News Archives: June, 2009

Stocks Regain Largest Slice, CD Holdings in MMFs Surge in May

Jun 30 09

The Investment Company Institute released its latest monthly "Trends in Mutual Fund Investing: May 2009, which showed **total mutual fund assets breaking back above the $10 trillion level**. **But money market fund assets continued their decline, falling by $24.4 billion to $3.767 trillion in May**. Money funds **had been the biggest slice of the mutual fund pie since late 2008**, but they **now represent 37.4% of all mutual fund assets vs. 39.8% for stock funds**. (Note that ICI's latest weekly series shows money fund assets rebounding by **$34.22 billion to $3.709 trillion**.)

ICI's monthly statistics release says, "**Money market funds had an outflow of $25.80 billion in May, compared with an outflow of $23.23 billion in April**. Funds offered primarily to institutions had an inflow of $7.19 billion. Funds offered primarily to individuals had an outflow of $32.99 billion." Taxable money fund assets declined from $3.328 to $3.303 trillion, while tax-free money fund assets increased from $463.8 to $464.4 billion, according to the tables. Year-to-date (through May 31), money fund assets have declined by $65 billion.

The monthly "Trends" report tracks 510 taxable funds (down from 520 in April and 543 in December 2008) and **236 tax-free money funds** (same as April and down from 254 in Dec. '08). The "**Liquid Assets of Stock Mutual Funds" fell to 4.8% in May 2009** from 5.1% in April, but this figure is up from 4.3% in May 2008 (and is still very low historically).

ICI's separate (available to members-only) "**Month-End Portfolio Holdings of Taxable Money Market Funds**" shows **U.S. Government Agency Securities and Repurchase Agreements continuing to represent the largest portion of money fund assets at 23.0% and 18.3% respectively ($758.6 billion and $604.8 billion)**. These were followed in size by **Commercial Paper (16.3%, or $536.7 billion), Certificates of Deposits (16.0%, or $527.8 billion), and U.S. Treasury Bills and Securities (14.9%, or $493.0 billion)**. There is an additional 4.8%, or $157.1 billion, held in **Corporate Notes**; 2. 9%, or $94 billion, held in **Eurodollar CDs**; 1.8%, or $57.8 billion, held in **Bank Notes**; and, 2.2%, or $ 74 billion, held in "**Other**" cash assets.

CDs showed the largest increase in May (up $49.5 billion), while CP showed the largest decline (down $27.0 billion). **Treasury Bills** (down $23.1 billion) and **Government Agency securities** (down $ 25.0 billion) also showed sharp declines in money fund portfolio holdings. **Average maturities of taxable funds increased by 3 days to 53 days in May**, according to ICI. (**Look for Crane Data's new updated portfolio composition totals in the next issue of our Money Fund Intelligence XLS**.)

In other news, see law firm Stradley's comments on "Money Market Fund Reform: SEC Proposes Rule Amendments and Seeks Comment on Fundamental Issues", which says, "**On June 24, 2009, the SEC voted to propose amendments to Rule 2a-7, the money market fund rule under the Investment Company Act of 1940, designed to strengthen the regulatory requirements governing money market funds to increase their resilience to economic stresses and reduce the risks of runs on the funds**. The SEC also voted to seek public comment on some possible fundamental reforms relating to money market funds, including whether the stable $1.00 share price should be abandoned in favor of a floating net asset value per share (NAV) and whether money market funds should be required to satisfy redemption requests in excess of a certain size through in-kind redemptions. The SEC did not include those more fundamental reforms as formal proposals."

Investors Won't Notice Change in MMFs From New Rules Says SEC

Jun 29 09

Last week, the Securities & Exchange Commission held an "open meeting" to discuss pending new proposals to "**strengthen the regulatory requirements governing money market funds**." As we said

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last Wednesday, **the SEC has proposed making money funds less risky by improving liquidity, shortening maturity, and by increasing credit quality**. We previously reprinted the SEC's release to press, "**Making Money Market Funds Less Risky**. Today, we excerpt some further comments from last week's Webinar and from the posted remarks of the various SEC Commissioner's. (The proposals were passed but have yet to be posted in their entirety.)

SEC Chairman **Mary Shapiro** said, "**[T]he Commission is considering proposals that would strengthen money market fund regulation to help avoid the types of events experienced last fall**. Most significantly, the proposals we are considering **would enhance the risk-limiting requirements of rule 2a-7, the rule that principally governs the operations of money market funds**.... The proposals would establish new liquidity requirements for money market funds, so that **the funds are required to hold specified percentages of their assets in cash or highly liquid securities**.... **The proposals also would enhance the quality of money market fund investments by strengthening the credit quality and portfolio maturity requirements of rule 2a-7**. In addition, the proposals would ... **require money market funds to disclose their portfolio holdings on a monthly basis**."

The SEC's **Andrew Donohue** said, "I am very pleased this morning to present to you the recommendations of the Division of Investment Management. These rule changes are designed to strengthen the regulatory framework for money market funds. **Many of these changes are intended to address the issues that came to light during the market turbulence of the past two years. All of the changes are designed to help protect money market funds from future instability, to improve their operations, and to increase the amount of information available to the Commission and to investors about potential risks in money market funds**."

He added, "Of course, no fix that the Commission adopts will guarantee that a money market fund will never break a buck in the future. Investment entails risk, and accidents will happen. No design standard for a ship will prevent it from striking an iceberg.... A ship encased in armor might survive a collision, but it also might sink under its own weight. **In crafting our recommendations, we have tried to keep in mind that seaworthy means safe as well as useful, competitive, and easy to maneuver**."

Commissioner **Kathleen Casey** said in her introduction, "**I am quite pleased with the overall approach of the release**. Once again, the Division staff has done a wonderful job. In particular, I should highlight their recommendations with respect to the rule's liquidity and maturity requirements, as well as **those relating to the processing of transactions, exemption for certain affiliate purchases, and liquidation mechanisms**. I also would like to credit the staff for suggesting robust questions about the use of tier two securities, an issue that deserves close scrutiny as we move forward. **One area of rule 2a-7 that gives me grave concern, however, is the continued reliance on NRSRO ratings**."

Elisse Walter, like all of the Commissioners, expressed strong support for money market funds, the SEC's oversight, and the proposed regulatory changes. She said, "**[I]n proposing rules to strengthen the money market fund regulatory structure, we must recognize both that the system in place historically has served investors quite well, and that there are enhancements that we should consider in order to reflect the problems experienced by money market funds during the financial crisis and our experience with The Reserve Fund**.... These enhancements should make money market funds **more resilient to certain short term market risks**, and **provide greater protections for investors in a money market fund that is unable to maintain a stable net asset value per share**."

Commissioner **Troy Paredes**, however, expressed strong reservations on two fronts, saying, "**The proposal goes to great lengths to reduce the risk that money market funds will break the buck**. The proposed Rule 2a-7 amendments, for example, shorten portfolio maturities and impose new liquidity requirements. The amendments also would permit money market funds that have broken a buck to suspend redemptions to facilitate orderly liquidation. Although I support the proposal, I do have significant reservations about two features of the Commission's release. **First, the proposal eliminates entirely Second Tier securities as a category of investment for money market funds**.... **Second, in proposing certain portfolio disclosures, the release discusses and seeks comment on the possibility of requiring money market funds to disclose their market-based net asset value per share**."

Finally, during the Q&A, the SEC's **Bob Plaze** said, "**Investors won't notice a change in money market funds if these rules are adopted**." The SEC estimated that the new regulations "**might reduce yield by 2-4 basis points**." When asked about funds adapting to the new proposals, which will go through a comment period, then a transition period, Plaze said, "**One gets the sense that funds are already there**."

In other news, see also **ICI Reports Money Market Mutual Fund Assets**, which says money fund assets increased by $34.22 billion to $3.709 trillion in the week ended June 24. **Money fund assets broke a 3-week losing streak but remain down by $121 billion, or 3.2%, year-to-date**.

More Marshall on Money Funds: Refusing to Drink From the Fire Hose

Jun 26 09

Today, we excerpt again from our June ***Money Fund Intelligence*** "profile," "**Yields Still Brewing At Marshall Money Market Funds**." We asked Marshall Prime Money Market Fund Portfolio Manager **Rich Rokus whether asset flows are as important as security selection**. He responds, "**You better**

believe they are. Money funds, with a few very public exceptions, have been able to keep a dollar. It's difficult to keep a buck going if half of your fund leaves. So from that standpoint, you need to know your shareholders. **You need to develop a viable business model -- relying purely upon hot money can kill you in the end**."

