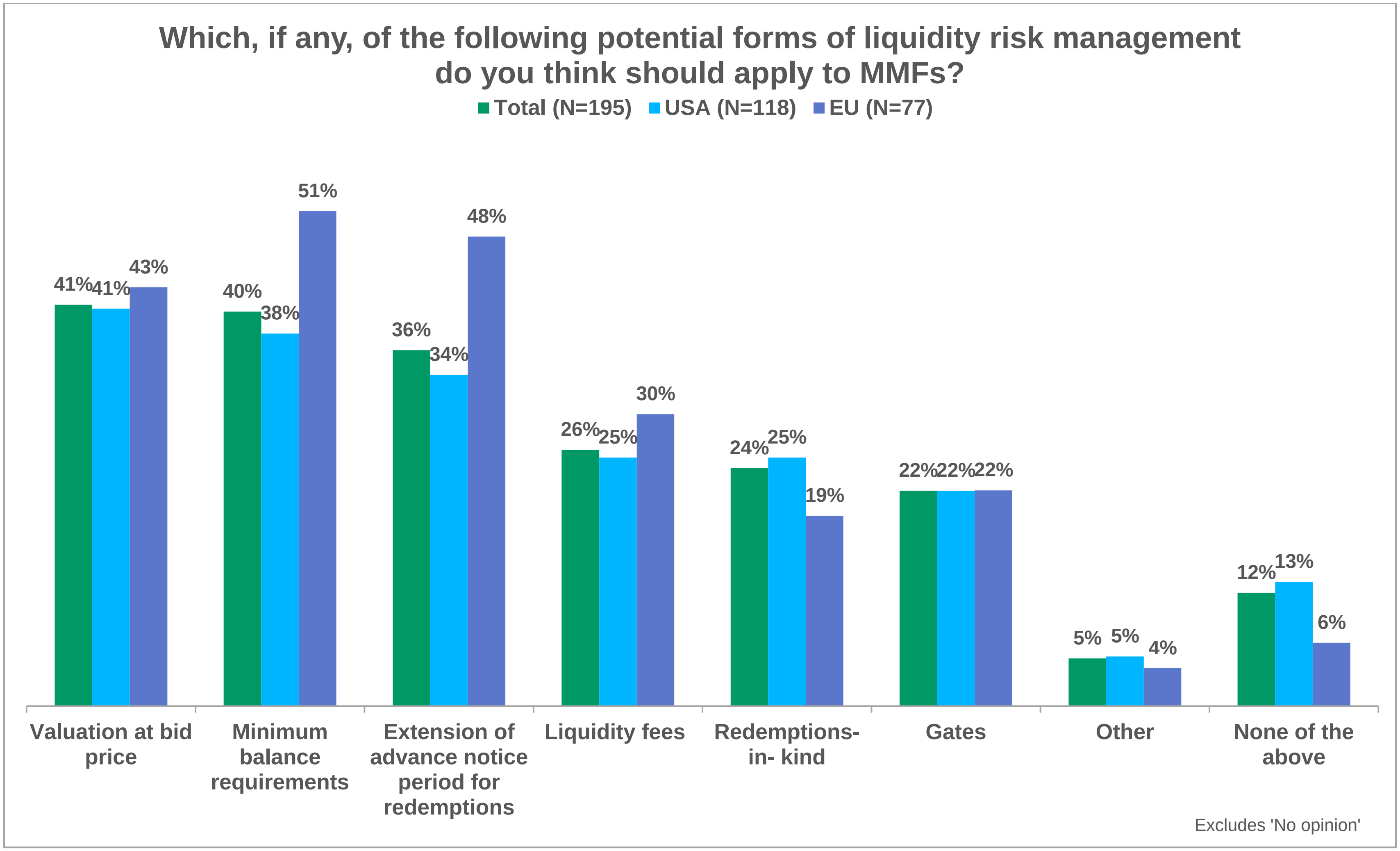
| Please indicate whether you agree or disagree with each of the following proposed reforms: | Agree | | | Disagree | | | Not sure | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | USA | EU | Total | USA | EU | Total | USA | EU |
| All MMFs should have liquidity risk management mechanisms to manage "runs" on the funds | 85% | 85% | 86% | 6% | 7% | 3% | 8% | 8% | 11% |
| Disclosure to retail investors regarding investment risks and the lack of guarantees for all MMFs should be strengthened, particularly for CNAV MMFs as they may provide a false sense of security | 78% | 77% | 82% | 16% | 17% | 6% | 7% | 6% | 12% |
| MMF sponsors that provide capital guarantees to investors should be subject to capital requirements | 75% | 75% | 76% | 13% | 13% | 11% | 12% | 12% | 13% |
| CNAV MMFs should have to maintain capital reserves | 61% | 62% | 54% | 25% | 25% | 26% | 14% | 13% | 20% |
| All MMFs (CNAV and VNAV) should have to maintain capital reserves | 47% | 48% | 43% | 37% | 37% | 40% | 15% | 15% | 17% |
| MMF capital reserves should be financed by fund sponsors | 42% | 44% | 32% | 35% | 33% | 44% | 23% | 23% | 23% |
| CNAV MMFs should be required to switch to a Variable NAV | 41% | 39% | 53% | 41% | 45% | 17% | 18% | 16% | 31% |
| Investors in CNAV MMFs should benefit from protection by insurance or guarantee schemes, and the fund/investors should make contributions towards such coverage | 33% | 32% | 36% | 39% | 39% | 41% | 28% | 29% | 23% |
| The use of amortized cost should be prohibited for all MMFs | 30% | 28% | 42% | 29% | 31% | 21% | 40% | 41% | 37% |
| MMF capital reserves should be financed by fund investors | 29% | 28% | 30% | 47% | 47% | 47% | 25% | 25% | 23% |
| Investors in all MMFs (CNAV and VNAV) should benefit from protection by insurance or guarantee schemes, and the fund/investors should make contributions towards such coverage | 24% | 24% | 25% | 51% | 51% | 51% | 25% | 25% | 25% |
| Private insurance should be used instead of capital reserves, but only to wind up a fund | 23% | 24% | 17% | 45% | 44% | 54% | 32% | 33% | 28% |
| Private insurance should be used instead of capital reserves to provide a liquidity facility in case of "runs" | 15% | 15% | 11% | 57% | 56% | 62% | 29% | 29% | 27% |
| MMFs in the European Union already dispose of sufficient liquidity risk management mechanisms | 9% | 6% | 25% | 16% | 15% | 23% | 75% | 79% | 53% |
| Only institutional investors should be allowed to invest in CNAV MMFs | 7% | 5% | 19% | 78% | 81% | 61% | 15% | 14% | 21% |

## Liquidity Risk Management

78 percent of respondents think liquidity risk management mechanisms should apply only in the case of heavy redemptions or in stressed markets, with a higher proportion of those in the European Union (81 percent) than in the United States (77 percent). A list of other opinions specified by 14 percent of respondents can be found here.

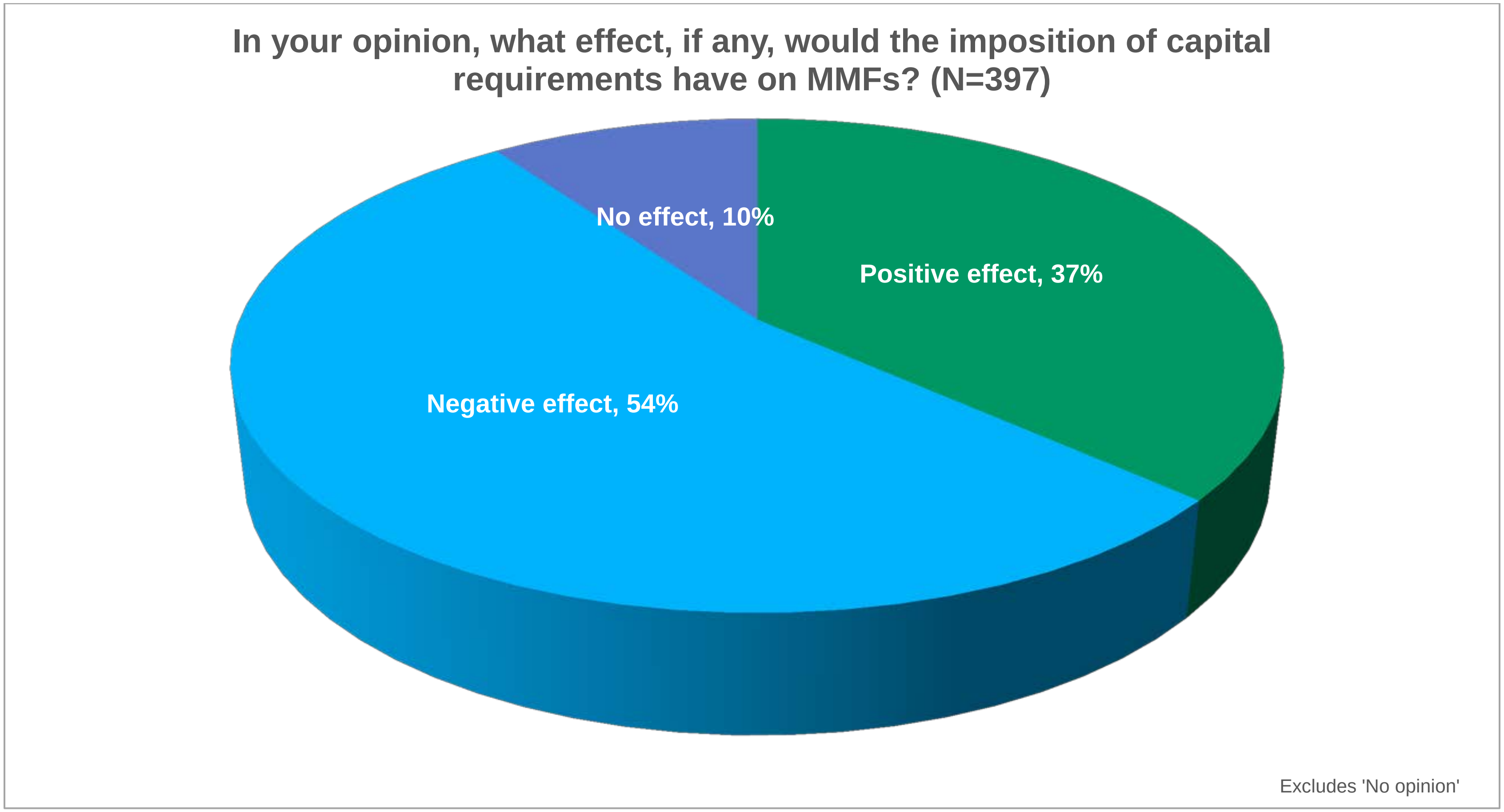


The potential forms of liquidity risk management respondents think should apply to MMFs include valuation at bid price (41 percent), minimum balance requirements (40 percent), extension of advance notice period for redemptions (36 percent), liquidity fees (26 percent), redemptions-in-kind (24 percent) and gates (22 percent). 5 percent of respondents listed other potential forms of liquidity risk management and 12 percent indicated none of the forms listed should apply to MMFs. A list of other forms specified by 5 percent of respondents can be found here.

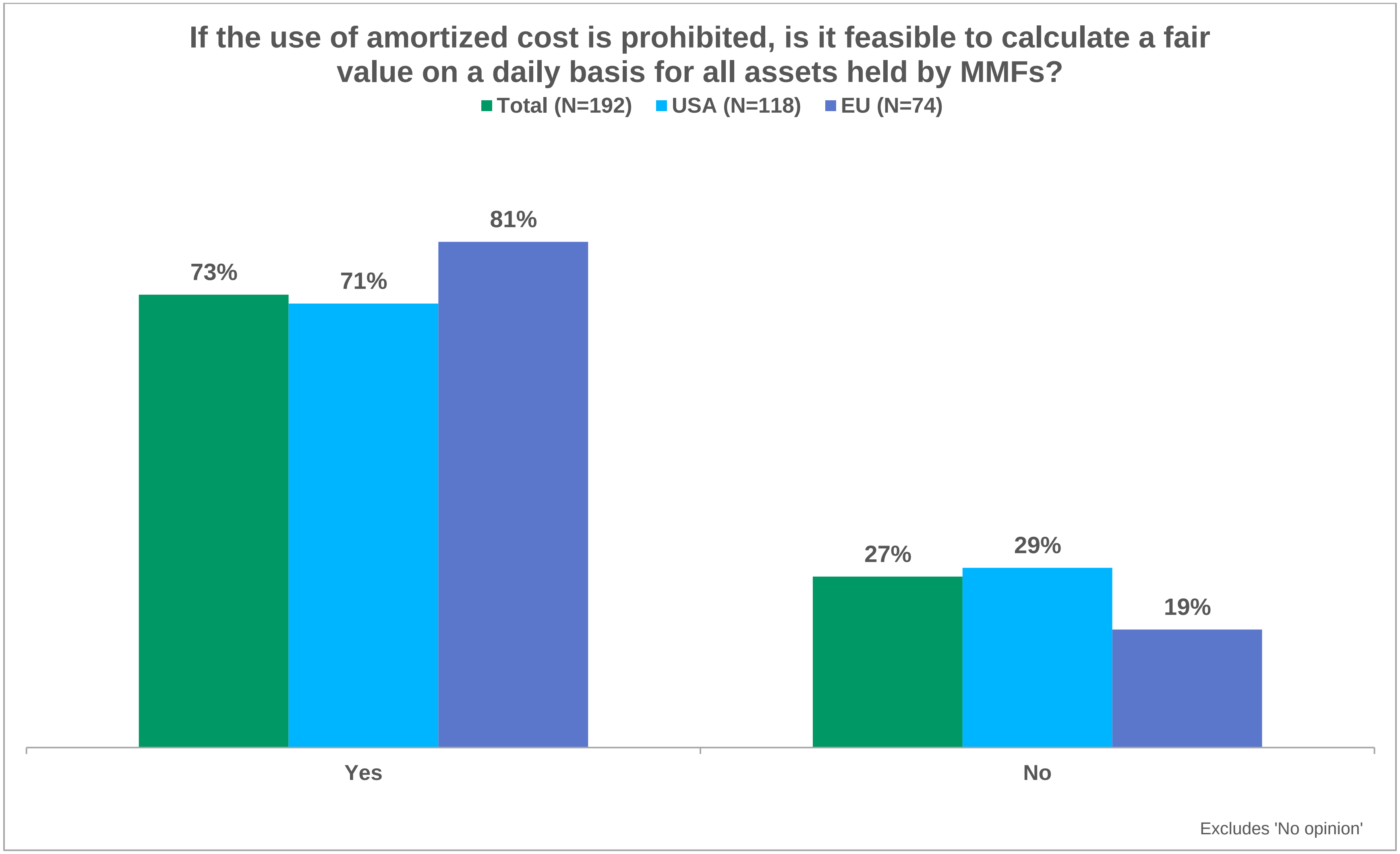


## Other Issues Related to Money Market Funds

54 percent of respondents think the imposition of capital requirements would have a negative effect on MMFs and 37 percent think it would have a positive effect. 10 percent do not think capital requirements would have an effect on MMFs. Comments related to this question can be found here.



If the use of amortized cost is prohibited, 73 percent of respondents think it would be feasible to calculate a fair value on a daily basis for all assets held by MMFs. A higher proportion of those in the European Union (81 percent) than in the United States (71 percent) think this is feasible. Respondent explanations for why they indicated ‘yes’ or ‘no’ can be found here.



