

Sturm und Drang in Money Market Funds

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Comments

by

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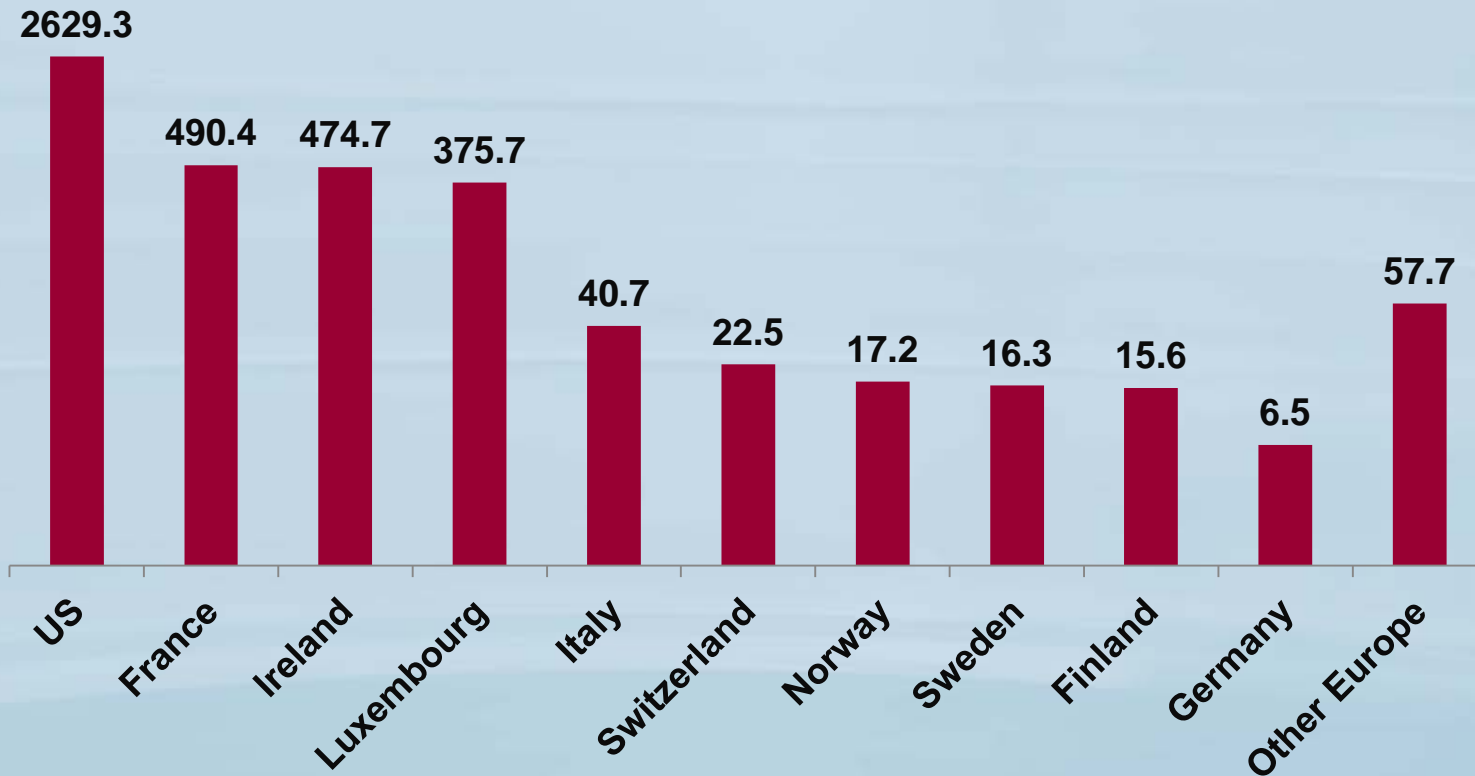
Investment Company Institute