Rokus tells MFI, "**We, like many other money market funds with top-ranked performance, were solicited all the time to participate in portals and organizations that, in essence, wanted you to ' drink from the fire hose.'** We have said all along that's not the business that we're designed for. We have a stable base of client assets that we want to service the best way that we can. **Taking in a lot of money that is going to come in fast and leave just as fast at the wrong time is something that we consciously avoided**."

He continues, "The discussions that we had with portals were in essence, **'Maybe we will work with you, but it will be in a very controlled fashion.** We're going to limit the amount of dollars that we'll take, and we're going to ask that you call us every day that you're going to have a significant cash movement.' It seemed that was a foreign conversation to many of them."

Finally, Rokus says, "**They had never been constrained that way from a fund family**. They thought we should be anxious to take any dollar that they could deliver. We said, 'No, that's not the way that we want to work with you.' **Instead, we focused on a very few with broad, stable customer bases who were willing to work with us in a controlled, fully transparent fashion**. We have a nice working relationship with those few, but we have had no significant amounts from any of them."

For a copy of the most recent issue of ***Money Fund Intelligence***, e-mail stork@cranedata.us and include "Request MFI" in the Subject line.

Fitch Says Money Fund Proposals Highlight Credit and Liquidity Risk

Jun 25 09

Fitch Ratings said in a press release issued Tuesday, "**Proposals announced last week by the Department of the Treasury regarding money market fund credit and liquidity risk are consistent with risks highlighted by Fitch Ratings in its January exposure draft on money market fund criteria**. Fitch is considering whether 'AAA/V1+' ratings for 'prime' money market funds will be achievable over the longer-term, absent fundamental changes. Importantly, money market funds currently benefit from various forms of governmental intervention that have cushioned the impact of the current financial crisis. **Removal of this support could negatively impact ratings if the credit and liquidity issues are not addressed at the same time**."

The release continues, "**The money market fund industry and its various regulators are considering changes to address credit and liquidity risk in 'prime' money market funds to improve their safety and soundness, while lowering their potential systemic risk**. The timing and magnitude of these changes will determine whether ratings will be maintained at their current levels or if negative ratings actions will be necessary. Fitch will be monitoring the discussions between the SEC, the President's Working Group on Financial Markets and other industry-led groups that could result in fundamental changes that provide for greater protections against and credit liquidity risk."

The ratings agency says, "**Fitch's Jan. 26 exposure draft proposed significant changes to the rating criteria for global money market funds in response to the adverse market events in 2008, which placed significant credit and liquidity pressures on money market funds**.... Fitch's exposure draft proposed a series of changes that were deemed necessary to continue rating money market funds 'AAA/V1+'. **These changes included: An evaluation of the fund's institutional sponsor ...; Updated guidelines on shareholder concentrations and redemption risk; Updated diversification guidelines ...; and, The introduction of new weighted average days to final (WAMF) metric that captures the risk from credit spread widening**."

Fitch adds, "**While money market funds have enjoyed a long and successful track record of stability up until last year, a critical element behind their stability has been sponsor support during times of stress**.... Without fundamental structural changes, money market funds will continue to rely on sponsor support, which may not always be forthcoming. **The financial crisis revealed structural shortcomings that, given their size and importance to the credit markets, have highlighted the systemic risks posed by money market funds**.... These investment vehicles also have proven to be confidence-sensitive and exposed to contagion risk by offering same-day liquidity to shareholders which can lead to 'runs' as a result of industry or sponsor concerns. **Fitch believes that more can be done to better match the liquidity profile of fund assets to shareholder redemptions**."

SEC Issues Proposal Outline on Making Money Market Funds Less Risky

Jun 24 09

The U.S. Securities & Exchange Commission today released a document entitled, "**Making Money Market Funds Less Risky**" at an open meeting discussing the **Commission's proposed changes to money fund regulations**. Its "Fact Sheet" handout says, "**The Securities and Exchange Commission**

today will consider proposing rule amendments designed to significantly strengthen the regulatory requirements governing money market funds. The proposal would increase the resilience of these funds to economic stresses and reduce the risks of runs on the funds."

The SEC release explains, The proposal would: **Further Restrict Risks by Money Market Funds** via "**Improved Liquidity**: The proposal would **prohibit money market funds from purchasing illiquid securities**. It also would require that funds have a **minimum percentage of their assets in highly liquid securities** so that those assets could be readily converted to cash -- For retail money market funds at least 5% of assets must be in cash, U.S. Treasury securities, or readily convertible into cash (collectively, 'liquid') within one day, and at least 15% must be liquid within one week. For institutional money market funds, which have experienced greater liquidity challenges than retail funds, at least 10% of assets must be liquid within one day, and at least 30% must be liquid within one week. **Currently, rule 2a-7, the rule governing money market funds, contains no liquidity requirements**. (Note: The one-day liquidity limits for retail and institutional funds would not apply to tax exempt money market funds.)

They would also restrict risks via: **Shortened Maturity Limits**. The SEC says, "**The proposal would shorten the average maturity limits for money market funds**, which would help to limit the exposure of the funds to certain risks, such as interest rate risks. It would do this by -- **Restricting the maximum ' weighted average life' maturity of a fund's portfolio to 120 days** (currently there is no such limit). The effect of the restriction would be to limit the ability of the fund to invest in long-term floating rate securities." Also, by "**Restricting the maximum weighted average maturity of a fund's portfolio to 60 days** (currently the limit is 90 days)."

The Commission proposes, "**Higher Credit Quality**. "The proposal would limit money market funds to investing only in the highest quality securities --that is, **not 'Second Tier' securities**. Currently, most funds are permitted to invest up to 5% of their assets in 'Second Tier' securities." They also propose, "**Periodic Stress Tests**, "**The proposal would require fund managers to examine the fund's ability to maintain a stable net asset value per share in the event of shocks** -- such as interest rate changes, higher redemptions, and changes in credit quality of the portfolio."

They propose, "**'Know Your Investor' Procedures**, "The proposal would require funds to **develop procedures to identify investors whose redemption requests may pose risks for funds**. Such procedures would require funds to anticipate the likelihood of large redemptions." It would also, "**Enhance Disclosure of Portfolio Securities** via a "**Monthly Web Site Posting**: The proposal would require money market funds each month to post on their Web sites their portfolio holdings" and via "**Monthly Reporting**: The proposal would also require money market funds each month to report to the Commission detailed portfolio schedules in a format that could be used to create an interactive database through which the Commission could better oversee the activities of money market funds."

In addition, the SEC proposals would "**Improve Money Market Fund Operations** with "**Electronic Processing**: The proposal would require that all money market funds and their administrators **be able to process purchases and redemptions electronically at a price other than $1 per share**. The requirement would facilitate share redemptions if a fund were to 'break the buck.'" It would also allow "**Suspension of Redemptions**: The proposal would permit a money market fund's board of directors to **suspend redemptions if the fund were to break a buck and decide to liquidate**." It would also allow, "**Purchases by Affiliates**: The proposal would expand the ability of affiliates of money market funds to purchase distressed assets from funds in order to protect a fund from losses."

Finally, the release says, "**In addition to the proposed rules, the Commission will consider seeking public comment on such issues as**: **Floating Share Price** - Should money market funds be required to sell and redeem shares at a floating share price rather than a stable share price (typically $1 per share)? **Credit Rating Agencies** - What role should credit rating agencies' ratings have in money market fund regulation?" It also seeks comment on "**Asset-Backed Securities** - Should the Commission amend the money market fund rule with respect to investment in asset backed securities and the attendant risks? **The proposed rule amendments and requests for comment would be subject to a 60 day public comment period following publication in the Federal Register**."

SEC to Hold Hearing on Proposed Changes to Money Fund Regulations

Jun 24 09

This morning at 10:00 a.m. The Securities & Exchange Commission will hold a **public "Sunshine Act" meeting** in its Auditorium (Room L-002) in Washington, to "**consider whether to propose amendments governing the operations of money market funds**." (See the announcement here.) **We hope and expect that feedback at the meeting** and reaction following the SEC's issuance of proposed amendments to Rule 2a-7 the Investment Company Act of 1940, the **regulations governing money market funds**, will **convince the SEC to keep the changes sane and moderate**. **We expect the isolated and limited discussions surrounding radical changes, such as floating rate NAVs, $10 NAVs, private insurance pools, credit derivative protections, and bank-like regulations, to fade as regulators and legislators realize that these could cause tremendous harm, and would not have prevented the current crisis**.