## Response Explanations and Comments

### To what extent, if any, do you think Money Market Funds (MMFs) are a source of systemic risk? Please explain your answer

- 2 funds have "broken the buck" in the 40 year history of the product. Show me another asset class that has been as predictable, and I'll gladly support regulatory reform. (Not a source of systemic risk at all 1, USA)
- All market participants should be aware of the holdings and remit of their money market funds, so that there is very low potential for surprise, and should include this risk in their planning, so that it should not be a material source of surprise. (Not a source of systemic risk at all 1, USA)
- Almost all money market funds maintained the $1 NAV even during the most volatile periods during the great recession of 2008-2009 (Not a source of systemic risk at all 1, USA)
- At the height of the crisis, the most embattled MMFs were only worth 2-3% less than par, and quickly bounced back. It's a sign of strength, not weakness. (Not a source of systemic risk at all 1, USA)
- Contrary to popular belief, corporate and tax-exempt money market funds are NOT riskless and are not marketed as such. (Not a source of systemic risk at all 1, USA)
- Dysfunction of MMF is an effect rather than a cause. Systemic risk arises at operator's level, when the market makers are not anymore able to prompt market prices. (Not a source of systemic risk at all 1, ITALY)
- Good money managers can avoid risk (Not a source of systemic risk at all 1, USA)
- Highly regulated. No leverage. All public securities. (Not a source of systemic risk at all 1, USA)
- If MM funds invest in US Government paper there should be no risk if less than 3 month maturities. (Not a source of systemic risk at all 1, USA)
- It is an investment, not a stable value fund, if the underlying assets cannot support the $1 NAV then the investor and in my opinion the managing firm should share in the loss. (Not a source of systemic risk at all 1, USA)
- MMF and ETF provide enhanced liquidity and depth to the sovereign and commercial fixed income market. MMF in particular provide an alternative to the banking sector, which in Europe is overgrown and therefore should be promoted. (Not a source of systemic risk at all 1, POLAND)
- MMF regulations have been tightened in recent years after the Credit Crisis, which is sufficient. No further regulation changes are needed. The SEC used deceit in publishing misleading statistics on exactly how many MMFs had to be bailed out...why was that necessary if their regulatory zeal was truly "righteous"? (Not a source of systemic risk at all 1, USA)
- Money market funds ("MMFs") are pooled investment vehicles that invest in high quality, short-term securities and aim to preserve principal and provide liquidity while maintaining a $1.00 net asset value (NAV). Their simple structure enables them to operate efficiently and pay their shareholders a market rate of return. For the reason of being highly liquid and being a source of stability in illiquid market times, this would imply little or no source of systemic risk. (Not a source of systemic risk at all 1, UNITED KINGDOM)
- Money markets are simply a badly created product. If you remove the stable NAV criteria and clients understand that they can lose money then the issue of systemic risk disappears. (Not a source of systemic risk at all 1, UNITED KINGDOM)
- Not speculating in higher leveraged instruments or derivatives. (Not a source of systemic risk at all 1, USA)
- Plain vanilla money market funds are about the only category of investment that came through the financial crisis pretty much unscathed, without deposit insurance. (Not a source of systemic risk at all 1, USA)

- The existence itself is not risk as it is only a reaction to market conditions. If we assume that the clients invest in vehicles that are economically the most beneficial to them then we should ask what has been done wrongly in other institutions so they are not as successful. I would see this as major failure of banks not as fault of money market funds. (Not a source of systemic risk at all 1, CZECH REPUBLIC)
- The funds are not the source, but are as any institution collecting money from investors prone to a loss of confidence and hence a run. As long as the fund itself is sufficiently diversified, I do not see why it would be the source of systemic risk. (Not a source of systemic risk at all 1, BELGIUM)
- The funds themselves are not the primary source of systemic risk. The securities that comprise an MMF portfolio, however, may have systemic elements. A good example was Lehman Brothers commercial paper and other ST debt instruments. (Not a source of systemic risk at all 1, USA)
- These funds are not guaranteed at all. It is stated in the prospectus. (Not a source of systemic risk at all 1, USA)
- This is about investing in the lowest-risk financial assets in the world. (Not a source of systemic risk at all 1, FRANCE)
- unlevered funds cannot cause any contagion effect (Not a source of systemic risk at all 1, POLAND)
- Very little of MMF have to do with the failure of our economic/financial system (Not a source of systemic risk at all 1, USA)
- Although there is an opportunity for abuse, there tends to not be much risk in the traditionally staid money market. (2, USA)
- Bankruptcy of Lehman Bros and effect on the Reserve fund gives all evidence needed. (2, USA)
- Can only think to systemic risk arising out of liquidity transformation and this is after recent changes in the European regulatory landscape nearly impossible. (2, GERMANY)
- diversification and control of credit risk limits risk (2, USA)
- Due to the low global yield level especially for short term low risk investments MMF lose market share and are a fixed income product which should lose importance and assets in the long run. New regulation should first focus on riskier and less liquid asset classes. (2, GERMANY)
- During the credit crisis, to maintain a stable $1 per share price, sponsors had to support their funds so as to not face the ignominy of a fund "breaking the buck" which then could (and did) lead to a run on fund's assets. Having to support a fund during a credit crisis could weaken sponsors and runs on funds could jeopardize the stability of all MMFs as investors lose confidence in the safety of these investment vehicles. (2, USA)
- Every kind of fund can be a source of systemic risk, if supervised badly. History has shown that the risks that would become systemic had been created way before being hidden in Money Market Funds. Better regulate the risks at their source. (2, FRANCE)
- Fakery riskless security (2, USA)
- German money market funds have to comply with German Investment Law and can only invest in certain securities and strategies. (2, GERMANY)
- Given the uncertainty created in the financial debacle of 2008, the near-actual "breaking the dollar? on the part of some MMF, and the interrelatedness with worldwide markets, we should consider this a risk to re-evaluate, with inclusion of major foreign banks as well. (2, USA)
- I believe that the controls within the sector and changes that have been adopted in recent times have negated risk. Any farther reform along the lines proposed do nothing to mitigate those risks and in many ways increase some of them (2, UNITED KINGDOM)
- I can imagine a scenario in which a money market fund breaks the buck and causes a panic among other money market fund investors, making it impossible for commercial paper issuers to roll over their securities. But I cannot imagine such a panic occurring unless there were already a

very degree of anxiety throughout the system such as the conditions that became manifest after Lehman went under. (2, USA)

- I don't think MMFs led to the overvalued housing market. (2, USA)
- I don't think they are pose systemic risk on their own. There might be periods where they are stressed and under pressure but I don't think that by themselves they are the problem. (2, USA)
- I think by this time, MMFs have rid themselves of the highest risk (Euro) debt. To the extent they are a source of systemic risk, it is at most systemic in the herd, not systemic in and of themselves. (2, USA)
- If the fund is run correctly --- i.e. managing counterparty risk, credit quality, and limits, there should be nothing that would catch a MMF manager off guard (2, USA)
- If they are used in their true sense i.e. better collaborative management of funds in money market then they do not pose systemic risk (2, CYPRUS)
- Implicated in but hardly the source (2, BELGIUM)
- increased regulation since 2010 amendments implemented make it less likely a fund would not have sufficient liquidity to meet redemption requests. Know-Your-Investor rule has increased the awareness of portfolio liquidity needs based on client profiles. Market illiquidity in 2008 was not the result of money market redemptions but a large catalyst for it. (2, USA)
- Isolated failures in MMFs don't seem to be a cause or source of systemic risk but rather a cause of systemic risk in other parts of the financial system. (2, USA)
- it is at the low risk, near cash, spectrum (2, NETHERLANDS)
- It is theoretically possible for a money Market fund to be both large enough and sufficiently badly managed to, by collapsing, cause a run on CDs and other near-cash instruments. However, I consider it extremely unlikely (2, UNITED KINGDOM)
- Liquidity is very strong (2, UNITED KINGDOM)
- Low exposure to toxic bonds. (2, LITHUANIA)
- Low risk due to short term horizons. High liquidity. Cash equivalent for the most part. (2, USA)
- market is well aware of the potential problems and will react accordingly (2, USA)
- MM funds are investment vehicles which may lose value, as long as they are properly marketed and not treated as "guaranteed", they should be treated no differently than other mutual funds. (2, USA)
- MMF are already well regulated e.g. in Germany or Luxembourg. The valuation is done on a daily basis and reflects current value of all assets in the fund. (2, GERMANY)
- MMF managed prudently by investment professionals who are fiduciaries should by definition be relatively free of systemic risk. (2, USA)
- MMFs are a source of financing for companies and governments that issue monetary instruments. As a demand force for such instruments, they play a role in defining prices and incentives. (2, ITALY)
- MMFs are not an inherent problem. Extremely low Fed Funds rates are making it difficult for managers to generate yield over their expense ratio - leading some managers to amp risk? Funds should be backed by big firms (self-insure) or get outside insurance so they don't "break the buck." (2, USA)
- MMFs could be a source of systematic risk for sure. This thread materialized during the 2008 subprime crisis, when investors withdrew large amounts of MMFs managed Merrill Lynch, feared by the fact that the MMFs were backed by significant amount of commercial papers issued by Lehman Brothers, which was at the brink of bankruptcy at the time, and the fact that Merrill was holding very little cash reserve at the time. The MMFs managed by Merrill dropped in value significantly by as much as 3%, before the US Treasury stepped in to provide additional insurance to those MMFs by treating them like usual bank deposits for the incoming year. Had the additional guarantee by US treasury not realized, the Merrill would have been the 2nd

Lehman, which would have surely brought additional turmoil to the financial market at the time and added to the severity of the crisis dramatically. (2, USA)

- MMFs do not present a systemic risk. Government and central bank interventions do. (2, BULGARIA)
- MMFs is where major investors place their money when they have nowhere else to go. MMF fluctuations may reflect systemic risk but they are not the source of it. (2, USA)
- MMFs typically invest in low yield/low risk instruments. So typically the risk of default is fairly low. / In order to present a systemic risk a MMF would have to be really huge. (2, AUSTRIA)
- Money funds are useful for investors needing near 100% certainty of access to same-day liquidity, with a diversified credit exposure. Funds also provide liquidity to banks and meet other short-term funding needs to high-quality (P-1) issuers. For a MMF investor, the MMF reduces single-name exposure (of a bank deposit) and does not force an investor to go through its own credit work on an issuer. Balanced with these benefits, the MMFs do pose a systemic risk to those market participants that become overly reliant upon MMF funding. This issue may arise at a system-wide level, as we've seen with the reduction in US MMF funding of European/French banks over 2011. This reduction in funding was due to perceived/real risks apparent in the European banking sector. Provided these issuers (or the banking system) remain conservatively positioned and less likely to suffer a deterioration in credit quality, such systemic issues are unlikely to manifest. I would advise that the leverage being taken makes for a banking system exposed to such transition risk. (2, UNITED KINGDOM)
- Money funds should be allowed to fail. (2, USA)
- Money Market Funds are not the source of the risk. Should MMF's not be in existence, underlying clients would invest directly into the securities. Should markets decline dramatically, these underlying clients will still dump the securities on the market sending it into a downward spiral. (2, UNITED KINGDOM)
- Money market funds are typically invested in ultra-safe assets. It is once in a long while when something like Lehman goes down and threatens the entire system. (2, USA)
- Money Market Funds do not pose a systemic risk on their own, they are a symptom of a broader problem. Money markets have met a demand for capital preservation. The demand for capital preservation is larger than the supply of safe places to put money. The banking sector has been consolidated into a few powerhouse banks. Due to counterparty risk and the relatively small FDIC insurance, the supply of safe places to store capital is insufficient to the demand for safe storage of capital. This has led to a creation of a shadow banking system and towards private firms providing capital preservation. Money markets are a symptom of the systemic problem. (2, USA)
- Money market funds hold short-term, high-quality, liquid securities that offer a comparatively low yield. While the funds are not immune to systemic risk (contagion), they are not a "source" of that risk because they do not encourage speculation either in high-risk instruments or in the shadow banking system. (2, USA)
- Money Market funds should have a diversified liquid low risk portfolio. If regulated properly they should not be deemed to have significant systemic risk. (2, HUNGARY)
- Money markets funds are as diversified as their longer term fixed income counterparts. What’s more, short term securities are largely issued by only the most credit worthy governments and institutions. Money market funds have little interest rate risk due to their short term nature. / / However, due to the inherent $1 NAV and the widespread comparison of MMF's to cash there is some risk. Particular in the case of a high correlation market selloff similar to 2008. (2, USA)
- More than MMF or any other shadow banking institution it makes sense to monitor leverage in their banking counterparties (e.g. prime brokers for hedge funds). (2, ITALY)
- no leverage (2, USA)

- Not at all a "source" of systemic risk. Once a financial crisis is triggered, however, artificially maintaining a constant $1.00 share price can lead to pressures/runs that could "break the buck." Still a relatively minor concern. (2, USA)
- Not more risky than normal deposits in a tail risk scenario. (2, NETHERLANDS)
- Not much market risk (2, GREECE)
- Not with cash or T-bill alternatives for clients to invest in. (2, USA)
- Nothing is risk free, hence my 2 assessment. I believe this market has decreased in the current low interest rate environment together with a decrease of commercial paper financing from the banking sector. Risks going forward should be less than in the past. (2, SWEDEN)
- Only in an extreme case of mass run out of it, but putting time/amount limits on redemptions will kill this industry. (2, USA)
- Only systemic to the degree that they are undercapitalized in the event of a "run on the bank" - principle guarantee difficult once redemption rise above some rate. Nevertheless, if run conservatively, risk is much smaller than a truly risky instrument like a CDS. (2, USA)
- Problems with money market funds are an effect of systemic risk that comes from poor regulation and poor monetary policy. (2, USA)
- Rarely are things absolute, and that thought is the only reason I didn't give this a score of "1". Money market funds are simply an avenue to meet the capital needs of corporations across the country. Given their short maturities, and adequate due diligence by the purchasers of the debt, they also represent a terrific way for retail investors to improve their investment returns on liquid capital. These funds do not threaten the "system" in any way. (2, USA)
- Regarding my experience with managing it i would not believe it is a source of it. (2, SLOVENIA)
- Rule 2(a)7 requirements are sufficiently robust to protect the system and investors: to the degree that there is some systemic risk, it is a factor of the huge size of the largest 10 funds or so; I would personally avoid these - but it’s hard to deny that there is an economy of scale behind the fact that they have grown so large. (2, USA)
- Spain, Greece far bigger concerns / QE3 unwind also a bigger concern (2, USA)
- Such short duration investments are not a significant risk but full disclosure of risks is required. (2, USA)
- Systemic risk does not stem from MMFs, but could stem from any kind of managed fund if the result is herding without risk management from a global perspective. (2, NETHERLANDS)
- The bulk of money market funds are responsibly run. To the extent there is systemic risk, it comes more from perception due to the irresponsible actions of a few than from an actual threat. (2, USA)
- The credit crisis showed that there is some risk here. Investors appear extremely risk averse. These funds are not designed for large outflows of cash on a very short term basis. Still, this "risk" seems very minor -- but does present itself exactly when we don't want it. (2, USA)
- The idea of a fixed dollar NAV at $1 is irrelevant and only matters to in a symbolic sense. MMF are inherently riskier than parking your money in an FDIC protected account. The upside is that you receive additional compensation, but that also comes with a very slight risk of principal loss. Truly rational investors know this and are ok with the current convention of a fixed NAV. (2, USA)
- The reforms already put in place have reduced the risk in Money Market Funds, and their track history even before the reforms has been excellent, with the exception of the high profile "breaking of the buck" of the Reserve fund during the height of the financial crisis. (2, USA)
- The Reserve Fund failure (2, USA)
- The source of systemic risk are in other instruments (2, ITALY)
- The vast history of money market funds show that the underlying assets are of high quality and should pay out what is put in plus interest. Switching cash equivalent investment options to

federally backed instruments or other items will not add much in the way of default risk reduction, despite what happened in the financial crisis. (2, USA)