Sturm and Drang: Some Key Points

- 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

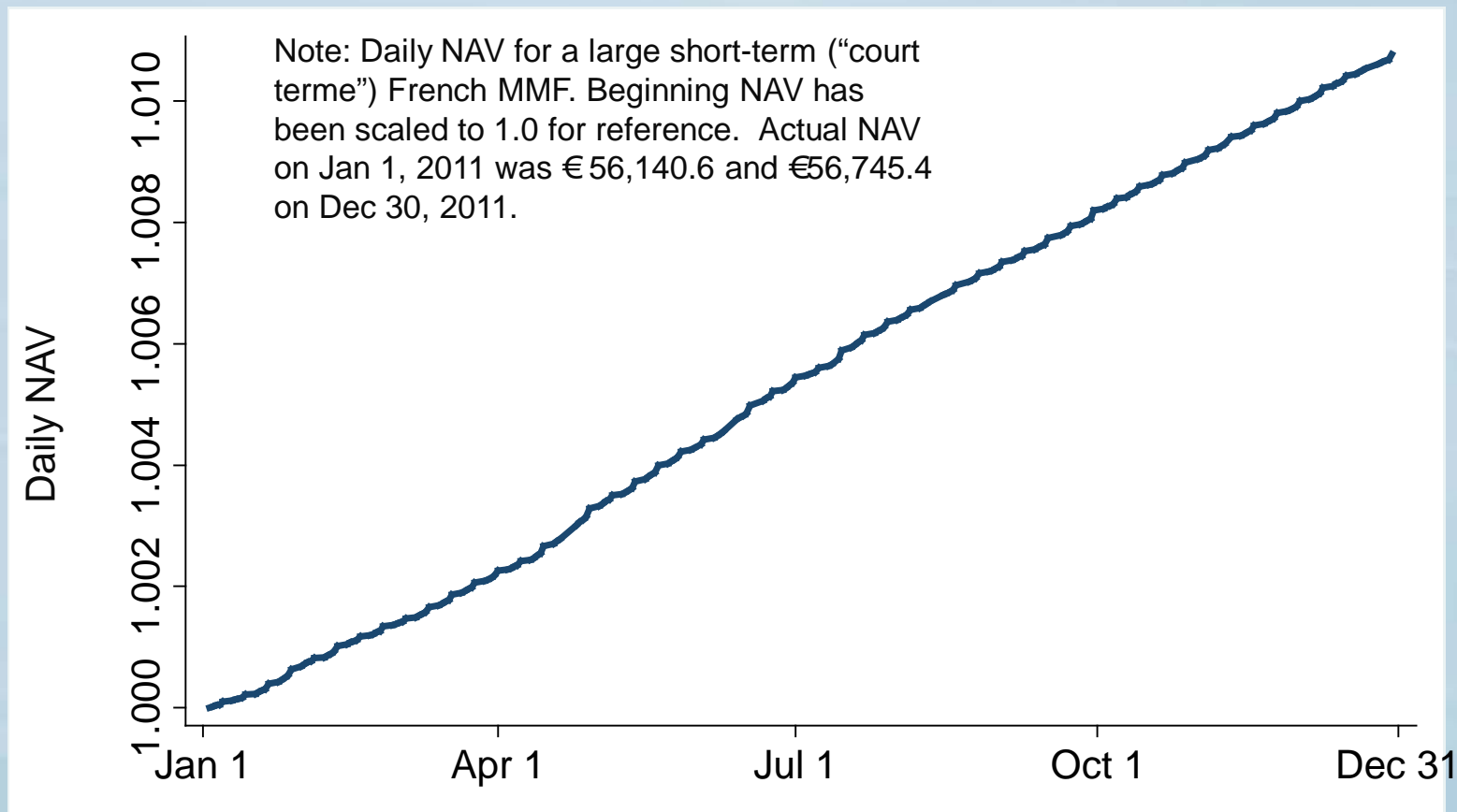


Source: ICI

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

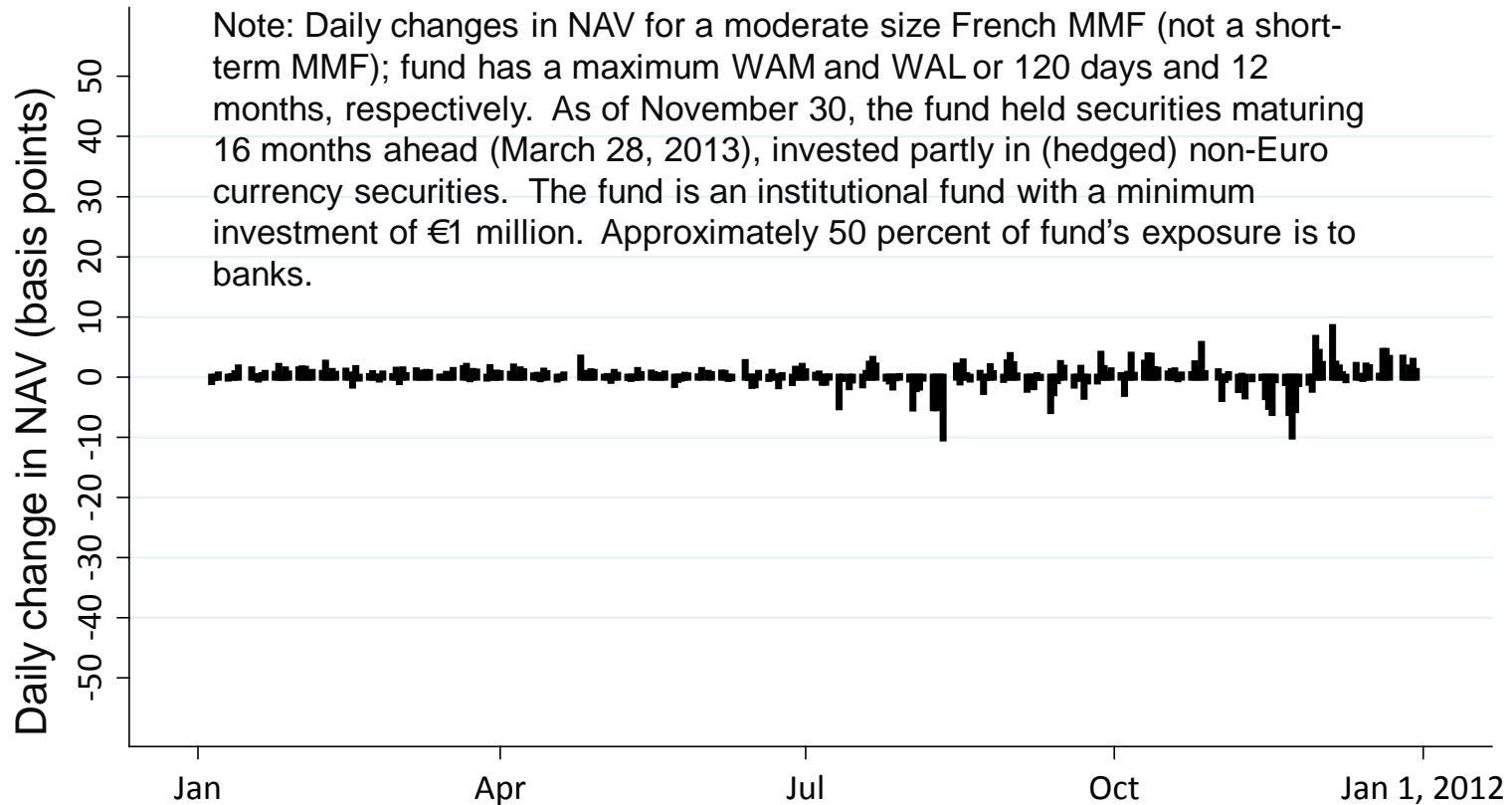
	US	European	
Types of MMFs	Rule 2a-7	Short-term MMFs	MMFs
NAV	constant	constant or “fluctuating”	“fluctuating”
Amortized cost?	yes, but risk limiting conditions	yes, but risk limiting conditions	yes ≤ 90 days, but risk limiting conditions
Maximum WAM	60 days	60 days	180 days
Maximum WAL	120 days	120 days	12 months
Dividends	Distributed daily	Distributed or rolled-up in NAV	Distributed or rolled-up in NAV