We wrote about the new proposals last Wednesday in the Crane Data News piece, "SEC Proposals for Money Fund Reg Changes to Be Mild Says Bloomberg". This discussed the Bloomberg article, "SEC Said to Back Money Funds on Changes to Protect Investors," which said, "**The U.S. Securities and**

Exchange Commission may support most of the proposals by asset managers to make money-market funds safer after last year's collapse of Reserve Primary Fund led to a run on the $3.5 trillion industry, according to people with knowledge the matter."

Last week, the Obama Treasury also weighed in on regulatory changes in its white paper entitled, " Financial Regulatory Reform: A New Foundation". As we wrote in Crane Data News "Treasury's ' Financial Regulatory Reform: A New Foundation' on MMFs", "**The SEC should move forward with its plans to strengthen the regulatory framework around MMFs to reduce the credit and liquidity risk profile of individual MMFs and to make the MMF industry as a whole less susceptible to runs**.... The President's Working Group on Financial Markets should prepare a report **assessing whether more fundamental changes are necessary** to further reduce the MMF industry's susceptibility to runs, such as eliminating the ability of a MMF to use a stable net asset value or requiring MMFs to obtain access to reliable emergency liquidity facilities from private sources."

Yesterday, we quoted JPM Securities' **Alex Roever** on the Treasury's white paper, "**The report exhorts the SEC to strengthen the regulatory framework around money market funds and specifically mentions five areas of concentration: * require MMFs to maintain substantial liquidity buffers; * reduce the maximum weighted average maturity of MMF assets; * tighten the credit concentration limits applicable to MMFs; * improve the credit risk analysis and management of MMFs; and, * empower MMF boards of directors to suspend redemptions in extraordinary circumstances to protect the interests of fund shareholders**."

JPMorgan's Roever and Brown on Regulatory Overhaul, 2a-7 Changes

Jun 23 09

J.P. Morgan Securities' weekly "Short-Term Fixed Income" publication, written by **Alex Roever** and **Cie-Jai Brown**, commented on the recent Treasury "white paper", "**As was widely expected, this week the White House unveiled its framework for a regulatory overhaul of the financial markets in a white paper, which included proposals targeted at money market funds**. The report exhorts the SEC to strengthen the regulatory framework around money market funds and **specifically mentions five areas of concentration: * require MMFs to maintain substantial liquidity buffers; * reduce the maximum weighted average maturity of MMF assets; * tighten the credit concentration limits applicable to MMFs; * improve the credit risk analysis and management of MMFs; and, * empower MMF boards of directors to suspend redemptions in extraordinary circumstances to protect the interests of fund shareholders**."

J.P.Morgan Securities says, "**Readers of the ICI Money Market Working Group report will recognize each of these as coming from the report's 24 recommendations**. Also of interest, there is **no mention in the white paper of a continuation of the money market fund insurance program that was initiated last fall**. It was another ICI suggestion that that program be allowed to lapse. Where the administration may be breaking away from the ICI is on the topic of systemic risk. **Specifically, the President's Working Group on Financial Markets (PWG) is preparing a report for release by September 15 considering more controversial changes such as whether money funds should move away from the stable NAV model or whether money funds should have access to 'reliable emergency liquidity facilities from private sources'**."

The "***Short-Term Fixed-Income***" piece continues, "**Since last fall, both the AMLF and the MMIFF have served the function of public liquidity facilities benefiting money funds, and there has been some speculation that they might ultimately be replaced by some broader form of access to the Discount Window**. While this might still be possible, the phrasing in the white paper might suggest otherwise. What might constitute a 'private source' is open to conjecture, and is complicated by the fact that **in the wake of the Lehman Brothers failure the scale of the need was so large, it was probably too large for any private source**. **Unfortunately there's not more elaboration on these points, and as far as the PWG is concerned there probably won't be until September**. However, proposals regarding money fund regulation, like those proposed by the ICI and the white paper, **will be discussed at an SEC hearing on June 24, after which it will likely publish proposed rules for public comment**. It is not clear at this point whether more controversial issues like the variable NAV proposal will be addressed at the hearing."

Finally, Roever and Brown says, "**The NAV question aside, if the SEC amends Rule 2a-7 along the lines of the ICI proposals, the result will shorten the maturity of securities purchased by funds, causing issuers to have to roll their debt with marginally greater frequency**. The shorter maturity restrictions and tighter credit guidelines are likely to compress fund yields, making it more difficult for higher-cost funds to continue to compete, leading to greater consolidation among money fund providers. **Fewer funds means there will be less investor diversity for issuers, ironically leading to greater systemic risk, and making it more difficult and expensive for some issuers to access the money markets**."

Crane: Help Is on the Way for Money Funds in Form of Higher Yields

Jun 22 09

Late last week, **mutual fund news website** ignites.com featured a piece written by Crane Data President & Publisher **Peter G. Crane**. The "MoneyVoices" column is entitled, "Is Yield Drought Passing for Money Funds?. It says, "While rising interest rates are not normally cause for celebration among money market fund managers, this time will likely be different. **Short-term rate hikes by the Federal Reserve may still be a ways off, but recent hints of rising market rates and rising expectations of hikes may offer a lifeline to some funds with near-zero net yields**."

Crane explains, "**Money fund yields of course won't move significantly higher until the Fed moves. But the fact that six-month and one-year money market rates are now pricing in hikes allows funds some relief from the ultra-low-rate environment**. Not only were the low yields beginning to have trouble covering expenses, but they also were beginning to drive investors into higher-yielding and higher-risk alternatives."

He tells ignites, "**Approximately 15% of taxable money fund assets are currently yielding 0.01% or 0.00%**, according to research from ***June's Money Fund Intelligence***. These 272 funds (out of 890) are likely waiving substantial percentages of their overall fees. **The fact that money fund liquidations have been surprisingly rare -- only a handful of funds have exited the business with none due to ultra-low yields -- indicates that the fee-waiving pressure is not fatal**. But the merciless grinding of lower yields **would undoubtedly have forced more funds to close to new investments, to merge, or to seriously consider exiting the business**."

Crane continues, "**Now, however, help is on the way in the shape of an upward-sloping yield curve**. Federal funds futures were recently pricing in a near certainty of at least one rate hike by year end, **though the odds have eased somewhat this week**. **While it's not clear how soon rates will rise, it's certain they will, and it's now looking as if it could be sooner than expected**. Higher rates will help alleviate the fee-waiving issue that ultra-low yields bring. They should also help return money funds to a more level playing field vis-a-vis bank savings account and bond options."

The ignites piece adds, "**Of course, rising rates bring risks too**. Rate hikes would accelerate the modest outflows we've seen from money funds of late as institutional investors move to take advantage of overnight repurchase agreements (repos) and other rapidly reacting money market instruments. Rising rates also put pressure on NAVs, too, as bond prices decline. But these would be welcome trade-offs in exchange for the additional expense ratio breathing room and higher nominal yields."

Finally, Crane says to ignite.com, "**So while the Obama administration's comments on regulatory reform and the SEC's proposed changes to the quality, maturity and diversity regulations governing money market mutual funds will be the main topics of discussion among money fund professionals in the coming week, both funds and investors have also gotten a glimmer of hope recently in the form of potentially rising rates**."

Money Fund Assets Fall Sharply in Week, Down to November '08 Levels

Jun 19 09

Money market mutual fund assets fell for the third week in a row and the 11th week in the past 14 weeks. The Investment Company Institute's latest weekly "Money Market Mutual Fund Assets" report shows **a decline of $72.85 billion to $3.675 trillion** in the week ended June 17. **Year-to-date, money fund assets have declined by $155 billion, or 4.1%, and assets, after peaking at $3.922 trillion the second week in January, have now retreated to levels last seen in mid-November 2008**.

Though this week's totals were undoubtedly pushed lower due to Monday's quarterly corporate tax payment date, it's becoming increasingly clear that the declines in money fund assets are more than mere seasonal moves. Institutional money funds accounted for almost all of the asset declines this week; assets here fell by $66.20 billion to $2.439 trillion. Retail assets declined by $6.65 to $1.235 trillion. **Year-to-date, however, retail assets have accounted for the bulk of the retreat, falling $119 billion, or 8.8%**. Institutional assets have decreased by $46 billion, or 1.9%.