- They are no more a systemic risk than any other pooled fund. (2, UNITED KINGDOM)
- They are not levered like banks and financial institutions. (2, USA)
- They carry systemic risk in that their investments are guided by rating agencies, who don't always understand the underlying complexities of the instruments rated. (2, UNITED KINGDOM)
- They invest in negotiable, marketable securities. These are usually rated and there is sufficient volume so that the price reflects public information. I don't think there is a large bid/ask spread typically. (2, USA)
- they might be a source of risk because of how much money these funds hold and that people have high expectations of a $1 nav. However, i believe that most of the concern is based on 2007 problems that I don't believe exist today. the problem today is not questionable underlying asset values but a 0.10% 91-day treasury yield and the fact that its costs money to run a fund. near-zero yields have more power to "break the buck" than anything else. (2, USA)
- This vehicle tries to pay its investors the free interest rate out of bank balance sheets. I do not think it contributes to systemic risk, since it does not shift resources from one asset class to other. (2, SPAIN)
- to low liquidity (2, GERMANY)
- too conservative, low risk (2, CZECH REPUBLIC)
- Unless these funds are comprised largely from derivative/synthetic products embedding significant leverage in the process, there is little other than standard losses on such products to cause harm. These will be minimal relative to the overall market. (2, UNITED KINGDOM)
- Vast majority of mutual funds purchase low volatility short duration highest (or investment) grade assets for money market mutual fund portfolio. Problems, such as breaking the $1 occurred during the financial meltdown. Yet they are rare and money market fund purchasers have opportunities to read MMF prospectuses or credit reports. (2, USA)
- What is the worst outcome if MMF goes wrong? Before MMF goes wrong, there must be other more severe outcomes, caused by a different factor. Is MMF too big to fail? The fund is known to be liquid and little in risk, unless again there are other factors. Back to the question: if MMF went wrong, liquidity will decrease then increase. Due to the large size of MMF, the money has to be invested somewhere else. A proper investment in disastrous situation could be commodity. If commodity price is pushed higher, the consequence would be slowed economic. (2, USA)
- When they fail, the losses are small and can be borne by mutual fund unit holders. (2, USA)
- According to me there are many other (and more important) sources of systemic risk. (3, BELGIUM)
- After the last crisis, some reforms were put into place that has already reduced the risk. (3, USA)
- As a concept, no MMFs are not a source of significant systematic risk. Current regulation, however, allows these funds to take on risk in a reach for providing yield which makes can make funds a source of systematic risk. (3, USA)
- Because of the fact they are perceived as less risky, once they are in distress the effect on the market can be major (3, ROMANIA)
- because of the size of assets money funds can and do impact the markets as evidenced by their impact on European banks, but investors are well aware of the risks, though this may not be as true of individuals. given current low yields, many individuals have moved away from money funds to domestic banks. it is the institutional investor that can exacerbate the risk. (3, USA)
- CNAVs pose a systemic risk, because they are vulnerable to a run on the fund VNAVs are able to pass on the market value changes and therefore investors have an incentive to sit out the storm (3, NETHERLANDS)
- Concentration of holdings among funds...similar customers (3, USA)

- Despite its diversification targets, some of the MMFs have some biases and overweight's. (3, BULGARIA)
- Fund guidelines in most cases allow to invest in same collateral (3, GERMANY)
- I believe there is an under-appreciated risk from over concentration in bank paper in MMFs, given banks are probably amongst the largest investors in MMFs. I still believe however that the liquidity/operational (ease of diversification) benefits of MMFs outweigh this and that's why I still will invest in them. (3, UNITED KINGDOM)
- I don't think MMFs by themselves are a source so systemic risk. Mass withdrawals out of MMFs could cause repercussions in the short-term debt markets but the withdrawals would more than likely be caused by some other systemic event. (3, USA)
- I feel MMKT FDS can be an enormous stabilizing force for the markets but can also be an unexpected risk/shock as we recently witnessed. (3, USA)
- If everyone heads to the revolving exit at the same time there will be carnage. When the Reserve Find collapsed the smart folks got out the door first while the less well informed and the naive suffered damage. (3, USA)
- In a market meltdown there is nowhere to hide. A security considered to be less risky could become riskier than you think due market forces. (3, USA)
- Institutional MMFs are extremely large and can have volatile redemption needs. (3, USA)
- It depends on the type of MMF. Government, no. Enhanced, yes. (3, USA)
- It depends on the assets which are held by the money market fund. (3, GERMANY)
- It's difficult to know exactly because MMFs are somewhat opaque. Even when you can see their schedule of investments, it's not clear how accurately they are valued. Anything where there can be a panic exit is a source of systemic risk. (3, USA)
- Like banks thy can be subject to runs (3, USA)
- Liquidity concerns make MMFs a source of systemic risk. (3, USA)
- lots of money invested in debt instruments, subject to migration risk (3, ROMANIA)
- MMF are huge in the repo/Triparty repo market. With the only one US bank having the majority of the Triparty market with one other major player quietly moving away from it MMFs are highly affected by the systematic risk the Triparty market is exposed. (3, USA)
- MMF is a very important funding source four many companies. As such it seems the greater risk to the system would arise from significantly crippling this source of funding. (3, USA)
- MMF provide a stable value and liquidity being invested in Treasury securities (3, ITALY)
- MMF's provide liquidity to the capital markets. They are the primary purchasers of commercial paper, negotiable CD's and GSE discount notes. Short term cash needs are often fulfilled by MMFs so they can be a source of systemic risk. (3, USA)
- MMFs themselves (extreme short end products) are only risky with an implied guarantee. (3, GERMANY)
- Money funds provide liquidity to the commercial paper market and other short-term markets. During a deleveraging, people pull money out of money funds which in turn stop providing liquidity to some of these critical markets for business. This contributes to systemic risk in my opinion. (3, USA)
- Money market funds are a key source of liquidity. However, if problems developed in these funds investors would simply move their liquidity to other forms of bank accounts or into short dated treasuries. Either way the funds could be accessed by the market, over time. (3, UNITED KINGDOM)
- Money market funds shouldn't be considered risk-free investments, but when they are perceived to be and NAV drops below $1.00, the ensuing panic can add to systemic risk. (3, USA)
- Money Market funds, as any other fund, as fast as they hold together a huge amount of similar assets can bring troubles to the market in case of exceptional circumstances (3, SPAIN)

- Most are actively managed, so there is room for discretion but most fund mandates are fairly restrictive so a sharp deterioration in the asset class would likely lead to a vicious circle of selling. (3, UNITED KINGDOM)
- Most MMF are runs conservatively, and I believe more so today than before 2008. (3, USA)
- Only in the same way as any other store of wealth - if there is a sudden run with many liquidating position. I don't not believe there in anything inheritably risky about them. (3, USA)
- Only money market funds with a constant NAV would appear to present a source of systemic risk. (3, UNITED KINGDOM)
- risk depends an duration and exposure risk; much too high before financial crisis; now risk awareness is high (3, GERMANY)
- Risk is that parent does not stand behind fund (3, USA)
- Short term funding needs are a systemic risk wherever they reside. (3, USA)
- Significant money involved that is relied upon for liquidity. Notwithstanding I believe most investors understand the risks of non FDIC insured money and are able and willing to take that risk. Most money is in very liquid and safe investments - but LOC backed paper is disappearing and causing more concentration risks outside the banking industry (3, USA)
- some issuers of money market funds are competing on the yield to investor - these managers are then prone to utilizing instruments within the portfolio that might fluctuate more than those in a conservatively run money market - that is were the risk lies (3, USA)
- Stable value is an expectation not an obligation. The illusion here is calling them "constant" value. Nothing based upon tradable assets can have a "constant" value (3, USA)
- The $1 NAV creates an unnecessary risk. (3, USA)
- The composition of money market funds is very different from fund to fund. So to say they are significant source of risk systematic risk is a too general statement. / Some are, some are not. (3, GERMANY)
- The potential always exists for a run on the banks - so to speak. In the days I ran some SMALL MM funds, we had the option of delaying payments if necessary. However doing that would create more problems when one locks up funds. No manager who wants to be competitive is going to carry enough liquidity for a scary day. (3, USA)
- The reliance on wholesale funding is the source of systemic risk, not MMFs. Regulators should use the authority they have to limit reliance on wholesale short-term funding to reduce the systemic risk this poses to the financial system and economy. (3, USA)
- the source of systemic risk are not MMFs per se, but is the herding behavior common to MMFs and all other UCIs. They pose a threat to financial stability no more than emerging market funds or equity funds when they enter/leave a market 'en masse' (3, UNITED KINGDOM)
- The usage of the short-term credit markets by financial institutions has declined significantly since 2007. (3, USA)
- There isn't much place for them to go during a crisis given their mandate, but indeed they played a key role in removing much of the liquidity in the markets during the crisis. (3, USA)
- These funds are the typical holding location for excess cash in an account. If they lock up or break the buck this can create a liquidity crisis again. (3, USA)
- They are largely a pipe in the shadow banking infrastructure as they have the potential to connect to elements that have systemic risk, but they do a relatively limited amount of maturity / liquidity transformation (3, UNITED KINGDOM)
- Tough to say without looking at specifics of underlying holdings. I think the risk of a Lehman style run on the funds is lower due to more conservative holdings now vs. 2008 but there still could be some risk. It does not appear as though standard money mkt funds are chasing yield at this point. (3, USA)
- While they can conceivable be a systemic source of risk, new regulations that have already been put in place have mitigated much of this risk. (3, USA)

- A run on a money market fund could be disastrous because most investors presume there is no risk of loss. (4, USA)
- As we saw with Primary Reserve, MMFs can create liquidity issues and runs that can impact other financial institutions. Concerns over one fund can impact the entire industry. (4, USA)
- Big influence on S-T lending. (4, SLOVENIA)
- Can be if the fund sponsors are not adequately capitalized (4, USA)
- CNAV MMFs can indeed be vulnerable to 'runs' by investors during periods of heightened market stress. Since they are valued using amortized cost accounting methods at par, these will be one of the first class of instruments liquidated when the need for cash arises. (4, CYPRUS)
- contagion risk is very high during crisis time (4, ROMANIA)
- could be a source of systemic risk due to their popularity. Everyone uses them and if not managed with some degree of oversight could be put at risk if invested improperly. Paying almost no interest money managers could be tempted to put the money into instruments which could then default. (4, USA)
- Currently they have the potential to become a systemic risk source, although historically they have a track record of maintaining their value in line w/ the breaking of the buck standard. (4, USA)
- Danger of too aggressive investment strategies to boost returns (4, DENMARK)
- Funds are typically intertwined with other financial entities through asset exposure, committed credit facilities, and other relationships. During periods of systemic stress, the minimal capital buffers in money market funds creates significant systemic risk. (4, USA)
- Given their size and use as a cash alternative, transparency is of utmost important in regards to MMFs and should mean VNAV. Redemption restrictions on CNAV funds does not appear sensible, then they should be classified as MMFs. Keeping a constant NAV while holdings lose value defeats the value of having transparent markets and leads to a loss in credibility in the system as it is doubtful, investors would fully comprehend the implications and extent of such restrictions. (4, USA)
- Herd Mentality (4, UNITED KINGDOM)
- Holders of MMFs will expect government intervention in the event of a financial crisis. (4, USA)
- I like the idea of VNAV's reflecting the underlying risk in the MMF portfolio. (4, USA)
- If not sensibly regulated funds could invest too long term or so that capital is not fully covered in event of extreme market movement (4, UNITED KINGDOM)
- If their principal stability isn't guaranteed it could change investment flows in ways we cannot predict. (4, USA)
- If they face withdrawals they could create a serious impact on the liquidity. (4, BULGARIA)
- If they have liberal guidelines they could buy risky assets to get greater return (4, UNITED KINGDOM)
- In a system. Where wholesale funding is an important source of cash, money market funds can increase deposit volatility in large financial institutions. Moreover, the erosion of trust towards traditional deposit taking institutions can increase disintermediation, decrease sticky deposits in banks and further fragile their funding profile (4, BELGIUM)
- In case of "runs" they can put the financial system at risk. The low interest rate environment and the lower dependence in short term funding by financial institutions has decreased the Money Market Funds market and its systemic risk. (4, PORTUGAL)
- In July 2012, the Governing Council of the European Central Bank (ECB) announced the lowering of Eurozone interest rates from 100bps to 75bps. The ECB also lowered the deposit rate facility from 25bps to 0bps. This has meant that a lot of counterparties are paying zero or negative yields in the short term, making it increasingly difficult for Euro Money Market Funds to find counterparties that employ a strict credit criteria (i.e. constant NAV Funds). (4, UNITED KINGDOM)

- Individuals use Money Market funds as a savings vehicle.  If investors feel their savings are in risk of being lost they will redeem their shares in full in extreme scenarios. (4, USA)
- Investors inherently have a free put option to redeem their investment at par.  If everyone does that at the same time, it won't work (4, USA)
- It depends on what type of securities the money market hold.  Also depend on the level of interest rates for Treasuries. (4, USA)
- It does not represent reality, fluctuations in market. Given that they are highly "liquid"  they're prone to runs similar to bank deposits. (4, LUXEMBOURG)
- Key component of the shadow banking system (4, UNITED KINGDOM)
- Large amount of individual investors use MMFs and think they are the same as checking account deposits and have no risk tolerance. The longer the Fed keeps rates low the more risk is introduced to individual investors as they look to invest in higher yield asset classes as MMFs yield almost 0%. (4, USA)
- Large Volume of MMFs outstanding (4, SPAIN)
- Low transparency (4, ITALY)
- Many investors treat these funds as safe, ready cash.  With a systemic failure, a run on these funds would result in significant investor losses. (4, USA)
- Many MM funds shift their composition due to the difficult credit environment; there is market volatility stemming from the European debt crisis (4, USA)
- Massive and fast outflows could be problematic (4, UNITED KINGDOM)
- MMF are not a direct source of systemic risk, but can fuel the momentum of a market freeze when there is a significant credit event.  Money market funds are marketed as a cash equivalent in which the principal is extremely safe.  Safety is assumed since the underlying assets are invested in high quality, short-term investments.  While these assets are relatively safe, their issuers can encounter liquidity squeezes which prevent them rolling current maturities.  (4, USA)
- MMF are used to house customer liquidity. If these customers decide they need this liquidity NOW, then MMF's need to provide such. And, since MMF's are not backstopped by sovereign deposit insurance, the prospects of a "run" on MMF's is much greater than the prospects of a run on many commercial banks. (4, USA)
- MMF provide liquidity to financial companies. If they stop borrowing in times of stress financial companies relaying on this source will get in trouble. If they still borrowing they will be seen as "unsafe" and will face large outflows - which will bring lenders in trouble too. (4, AUSTRIA)
- MMF's Historical Record of maintaining a $1 NAV over varying market conditions has left investors with the impression that they can maintain their stable NAV.  Whether all portfolio managers can meet this objective is a fair question. (4, USA)
- MMFs should provide, as their name claim, a reliable portfolio in terms of liquidity and credit risk. Nonetheless, in 2008 we saw a myriad of MMFs from well-known AM firms went into trouble as it was unveiled that they were holding risky assets (MBS, etc.) with the only aim of attracting business. (4, UNITED KINGDOM)
- MMFs usually invest in short term treasuries and commercial paper. Some of it WAS invested in perpetual with floating coupons (i.e. short coupon duration but long credit duration) before the financial crisis in order to enhance performance. Hardly any investor was aware of this, perception was extremely low risk investment. (4, BELGIUM)
- Money funds are a big investor in overnight repo and term repo.  If enough dollars leave money funds in large enough amounts and in short order it will have a direct impact and bank/broker dealer balance sheet financing.  (4, USA)
- Money market funds are very much part of the shadow banking system. The structure of the market means in a deleveraging cycle, collateral chains are shortened and the money market and the paper behind it can dry up quickly with regards to liquidity. This can lead to a domino effect on the larger financial market just like auction rate securities market. This short term funding can

have large impacts on financial institutions and other corporates. Also money market paper generally receives high rating similar to a packaged product in structured finance. However, some of the underlying just like ABCP can have questionable quality in assets behind it. (4, UNITED KINGDOM)

- Money markets are among the largest liquidity management tools in the world and if the investment community were to abandon the market a massive amount of capital would leave the capital markets and create a liquidity vacuum. Money market investments are at the lowest end of the yield curve and it is likely that any move away from them would represent money leaving the global markets entirely. It is essential that investors feel confident in the fidelity of money markets so as not to create massive liquidity issues. (4, USA)
- Money markets do represent a source of systemic risk. If one breaks the buck, it is likely the sector as a whole will experience large outflows which will in turn lock up credit markets that deepened on money market funding. I do however believe the 2a7 liquidity requirements passed a couple years ago have helped to mitigate the likelihood of breaking the buck. (4, USA)
- Not the funds themselves are source of the systemic risk in my opinion, but the foundations of the today's global economy and monetary system at all. For instance the assumption of normal distribution and the idea of cross-hedging present in case of financial institutions - the risk of the collapse of the entire system increases in the long run based on the above even though in the short run it seems to be decreasing the risk (risk of each individual company). (4, POLAND)
- Obviously the past has shown us that. (4, USA)
- Potential risk if there is a run on funds. I do think this is speculative and hasn't been fully documented. (4, USA)
- Problems in money market funds may spread to traditional banking system (4, LITHUANIA)
- Risk of runs on constant value MMFs during periods of financial stress (4, USA)
- risks of MMF are not clearly understood by most investors and not breaking the buck transfers risk potentially to the government (4, USA)
- see 2008. (4, USA)
- Short term lending for long term assets increases liquidity risk in the system. This risks catastrophic events when confidence falls. (4, BELGIUM)
- Significant pools of capital not valued at proper valuation. Preference of early liquidations to that of subsequent liquidations. (4, USA)
- Similar to insurance company, people's view on MM fund is that they are safe and they are 100% liquid, such belief can post a systemic risk (4, USA)
- small probability, big risks (4, USA)
- So much liquid assets of individual investors is kept in money market funds that a failure could cause a significant liquidity crisis amid runs on similar funds. (4, USA)
- Sponsors of money market funds may be financial institutions which contribute to systemic risk. Sponsors' bailouts of MMFs were common since 2008. Second, MMFs are susceptible to a run by investors so they can cause systemic damage. Third, MMFs still take quite a lot of credit risk (despite the tougher amended 2a-7 standards in U.S.), they had exposure to Dexia and other European bank paper despite their risk aversion. (4, GREECE)
- The average investor does not understand that money markets are not guaranteed. Further ore, most 401k investors do not have any no risk or even hard asset investment options. During the 2008 crises money markets broke the buck and had to be 'insured'. If these crises that we have are liquidity driven or worse solve cy driven more bailouts will be needed to keep the system functioning properly. (4, USA)
- The challenges faced by The Reserve Fund in 2008 and resulting sudden investor withdrawals from all money market funds was a significant contributor to the Global Financial Crisis in 2008/2009. (4, USA)