Why Don't Fluctuating NAVs Prevent Runs?: NAV of a French Money Market (Short-term) Fund, 2011



Source: ICI; Bloomberg

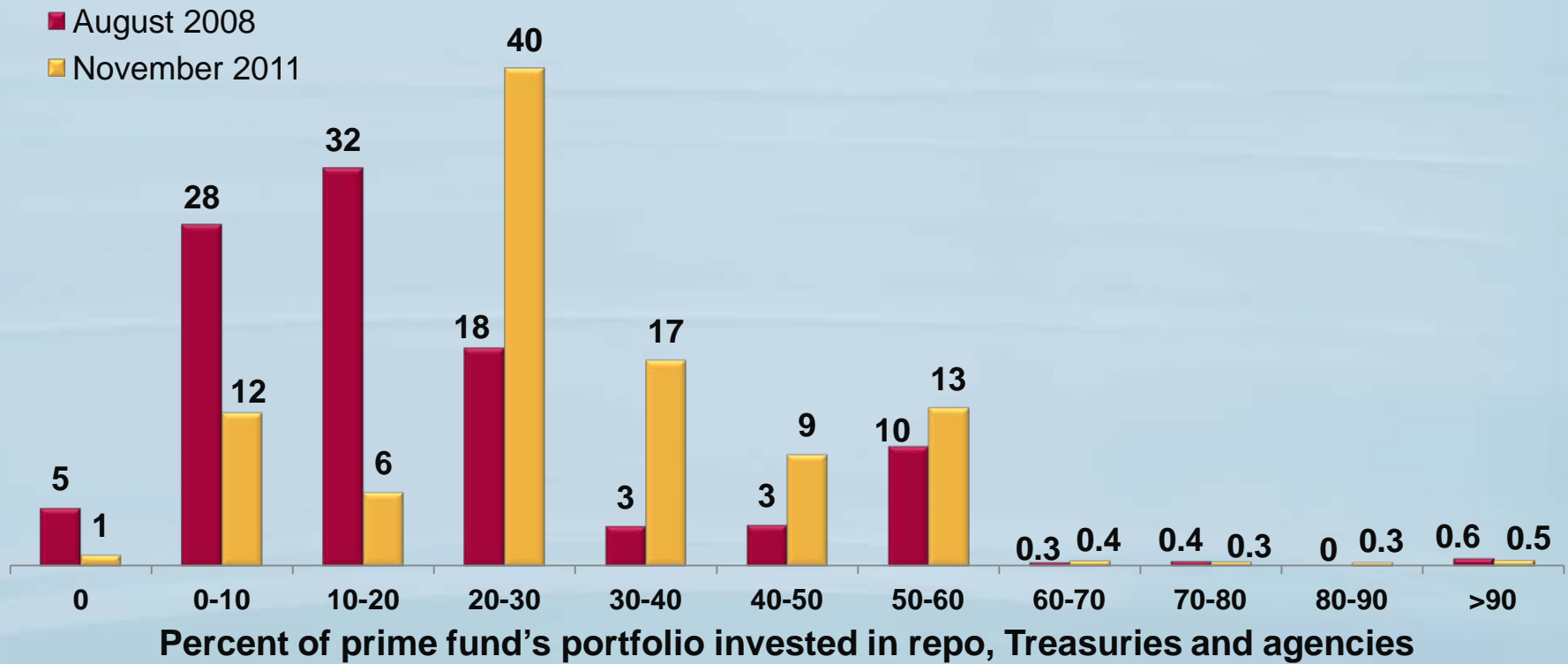
Why Don't Fluctuating NAVs Prevent Runs?: NAV of a French Money Market (Dynamique) Fund