ICI's release says, "Taxable government money market fund assets in the retail category decreased by $2.14 billion to $209.28 billion, taxable non-government money market fund assets decreased by $3.52 billion to $755.99 billion, and tax-exempt fund assets decreased by $988 million to $270.09 billion.... **Among institutional funds, taxable government money market fund assets decreased by $36.18 billion to $1.058 trillion, taxable non-government money market fund assets decreased by $29.58 billion to $1.192 trillion, and tax-exempt fund assets decreased by $436 million to $188.63 billion**."

Over the past 52 weeks, total money fund assets have increased by $174 billion, or 5%. Institutional assets have increased by $172 billion, or 7.6%, while Retail assets have increased by $2 billion, or 0.2%. **Over the past 104 weeks (2 years), money fund assets have still grown by a whopping $1.14 trillion, or 45%**.

Treasury's "Financial Regulatory Reform: A New Foundation" on MMFs

Jun 18 09

Yesterday, the Obama Administration and Department of the Treasury unveiled a white paper entitled, " Financial Regulatory Reform: A New Foundation", which **spends less than two of its 89 pages discussing money market funds**. It says under the section, "**Reduce the Susceptibility of Money Market Mutual Funds (MMFs) to Runs**," "**The SEC should move forward with its plans to strengthen the regulatory framework around MMFs to reduce the credit and liquidity risk profile of individual MMFs and to make the MMF industry as a whole less susceptible to runs**."

But the report also advises, "The **President's Working Group on Financial Markets** should prepare a **report assessing whether more fundamental changes are necessary to further reduce the MMF industry's susceptibility to runs, such as eliminating the ability of a MMF to use a stable net asset value or requiring MMFs to obtain access to reliable emergency liquidity facilities from private sources**."

It explains, "**When the aggressive pursuit of higher yield left one MMF vulnerable to the failure of Lehman Brothers and the fund 'broke the buck,' it sparked a run on the entire MMF industry**. This run resulted in severe liquidity pressures, not only on prime MMFs but also on banks and other financial institutions that relied significantly on MMFs for funding and on private money market participants generally. The run on MMFs was stopped only by introduction of Treasury's Temporary Guarantee Program for MMFs and new Federal Reserve liquidity facilities targeted at MMFs. **Even after the run stopped, for some time MMFs and other money market investors were unwilling to lend other than at very short maturities, which greatly increased liquidity risks for businesses, banks, and other institutions**."

The white paper's section on money funds continues, "**The vulnerability of MMFs to breaking the buck and the susceptibility of the entire prime MMF industry to a run in such circumstances remains a significant source of systemic risk**. The SEC should move forward with its plans to strengthen the regulatory framework around MMFs. **In doing so, the SEC should consider: (i) requiring MMFs to maintain substantial liquidity buffers; (ii) reducing the maximum weighted average maturity of MMF assets; (iii) tightening the credit concentration limits applicable to MMFs; (iv) improving the credit risk analysis and management of MMFs; and (v) empowering MMF boards of directors to suspend redemptions in extraordinary circumstances to protect the interests of fund shareholders**."

It says, "These measures should be helpful, as they should enhance investor protection and mitigate the risk of runs. **However, these measures should not, by themselves, be expected to prevent a run on MMFs of the scale experienced in September 2008**. We propose that the President's Working Group on Financial Markets (PWG) should prepare a report considering fundamental changes to address systemic risk more directly. Those changes could include, for example, moving away from a stable net asset value for MMFs or requiring MMFs to obtain access to reliable emergency liquidity facilities from private sources. **For liquidity facilities to provide MMFs with meaningful protection against runs, the facilities should be reliable, scalable, and designed in such a way that drawing on the facilities to meet redemptions would not disadvantage remaining MMF shareholders**."

Finally, the paper says, "**The PWG should complete the report by September 15, 2009**. Due to the short time-frame and the work that is currently on-going, we believe that this report should be conducted by the PWG, rather than the proposed Council, which we propose to be created through legislation."

SEC Proposals for Money Fund Reg Changes to Be Mild Says Bloomberg

Jun 17 09

Bloomberg writes the "SEC Said to Back Money Funds on Changes to Protect Investors", which says, "**The U.S. Securities and Exchange Commission may support most of the proposals by asset managers to make money-market funds safer after last year's collapse of Reserve Primary Fund led to a run on the $3.5 trillion industry, according to people with knowledge the matter**." The official proposed (not final) changes, expected soon, will be posted on the SEC's website.

The Bloomberg article, by **Jesse Westbrook** and **Christopher Condon**, cites unidentified sources, saying, "**The agency will leave intact rules that allow money funds to carry a stable $1 share price, said the people, who asked not to be identified because the SEC may revise its plans**. While Chairman **Mary Schapiro** said May 4 that the price rules may need to be altered, the agency instead will seek input on the issue from fund managers and investors, leaving a decision for later."

It continues, "**Money funds were concerned that ending the stable $1 share price would ruin their reputation as the safest investments after insured bank accounts and Treasury debt, said Peter Crane, president of Crane Data LLC, an industry research firm in Westborough, Massachusetts**. They sought to steer regulatory changes by offering their own recommendations for protecting investors."

Crane told Bloomberg, "**Anything short of radical surgery would be great news for money-fund providers**." The article adds, "**The SEC plans at a June 24 public hearing to propose rules similar to those recommended in March by the Investment Company Institute, the fund industry's Washington-based trade group, the people said**. They include increasing the proportion of assets a fund must hold in cash, or in securities that can easily be turned into cash, and reducing the average maturity of a fund's securities. **The agency expects to enact new regulations by yearend**."

Finally, Bloomberg says, "**The SEC probably won't include the variable share price as an official proposal because there has been debate inside the agency, and the industry, about whether it**

would make sense for all types of money funds, one of the people familiar with the matter said.... **After the meeting next week, the SEC will solicit public comments**.... The staff then determines whether to make any changes before commissioners hold a second vote to make regulations binding."

Yields Still Brewing At Marshall Money Funds Says June MFI Article

Jun 16 09

In the latest issue of our monthly ***Money Fund Intelligence*** newsletter ($500 a year), we profiled the Milwaukee, Wisconsin team responsible for the $7.5 billion **Marshall Money Market Funds**, run by M&I Investment Management Corp. We spoke with **Rich Rokus**, Vice-President and Portfolio Manager of the Marshall Prime and Marshall Government Money Market Funds, and **Craig Mauerman**, Vice-President and Portfolio Manager of Marshall Tax-Exempt Money Market. **In excerpts below, we discuss the fund manager's investment strategies, as well as recent market events**.

When asked, "**What is the biggest challenge in managing a money fund?**" Rokus responds, "**Our focus has always been trying to provide the highest yield possible while reigning in risk**. Anybody in this business can just get out there and add yield to a portfolio, that's not too difficult. But doing so in a manner that's cautious and prudent is a completely different thing. **So you have to find out where that fine line is -- where you can reach for a little yield and where you think the danger lies and try to avoid it**."

Mauerman tells us, "**In the past year and a half, the biggest challenge has been avoiding those that were either on the ropes or facing severe downgrades**. Ordinarily, we spend our time on a combination of cash management and deal flow management, making sure we have cash at the right times when deals are available."

The Marshall Funds were good in avoiding the troubled names of the past two years. Rokus says, "We never had extendibles because we believe we should be in control of our duration management. We did own a few select SIVs for years, but it really wasn't a big focus for us. We certainly had no appetite for the newer, less diversified ones."

He says, "**Our investment process begins with the recognition that we have the luxury of a diversified, stable base of assets**. The condition allowed us to reduce exposures in the commercial paper market and replace it with floaters. So we really never got into the whole ABCP market too extensively. Historically, we would run 25% or less in CP, so we were able to avoid a lot of the SIV structures. The quality, short-duration exposures we had rolled off quickly."

Finally, Rokus says, "**Our thought process all along was to add value by not stretching too far**. I think a number of newer members to the industry have now had a lifetime learning experience on the dangers of reaching too far for yield. **Success this past year has been measured by no support actions. Success in the past was providing a decent yield**. We have been very pleased to deliver both."

Contact Crane Data to request the full interview or to subscribe to ***Money Fund Intelligence***, and **watch for more excerpts from the Marshall Funds interview in coming days**.

Investors Moving Anywhere But Money Funds Crane Tells Inv. News

Jun 15 09

Investment News writes "Investors yank cash from money market funds", which says, "**Wary investors have been steadily moving assets out of safe -- but incredibly low-yielding -- money market mutual funds in significant numbers since the U.S. markets bounced off of their lows in early March**. More than $200 billion has been pulled from money market funds since March 11 -- just two days after the Standard & Poor's 500 stock index started its nearly 40% ascent through June 8 -- according to data from the Investment Company Institute in Washington."