- The impact that MMFs have on short term corporate (banks in particular) financing can have significant unintended consequences across markets. (4, USA)
- the industry has performed very admirably over the past several decades so I would suggest the system works well in the main. The events of the past few years were highly extreme and appropriate action under the circumstances was taken. I don't know that such events should necessarily dictate the general set up (or potential destruction) of this critical part of the market (for borrowers and investors) and our economy. I also don't see how changing the rules as contemplated would particularly alleviate the perceived systemic risk of large consolidated pools of liquidity, other than to provide the perception of improvement at a very high price. (4, USA)
- The largest problem is corporations and municipalities think money market funds are riskless. Even a small loss will cause a run. They need to understand that there risk albeit very small risks. (4, USA)
- The magnitude of assets contained in money market funds when combined with assets that can become illiquid, can certainly create systemic risk. (4, USA)
- The MMFs are an important vehicle for the placement and management of cash. If they are not carefully managed, it can cause a liquidity crisis. It that sense, there is a systemic risk. (4, FRANCE)
- There can be a run on a MMF, just like a bank. In fact, if the govt hadn't stepped in, there would have been a run in 2008. (4, USA)
- There is too much reliance on money markets to provide instant liquidity. In an event of panic, excessive withdrawals could overwhelm available liquidity as money markets try to liquidate their holdings (4, USA)
- They are a significant source of systematic risk as can be seen from the Reserve Fund breaking the $1.00 par value a few years ago. (4, USA)
- They are a source of risk because of the size of assets that they hold, not so much from the type of assets, which are relatively low-risk. (4, USA)
- They present risk because of the liquidity they provide as a portion of the overall available liquidity. (4, BULGARIA)
- They will not set off a crisis. But can definitely be a transmission mechanism from one institution or sector to another. To avoid this, the US Federal Reserve effectively guaranteed all MMF in 2008. (4, USA)
- This is a significant market player. (4, UNITED KINGDOM)
- Very short dated - huge ST markets - mainly interbank - but less reliance on short term funding for banks (4, FRANCE)
- Vulnerable to runs as shareholders hearing negative news about a fund's holdings seek to get out at $1 per share and leave remaining shareholders with 100% of the losses / (4, USA)
- widespread run of withdrawals from MMFs are the same type of risk that we see in the banking industry (4, USA)
- Yes, in extreme situations when there are runs (4, UNITED KINGDOM)
- A cheap source of short term wholesale funding for Financial institutions with hidden credit risk under current regs as to no MTM of daily NAV. MMFs tend to have insufficient credit diversification (i.e. financial sector concentration risk has been high). (Significant source of systemic risk 5, USA)
- banks short notes and money markets are intertwined too much by definition (Significant source of systemic risk 5, FRANCE)
- Because of huge popularity of MMFs among retail investors, any loss of investor confidence in their ability to preserve the invested principal (similar to what happened during the recent financial crisis in the US) can create investor panic. This can lead to systemic meltdown of valuation of assets invested by these funds. (Significant source of systemic risk 5, USA)

- Big impact on capital flows as a result of MMFs' decision to reallocate funds (Significant source of systemic risk 5, LATVIA)
- Clearly it is a source of systemic risk because of the "run on the bank" which occurred after the Lehman Bankruptcy (Significant source of systemic risk 5, USA)
- Customers consider MMF etc. to be risk-free. Obviously, they are not. With honest mark-to-market Breaking the buck is too easy to do. If/when it happens, there is a substantial risk of a run on the system. (Significant source of systemic risk 5, USA)
- Downgrades trigger massive flights of cash from a country where underlying fundamentals may not justify such a widespread reaction. (Significant source of systemic risk 5, IRELAND)
- Funds are investing in sovereign debt of countries that may default on their debt. This could break the buck and contribute to market panic. (Significant source of systemic risk 5, USA)
- Given the fact that money market funds cannot earn enough yield in low risk sovereign debt to offset management fees and fund expenses, money market fund advisors have two choices; 1) Invest in ultra-safe government debt such as U.S. treasury paper and lose money or breakeven on the management of the fund, or 2) invest in higher yielding debt and take credit risk. Investors in money market funds are facing an asymmetric risk/return profile. Investors in an spread focused money market fund are likely still earning zero but have credit risk. Investors in U.S. government focused money market funds are also earning zero but have no (or very little) credit risk. As such, astute investors are moving out spread focused money market funds and into high quality government funds such as U.S. or German paper. This is cutting off a form of funding from banking institutions, other corporations, and lower quality sovereigns when funding is needed the most so that is one source of systemic risk. The second source of systemic risk is that the funds that continue to buy spread sector sovereigns break the dollar. Money market reform would not be necessary if governments raised rates above the level of management and operating expenses for the funds. That way government funds could stay open and operate profitability. Additionally, investors stretching for yield could still invest in spread oriented funds. Right now, many investors are unknowingly putting capital at risk in spread focused funds with European banks paper. (Significant source of systemic risk 5, USA)
- Given the size of the MMF industry, it is foolish to say that MMFs do not pose significant systemic risk. However, MMFs are prudently managed and subjected to many restrictions. (Significant source of systemic risk 5, USA)
- I believe the bank run mentality around Wachovia and wamu and the problems at the reserve were more important than the collapse of Lehman and aig in producing economic paralysis that lead to recession. (Significant source of systemic risk 5, USA)
- I have no clear at which level al MM funds with ABS, CMBS etc.... have a strict mark to market valuation. (Significant source of systemic risk 5, SPAIN)
- I strongly believe that a run on MMF is akin to a run on banks, thereby presenting one of the greatest threats to our sluggish recovery. When there is a run on banks at least there is a FED backstop. What happens if there is a run on MMF? These funds are a critical source of funds for day to day operations of multinational and municipal entities. (Significant source of systemic risk 5, USA)
- In Spain they have a large weight in the funds’ portfolios (Significant source of systemic risk 5, SPAIN)
- Investors behave as if the assets are guaranteed, and a significant decline in value could cause a panic. (Significant source of systemic risk 5, USA)
- it’s a large part of shadow banking and in time of crisis, CB needs to be cover the reduce in liquidity. Time leg and shock will have significant impact (Significant source of systemic risk 5, UNITED KINGDOM)
- large, scale, open-ended part of shadow banking system (Significant source of systemic risk 5, UNITED KINGDOM)

- Like any bank, MMFs are vulnerable to bank runs which would in turn threaten their debtors and produce ripple effects through the system (Significant source of systemic risk 5, AUSTRIA)
- Liquidity can kill the company that offers the money market fund. (Significant source of systemic risk 5, USA)
- Look at what happened in 2008 when the Reserve Fund broke the buck. The commercial paper market seized and the economy ground to a near-halt. (Significant source of systemic risk 5, USA)
- Massive liquidations from money market funds could cause lock ups in the liquidity of short term instruments. Ex. Review auction rate securities 2008 (Significant source of systemic risk 5, USA)
- MM funds are subject to runs and no capital source backs them up. (Significant source of systemic risk 5, USA)
- MMF assets form the collateral that supports short-term funding markets, upon which financial institutions are substantially dependent. (Significant source of systemic risk 5, USA)
- MMF invest medium term (1-52 weeks) and have to give investors the money back on short notice (daily) - that's what any banks is doing; only that MMF do this without any capital cushion (Significant source of systemic risk 5, UNITED KINGDOM)
- MMFs are a major conduit between large cash investors and issuers of short term debt. Many investors in MMFs think of them as equivalent to bank deposits and expect the providers to guaranty any realized losses. (Significant source of systemic risk 5, USA)
- MMFs are quite vulnerable to "runs", creating a domino effect throughout the entire industry. (Significant source of systemic risk 5, USA)
- MMFs carry credit risk and the sheer size and instant liquidity make them a serious systemic risk. (Significant source of systemic risk 5, USA)
- MMFs, have already, dramatically, showed how linked they were to companies' ability to pay payroll. Sadly, we have not done anything, fundamentally, to prevent another "rollover" crisis. It would be nice if capital requirements were imposed (and enforced) to mitigate another situation where the Federal Reserve has to step in as the "lender of last resort". (Significant source of systemic risk 5, USA)
- Money market fund deposits are "hot money" that will flee at any sign of danger. (Significant source of systemic risk 5, USA)
- Money market funds are parking vehicles for many institutional clients (Significant source of systemic risk 5, NETHERLANDS)
- Money market funds increasingly became important to the wholesale money market leading up to the crisis. Their purchases of asset-backed securities and large-scale funding of foreign bank's short-term US denominated debt put the funds in a pivotal position in the market place. (Significant source of systemic risk 5, ITALY)
- Money market funds manage a considerable amount of assets, and they have to be invested in the most conservative way (Significant source of systemic risk 5, SPAIN)
- People consider them to be equivalent to FDIC insured bank accounts but they aren't; they are subject to severe runs under 2008-like circumstances. (Significant source of systemic risk 5, USA)
- people rely on MMFs as a secure asset. Fund managers must act in accordance with this expectation. If the manager wants to jack up yield or risk levels, change the name of the fund and kick it out of the MMF space. (Significant source of systemic risk 5, USA)
- pretending that market values never break the buck is total folly--particularly in an era of low rates where providers are essentially subsidizing the phony appearance (Significant source of systemic risk 5, USA)
- see the case of Primary Fund that requested the interventions of Treasury Department and Federal Reserve Board (Significant source of systemic risk 5, ROMANIA)
- See: Reserve Fund (Significant source of systemic risk 5, USA)

- significant liquidity provider to the banking system (Significant source of systemic risk 5, BULGARIA)
- Similar to what occurred during the 08 financial crisis - money market funds are a significant source of operating cash flow for most major businesses. If investors flee them over concern of safety, then business could face severe liquidity needs. (Significant source of systemic risk 5, USA)
- source of funding: if they withdraw from the market, alternative sources have to be found at very short notice (Significant source of systemic risk 5, UNITED KINGDOM)
- Source of liquidity for wholesale funding of investment & commercial banks. (Significant source of systemic risk 5, USA)
- Stable NAV can lead to "step-function" price moves if real NAV does not = 1 ... then you get a run on the bank (the fund) (Significant source of systemic risk 5, USA)
- the fact the industry had to be back stopped by Uncle Sam unequivocally illustrates the seriousness of the risk. (Significant source of systemic risk 5, USA)
- The general population believes that cash is asset that has unchanging value and the misperception distorts their demand for cash both in times of stress and with regards to cash allocation in savings plans. Hence when assets values are driven by perception instead of economics the probability for systemic risk rises in uncertain times. (Significant source of systemic risk 5, USA)
- The money fund industry has been consolidating rapidly over the last ten to fifteen years. The largest five money market funds now control the majority of money market assets. As the number of funds decreased, so did the number of firms serving as middlemen, and the amount of balance sheet committed to holding short-term securities for sale has decreased. As a result, the secondary market for short-term securities has declined, and most positions held by the largest funds have relatively few buyers and will become illiquid with minimal market stress. When the Reserve fund broke the buck, it was not aberration as some have implied, but a precursor of what is to come. There are plenty of Reserve funds waiting to happen, large money funds with no capital behind them holding position sizes that have limited marketability, and many times with significant shareholder concentrations. A firm's shareholder concentration and ability to support the fund are not disclosed to investors. Such material information should be required to be disclosed so that investors can make informed decisions as to the stability of money market funds that market their funds with a stable NAV, benefiting from a history of periodic and voluntary support, but having no ability or willingness to provide such support. (Significant source of systemic risk 5, USA)
- The size of the market suggests it must be significant. (Significant source of systemic risk 5, USA)
- There are trillions of dollars invested in money market funds that would otherwise be in a position to stabilize the banking system as deposits. How can that not be systematic risk? (Significant source of systemic risk 5, USA)
- There isn't an iota of doubt what the answer to this question is. MMF history and the most basic analysis of MMF structures prove this out (too long to get into here). But it's understandable why the industry and users want implicit government backstop without paying for it. It's unethical and shameful on the part of money market funds sponsors and frankly regulators to have stalled on doing the right thing -- move towards floating rate NAV MMFs. (Significant source of systemic risk 5, USA)
- These funds strike a $1 NAV through amortized cost accounting, but in reality experience underlying fluctuations in their economic value. Any default or sharp rise in interest rates could cause a fund to "break the buck". In an expected scenario of breaking the buck, a fund's investors have incentive to run on the fund in order to redeem at $1 rather than the true, lower economic value, which they can achieve if they run before the majority of the fund's investors. / / In effect this mechanism and optical accounting treatment attract significant assets (~$2.5

trillion) from both retail and accounting-sensitive institutional investors, such as corporate treasuries, which ultimately leads to an overvaluation of the assets these funds are allowed to purchase.  In a liquidity crisis the runs on these funds could lead to a mass sell-off and freezing of short term markets that would be less significant if their NAVs were to float, thereby lowering the incentive to run on the fund.  (Significant source of systemic risk 5, USA)

- This market has trillions invested on maturities less than 3 months. Most of it rolls over, so in crisis mode confidence is lost and the wheel stops. This can take weeks or even days, as we experience a few years ago. Secondary market freezes (MMF can't sell) and issuers can't pay (not able to roll). (Significant source of systemic risk 5, USA)
- Under conditions of market stress, market values fall significantly below costs. Sometimes, liquidity evaporates when NO trading takes place at all. This happened when Schwab felt morally obligated to save its reputation by covering the costs of its money market fund, whose investments failed. / Even clearing houses fail to adequately plan for the non-existence of prices during times of distress in order to require additional collateral. (Significant source of systemic risk 5, USA)
- We witnessed this clearly in 2008. Fixed NAV combined with lack of guarantee created conditions for a 'run' and the MMF's role as a provider of liquidity to other markets (e.g. commercial paper) had knock-on effects throughout the system and threatened to create a short-term financing crisis within the real economy. Whether MMFs could create a systemic crisis in the absence of wider events like 2008 is another matter, but they can certainly play a significant role in helping a crisis to spread.  (Significant source of systemic risk 5, UNITED KINGDOM)
- When the Treasury department has to step in to insure investors' money market funds as they did in 2008, that's not exactly a stable situation. The fact that there was a run on money market funds demonstrates the systemic risk these funds pose to the financial markets.  (Significant source of systemic risk 5, USA)
- it depends on the volume (No opinion, FRANCE)

## Why do you think MMF regulation does not need to be reformed? Other reasons

- Adequately regulated at present (EU)
- hasty regulatory reform in the past did not lead to more efficient markets nor more consumer protection (EU)
- I would like see interest rate policy from the Fed reformed which would mitigate the need to reform money market regulation (USA)
- investors need to be able to rely on a CNAV money market fund - changing to VNAV introduces a new variable of risk into an investor's portfolio (USA)
- Investors understand the risks of breaking the buck and should be aware of the markets. (USA)
- Let stupid people go bankrupt; I don't believe that systemic risk is as much a real problem as an excuse for bail-out of politically favoured firms. (USA)
- Monitor their banks (EU)
- More regulation is not the answer (USA)
- New regulations that have been proposed for money market funds would actually increase systemic risk, not reduce it. (USA)
- One of the basic funds out there and we already have too much regulation (USA)
- Regulatory developments since 2010, along with self-imposed limits (IMMFA) have achieved much of the required de-risking in funds. (EU)
- The best protection is making sure that investors know that par is not guaranteed. (USA)

