Sturm und Drang in Money Market Funds

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Comments
by
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• Some differences and similarities with US MMFs, thus Jank and Wedow (2010) is useful case study

• Fluctuating NAVs don’t prevent runs: German funds had floating NAVs and big outflows

• Liquidity helps protect funds and investors

• US experience: 2010 reforms enhanced liquidity
Assets of European and U.S. MMMFs

billions of dollars (log scale), 2011:Q3

US: 2629.3
France: 490.4
Ireland: 474.7
Luxembourg: 375.7
Italy: 40.7
Switzerland: 22.5
Norway: 17.2
Sweden: 16.3
Finland: 15.6
Germany: 6.5
Other Europe: 57.7

Source: ICI
## Devilish Details: Similarities and Differences between U.S. and European MMMFs

<table>
<thead>
<tr>
<th>Types of MMFs</th>
<th>US</th>
<th>European</th>
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<tbody>
<tr>
<td>Types of MMFs</td>
<td>Rule 2a-7</td>
<td>Short-term MMFs</td>
</tr>
<tr>
<td>NAV</td>
<td>constant</td>
<td>constant or “fluctuating”</td>
</tr>
<tr>
<td>Amortized cost?</td>
<td>yes, but risk limiting conditions</td>
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<tr>
<td>Maximum WAM</td>
<td>60 days</td>
<td>60 days</td>
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<tr>
<td>Maximum WAL</td>
<td>120 days</td>
<td>120 days</td>
</tr>
<tr>
<td>Dividends</td>
<td>Distributed daily</td>
<td>Distributed or rolled-up in NAV</td>
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Why Don’t Fluctuating NAVs Prevent Runs?:
NAV of a French Money Market (Short-term) Fund, 2011

Note: Daily NAV for a large short-term (“court terme”) French MMF. Beginning NAV has been scaled to 1.0 for reference. Actual NAV on Jan 1, 2011 was €56,140.6 and €56,745.4 on Dec 30, 2011.

Source: ICI; Bloomberg
Why Don’t Fluctuating NAVs Prevent Runs?: NAV of a French Money Market (Dynamique) Fund

Note: Daily changes in NAV for a moderate size French MMF (not a short-term MMF); fund has a maximum WAM and WAL or 120 days and 12 months, respectively. As of November 30, the fund held securities maturing 16 months ahead (March 28, 2013), invested partly in (hedged) non-Euro currency securities. The fund is an institutional fund with a minimum investment of €1 million. Approximately 50 percent of fund’s exposure is to banks.

Source: ICI; Bloomberg
U.S. Reforms Enhanced Liquidity

Source: Investment Company Institute
Liquid Funds are More Resilient: U.S. Experience through U.S. Debt and Euro Crises

Assets of U.S. prime money market funds

Sources: Investment Company Institute
Liquid Funds are More Resilient: U.S. Experience through U.S. Debt and Euro Crises

Liquid Assets of Prime MMFs (% of assets)

Sources: Investment Company Institute; selected N-MFP reports; Crane Data