Statement of Senator Richard C. Shelby
Committee on Banking, Housing and Urban Affairs
June 21, 2012

- Thank you, Mr. Chairman.

- Today the Committee will hear a range of perspectives on money market fund reform.

- Since their introduction forty years ago, money market funds have been an important source of short-term financing for businesses, banks, and state and local governments.

- Money market funds have offered investors a low-cost means to invest in money market instruments and provided them with an efficient cash management vehicle.

- But, unlike other mutual funds, money market funds are permitted by the SEC to maintain a stable net asset value (NAV).

- The stable NAV feature of money market funds offers investors the convenience and simplicity of buying and selling shares at a constant one-dollar per share.

- However, because the market value of the instruments held by the funds can decline, the stable NAV gives the impression that money market funds are without risk and guaranteed to never "break the buck."

- Indeed, investment management firms have intervened several times with capital contributions and other forms of support to prevent their money market funds from breaking the buck.

- According to the SEC, U.S. money market funds received financial support from their sponsors hundreds of times before the financial crisis. During the crisis, firms provided financial support dozens of times.

- One notable exception is the Reserve Primary Fund, which broke the buck in September 2008 because of its exposure to Lehman Brothers.

- Shortly thereafter, the Treasury Department and the Federal Reserve, concerned about runs on money market funds, put the U.S. taxpayer in the position of guaranteeing that no other money market fund in the country would break the buck.

- The Treasury Department instituted a temporary guarantee program and the Federal Reserve opened emergency lending facilities to help money market funds meet their redemption requests.

- These actions have increased the expectation that the Federal government will support the money market industry again with taxpayer dollars in times of crisis.

- In 2010, the SEC adopted several rules to reduce the risk of runs on money market funds.

- The rules imposed minimum liquidity requirements, higher credit quality limits, and shorter maturity limits. The SEC also imposed new stress test requirements and disclosure requirements to improve the transparency of fund portfolio holdings.

- By all accounts, money market funds, thus far, have been able to withstand the ongoing European crisis without any risk of runs.

- For this reason, some say that the SEC's 2010 money market reforms are sufficient.

- I look forward to hearing from the two industry witnesses and the two treasurers representing users of money market funds on why they believe that additional reforms are not warranted.

- Others, including Chairman Schapiro, say that the SEC's 2010 money market reforms have not gone far enough.

- I would like Chairman Shapiro to tell us what analysis the SEC has done to conclude that additional reforms are necessary, and how the SEC determined that the three proposals currently under consideration – a floating NAV, redemption restrictions, and a capital buffer – are the right solutions for the problems they are intended to solve.

- I also look forward to hearing from Professor Scharfstein regarding his academic group's capital buffer proposal.

- The loudest voices advocating additional money market fund reforms, however, have come from inside the Federal Reserve.

- Fed Chairman Bernanke, Fed Governor Tarullo, and multiple regional Fed Presidents have given speeches in which they raise the issue of so-called "structural vulnerabilities" to highlight the need for additional reform.

- Further, according to the minutes of the Financial Stability Oversight Council (FSOC) meeting held last February, Fed staff participated with SEC staff in a discussion of money market funds.

- Unfortunately, the Fed is not represented in today's important hearing and they should be.

- Perhaps, Mr. Chairman, we can leave the record open and give the Fed an opportunity to submit testimony for the record. I would be very interested in learning what analysis it has done to conclude that additional money market reforms are necessary.

- Thank you, Mr. Chairman.