- The focus should be on breaking up the mega financial institutions.  The financial industry now has a few highly interconnected financial institutions.  Money Market reform will destroy the money market industry but another shadow banking system will rise in its place.  Regulations should focus on creating healthy competition and additional participants in the banking sector rather than creating an oligopoly that poses significant systemic risk to the financial health of the world. (USA)
- the regulation is not necessary at all. Let market participants to decide for themself. The regulation is helps only the administrators and lobbyist. (EU)
- They pose limited risk. (USA)

## If MMF regulation were to be reformed, which approach do you think would be most appropriate? Comments

### A combination of the two approaches

- "Capital" control requirements needs to be increased. (USA)
- Either ability to re-price to reflect mark to market losses; or else capital behind funds to absorb losses. (UNITED KINGDOM)
- Firm's should have a choice to be able to offer a stable NAV or floating NAV.  If a firm wants to market a stable NAV, they should have to put up some capital so support it.  If a firm cannot come up with 1% capital, I do not think they should be allowed to sell investors the notion of a stable NAV.  It is misleading to investors. Some firms have stated it should come out of the yield, and there is little yield in the current environment, but there are other ways to provide capital.  If they cannot come up with capital, or do not want to provide capital, offering a floating NAV is the alternative.  And no, it will not kill the industry as some try to convince everyone.  (USA)
- Greater regulation and oversight would be beneficial to investors. (USA)
- I believe the best approach would be to reform in moderation, there is no need to over-react to an anomaly.   (USA)
- If they were required to hold capital aside to prevent a run, or to float their NAVs would be the best reforms to introduce more stability in the system. (USA)
- It's a complex problem that requires total reform. Funds have evolved and the regulations need to evolve with them. Access to the FED in times of dire need could be part of the solution. A floating NAV should be part of the solution, too.  (USA)
- Many investors do not understand what they are investing in or what the risks are.  Put everything in plain English that is understandable. (USA)
- Reform must take place (USA)
- Requiring MMFs to hold more capital, change from fixed to floating NAV (GREECE)
- shorter maturity; greater potential for liquidity (USA)
- The similarity with the banks' deposits makes them vulnerable in case of market stress. Given that they are mostly short term fixed income securities, in case of credit distress when Libor rates increase, they perform badly. (LUXEMBOURG)
- They need some level of bank-like insurance (USA)
- We cannot be throwing the baby out with the bathwater (UNITED KINGDOM)

### Modification of fund regulation

- A centralized body that can impose regulation and proposed controls that satisfy both investors and fund sponsors and indeed the wider financial markets may be appropriate (UNITED KINGDOM)

- A floating NAV would solve the primary risk. If banking regulations were applied to MMFs then the protection to the investor would be the capital cushion that the fund provider would be required to maintain. A floating NAV is a more appropriate reform. (USA)
- Ability/requirement to limit withdrawals when trigger short of breaking the buck is reached, much as investment restrictions are now put in place at (I believe) .998 and .9975 (USA)
- Allow their NAV's to float. (USA)
- Apply insurance regulation (USA)
- Banking regulation would be overkill for funds buying only short term high quality instruments (USA)
- Banking regulations should not be applied. Banking regulations particularly post-crisis are impeding liquidity by increasing costs. (USA)
- Current and proposed restrictions on investable assets for MM funds create artificial demand for a very select group of securities and a very real concentration of risk. These may be deemed "substantially risk free" assets, however if the market has taught us anything it is that nothing is risk-free. Concentrating a large portion of savings into a very limited selection of assets would create a greater systemic danger in the event of an outlier event. (USA)
- do not believe more regulation is the answer. if investors don't do their homework and review all of the current disclosures, more regulation is not likely to help and will increase costs, lowering yields or bring an end to the money fund business, not desirable since it does provide economies of scale (USA)
- floating nav (USA)
- Floating NAV is the only right answer. MMF capital buffers are more of the same attempt by the industry to undermine the right public policy. The right levels of capital buffers are so high as to make the MMFs painfully uneconomic structures. But industry and half-wit regulators might agree to buffers because they can be set at such unrealistically low levels, that systemic risk of MMF remains as high as ever. You questions below sound like the work of the industry -- paving path for capital buffers. Very few CFAs have in-depth knowledge of either MMF history or even MMF history-precedents to opine in an informed fashion. (USA)
- I have the best proposal before the SEC. I have written extensively on this, and was invited to talk to SEC legal counsel after I contacted Commissioner Luis Aguilar. My proposal is different, and it is listed here: http://www.sec.gov/comments/4-619/4619-123.pdf I urge the CFA institute to back my proposal. It's a great compromise, and it would end runs on money market funds (USA)
- Iterative adjustments make sense. It doesn't make sense to initiate more costly regulations that will over time result in greater societal costs than what a breaking of the buck would produce. (USA)
- Just strict mark to market and open the regulation in order to keep clear that a MM fund can be a cash fund but also could be a risk asset...correctly disclosed to investors. (SPAIN)
- Make the funds mark to the market daily or at least periodically. I understand the concerns about causing short term capital gains and losses but that inconvenience does not outweigh systemic risk. (USA)
- MMF regulation should be done in law applicable for investment funds (GERMANY)
- MMFs are not banks. Sure, MMFs would benefit from a level of capital behind them to ensure against losses. The appropriate level of capital is hard to dimension given losses in this sector are idiosyncratic. As a result, the only advancement that would be helpful is to have a deeper pricing infrastructure which enables true mark-to-market vs. amortized cost. (UNITED KINGDOM)
- MMFs have a very different business than banks. I don't see how bank regulations would be applicable. (USA)
- MMFs should continue to maintain their non-bank status. The size of this market is sufficient to demonstrate the importance of the role of MMFs in credit markets. (USA)

- MMFs should not be tied to bank regulation or strict credit rating restrictions (SPAIN)
- MMF's shouldn't be subject to bank standards - they are/should be different. (USA)
- Modification of fund regulation (USA)
- Modification should enable more tailor made solution (CZECH REPUBLIC)
- Money market funds are NOT bank accounts and clarifying the definition of a money market fund is important. $1.00 NAV distorts what a money market fund is by implying guaranteed principal protection. This confuses the money market distinction from bank interest bearing checking or savings accounts. (USA)
- NAV approach might work, but it will force a lot of depositors out of money market funds (USA)
- Need to eliminate the buck requirement. (USA)
- No structured products or CD's which are structured products. No embedded leverage in MM securities. (USA)
- none (NETHERLANDS)
- Only appropriate reform needed to clarify fund type / method and hence investor risk (UNITED KINGDOM)
- Perhaps a return to MMF regulation as it existed prior to the changes. The ultimate goal in all these "reforms" is to regulate these funds out of existence. This is an age old battle between Paul Volker and Ned Johnson. (USA)
- possibly insured, possibly guaranteed by risky entity, risk of loss. (USA)
- Regulation around marketing should be reformed so that whatever risk the fund managers are taking is clear to investors and pricing should be variable so that the relative level of risk is evident. (USA)
- Regulation can be reformed via the existing body of mutual fund regulation. If the money market funds wish to retain characteristics like a bank account then they should be regulated like bank accounts. (USA)
- Remove the buck standard and allow the market to set the price (USA)
- Since risk exists, and managers will pull out all stops to be the best, then I think additional 2a-7 regs. for instance that reduce risk and increase liquidity for all funds. A bigger Band-Aid. I am not sure about banking regulations. Investors need to know this is an investment, usually risk-less. You might lose money and or liquidity. If one break the buck, then the investor losses who pulls out. Daily Mark to market would make investor accounting too much trouble. (USA)
- Since these assets are funds there should be an adequate regulation for these funds. From my point of view bad fund regulation could not be compensated by amendments to banking regulation. (GERMANY)
- Some limit on bank/financial sector paper (e.g. to only 40% of total) (UNITED KINGDOM)
- standardize the investments that are eligible for inclusion in a money market portfolio - eliminate competition based on yield - all MMFs should offer approximately the same yield - any issuer attempting to offer a higher yield should be placed in a different category (ie conservative bond fund) and have a fluctuating NAV (USA)
- The $1-price has to go. (GERMANY)
- The application of banking regulation will destroy the MMF industry - leaving us with the question "what's next?" (USA)
- The current money market system masks the risks for the benefit of the fund sponsors. If a floating NAV damages the industry, so be it. But there needs to be an accurate reflection of the risks in these products and the constant NAV hides that. (USA)
- The main cause of the crisis are banks' regulations and TBTF banks [see for all details: http://dallasfed.org/assets/documents/fed/annual/2011/ar11.pdf ] (ITALY)
- The proposed language was too aggressive. It would have eliminated the usefulness of money market funds and they would have ceased to exist. I am fine with marking the NAV to fair value. (USA)

- The SEC made extensive changes to Rule 2a-7 that governs U.S. Money Market funds. The changes have done much to improve liquidity, quality and resiliency of those funds. The impacts of those rule changes need to be studied before any further changes are made. (USA)
- There are several representations and disclosures that must be made when marketing MMF's so applying banking standards is not necessary. (USA)
- these are securities and should be considered as such. if you want FDIC insurance, go to a bank (USA)
- VNAVs should be the norm, with restrictions on investments determining if the fund is "equal" to cash in a bank. If CNAVs are allowed, than capital buffers should be introduced (NETHERLANDS)
- While some combination would likely prove the safer alternative, I believe that some of the SEC proposals make sense and could be accomplished outside of the banking regulatory system. (USA)

**The application of banking regulation to MMFs**

- banking regulation would be appropriate given investors' expectation of a stable NAV. (USA)
- because they perform a banking function. (USA)
- Currently, MMFs are essentially unregulated banks with no required equity cushion. Gee, I wonder why they would be vulnerable to a run. (USA)
- If it acts like a bank it is a bank even if the word bank isn't mentioned in the name. (AUSTRIA)
- In an ideal world people depositing money with MMFs would realize that it is not guaranteed i.e. it may well "break the buck" and they would lose some of their capital. However, in the crisis governments and regulators stood behind the funds because of fears of runs. If depositors feel as safe putting their money into MMFs as they do into a bank, then the same depositor regulation should apply. This would, of course, mean that depositors no longer get something for nothing: higher interest rates without risk of losing their capital. (UNITED KINGDOM)
- MMF should be treated more like checking accounts, ensure the safety and liquidity (USA)
- MMFs are perceived by retail investors to be similar to bank savings accounts and therefore should be regulated as such (USA)

**No opinion**

- A better awareness of customers of the MMF they use, holdings, risks and guidelines (USA)
- Application of fair value accounting, consistent risk management tools, and only one regulatory institution. move towards a consolidated standard of oversight rules rather than a growth of unique rules for specific type of financial product (USA)
- gradual reform phase-in preferred (USA)
- I am not familiar with MMF regulation (ROMANIA)
- I don't think any further regulation is necessary (USA)
- I don't think regulation needs to be reformed. (USA)
- I have no opinion between the two choices given, because there are other options. (USA)
- I'm in no position to comment on the regulation due to lack of knowledge (SWEDEN)
- I'm not an expert of the argument (ITALY)
- Not sure of details of how this could be achieved. (USA)
- Regulation does not solve the problem. (POLAND)
- REGULATION WILL NEVER EVER WORK! (USA)
- The options you include in my opinion are not the correct way to reform the market. Hence I have ticked no opinion. The recent EU versus Basel III despite highlights the flaws in banking

regulation and modification of the fund regulation has to be done in the correct way. (UNITED KINGDOM)

- The proposed regulation would pose more systemic risk as a result of a lost vehicle for investors to seek a price stable store for cash. Its ill-conceived and a detriment to the capital markets. The changes established following the 2008 debacle were fine to tighten things up. (USA)

## Comments about any of the proposed reforms listed above, and/or additional reform ideas you think are necessary

- Again, see my proposal. Renormalizing NAVs and consuming units would end runs on MM funds. (USA)
- Again, whatever reforms are undertaken should be in moderation rather than extensive. The recent crisis was the result of numerous parties not any one in isolation. (USA)
- Again, your questions are showing the bias of the industry towards capital buffers, which is the perfect way for industry to undermine the only correct public policy outcome -- floating NAV. Shame on the CFA Institute if it explicitly or implicitly (including out of ignorance) helping the industry undermine the right public policy outcome, the market and taxpayers. (USA)
- All MMFs should be required to switch to variable NAV which would render several of the points above obsolete. If investors are aware of the risks and that risk is expressed by the market price, the market remains intact and transparent. Insurance & reserves for CNAV funds negates the idea of the MMF as the MMF is not a risk-free investment but a cash instrument. Furthermore, UCITS in Europe shows the effects the liquidity drag has on performance but is sensible there for investors asking for HF performance yet demanding higher liquidity. Not so here. (USA)
- All of these ideas would simply push the MMF into extinction - only to be replaced by some new monster with who knows what kinds of unknown risks. This does not benefit anyone. Liquidity risk mechanisms only serve to destroy shareholder liquidity benefits - which is the whole reason they use these otherwise pathetic vehicles in the first place; insurance mechanisms are just a scam that moves whatever "systemic" risk that may exist from one party to another; prohibiting amortized costs imposes unfair burden on those shareholders who get hit holding shares on the day of the expense, versus those lucky enough to dodge the transaction. (USA)
- Amortized cost accounting should never be used! MTM helps investors/fund keep track of what's actually happening in the portfolio (USA)
- Amortized cost is an appropriate yield measure for funds that hold assets to maturity. (USA)
- determining who pays for what guarantees should be done in the marketplace (USA)
- floating NAV in my opinion, would cause massive withdrawals from money market funds...and would have a high probability of triggering a systemic risk spiral (USA)
- holding the NAV of a MMF constant forces a discipline that would be lost if they were allowed to vary. If a fund drops to $0.99 then why not $0.79? We told you it would vary... I think such a situation would encourage more risk taking rather than less. (USA)
- If by liquidity risk management mechanisms you mean redemption restrictions or liquidity fees I would disagree. Otherwise halting redemptions in a time of stress may have merit but should be a board decision. (USA)
- If fund has constant value then disclose of how this is maintained. (USA)
- If the fund sponsor has to finance the capital reserve, it reduces moral hazard in a way that does not happen if there is outside insurance. (USA)
- if they mark to market, there is no requirement for capital reserves; if some companies want to provide a capital reserve or an insurance guarantee that is meant to preserve the fiction of $1 asset value, that then can become a basis of competition and would be preferable to status quo (USA)

- In the U.S. at least, variable NAVs would cause huge tax headaches for investors UNLESS Congress simplified the tax rules for accounting for purchases and sales of MMF units.  Bob Gordon at Twenty-First Securities has written about this. (USA)
- Insurance protection will not protect a run on a fund.  Any guarantee needs to be provided by the fund which would need to meet capital and liquidity guidelines. (USA)
- Leave it alone.  There really has been no problem.  The one instance of a problem was the result of a very unusual set of circumstances that are not likely to repeat.  More importantly, even that problem was dealt with reasonably.  There are bigger fish to fry.  If it isn't broke, don't fix it.  And it isn't broke.  The law of unintended consequences could cause far more systemic risks by changing something with which people [rightly] feel comfortable.  (USA)
- MMFs are mutual funds and share values should vary like all other mutual fund types.  All the rest of the options are overly complex and expensive for what should be a fairly simple and straightforward product (USA)
- MMFs have risk in them and operating at a CNAV without capital or withdrawal restrictions ignores that risk and is therefore inappropriate. (USA)
- Money market or maybe a class of money market funds should be allowed to use private insure to protect against breaking the dollar.  Rating agencies should rate money market funds for safety. (USA)
- My problem is one of reform "barking up the wrong tree." For example, the Reserve Fund broke the buck because Lehman Bros. was very highly leveraged & could not meet their obligations. So the reform needs to be focused on the issuers of money market securities, or perhaps the money market as a whole. The Funds themselves are adequately regulated now. If Lehman Bros had been adequately regulated in 2008, the Reserve Fund would not have broken the buck. (USA)
- No NNAVs just CNAVs, existence of both will create a lot of confusion in the marketplace.  And CNAVs should be treated just like bank deposits up to a certain amount (government guarantees). (USA)
- Not sure what regulation is best since there needs to be a discussion if the market wants MMF as we know them today to remain.  If so, funds need to establish reserves.  If not, then regulation needs to be tailored to the risk profile of the new MMF product.   (USA)
- Private insurance cannot realistically be a solution for this issue. (USA)
- Private insurance to prevent runs should be required and the cost borne by the fund investors. Premiums would presumably be a function of the degree of risk in the fund.  (USA)
- Seems to me MMF's could differentiate themselves on their own by providing at their own option liquidity or nav guarantees.  I would be inclined to let the market resolve that issue for itself while at the same time providing greater disclosure to investors of what the risk issues are. (USA)
- Seems to me that if sponsors do adequate credit analysis, they shouldn't be required to maintain a capital reserve or obtain insurance unless they choose to do so to protect the sponsor's corporate assets. (USA)
- Skin in the Game:  Portfolio Managers and Sponsors of these funds should have a substantial portion of their net worth invested in them and in the event of a liquidation or run on the bank, they should not be allowed to redeem until everyone else is paid out. (USA)
- Some of the questions are not well formed. For instance, I think it should be up the sponsor if they, or their investors, fund the reserves. I didn't know how to express this in answering the 4th and 5th questions. (USA)
- The only way to accurately portray the risks of money market funds is with a floating NAV. (USA)
- The regulation proposing that MMFs should be prohibited from using amortized cost accounting is designed to increase systemic risk, not reduce it, by making MMFs more procyclical and prone to financial shock. (USA)
- The solution should be a private one not a government one. (USA)