The article continues, "**At the same time, the flight from money market funds is also being fueled by individuals who are simply looking for higher yields on their cash and short-term investments**, noted **Peter Crane**, president of Crane Data LLC, a Westborough. Mass., money fund consultant."

Investment News quotes Crane, "**It's always difficult to measure where exactly the assets are going when they move out of money market funds**. But with yields on basically all of these funds only slightly above zero, **there's one place they are definitely going: Anywhere but money market funds**."

The article says, "The typical money market fund tracked in the ***Crane Money Fund Index*** was yielding 0.29% at the start of last week. As a result, advisers are now looking at a number of other options to boost their clients' returns on short-term holdings."

It adds, "**Short-term-bond funds, for one, appear to be an increasingly popular parking spot**: These funds experienced roughly $2.7 billion in net inflows in the month of April alone, according to data from FRC, and more than $9 billion in total assets year-to-date. By comparison, short-term-bond funds recorded just $2.4 billion in net flows for all of 2008.... **Other advisers say that they've been counseling clients to move out of money market funds and into more standard banking accounts**. Traditional savings accounts, for one, are yielding more at the moment than most money market funds."

RBC's Voyageur Asset Management on Proposed Money Mkt Fund Reform

Jun 12 09

Voyageur Asset Management, which advises the RBC Money Market Funds (formerly the Tamarack Funds), has penned a 4-page report entitled, "`Proposed Money Market Fund Reform." The white paper says, "**The much-publicized market events of the past year have drawn numerous calls for reform of the money market funds industry**. Comments voiced by regulators and others express views about the lessons learned and recommendations to address perceived shortcomings with global financial markets, institutions, and regulatory oversight. The recommendations focus on the root causes of the financial crisis and measures to control systemic risk to financial markets and institutions in the future. **This article discusses the key recommendations put forth and offers our thoughts on them**."

RBC explains, "The Investment Company Institute's (ICI) Money Market Working Group recently issued **detailed recommendations for the reform of money market funds**. The recommendations relate generally to: **a) tightening standards for liquidity, credit quality and maturity, b) making fund information more transparent to shareholders and regulators, c) modifying requirements for bail-outs by affiliates, and d) easing valuation issues and eliminating fund board responsibility for determinations that should be made by the adviser**. The book-length report includes extensive detail and **is expected to receive serious consideration from the Securities and Exchange Commission (SEC)** and other regulators. **While the recommendations are extensive, they generally do not involve fundamental changes to the operations or regulations of money market funds**.

Voyageur's "View on Proposed Reform" states, "The general themes of the ICI's Working Group Report have at their foundation an assertion that the money market fund industry generally performed well through the credit crisis. **While there may be a case to be made here, it is important to also understand that such an assertion would not be possible if not for the extraordinary steps taken by various governmental branches that stepped in to support an insolvent global financial system**. Investment managers also played a critical role by providing financial support to money market funds under their management. **Nonetheless, given the important role money market funds serve in the financial marketplace and the economy at large, reforms that seek to fundamentally alter or compromise the attractiveness of these types of funds to investors should be avoided, particularly at a time when the financial markets are fragile and market stabilization is of great importance to global economic recovery**."

It continues, "One may assume that many of the recommendations the ICI studied were based on the premise that the lack of regulation in the money market fund industry caused the problems the industry experienced during the credit market crisis. **However, money market funds are subject to far-reaching federal regulation, both explicitly through Rule 2a-7 of the Investment Company Act of 1940 and under other federal securities laws**. Rule 2a-7 has historically provided a solid framework for money fund management. That being said, **we believe a deeper review of some aspects of Rule 2a-7 is needed to ensure money market funds are better prepared for unprecedented market events in the future**."

The paper continues, "**We believe the best solutions for effective reform of the money market industry will result from more focused oversight in several important areas, not through wholesale regulatory changes, but through several key enhancements**. Enhanced oversight could be provided in the form of tighter policies related to risk management and would address such topics as 1) suitable levels of liquidity and effective management of a fund's average maturity, 2) broader diversification of portfolio holdings and better transparency of fund participants, and 3) measures of a fund's ability to withstand periods of market volatility and heavy investor withdrawal demand. Additionally, we feel reform will have a better chance of success, if the rating agencies provide more effective credit risk analysis. Current 2a-7 regulation incorporates the reliance on credit ratings, and we therefore believe the agencies themselves should either have greater governmental oversight, or credit ratings activity should be consolidated under a governmental body."

Finally, RBC Voyageur concluces, "**It is clear that money market funds have provided investors and the U.S. global economies with significant benefits since their inception in the 1970s**. At their peak in 2008, the combined assets of money market funds represented $3.8 trillion, or nearly 40% of the entire mutual fund industry. We advocate for reforms to the oversight of the industry that balance the interests of retail and institutional investors with the need for enhanced safety and soundness of our financial institutions and markets. There are difficult policy decisions to be made that will be subject to significant lobbying by each of the affected constituencies. **Hopefully, the facts will be reviewed objectively and solutions will be developed that best serve investor needs**."

Dechert on Suspending Redemptions Under Treasury Guarantee

Jun 11 09

We recently stumbled across a Dechert article, "Recent Developments Affecting Money Market Funds," written by **Jack Murphy**, **David Harris**, **Stephen Bier**, **Colin Dean**, and **Eric Simanek**, which discusses, "**Recent regulatory action by the federal government affecting money market funds**." The article, published in The Banking Law Journal, says, "**There have been three recent regulatory developments affecting money market funds**: the Securities and Exchange Commission's rule allowing money market funds participating in the U.S. Department of the Treasury Temporary Money Market Fund Guarantee Program to **suspend redemptions for longer than seven days upon liquidation**, the procedures setting forth **how money market funds can participate in the Money Market Investor Funding Facility**, and **revisions to the MMIFF**."

The Dechert attorneys write, "On November 26, 2008, the SEC adopted interim final temporary Rule 22e-3T under the Investment Company Act of 1940. **The Interim Rule exempts liquidating money market funds participating in the Treasury Guarantee Program from Section 22(e) of the Act**. Specifically, the Interim Rule **allows participating money market funds liquidating pursuant to the terms of the agreement with Treasury to suspend redemptions and postpone payment of redemption proceeds for longer than the seven-day limit set forth in Section 22(e)**. The Interim Rule is currently in effect until October 18, 2009, but may expire earlier, upon termination of the Guarantee Program."

They describe the background, saying, "**On September 16, 2008, The Reserve Primary Fund became the first large money market fund open to the general public to break the buck when it announced that it would re-price its securities at $0.97 per share**.... [T]he fund sought and obtained from the SEC an order permitting it to suspend redemptions and postpone the payment of redemption proceeds. To bolster investor confidence in money market funds and protect the stability of the global financial system, on September 19, 2008, Treasury announced the establishment of the Guarantee Program. Under the Guarantee Program, Treasury guarantees for certain shareholders the share price of participating money market funds that seek to maintain a stable net asset value of $1.00 per share ... subject to certain conditions and limitations. Most of the nation's money market funds elected to participate in the Guarantee Program."

The piece continues, "**Section 22(e) of the Act prohibits funds, including money market funds, from suspending the right of redemption, or postponing the date of payment or satisfaction upon redemption of any redeemable security for more than seven days, except for certain periods specified in that Section**. Although Section 22(e) permits funds to postpone the date of payment or satisfaction upon redemption for up to seven days, it does not permit funds to suspend the right of redemption, absent certain specified circumstances or an SEC order. **In the adopting release, the SEC noted that in order for the Guarantee Program to operate as intended, a participating money market fund that experiences a Guarantee Event and must liquidate pursuant to the Guarantee Agreement may need to suspend redemptions and postpone the payment of proceeds beyond the seven-day limit**."

"**The SEC stated that the Interim Rule provides the necessary exemption to permit participating money market funds to take full advantage of the Guarantee Program and initiate the steps necessary to protect the interests of all shareholders during liquidations, including those shareholders not covered by the Guarantee Program**. Specifically, the SEC stated that the Interim Rule is designed to facilitate orderly liquidations and help prevent the sale of fund assets at 'fire sale' prices. The SEC noted that such a result could lead to substantial losses for the liquidating fund and further depress prices for short-term securities that may be held in the portfolios of other money market funds," writes Dechert.

The article also briefly mentions details about participation in the yet-to-be-used **Money Market Investor Funding Facility** and **Federal Reserve Board changes to the MMIFF**.