- The source of financing of reserves should not matter. In reality, it always will be the investor. (USA)
- The whole problem here is with the term "constant". There is no real "constant" (USA)
- There are no guarantees in the United States on Money Market Funds. The disclosure language could not be any clearer than it already is. "Not FDIC Insured" "No Bank Guarantee" "May lose value." What further disclosure could you have? With regards to Liquidity Management, all U.S. Money Market funds are required to keep minimum liquidity of 10% 1 day liquid, and 30% 7 days liquid, and many funds vastly exceed those minimums. (USA)
- There are two ways to solve the problem, either to scare/push people away from MMF, or encourage more MMF and more competition. Change to variable NAV helped sponsors to reduce risk, but push investors away. It does not necessarily increase competition however. / / Insurance is a good thing unless they are backed by MMF. The result is a highly complex system, high cost in all aspects. It does diversify risk of one MMF to multiple others. Why don't let MMF to share a common reserves, like EU? (USA)
- There is no substitute for good guidelines..... which is where you begin in reducing the run on the bank risk. Diversify one liquidity using other investments than MMF's. (USA)
- There is plenty of reason to allow the industry to choose between offering a floating NAV or stable NAV, but if they choose to offer a stable NAV, they should have to support that concept somehow. Requiring capital reserves is one way to do that, but how a firm might come up with that capital should be left up to market ingenuity. There are several tools from buying insurance, offering a guarantee, equity investments, yield capture, or a combination. This really is not that complicated folks!!! (USA)
- VNAV MMFs would remove the fiction that CNAV MMFs operate under while also mitigating the prospect of runs. (USA)
- Any client of MMF should be aware that she/he invest in different vehicle than bank if she/he fails to do that it is her/his fault. Since MMF invests customers money and hence customer should bear the risks there is no need of capital buffer or insurance since it would increase moral hazard both at sponsor and customer level (CZECH REPUBLIC)
- Funds should be priced at fair market value - use VNAV. This would remove any discrepancy between the underlying risk profile of the fund and the profile portrayed to investors (could be misled by CNAV). A VNAV provides a truer reflection of the risk profile of the fund and would do away with the need for insurance schemes or additional disclosures, etc. (UNITED KINGDOM)
- I do support strengthening of regulations, I just don't think it has anything to do with systemic risk (POLAND)
- I think insurance schemes only will add a false sense of security. Looking at the experience from the financial crisis, bond insurers might even have had a negative impact on developments by luring investors, banks, politicians and the public to believe systematic risks were decreased. (SWEDEN)
- Insurance is expensive. Not fair to be paid by fund's investors. It is the responsibility of the MMF to provide the required protection. (LUXEMBOURG)
- Retail should not be allowed in these funds hence no answer to your question. Also I think the wording of the last question looks odd (what happened to plain English?) and I assume it means that MMFS already have appropriate liquidity mechanisms in place in which case I agree (UNITED KINGDOM)
- The above doesn't address the risks in an efficient way (UNITED KINGDOM)
- There is still a very strong incentive by sponsors to back MMFs, even if there is the threat of a "run", due to reputational risks. (UNITED KINGDOM)
- VNAVs better suited to react on runs, as they can bring down prises to reflect the use of credit lines to overcome any cash shortfall (NETHERLANDS)

### What is your opinion on when liquidity risk management mechanisms should apply? Other opinion

- A central body may be required to determine  what are stressed markets ad force the whole industry to adopt such a policy otherwise no-one will ever do it for fear of admitting they have a problem (UNITED KINGDOM)
- All the time (USA)
- All the time (AUSTRIA)
- Allow insurance to be used to protect against redemptions in addition to liquidity risk management. (USA)
- always (BELGIUM)
- Always apply.  Liquidity in the market particular with all vol today must be monitored for funds (USA)
- Any MMF should manage liquidity risk (NETHERLANDS)
- Apply in all cases (USA)
- As determined by the fund (USA)
- At the option of the sponsor (USA)
- Decrease units so the new internal NAV is 1.0025 (USA)
- discretion of fund management company and agreement (USA)
- don't know what you mean by 'apply' (USA)
- Institutions need to prepare for variations in the redemption rate so liquidity management should be a constant issue. There does need to be a reserve level of assets that can easily be liquidated to meet an elevated level of redemptions, plus other measures to buy time, as listed below. (UNITED KINGDOM)
- It shall apply at all times so that "run" risk is acknowledged when making investments (CZECH REPUBLIC)
- Let the market decide (USA)
- liquidity mechanism should only apply if the sponsor's mandated capital reserve is exhausted (USA)
- liquidity risk management in general should always be in place in a MMF (GERMANY)
- liquidity risk management mechanisms should always apply (GERMANY)
- liquidity risk management mechanisms should always apply (ITALY)
- Liquidity risk management mechanisms should always apply, but "kick in" only in case of heavy redemptions or in stressed markets (USA)
- Liquidity risk management mechanisms should be used when needed. This will usually be in the case of redemptions or stressed periods but I object to the word "only" in the choice above.. (USA)
- liquidity risk management should always apply (USA)
- Liquidity risk management should apply always.  (GREECE)
- liquidity risk management should apply for guarantee by the fund (USA)
- Liquidity risk management should be part of the daily investment process for every money market fund. (USA)
- liquidity risk management should be part of the standard process for MMFs, and it should not be switched on only in crisis periods (otherwise, it gets procyclical with market dynamics) (ITALY)
- Liquidity risk management systems should always apply (UNITED KINGDOM)
- Liquidity risk management systems should always apply. (USA)
- Liquidity risk should apply in some form at all times (USA)

- mechanisms should apply permanently (GERMANY)
- non-normal adverse markers (USA)
- Not sure what is implied by "mechanisms", but MMFs should be very cognizant of liquidity risk and maintain certain buffers to meet withdrawals. (USA)
- on a daily basis (GERMANY)
- Ongoing, BAU (UNITED KINGDOM)
- Option 2 above but only because retail investors don't understand the risks. (USA)
- see above (USA)
- Should apply at all times (LUXEMBOURG)
- should always apply (USA)
- Should always apply (USA)
- should always apply (FRANCE)
- should always apply (USA)
- Should apply always (USA)
- should apply in all times (FRANCE)
- sounds like a good thing. (USA)
- Sponsors offer higher yields in exchange Gates (USA)
- standard; constant (USA)
- The idea of providing investors with full access to their funds is nutty if you have even the most basic understanding of the limited liquidity in the underlying MMF assets. Do you have any idea what the real issues are with regards to MMFs or are you confused by all the self-interested and un-informed chatter? (USA)
- There should always apply (UNITED KINGDOM)
- There should be limits to the amount of risk an issuer of MMFs can take with the money in the MMF, this would prevent "bank runs" most effectively (UNITED KINGDOM)
- These mechanisms should always be in place (USA)
- this could vary, but it is in every funds interest to manage its liquidity (SWEDEN)

### Which, if any, of the following potential forms of liquidity risk management do you think should apply to MMFs? Other

- A reserve of liquid assets, as with banking regulation (UNITED KINGDOM)
- contract with standby purchaser; parent liquidity (USA)
- Current regulations are adequate. (USA)
- Decrease units so the new internal NAV is 1.0025 (USA)
- Floating NAV is the only answer. MMF investors need to have the illusion ended that they won't lose money in MMFs. Corporate issuers should not be under the illusion that their source of short term funds (i.e. MMF) won't get killed periodically. The lengths to which the industry (and the CFA Institute) is willing to go to not call a spade and spade and continue endangering the markets and taxpayers is mind boggling (and immoral and shameful). (USA)
- fund manager holding large cash reserves (USA)
- funds should be allowed to design their own mix of liquidity risk management features subject to ratings or external regulation (USA)
- keeping a small part of the NAV in cash (SWEDEN)
- limits on redemptions (USA)
- Liquidity stress testing and limits (CZECH REPUBLIC)
- minimum balance requirements not subject to loss (UNITED KINGDOM)

- not sure of the implications of any of these (USA)
- Only a certain % of an investors market value in the MMF allowed to be withdrawn such as 10%. during heavy redemptions or stressed markets. (USA)
- Practical guidance on good liquidity mgmt. policy. (USA)
- Short delay in receipt of redemption (USA)
- Whatever each fund deems to be in its best interest. (USA)

## In your opinion, what effect, if any, would the imposition of capital requirements have on MMFs? Comments

### Positive Effect

- Capital requirements of the sponsor will have negative short term effects which are easier to quantify but positive long term effects although these are much more difficult to quantify. (USA)
- Capital requirements should be implemented gradually like in banks. (GREECE)
- Capital requirements would lower the risk of MMFs. There would also be secondary effects. In the short run, returns to investors would fall, which might force funds to consolidate to lower costs. Lower returns could also force issuers of commercial paper to pay more for borrowing. . (USA)
- Funds/Sponsors would have to think twice about getting in the business (USA)
- I say positive, meaning for investor protections. I am guessing the firm's managing these funds hate the idea of capital requirements. (USA)
- I suspect there could still be runs/Lehamn events that exceed the cap requirement. (USA)
- I think it would have a positive effect, however, I don't think it's fair to private fund sponsors to have to compete with banks whose deposits are FDIC insured(up to 250k) (USA)
- Increased confidence would bring assets back to MMFs (USA)
- It would remove a subsidy they are getting now. Arguably a cost to them but a good thing for society, fairness and the workings of the financial system.. (USA)
- Long term positive; short term negative, as it reduces the capital available for investment (NETHERLANDS)
- Long-term. Short/ medium term potentially negative (GERMANY)
- More comfort but also more cost. (UNITED KINGDOM)
- Negative short term effect, positive long term effect on MMF and markets in general (UNITED KINGDOM)
- Positive for the market in general. It might however result in a lower yield to the investor. (USA)
- Positive from the point of view of financial stability and honesty about the cost of guaranteeing the return of capital. (Negative in the sense that they would become less attractive to savers. They would no longer be able to afford to offer significantly higher interest rates than banks UNLESS it were made crystal clear that capital is at risk and that access to it may be restricted i.e. variable NAV means what it says.) (UNITED KINGDOM)
- Positive in that they would be safer. Clear negative for fund revenue, though. (USA)
- Positive on stability, negative on attractiveness for fund sponsors and/or investors (AUSTRIA)
- structure would reflect true risks better (UNITED KINGDOM)
- There will be more sense of security for individual investors (LATVIA)
- Would certainly reduce return but may prevent run on the bank....there is a cost outside the stupidity of putting the taxpayer on the hook. (USA)

### Negative Effect

- Although I think it's a good idea, the negative appears to be a decreased yield to investors. (USA)
- Any regulation including capital requirements would reduce the use of MMFs, but should contribute to stability of the financial system overall (USA)
- But negative effect is OK (USA)
- Capital buffer would not be sufficient in size and would give a false sense of security. (USA)
- Capital requirements would have an impact on the issuer, but would provide valuable assurance to the investor that the principal is "money good". These are by nature "liquid" investments... and capital requirements are better approach to guarantee liquidity that placing redemption restriction on investors. (USA)
- Compare with UCITS, unfitting for MMFs, defeating the purpose of MMFs and adding cost to an asset class that should have little of it, but should be a source of liquidity to the financial system (USA)
- Creates issue of who "owns" the capital requirement and how would it be accounted for. (USA)
- Especially in low rate environments, this cost will reduce the profitability of offering MMFs. (USA)
- higher costs for investors, lower returns, loss of interest in MMF compared to other money market instruments (ROMANIA)
- If capital requirements were imposed they would need to allow for accumulation of modest capital over an extended period of time as the current rate environment does not provide for much room to accumulate capital from fund expenses. Forcing immediate capital requirements would likely force many Money Market funds to close and cause much stress on the funding markets. (USA)
- Increase the running costs for the funds. Not sure these costs would be fully balanced with the benefits of protection in case of market distress. (LUXEMBOURG)
- It might destroy any return whatsoever. (GERMANY)
- It would add to cost. In the Fed's zero interest rate world, more funds would have a hard time making ends meet. In more normal times, the MM world would simply pay out less in interest. Importantly, the competitive playing field would be level, which is key. (USA)
- It would impact fund yield slightly due so I can imagine this would reduce demand. (USA)
- It would make them uneconomic. (USA)
- it would push yields down. (USA)
- Less money to invest for returns (USA)
- Many smaller funds could not put up the requirements that would likely be necessary (USA)
- Massive negative as it would drive the cash into unregulated forms. No sponsor or clients will pay to create an appropriate buffer. (UNITED KINGDOM)
- MMF margins are quite thin. Imposing capital requirements would perpetuate into the closing of many funds leaving investors with fewer choices. (USA)
- MMF yields are almost zero and government MMF are at zero already. The imposition of capital will be priced into the MMF one way or another. 3% capital will cost investors about 30 to 45 bps in annual yield. (USA)
- MMFs will forever change, but reform is needed (USA)
- Negative effect on MMFs because it is bound to decrease profitability; however it would likely increase public's trust in the sector all-together, so it should prove good in the long run. (POLAND)
- One, the capital requirements would never be set high enough. The correct levels are so high that that MMFs would immediately close down. They are largely economically non-viable structures (other than indirect benefit coming from keeping money trapped within fund families). Any levels that industry would accept are too low and would create the illusion of alleviating the systemic risk, while it would remain as glaring as ever. (USA)
- potential drain on profitability but integrity/long term stability is far more important. As long as the rules apply to all equally no discrimination occurs (USA)

- providers would find the business less attractive, withdraw, and leave the marketplace less competitive (USA)
- the Fed is making it nearly impossible to make money now so imposing new costs will make that worse but the public has to be conditioned to the idea that there is no free lunch (USA)
- these funds already pay out near zero yields. the costs have to be covered somehow. therefore the remaining yield would be gone. Have Mr. Bernanke raise the fed funds rate to 1% instead. Problem solved. (USA)
- they would be more secure, but would offer less interest (USA)
- They'll put the funds out of business (USA)
- This would likely result in funds being wound up due to their lack of profitability. This would be a shame as the end investor currently benefits from this access to liquidity and diversified credit exposure. (UNITED KINGDOM)
- What kind of effect is being asked about? I would assume effect on yield. However, effect on liquidity, minimum purchase amounts, fee structure, etc. could all be impacted. (USA)
- Would lower the yield relative to the risk; could lead to riskier investments due to 1) effort to make up coat and 2) false sense of security. (USA)

#### No Effect

- better protection, though at a cost, should increase in-flows (UNITED KINGDOM)
- Effect in what way? Performance would go down, which is a negative, but the overall level of security might go up, which is a positive. Overall though...no reasonable amount of capital requirement would protect against breaking the buck in times of severe market stress (SWEDEN)
- If they have an effect then you know that someone was getting a free lunch so either way they are justified. (AUSTRIA)
- increased costs, but otherwise limited operational impact (USA)
- now is the time to do it, since opportunity cost is about nil. (USA)
- There is plenty of reason to allow the industry to choose between offering a floating NAV or stable NAV, but if they choose to offer a stable NAV, they should have to support that concept somehow. Requiring capital reserves is one way to do that, but how a firm might come up with that capital should be left up to market ingenuity. There are several tools from buying insurance, offering a guarantee, equity investments, yield capture, or a combination. This really is not that complicated folks!!! (USA)
- Will further drop very low interest rates. (USA)

#### No Opinion

- Depends upon the sophistication of the shareholder (USA)
- It would lower their demand, but could make them sounder (USA)
- What does that mean - a capital requirement on MMFs? Do you mean a requirement on the sponsor? (POLAND)

## If the use of amortized cost is prohibited, is it feasible to calculate a fair value on a daily basis for all assets held by MMFs?

#### Yes (please explain why)

- A market value can be computed for the vast bulk of the assets. (USA)
- adjusted market price apply (GERMANY)

- All assets should be marked to market. If no market value is available, amortized cost is a fall back scenario, but funds should be allowed to ignore market values. (POLAND)
- All money market funds should be invested in liquid assets (USA)
- Although it will require assumptions. (UNITED KINGDOM)
- As for all other investment funds, determining the fair value should be feasible. (BELGIUM)
- Assets held in MMF are typically high quality and frequently traded. (USA)
- Assets held in MMFs should have sufficient liquidity that they can be easily valued on a daily basis using readily available bid/ask spreads. Assets that are thinly traded and that do not have sufficient pricing transparency likely should not be included in a MMF portfolio. (USA)
- Assets should be liquid with daily pricing. (UNITED KINGDOM)
- Assets should be priced as if the fund has to wind down. (USA)
- best efforts basis (UNITED KINGDOM)
- bid market prices or internal valuation model usage (GREECE)
- but need independent pricing - ALL funds must use the same (UNITED KINGDOM)
- but that would require sizable investments and might increase volatility (BULGARIA)
- calculate the true value, not an imaginary fair value! (ITALY)
- Can be done for other mutual funds, so it can be done for MMFs (USA)
- comparable, marked-to-market should still be possible and can be sensibly estimated. In addition, in-kind redemptions would also reduce this worry (USA)
- conservative approach, but correct (GERMANY)
- Currently done for VNAV (UNITED KINGDOM)
- Do it on a fair market value off a pricing grid if need be. (USA)
- Doing it now (USA)
- Fair value can be calculated for any asset. Market price is the best way to calculate fair value; most non-cash investments held in MMFs should have a market price. Therefore fair value calculation is feasible. (UNITED KINGDOM)
- Fair Value is already calculated on a daily basis in the U.S. (USA)
- Fair value is just one type of valuation methodology that should be coupled with other at arms length valuation estimates to arrive at a value each day, week, month, etc., (USA)
- Fair value valuation would best reflect true price of assets in fund (GERMANY)
- Firms have these systems or if they don't it is possible to build them. Not hard to do. (USA)
- force only liquid assets in fund (USA)
- Fund asset should be valued at market prices (GERMANY)
- highly liquid markets more easily priced (USA)
- however guidelines will have to allow certain procedures specific to MMKT asset class securities (USA)
- I think bonds should always be allowed to be carried at amortized cost if the intention is to hold them to maturity. Marking to market is a ridiculous practice for buy and hold fixed income portfolios. (USA)
- I think money market fund managers should invest in simple products where valuation should not be an issue (GERMANY)
- If MMFs are supposed to be liquid, they should only be purchasing assets with active marks. (USA)
- If there was a pricing source that collected actual/executable pricing across issuers and rating curves, a more realistic fund price could be identified. Arriving at an appropriate mid-price would be the best outcome (vs. bid or amortized cost). (UNITED KINGDOM)
- If they can't value it daily, it doesn't really belong in a MMF, does it? (USA)
- It has to be done now for comparative purposes so a fund know how close it is to breaking the buck and when it has to undertake corrective measures (USA)

- It is 2012 and there is enough computing power around. (AUSTRIA)
- It is a matter of available data and sound IT set-up (GERMANY)
- it is possible, but challenging. (USA)
- it is required for other assets (USA)
- It might be difficult to get reliable prices for all assets every day but even an estimated market value would be better than amortized cost. (USA)
- It should be able, even if in some cases it should be calculated according to valuation models (SPAIN)
- It should be feasible because the assets the MMF holds should have enough liquidity in the first place. Thus their daily basis valuations should be possible to be made. (BULGARIA)
- It should be possible to estimate fair value by taking a risk-free rate on the duration of the asset, and adjusting it by a modified CDS spread. (USA)
- It should be since MMF's are supposed to be purchasing short-term liquid paper. (USA)
- It would minimize the premium paid on any security. (USA)
- It's already being done for non-mmf's. (USA)
- It's done all the time for regular mutual funds. Industry and even users love to complain about record keeping challenges and tax consequences. One, stop complaining and just make the operational changes -- it's not rocket science. Two, object to accounting and record keeping that reflects the reality of the situation. Oh my. We can't deal with the reality that the underlying assets fluctuate or that there is real risk of not getting a hundred cents on the dollar investing in structures subject to market, credit and liquidity risk? (USA)
- It's done for all other funds. The assets are not more complex. (USA)
- It's feasible if the levels 1-3 methods of moving from mark-to-market to mark-to-model are applied. That does not mean it is satisfactory - and the auditing requirement would be intense. (UNITED KINGDOM)
- Just discount the cash flows at the market rate (USA)
- Just mark the securities to market like all other mutual funds do (USA)
- Last known market price (POLAND)
- Limit the funds to those items that are liquid and can be fair valued (USA)
- liquid assets only (NETHERLANDS)
- liquid holdings (BELGIUM)
- Mark assets to market (USA)
- Mark to market like any mutual fund. (USA)
- mark to market process. (USA)
- Mark to market wherever possible (UNITED KINGDOM)
- Marked daily by sponsor (USA)
- marked to market or marked to model if no price (BELGIUM)
- market bids and offers are observable (USA)
- market price in a functioning market. perhaps need a "cooling off" period when markets are unsettled, but amortized cost is not the only other option to FV. (USA)
- Market prices and limited use of fair value models can do it. (UNITED KINGDOM)
- market prices prevail (USA)
- market value can be used instead (LUXEMBOURG)
- market value NAV calculation (UNITED KINGDOM)
- market values for MMF holdings should be readily determinable (USA)
- maybe we need to work on this? If it's a MMF holding, it ought to be reasonably liquid. When there is no market, valuation can be in accordance with a set of rules that reflect credit quality, liquidity and other factors that would determine the sale price if there were a market. (USA)

- MMF a priori invests in liquid instruments. Even if each is not traded daily it can be calculated by comparison with similar instruments that are traded (UNITED KINGDOM)
- MMF in Europe already have to do this. Simply discount using LIBOR plus an issuer spread calculated using a bootstrapping approach (UNITED KINGDOM)
- MMF should only invest in liquid investments (NETHERLANDS)
- MMF should only invest in liquid paper (UNITED KINGDOM)
- MMFs invest in highly liquid assets, for which a market price should always be available (UNITED KINGDOM)
- MMFs invest in low risk assets that are quoted on a daily basis. (GREECE)
- MMFs should not hold securities that are difficult to price. (USA)
- money market are liquid instruments and therefore prices should be readily available (NETHERLANDS)
- Money market assets which are held by the fund should be short term and therefore daily valuation should be possible. (GERMANY)
- Most assets are relatively liquid and/or can be repo'd (USA)
- Most if not all MMF instruments have a daily fair market value (USA)
- most of instruments included in a MMF are liquid and marketable (ITALY)
- My firm already has the daily fair value of securities. The calculation is not the problem, the problem of the floating NAV is that the investor doesn't want a floating NAV. This regulation will drive investors into newly created investments that will support the shadow banking system. (USA)
- NAV (USA)
- Normally, MMFs do not invest in illiquid securities. So there is always, in theory, a Market value for each security they hold. (FRANCE)
- Not price able assets won't be buying by funds (ITALY)
- on an MtM basis (FRANCE)
- Once the market is established, they shouldn't have a problem. The problem now is that there isn't really a market except for T-Bills (USA)
- Only assets where a daily price can be calculated should be allowed (USA)
- only instruments with fair value discovery should be part of the portfolio (CZECH REPUBLIC)
- only invest in liquid assets (USA)
- Only MV is true value (UNITED KINGDOM)
- Presumably this is already done, however redemption mechanics would need to be vetted (USA)
- Prices should be available or computable for all 2a-7 securities (USA)
- Pricing each security should be a normal fund expense. (USA)
- Pricing services use matrix pricing already - that can continue. Costs would just increase. (USA)
- Providing the funds constrain investments into securities that have "active" or rational price discovery. (USA)
- Question which kind of assets are eligible (GERMANY)
- quotes should be available from market makers (even though the prices may be way off from fair value) (UNITED KINGDOM)
- Short duration and interest driven qualities should increase ability to fair value (USA)
- Should be very liquid (USA)
- Should be if paper is traded (USA)
- Should be in liquid easy to price assets anyway. (SLOVENIA)
- Simple discounting using market rates (CZECH REPUBLIC)
- Some instruments have not market price, but a relevant estimated value can be calculated. (SPAIN)
- Sure. (GERMANY)

- sure. there's a market price for all their assets. (USA)
- Technology (USA)
- technology exists so stop whining (USA)
- the underlying assets in a MMF should only include marketable securities, therefore daily prices should be available. (USA)
- The assets are very liquid assets. (USA)
- the assets held should be liquid and should therefore have readily determinable fair values. (USA)
- The calculation is already done on a regular basis, just not publicized. (USA)
- The calculating would not be materially different from the way ultra-short NAVs are calculated (USA)
- The models are not that complex and comparable data are readily available.  (USA)
- The securities are very liquid and actively traded (USA)
- the technology is in place to allow them to do so.  They should only be allowed to invest where a fair market value is always available (CYPRUS)
- The underlying securities are marketable securities.  It should not be hard to price them. (USA)
- There are independent services such as Bloomberg's BVAL that can provide fair value on all the underlying assets. (USA)
- there is a market for all instruments (USA)
- there is always a 'market clearing' price for any asset (USA)
- there is always a market price  (FRANCE)
- These are liquid assets that should be easily priced.  (USA)
- They should not use the bid prices, but it isn't hard to arrive at a fair estimate. (USA)
- Third party pricing services would provide for a fee (USA)
- too complex to discuss here but I believe there are accounting methods which can be employed evidencing stable dollar value of funds. (USA)
- use asset values (USA)
- use estimated value based on other inputs (USA)
- use estimates (USA)
- use of fair valuation processes (USA)
- Use of models + regulators to foster price transparency (FRANCE)
- use only of liquid assets to invest in (SPAIN)
- using models (USA)
- We get daily NAV now (USA)
- why not? (USA)
- will need multiple pricing sources and model pricing as a backstop (USA)
- With appropriate holdings on liquid markets (SPAIN)
- yes, if you hold marketable securities (SLOVENIA)

**No (please explain)**

- a fair value yes, but a stable value no. (USA)
- Administratively difficult and unnecessary in normal market conditions (IRELAND)
- daily pricing noise too volatile (USA)
- difficult to valuate bonds, ALN, CLN wit low liquidity, that are not actively traded on a regulated market (ROMANIA)
- Fair value calculation may require significant estimates for illiquid MM assets (GERMANY)
- fixed income assets are already level 2 assets and have to be estimated. (USA)
- for some mm instruments it is hard to estimate fair value (SLOVENIA)

- Fund assets may not be traded very often in which case valuations would just be left as is (UNITED KINGDOM)
- getting "market value" in a distressed market is extremely difficult (USA)
- Hard to value (USA)
- If NAV does not float, fair value on a daily basis is nothing more than a guess. (USA)
- illiquid assets difficult to value in calm markets and potentially impossible under duress (USA)
- Increases systemic risk to financial shock (USA)
- Instruments such as time deposits and bank loans can have thin markets and little liquidity prior to maturity. (USA)
- It is difficult to calculate fair value prices on all fixed income instruments as they are not traded daily, especially for commercial papers. (USA)
- It may be, but who is going to pay for such an intensive pricing scheme for assets that have a massive turnover and that they are unlisted securities (UNITED KINGDOM)
- Lack of available market prices (FRANCE)
- Lack of liquidity of underlying assets. Difficult to Fairly value (USA)
- Like all fixed income securities, the fair value would be based on a model. Modeling has PROVEN to be WRONG! At least with amortized cost you have some reasonable basis for your valuation. (USA)
- Many asset values cannot be determined accurately on a daily basis. (USA)
- Many of the safest assets are not always widely traded on the market, making exact daily pricing difficult. Think receivables, bank acceptances, letters of credit, etc. (USA)
- MM would only invest in very liquid with tight spreads, would need to avoid other instruments with wider spreads. (SPAIN)
- Most securities do not trade regularly in the market. (USA)
- No - unnecessary (USA)
- No real daily value for most illiquid fixed income investments (USA)
- Not all, but many (NETHERLANDS)
- not amortizing costs means the NAV will fluctuate when fees are paid, it is better to spread them over the life of the service (IRELAND)
- not unless you want to break the buck (USA)
- Probably not. Amortized cost seems to make the most sense for these purposes. (USA)
- Scope for abuse (UNITED KINGDOM)
- Some portion of assets may not trade on a daily basis (USA)
- Some securities are not actively priced on a daily basis (UNITED KINGDOM)
- some short term positions do not trade therefore pricing would not be indicative of a current market price other than a best estimate by pricing services (USA)
- Sometimes there is no market. What are you going to do, price it off of LIBOR? (USA)
- Stressed environment with high volatility (GERMANY)
- The ability to get accurate market values on a daily basis seems unreasonable given the nature of how fixed income instruments are traded (USA)
- The additional resources required would be too burdensome & costly (USA)
- there is no market value for deposits, and some vehicles may not be liquid enough (ROMANIA)
- This would create a hugely unfair situation where some shareholders would benefit and some would lose based on WHEN exactly you decide to apply the expense. (USA)
- Too hard in stressed situations (USA)
- Too much chance for manipulation of thinly traded securities. (USA)
- Too onerous (USA)
- unlikely since in the end it would could be bids from B/Ds and not real prices (USA)

- Valuation is not truly known until sale of the asset.  Everything else is an estimate of value.  An observable transaction/price is only good for a point in time for a certain size of asset. (USA)
- Very difficult to peg a fair value for relatively illiquid assets. (USA)
- Way too cumbersome, labor intensive, and time consuming (USA)
- When assets cease trading. (USA)
- While the technology exists for daily calculation, data may be stale/outdated. (USA)

## Additional Comments

- Again, i think the structure of the MMF industry has served both sides of the market well. Perhaps the recent emphasis on liquidity and the average and bucketed maturities of the component investments will prove sufficient. These opinions are my own and not those of the firm i work for. (USA)
- Agree that a regulation is needed. Not sure about the final burden of costs. Not sure about the efficacy in times of distress. (LUXEMBOURG)
- Although I think capital requirements, and MTM should apply.....I'm hesitant to add any more regulation to this overregulated environment we've been in since 2009 (USA)
- Beyond all the technicalities, I think it is vital that individual investors have easy and affordable access to investment opportunities that do not have the high risk and returns associated with shares, real estate etc., but that do maintain the investor's wealth in real terms (a serious concern with savings products yielding far less than inflation), and that offers fast access to cash to provide flexibility. As more and more people face ever more lumpy income streams (due to job loss, self-employment etc.), the lack of options to "park" money safely and access it as needed is becoming increasingly problematic. A scenario where MMFs are only accessible to institutional investors would leave private investors with very few choices (and horrendous fees, if they have to gain access to an MMF through an institutional investor). (UNITED KINGDOM)
- Capital requirements could drive small and mid-size sponsors out of the marketing leaving an oligopoly that will control fund investment style, fees, and yields. (USA)
- Cash at banks is not risk free; an investment in a money market fund is not risk free. Abolishing CNAVs will have a big impact on the market for MMFs, but will help the good banks, as they will receive the funds being withdrawn from the MMF. (NETHERLANDS)
- CFA's should always be pro-market and pro mark to market, rather than jumping through hoops to maintain a fiction (USA)
- Currently retail mutual funds offering MMF use high fees. Instead of going to support the company, they could be a source of payment for actual valuations. However, the types of securities often found in MMF are inappropriate for something approaching a stable value. (USA)
- Due to their other than retail nature and distinctive investor behavior, institutional money market funds should operate under a more stringent or restrictive set of guidelines than retail funds. Fund size and cash flows are substantially different for institutional funds versus retail funds. (USA)
- Foremost we should not over-react as society and regulators are quick to do nowadays to a one-time perfect storm. However just because the current system largely performed as expected, that does not prevent the opportunity to learn and improve existing practices. Specific (new?) pricing guidelines could be necessary for MMKT securities, perhaps even some of which have never before been allowed. Clearly the costs of managing a MMKT FD will increase and thus yields will decrease, however the alternative would ultimately be another future crisis. Competition will force these costs to be shared between investors and sponsors, as they should be. (USA)
- I am not sure of all of the details of all of the proposals, but do have a strong opinion on the floating NAV idea: don't do it. (USA)
- I believe disclosure is adequate and that investors realize they are putting money at risk buying equity interests unguaranteed short term loans, I believe all money fund assets are funded with capital; i.e. the funds carry no leverage, so they need no 'capital buffer.' To treat investment capital as something else than equity by introducing a junior layer of capital would increase the perception that fund investors have the rights of depositors or creditors, not equity holders. I do think 'hot money' should be restricted and not permitted to lower returns for steady investors and exacerbate liquidity risks. If funds run into liquidity trouble, they should put both absolute caps and percentage of holdings limitations on withdrawals. (USA)