GTNews.com: European Money Fund Leaders Say Industry Is Resilient

Jun 10 09

As we mentioned in yesterday's ***Crane Data News***, U.K. Treasury website GTNews.com features a "Focus on Money Market Funds" this week with a number of contributed articles, including: "A New Resilience" by **Gail Le Coz** of the Institutional Money Market Funds Association, "Money Market Industry Refocuses on Safety and Liquidity" by **Karen Dunn Kelley** of Invesco AIM, "CNAV: Emerging From the Crisis" by **Duncan Thomson** of Scottish Widows Investment Partners (SWIP), "**Movement in MMFs**" by **Andrew Widdows** of RBS Asset Management, and, as we wrote about Monday, "**Improved Communication: A Vital Component of MMF Reform**" by **Matt Clay** of Clearwater Analytics.

First, Le Coz, IMMFA's new CEO, "**looks at how the US and the UK have responded to the recent blows to the security and liquidity of money market funds**." She says of September 2008, "**Given the almost complete absence of liquidity in the money markets and the systemic importance of the industry as buyers of money market instruments, the US government took decisive action to prevent the failing of the US money market**.... **In Europe, no such support was forthcoming**. And whilst the German and Luxembourg governments made statements of support for domestic MMF industries in mid-October, no mechanisms to facilitate the provision of assistance to such funds were announced. **However, no European funds broke the buck, and with some exceptions, all funds remained open to receive investment and process redemptions**."

She adds, "**It is therefore unequivocally clear that all parties are committed to improving the resilience of MMFs**. All indications suggest that in the future the product will be subject to additional restrictions -- whether on the instruments which may be purchased or on the risks which the portfolio may include. While there may not be a consensus on how this can be achieved, whatever mechanism is eventually utilised will likely result in a favourable outcome for the end investor. The revised product should be even more adept at providing capital security and liquidity in all markets and at all times.... **[T]he benefits of the product, and the reason why investment should be considered, remain as true now as before the credit crunch had even begun to materialise**. Indeed, in light of the market turmoil which has been experienced, the objectives of a MMF are arguably the priorities which many investors seek more than anything: capital security and liquidity."

Dunn Kelley writes on the ICI's Money Market Working Group Report in her piece, saying, "**Investors have historically treated all money market funds (MMFs) as commodities, viewing everyone as using the same processes and investment philosophies since the industry started in the 1970s**. But last year's market panic has shown that all money funds aren't created equal. Investors are refocusing on the reason these funds were created in the first place -- to provide a safe, liquid place to invest short-term cash. **The industry is doing the same, and has introduced recommendations intended to boost safety, liquidity and yield, in that order**."

Finally, SWIP's Thomson says in his article, "**While some trust is returning to the money markets, we are not out of the woods yet**. Fundamental changes will have to be made before the industry can fully regain its footing. Now is an opportune moment to look at what originally attracted investors to constant net asset value (CNAV) MMFs, what went wrong and how best to address these problems -- both from an industry and a regulatory standpoint -- so that the industry is better prepared for any future storms. **Prior to the credit crunch, we witnessed a revolution in cash management in Europe, with an explosion in the use of CNAV MMFs. Investors from across the spectrum embraced them, and came to see them as an attractive alternative to traditional bank deposits**."

He continues, "**The benefits of CNAV MMFs are numerous**. First, they offer a simple, efficient product that is actively managed within rigid and transparent guidelines. **Second, their conservative investment objective of providing an enhanced yield over traditional bank deposits is highly desirable**. Third, their structure makes them extremely liquid, thus allowing same-day withdrawal of money. Lastly, they are triple A-rated, meaning they are perceived as being extremely low risk, with security of capital, a priority in their investment strategies."

Greater Transparency May Curtail Need for Onerous Regs Says Clay

Jun 09 09

Money Fund Transparency proponent Clearwater Analytics' new Head of Comingled Fund Solutions **Matt Clay** writes today on Treasury website gtnews.com (note the other money fund-related stories too), "Improved Communication: A Vital Component of Money Market Fund Reform." The article says, "**A deluge of suggestions for reforming and increasing regulation of money market funds still follows in the wake of the troubled credit markets.... [T]he debate about how to shore up the money fund industry continues**." We excerpt some of the comments below on transparency and disclosures.

Clay says, "[V]arious groups and others have proposed controversial changes such as moving to a floating net asset value share price, requiring capital reserves and bank-like structures, requiring explicit insurance protection against impaired assets, adding FDIC-like insurance and making permanent the government guarantees. There have also been other less contentious suggestions designed to reduce risk and improve disclosure and transparency. **While many of the recommendations have merit and would improve the orderly functioning of the money market industry, some crisis-recovery strategies tend toward overreaction by suggesting substantial new and potentially onerous rules, requirements and regulations**."

He argues, "**Even as the market awaits further regulatory direction from the U.S. Securities and Exchange Commission, one thing is clear: investors cannot rely on regulation alone to protect them**. Regulation cannot replace communication. Investors need to be proactive in seeking the information and tools that will enable them to improve their investment process. **Discussions about the money fund industry hinge on the need for increased communication between fund managers, investors and regulators, particularly in the form of improved transparency and reporting**. In the end, more effective communication may better serve investors than more stringent regulation. The use of technology to deliver meaningful reporting and analytics will likely prove to be the most effective way for fund managers to communicate with investors and for regulators to monitor fund activities."

The gtnews.com piece continues, "Many investors, particularly larger institutions, want to monitor their fund holdings on a regular and consistent basis and would like to be able to aggregate this information with the rest of their investments, including separately managed accounts.... **For the benefit of the investing public, the regulatory entities, the fund companies and investors need to come together in a meeting of the minds to tackle the key communication issues: 1) the frequency of reporting, 2) the reporting format and 3) the fund data that should be required in the reporting and disclosures**. Having access to this type of information will further help investors improve compliance, risk management and other important aspects of the investment decision-making process. **As the ICI states, 'it is hoped that these third-parties will use this, and other disclosure**

recommendations discussed in this Report, to help guide the investing public about the risk characteristics of particular money market funds.'"

Finally, Clay says, "**The 'improved communication' described here is the process of turning fund data into useful information that enables investors to make better decisions about their fund investments and enables regulatory bodies to more effectively monitor the market**. Improved communication creates a win-win scenario for all constituents. As fund managers choose to adopt these measures and provide a greater degree of transparency they will reap the benefits of improved client relationships. Transparency will instill confidence in clients, and an informed client is typically a better client than an uninformed one. Managers should see their business increase as investors choose to invest with those they know and trust. **Greater transparency and disclosure may curtail the need for more onerous regulation and preserve the value of money market funds as a vital liquidity management tool. The entire money fund industry will benefit as confidence, in what has been an enormously successful product, increases**."

Standard and Poor's Friedman and Rizzo on Rating Money Funds

Jun 08 09

The following excerpts from the article, "**S&P's Friedman & Rizzo on Rating Money Funds**," featured in the June issue of ***Money Fund Intelligence***. Since the ***Subprime Liquidity Crisis*** started almost two years ago, Standard & Poor's Ratings Services' lead money fund analysts **Peter Rizzo** and **Joel Friedman** have been front and center, providing information and updates to fund industry participants, investors and the press alike. **This month, we feature a Q&A with the pair on ratings, the challenges to money funds, and possible changes in regulations**.

Q: What has been the biggest challenge of rating money funds historically? Rizzo and Friedman say, "**We saw money fund NAVs have issues in the past when certain structured securities caused pricing pressures, and especially when interest rates rose quickly, like in 1994**. That and a few credit events over the past couple of decades have been the biggest challenges until the last couple of years."

Q: What's been the biggest challenge over the past two years? They say, "There have been many. It started in the summer of 2007 with extensions in XABCP programs. It progressed to SIV-lites, SIVs, monoline issues, and then of course to the Lehman bankruptcy in September 2008 and ensuing lack of liquidity in the money markets. **This liquidity crunch, caused in part by the downward slide in the credit quality of financial service companies and banks, resulted in pricing and liquidity problems for many highly rated issuers of short term debt**. This in turn put negative pressure on the mark-to-market of the asset values for prime money market funds.... **However, several Government programs introduced shortly after the Lehman bankruptcy helped stabilize the financial markets**."

Q: Why do you call money fund ratings Principal Stability Fund Ratings (PSFRs)? "**Standard & Poor's Principal Stability Fund Ratings (PSFR), commonly referred to as a money-market fund ratings, express our opinion of a fund's ability to maintain principal stability and to limit exposure to losses due to credit, market, and/or liquidity risks**. The rating categories range from ' AAAm' to 'Dm' where the 'm' is intended to distinguish PSFRs from S&P's traditional ratings, which are usually not subscripted and which indicate a borrower's ability to repay principal and interest on a timely basis.... PSFR definitions address the 'capacity to maintain principal stability' and not timeliness and method of payment."

Q: How do you deal with criteria breeches in AAAm funds? Friedman and Rizzo tell MFI, "**The first step of the process it to have our team of dedicated fund rating surveillance analysts review the statistics and holdings reports when we receive a surveillance report**. When our review and analysis reveals something outside of our framework, we verify the relevant information for accuracy with the provider of information. Upon verification, our analysts assigned to the fund in question contact the fund management representatives to discuss the details.... **We expect highly rated funds to be proactive in dealing with issues as they arise**.

Q: What is your outlook for money market funds? They say, "**We believe the future for the MMF industry is bright**. We expect there to be a **continued focus on transparency -- not only from fund sponsors providing more detailed and frequent investment reporting but also an increased focus by fund managers to maintain an active dialog with their larger customers so they can gain an even better assessment of the cash flow needs and expectations of its shareholders**."

See the most recent ***Money Fund Intelligence*** for the full article, or e-mail Pete Crane or call ***Crane Data*** at 1-508-439-4419 to request a copy.

June Issue of Money Fund Intelligence Profiles Marshall, SnP, ICD

Jun 05 09

The June issue of ***Crane Data's flagship monthly Money Fund Intelligence*** newsletter and ranking service features the articles, "**Industry Holding Breath, Waiting for 2a-7 Changes**," "**Yields Still**

Brewing at Marshall MMFs," "**S&P's Friedman & Rizzo on Rating Money Funds**," and "**Portal News: ICD Update**." **MFI also includes "People" news, a "Calendar" section, and rankings and performance statistics on over 1,300 money market mutual funds and cash investment options**.

MFI, ***Money Fund Intelligence XLS***, the spreadsheet "complement" to MFI, **Crane Index**, ***Crane Corporate***, and ***Money Fund Wisdom*** will all be updated Friday with performance data through May 31, 2009. We've added a **Portfolio Composition** breakout of money fund holdings by category to the Excel product (MFI XLS), and our ***Wisdom*** database is going live after its month-long "beta" period.

Regarding regulatory changes, this month's MFI says, "**Money market mutual fund managers and investors are holding their breath ahead of the Securities & Exchange Commission's proposals to update Rule 2a-7 of the Investment Company Act, the regulations governing money market funds**. While we believe that **the odds of radical change, such as a floating NAV, are slim**, it's still possible that **the pending recommendations could substantially alter the money fund landscape**."

Our monthly money fund "profile" interviews Marshall Money Market Fund and Marshall Government MMF Portfolio Manager **Rich Rokus** and No. 1-ranked Marshall Tax-Exempt MMF PM **Craig Mauerman**. Rokus tells us, "**Our focus has always been trying to provide the highest yield possible while reigning in risk**. Anybody in this business can just get out there and add yield to a portfolio, that's not too difficult. But doing so in a manner that's cautious and prudent is a completely different thing."

Mauerman says, "**In the Tax-Free Fund, we're looking for ways of hitting singles and doubles every week without any let up**. It sounds like a simple thing, but it's a matter of just focusing on: ' Where are we picking things up? Where are the weakest links? What credits do we need to get out of this week because we are seeing a deterioration?'"

Look for more excerpts from the issue in the coming weeks, and let us know if you'd like to see the latest issue (which should be out in about an hour).

ABA Criticizes Aggressive Deposit Gathering Strategies of GMAC Bank

Jun 04 09

As we mentioned briefly in a recent "Link of the Day", the American Bankers Association President **Edward Yingling** recently wrote a letter to the FDIC's **Sheil Blair criticizing high-yield deposits**. The ABA warns, "**Recent experience has reinforced an important lesson of prudential supervision, that the combination of fast asset growth supported by aggressive deposit gathering strategies is a strong sign of high risk financial activity**. Where these factors come together, particularly in the context of a troubled financial institution already experiencing overall financial losses, regulatory supervision needs to be especially vigilant."

Yingling continues, "In this context we would draw your attention to troubling reports regarding GMAC Bank/Ally Bank. **GMAC Bank/Ally Bank has been funding very fast growth in assets (up by more than 2000% over the last 4 years, from $1.6 billion in March 2005, to over $36 billion in March 2009) with an equally aggressive effort to gather deposits (deposits growing from a total of $1.2 billion to $22.5 billion during the same period)**. GMAC Bank/Ally Bank is **offering interest rates well above the market in order to attract those deposits**."

He adds, "**This aggressive deposit strategy is particularly egregious when it is used by a troubled bank in which the government holds a controlling interest**. Such a bank is significantly shielded from investor and market influences that might otherwise act as a brake on risky financial strategies.... **We believe that the situation with GMAC Bank/Ally Bank is analogous to that contemplated in FDIC rules governing brokered deposits sought by troubled banks. Such banks would never be allowed to follow the aggressive deposit strategy being pursued by GMAC Bank/Ally Bank**."

Yingling also says, "**Congress and the FDIC, mindful of the harm that can arise when a potentially troubled bank tries to grow its way out of problems, have imposed limits on the rates that less than well capitalized banks can offer for deposits**. Undercapitalized banks are prohibited from accepting brokered deposits altogether; moreover, they are prohibited from paying a rate for non-brokered deposits that exceeds by more than 75 basis points the rate paid for comparable deposits in the bank's normal market area. **These restrictions guard against a troubled bank compounding its problems, and they also protect healthy bank competitors from having to pay unsustainably high and above market rates for deposits to compete against an institution taking advantage of FDIC insurance in an unsafe manner**."

The ABA letter says, "**Recognizing that the Internet forces banks to compete in a national market for deposits, the FDIC recently issued a proposal to amend its rules by suggesting that a bank, under restrictions on deposit growth, use a 'national rate' when determining whether the bank is offering rates that significantly exceed the market rate**. Notwithstanding the government's concern about troubled banks using high rates to solicit out-of-market deposits, GMAC Bank/Ally Bank apparently is permitted to solicit deposits over the Internet by offering rates that are generally the highest in the nation."

Finally, it says, "The banking industry has seen what happens when troubled banks, desperate for deposits, are willing to bid up the price of deposits. In the mid-1980s a number of troubled financial institutions sought to grow out of their problems by quickly expanding their assets, funded by attracting deposits with above-market interest rates. Not only did this strategy make conditions worse for the banks employing it, but these banks also forced other banks in their markets to raise interest rates above market rates in order to retain their own deposit customers. **ABA believes it is completely inappropriate, and indeed risky, for GMAC Bank/Ally Bank to be allowed by the regulators to continue to pay rates well above the market**." See Ally Bank's response to the ABA letter here.

Vanguard Merges Treasury Money Funds, Closes Federal Money Market

Jun 03 09

Tuesday's press release says, "**Vanguard has announced plans to merge the $6.7 billion Vanguard Treasury Money Market Fund (VMPXX) into the lower-cost $21.8 billion Vanguard Admiral Treasury Money Market Fund (VUSXX)**. The merger is planned for early August. In addition, Vanguard has closed the Vanguard Federal Money Market Fund to all new accounts and to additional purchases from current institutional accounts. A $10,000 daily investment limit has been placed on current retail accounts."

Bill McNabb, Vanguard CEO, says, "**Taking these preventative measures will protect fund shareholders and will help ensure that the yields of the funds remain competitive**. It is quite possible that **yields on government-backed securities, and consequently the Vanguard Admiral Treasury Money Market and Vanguard Federal Money Market Funds, will remain quite low for the foreseeable future**. Shareholders may wish to consider switching to alternative Vanguard fund options that are consistent with their goals and risk tolerance."

"Vanguard offers several other high-quality money market funds, including `Vanguard Prime Money Market Fund (VMMXX) and Vanguard's national and state-specific tax-exempt money market funds," says the release. It continues, "The merger of the `Vanguard Treasury Money Market Fund, which has an expense ratio of 0.28%, into the Admiral Treasury Money Market Fund, with its lower expense ratio of 0.15%, will reduce expenses for Treasury Fund shareholders. After the merger, the fund is expected to maintain its expense ratio of 0.15%. Additionally, reducing new cash flow into the Vanguard Federal Money Market Fund may slow the decline of that fund's yield."