- I think it is important for MMFs either to recognize the modest fluctuations in value that occur or, if they want to keep constant NAVs that they internalize the costs. I hope such regulation is put in place in both the EU and the US. (USA)
- I think I've already made my views clear on the prior answers.  The only correct public policy outcome is floating NAV.  No changes or changing to capital buffers (however they are funded) is a ploy by industry and some users (especially corporates) to force an implicit guarantee by the government of the funds when they do hit the inevitable crisis that blows through the capital reserves in seconds, yet again putting the short term money markets at risk, and all corporate funding at risk.  MMFs are structurally flawed.  MMFs with the kind of capital buffers acceptable to industry would be structurally flawed too.  Let's call a spade a spade and move to floating NAV. Will the MMF industry contract? Yes, of course, but we are finally aligning the true benefits and risks that MMFs pose with investors demand for the true characteristic of MMFs -- not the illusions of fixed NAV and immediate redemption.   Capital buffers and liquidity gating schemes are precisely that -- schemes in the American use of the term.  The absolutely wrong public policy outcome -- which of course doesn't mean that ever "practical" "flexible" Timmy Geithner won't support them.  Is it too much to ask for implicitly-industry-backed CFA Institute to take a principled stand? (USA)
- I think the industry is already well regulated but there is always place for improvement. We need to analyze the different ways of improvement and evaluate the impact on the industry. (BELGIUM)
- If we kill off the MMF, what do we replace it with?  It seems to me there are much more better things to "reform" than this - and that the high and holy crusaders who have set their sights on the MMF industry either do not know what they are talking about, or have some bizarre vested interest in supporting the growth of something else.  If there IS some great idea that should replace the MMF industry, I'd love to see it compete and win. (USA)
- IMO, the proper reform should be limited to more disclosure about the risks of investing in MMF's. A comparison to bank products would be a useful tool for investors. (USA)
- In the interest of transparency and liquidity for the financial system, VNAV is the only solution in my opinion and Europe having 50% of MMFs doing so already shows that this is possible. At the same time, adding costly restrictions (cap requirements, insurance, redemption periods) only increases cost, not value - to the investor and to the financial system as a whole. (USA)
- It became evident that these funds pose significant risk to the system and some enhanced regulation is necessary to prevent a crisis from spreading in the future. (USA)
- Like PMI, perhaps you could insure the top 5% of a fund to prevent runs created by one or two failed issues, funded by the depositors.  Beyond that the gov't has to backstop just as they do with bank mm accounts. (USA)
- long overdue- the free ride should be over (USA)
- MMF funds are not deposits, they involve different risk and should be sold as such, as long as the customer is informed properly, he/she is taking the risks associated (ROMANIA)
- MMF invest medium term (1-52 weeks) and have to give investors the money back on short notice (daily) - that's what any banks is doing; only that MMF do this without any capital cushion. Therefore, they need to be regulated in the same manner and form that banks are regulated (UNITED KINGDOM)
- MMF should have different denominations. It is not the same a pure cash fund with just CD and Bills and ST Treasuries but why not MMF with higher target return and more sophisticated investments, correctly disclosed to investors. Liquidity conditions should be different, a pure cash fund should NEVER provide any kind of liquidity restriction to investors, a more sophisticated MM could provide some liquidity restrictions in stress markets. (SPAIN)

- MMF should keep min cap requirements, only go out so far in time, and only go so far down credit ladder. Don't like idea of MMF breaking the buck with var. pricing - think that is more of a negative and becomes a short-term bond fund. (USA)
- MMFs are not risk free; but must not allow "runs" on MMFs where early exiters dump losses on remaining investors. (USA)
- MMFs are poor structures for the investor, too expensive, and already over-regulated. But they are of limited systemic importance so can be left alone or better still, deregulated. Caveat emptor can apply here. It is more important to look at e.g. repo tri-party agents and banks as these are systemically important. (UNITED KINGDOM)
- MMFs are unregulated banks with no capital cushion. Either force a floating NAV or require capital. At the moment, retail investors think they have a zero downside risk fund, and they don't. (USA)
- MMFs clearly need some form of regulation after previous credit market issues, specifically with the Reserve Fund breaking the $1 par value. However, overregulation will significantly harm the industry. (USA)
- Money market fund reform is the best thing for the financial markets. Whether or not it's the best thing for the profitability of specific firms is debatable. Unfortunately, there are some firms that have campaigned heavily to protect against a perceived threat to their profitability at the detriment to what is best for the financial markets. This kind of self-serving behavior should be exposed for what it is. (USA)
- Money market reform during this ultra-low rate environment would result in further consolidation of industry participants thereby increasing the too big to fail issue as margins are too thin. The SEC has to be aware of the potential fallout from variable NAV from both the investor and money manager perspective. Floating NAV would be detrimental to the product. (USA)
- Most of the reforms from 2010 (?) significantly decreased the liquidity and market risk of money markets but the true measure is would the government be expected to support the MM industry as it did in 08-09 if there were another severe market disruption (lack of liquidity). If not then a floating NAV would solve the problem. If an investor is spooked by a floating NAV then the MMFs with stable 1.00 prices would be in more demand and the volatile NAV funds would be in less demand. Once there is a floating NAV then the market will determine which fund is successful and there would be full and immediate transparency to price of the underlying assets. (USA)
- Most of these proposed regulations seem to be trying to fix a problem that no longer exists. The fixed income markets are nothing like what they were in 2007-2008. Today the problem is available yield. I think mr. bernanke is creating the very deflation he sought to avoid. these low rates "for an extended period" are killing money market funds and harming investors in those funds. When the $1.00/share NAV was at risk, fund sponsors ponied up their own money to fill the gap. This is market discipline at its best. Under the present regime, if they break the buck, they are out of business. This would not happen with every MMF across the board. yes, there were a small number of famous MMF blow ups, by they were isolated. the market penalties those firms paid were high enough to remind other sponsors to keep their act together, in my opinion (USA)
- Over-regulating funds is the lesser of two evils; the greater evil is under-regulating. Over-regulation might drive up the cost of borrowing and so slow growth over the long-run, but money that is lost causes pain today and the less money you have, the harder it is to make more. (USA)
- Please provide any additional comments relating to Money Market Fund regulation: (Country)
- Please support my proposal. It is minimalist; it meets the goals of both the SEC, and minimally affect fund managers. It puts risk back in the right place -- in the hands of the investors. (USA)
- Reform must be made (USA)
- Regulation does not work in any manner. Never has, never will. (USA)

- Regulation should be simple and sensible. Some regulation is necessary, but the heavier it becomes the more likely we are to see unexpected consequences due to incentives. (SWEDEN)
- Right now the Fed is severely distorting all interest rates but especially short term rates. Under this condition money market funds are losing money. Moving to market value accounting will hurt money market funds under today's conditions. Realistic accounting and clarification of regulatory requirements for money market funds will strengthen our financial system. (USA)
- Self-interested fund managers will try to avoid new costs, as a knee jerk reaction, but the costs of extreme events (such as no prices to establish value) should be covered somehow. (USA)
- Should put more emphasis on protecting investors than protecting the profit generating capacity of the funds and the firms that operate them. There is and continues to be huge distrust of the banking and financial systems. Look at the behavior of market participants over recent history, and you can see there is good reason for that distrust. (USA)
- Sponsors should be compelled to highlight the fact that the funds are very-low-risk not completely risk-free (UNITED KINGDOM)
- The approach of restricting liquidity on a portion of MMF assets in case of a run is misguided policy at best-- and defeats the purpose of these instruments in being "liquid". It's a provision that hurts investors at the expense of the issuer. Most of the systemic risks surrounding MMFs are not structural to the MMF-- but are linked to issuers of ST debt that have a systemic components to them. IF there are any needed reforms, one might provide a hard floor on investor losses- say 3c on the dollar. Anything above that, the MMF issuer must bear the risk of capital loss-- and provide a capital buffer to ensure liquidity. This is the only approach I can think of that provides adequate protection for investors and provides much needed liquidity. (USA)
- The constant NAV used in money market funds today allows fund holders with institutional fund holders with an information advantage to take advantage of retail investors without as much information. As was the case in the Reserve fund and is still the case, institutional investors can reach for yield through questionable accounting methods and then cash out at full value at the first sign of trouble, leaving the last people to cash out holding the bag. This will inevitably be retail customers who do not spend all of their time on investment and securities analysis. (USA)
- The current regulation changes - 7 daily liquidity requirement, shortening WAM to 60 days max - are sufficient regulation for the industry. Regulators should focus on the leverage levels and other risks inherent in the issuers of money market securities, not the funds. (USA)
- The product has strong demand and provides diversification. The industry should look at technical/structural fixes to maintain the CNAV versus inefficiently using capital/fees that are better used elsewhere in the marketplace. (USA)
- The proposed regulation is a step in the right direction. Implicit/ explicit guarantees for these funds poses significant risk for financial institutions especially in cases of black swan events in the market. (NETHERLANDS)
- The regulators are trying hard, but not really listening to the industry or the users of the product or the counterparties that use these funds to raise day to day cash in the market place. The industry has moved forward and whilst it could never be proved that it is enough, until god forbid, we see another crisis of the like we have just seen (are seeing?), irrational plans to force VNAV, capital buffers, liquidity buffers, insurance are not the right way forward. The costs to implement these schemes would be too high and just force the industry into unregulated areas thus not changing or solving anything. And unbelievably, they think going to VNAV solves everything - they obviously have no idea of how markets work. VNAV funds saw massive outflows as well, still benefit first out so it would solve nothing. Finally, the US market is a very different place to Europe and a vastly different product and client base. Europe should feel able to regulate in a different manner to reflect that - so long as the regulation is appropriate. (UNITED KINGDOM)
- this is a case where the wrong regulation could completely destroy an industry and create significant issues for both those with credit needs and those with surplus cash to invest (USA)

- This is a challenging issue.  Ideally, there would be a way to get a reasonable estimate of fair market value allowing investors to have a better sense of the true value of the securities they own.  It may be a moving average or some other calculation to calculate FMV, but I think with adequate thought and caution a sensible solution can be found. /  (USA)
- This is a complex area with national differences. Therefore this will mean it will be very difficult to come up with a global response. Is it worth the effort? (UNITED KINGDOM)
- This is a very important topic today, and should be formally addressed by regulators.  (USA)
- This is not rocket science. Money Market funds should be managed on a prudential basis. They should be low risk and therefore assets held should be high quality. Adequate liquidity should also be maintained for all anticipated events. Additional protection should not be bought in as this would add additional costs. Given low interest rates, cost should be kept to a minimum. Adequate risk management should be in place. (UNITED KINGDOM)
- This whole issue is the biggest boondoggle and waste of time.  Leave it alone.  We have too many regulators walking around with a hammer looking for a nail.  Not everything is a nail.  Leave it alone. (USA)
- This whole thing is based upon "constant" instead of "stable" (USA)
- To prohibit commercial banks to have interests in any MMF. (ITALY)
- Unfamiliar with all the complexities here discussed.  (USA)

# Survey Questionnaire

## Money Market Funds and Systemic Risk

**Q1. To what extent, if any, do you think Money Market Funds (MMFs) are a source of systemic risk?**
*Scale: Not a source of systemic risk at all 1, 2, 3, 4, Significant source of systemic risk 5, No opinion*
Please explain your answer: *[text]*

## Money Market Fund Reform

**Q2. What is your opinion on the need for reforming MMF regulation?**
MMF regulation needs to be reformed.
MMF regulation does not need to be reformed.
No opinion

**Q3. (IF Q2=does not need to be reformed) Why do you think MMF regulation does not need to be reformed?**
*Select all that apply*
They are appropriately regulated.
Recent reforms in the European Union (CESR Guidelines) mitigate systemic risk.
Recent reforms in the United States mitigate systemic risk.
Other reason(s) (please specify): [text box]

## Proposed Money Market Fund Reforms

**Q4.If MMF regulation were to be reformed, which approach do you think would be <u>most</u> appropriate?**
The application of banking regulation to MMFs
Modification of fund regulation
A combination of the two approaches
No opinion

*Comments: [text]*

**Q5. Please indicate whether you agree or disagree with each of the following proposed reforms:**

| | Agree | Disagree | Not sure |
|---|---|---|---|
| CNAV MMFs should be required to switch to a Variable NAV | | | |
| CNAV MMFs should have to maintain capital reserves | | | |
| All MMFs (CNAV and VNAV) should have to maintain capital reserves | | | |
| MMF capital reserves should be financed by fund sponsors | | | |
| MMF capital reserves should be financed by fund investors | | | |
| Private insurance should be used instead of capital reserves to provide a liquidity facility in case of "runs" | | | |
| Private insurance should be used instead of capital reserves, but only to wind up a fund | | | |
| MMF sponsors that provide capital guarantees to investors | | | |

| | | | |
|---|---|---|---|
| should be subject to capital requirements | | | |
| Investors in CNAV MMFs should benefit from protection by insurance or guarantee schemes, and the fund/investors should make contributions towards such coverage | | | |
| Investors in all MMFs (CNAV and VNAV) should benefit from protection by insurance or guarantee schemes, and the fund/investors should make contributions towards such coverage | | | |
| The use of amortized cost should be prohibited for all MMFs | | | |
| Only institutional investors should be allowed to invest in CNAV MMFs | | | |
| Disclosure to retail investors regarding investment risks and the lack of guarantees for all MMFs should be strengthened, particularly for CNAV MMFs as they may provide a false sense of security | | | |
| All MMFs should have liquidity risk management mechanisms to manage "runs" on the funds | | | |
| MMFs in the European Union already dispose of sufficient liquidity risk management mechanisms | | | |

If you have comments about any of the proposed reforms listed above, and/or if you have additional reform ideas you think are necessary, please share them here: *[text]*

## Liquidity Risk Management

**Q6. What is your opinion on when liquidity risk management mechanisms should apply?**
Liquidity risk management mechanisms should never apply.
Liquidity risk management mechanisms should apply only in case of heavy redemptions or in stressed markets.
Other opinion (please explain): [text]
No opinion

**Q7. Which, if any, of the following potential forms of liquidity risk management do you think should apply to MMFs?**
*Select all that apply*
Extension of advance notice period for redemptions
Liquidity fees (equal to the anticipated change in the market-based NAV of the MMF's portfolio due to the redemption)
Minimum balance requirements (a minimum balance amount held back for a specified period of time, subject to loss if the MMF loses value during that period)
Valuation at bid price
Gates
Redemptions-in-kind
Other (please specify): [text box]
None of the above
No opinion

## Other Issues Related to Money Market Funds

**Q8. In your opinion, what effect, if any, would the imposition of capital requirements have on MMFs?**
Scale: Positive effect, negative effect, No effect, No opinion

Comments: [text]

**Q9. If the use of amortized cost is prohibited, is it feasible to calculate a fair value on a daily basis for all assets held by MMFs?**
Yes (please explain why): [text]
No (please explain): [text]
No opinion

**Please provide any additional comments relating to Money Market Fund regulation:**
[text box]