Finally, the release says, "**Vanguard's actions come amid continuing strong demand for government-backed securities, which have served as a safe-haven during the global financial crisis**. This increased demand, coupled with cuts to prevailing interest rates by the Federal Reserve, **has driven yields of government-backed securities to record lows**, with current one- and three-month Treasury bills yielding less than 0.20%. **As securities in Vanguard money market funds mature, the reinvestment of assets into new, lower-yielding securities decreases the funds' yields**."

CFTC Soliciting Public Comment on Changes to Permitted Investments

Jun 02 09

The Commodity Futures Trading Commission (Commission) is "**seeking public comment on possible changes to its regulations regarding the investment of customer funds segregated pursuant to Section 4d of the Commodity Exchange Act (customer segregated funds) and funds held in an account subject to Commission Regulation 30.7 (30.7 funds)**. A recent notice titled, "Investment of Customer Funds and Funds Held in an Account for Foreign Futures and Foreign Options Transactions published in The Federal Register says, "**Commission Regulation 1.25** provides that a **derivatives clearing organization (DCO)** or a **futures commission merchant (FCM)** holding **customer segregated funds may invest those funds in certain permitted investments subject to specified requirements that are designed to minimize exposure to credit, liquidity, and market risks**. **The Commission is considering significantly revising the scope and character of these permitted investments and is seeking public comment before issuing proposed rule amendments**." The proposed revisions include **removing money market funds as eligible investments**.

The proposal summary says, "**Additionally, in conjunction with its consideration of possible amendments to Regulation 1.25, the Commission is considering applying the investment requirements of Regulation 1.25, including any prospective amendments, to investments of 30.7 funds**. The Commission is **seeking public comment on this action before issuing proposed rule amendments**. Comments must be received on or before **July 21, 2009**." Comments may be submitted by e-mailing secretary@cftc.gov (include "**Advance Notice of Proposed Rulemaking for Regulations 1.25 and 30.7**" in the subject line), faxing **202-418-5521**, or mailing to **David A. Stawick**, Secretary, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street, NW., Washington, DC 20581.

The proposal says of "**[T]he Commission substantially expanded the list of permitted investments by amending Commission Regulation 1.25 in December 2000 to permit investments in general obligations issued by any enterprise sponsored by the United States (government sponsored enterprise securities), bank certificates of deposit, commercial paper, corporate notes, general obligations of a sovereign nation, and interests in money market mutual funds**. In connection with that expansion, the Commission included several provisions intended to control exposure to credit, liquidity, and market risks associated with the additional investments, e.g., requirements that the investments satisfy specified rating standards and concentration limits, and be readily marketable and subject to prompt liquidation."

It says, "The Commission believes that DCOs and FCMs have managed customer segregated funds and 30.7 funds responsibly during this difficult economic time. **Nonetheless, the market events of the past year, notably the failures of certain government sponsored enterprises, difficulties encountered by certain money market mutual funds in honoring redemption requests, illiquidity of certain adjustable rate securities, and turmoil in the credit ratings industry, have challenged many of the fundamental assumptions regarding investments**. As a result, the Commission believes it is an especially appropriate time to **review permitted investments** for customer segregated funds and 30.7 funds."

Finally, the CFTC says, "**In the interest of gathering as much information as possible before reaching any conclusions, the Commission is soliciting comments from the public regarding which instruments should continue to be permitted investments for customer segregated funds under Regulation 1.25**. The Commission welcomes comments on which instruments no longer merit inclusion as permitted investments, as well as comments in support of any new instruments that might qualify as permitted investments. The Commission also requests comment on appropriate limitations or safeguards that should be applied to permitted investments. The Commission is particularly interested in relevant data that commenters can provide regarding the credit, liquidity, and market risk of various investment choices. **The Commission is open both to evidence in support of retaining current permitted investments and evidence indicating a need to eliminate certain permitted investments**. Additionally, the Commission urges commenters to analyze the benefits and burdens of any potential regulatory modifications in light of current market realities."

SEC OKs WVRDBs, Window Variable Rate Demand Bonds, for MMMFs

Jun 01 09

In a "no-action" letter released late last week ("**No-Action Request Concerning the Eligibility for Acquisition by Money Market Funds of Window Variable Rate Demand Bonds**," the Securities & Exchange Commission gave the okay for a new type of security for money funds. The SEC said it, "**would not recommend that the Commission take any enforcement action under Section 34(b) or 35(d) of the Act or Rule 22c-1 thereunder against a Money Market Fund if it acquires and treats a WVRDB, as described in your letter, as a 'Long Term Variable Rate Security' for the purposes of paragraph (d)(3) of Rule 2a-7 under the Act, provided the Money Market Fund otherwise complies with Rule 2a-7**."

The original exemption request (which is not yet available online) said, "**Citigroup Global Markets Inc. wishes to offer registered open-end management companies operating as money market funds in reliance on Rule 2a-7 of the Investment Company Act the opportunity to invest in Window Variable Rate Demand Bonds (WVRDBs), as described more fully below**. A WVRDB is designed to provide money market funds with an investment that provides minimal credit risk as well as liquidity. The liquidity offered to investors will be 'unconditional' and will be provided by the issuer rather than a third-party financial institution."

Citi's letter explains, under "**Current Market Conditions for Variable Rate Bonds and Benefits of WVRDBs**," "**Due to the ongoing financial crisis, the market for traditional variable rate bonds has been significantly disrupted**. Traditional variable rate bonds generally require bond insurance or credit support from a bank and external bank support to support payment of purchase price. **However, Citigroup has found that with the 'freezing' of the credit markets that bank support has been exceedingly difficult to obtain and that with the significant drops to their credit ratings, most bond insurers are not viable for money market fund eligibility (with regard to both existing and new programs)**. As a result, it has become substantially more difficult for municipal issuers in particular to issue and maintain existing variable rate bond programs."

It continues, "**Citigroup believes that the current disruption in the variable rate bond market imposes significant hardship on both public sector issuers and money market funds**. Citigroup has found that this hardship affects not only new issuances but also existing issuances, where the existing credit providers present greater credit risks than are appropriate for money market funds. **Variable rate bonds have historically provided municipal borrowers the lowest cost of funds**. The difficulty in obtaining financing through the variable rate bond market has increased financing costs to these issuers at a particularly difficult time since declining tax revenues have put a great strain on operating budgets. This has come at a time when many of these issuers will require financing in order to fulfill their role in the economic recovery through the development of infrastructure projects."

They state, "**WVRDBs provide critical assistance to public sector issuers by creating greater access to the variable rate markets**. First, for qualifying highly rated issuers, they do not required bond insurer support, credit support or external bank support. In addition, WVRDBs eliminate the daily/weekly put risk for issuers.... **Furthermore, the developments in the financial sector have also dramatically curtailed the number of appropriate investments available for money market funds (while the amount of money held in money market funds has considerably increased as investors have allocated more of their portfolios away from the equity markets)**.... [M]any traditional purchasers of variable rate bonds, including money market funds, have been seeking to be less dependent on financial institutions (both banks and insurers) as a source of credit support, even if provided by the most credit-worthy institutions. For example, in Citigroup's recent experience, money market funds would prefer that a 'demand feature' be provided by the issuer rather than a third-party financial institution."

Citi says, "WVRDBs address these concerns. **First, WVRDBs reduce the exposure of money market funds to banks and other financial institutions, due to the WVRDBs' 'self tender' feature described below (i.e., the ability of the holder to sell the WVRDB back to the issuer)**. Furthermore, WVRDBs, as an alternative to traditional variable rate bonds, offer diversification benefits including the diversification of event and put risk as well as portfolio diversification. Citigroup believes that a WVRDB should be viewed as a Long Term Variable Rate Security for purposes of paragraph (d)(3) of Rule 2a-7. Citigroup seeks the requested no-enforcement position, however, to clarify this issue for money market funds that have expressed an interest in acquiring WVRDBs."

Finally, they explain, "A WVRDB is a variable rate security with a nominal long-term maturity (e.g., 30 years). An issuer may offer one or more series of WVRDBs. **A WVRDB will be subject to a 'dual put' feature, which will allow an investor, at its sole option, to tender a WVRDB for purchase within a fixed period of time not to exceed 397 calendar days (i.e., 13 months) in any case**. In addition, upon notice of not less than 30 days (and not more than 60 days), a WVRDB is subject to redemption prior to its stated maturity, at the option of the issuer, in whole or in part, at a price equal to the amount of bonds called for redemption, plus accrued interest to the date of redemption, without premium."