Source: ICI; Bloomberg

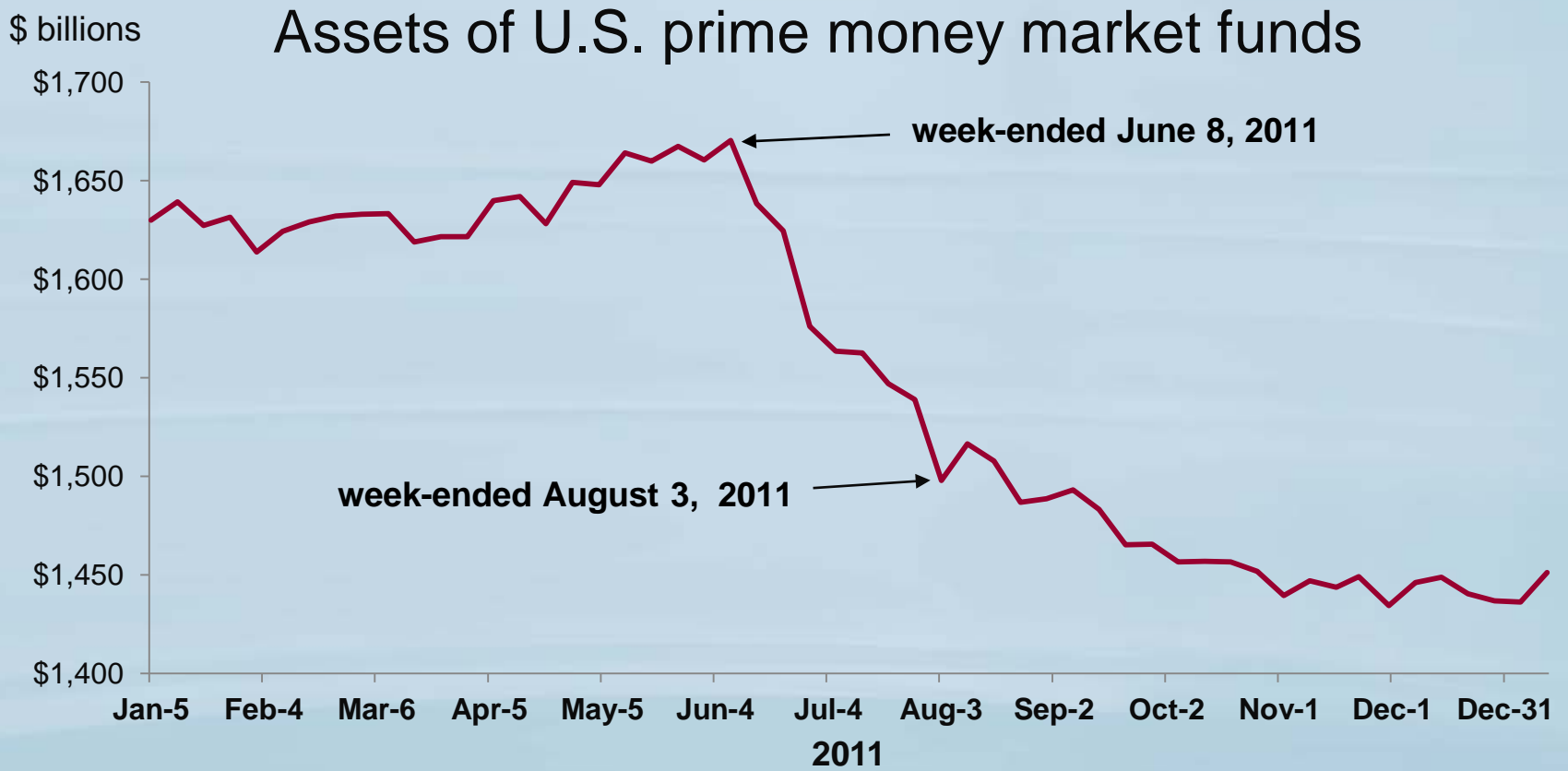
U.S. Reforms Enhanced Liquidity

Percentage of prime funds' assets



Source: Investment Company Institute

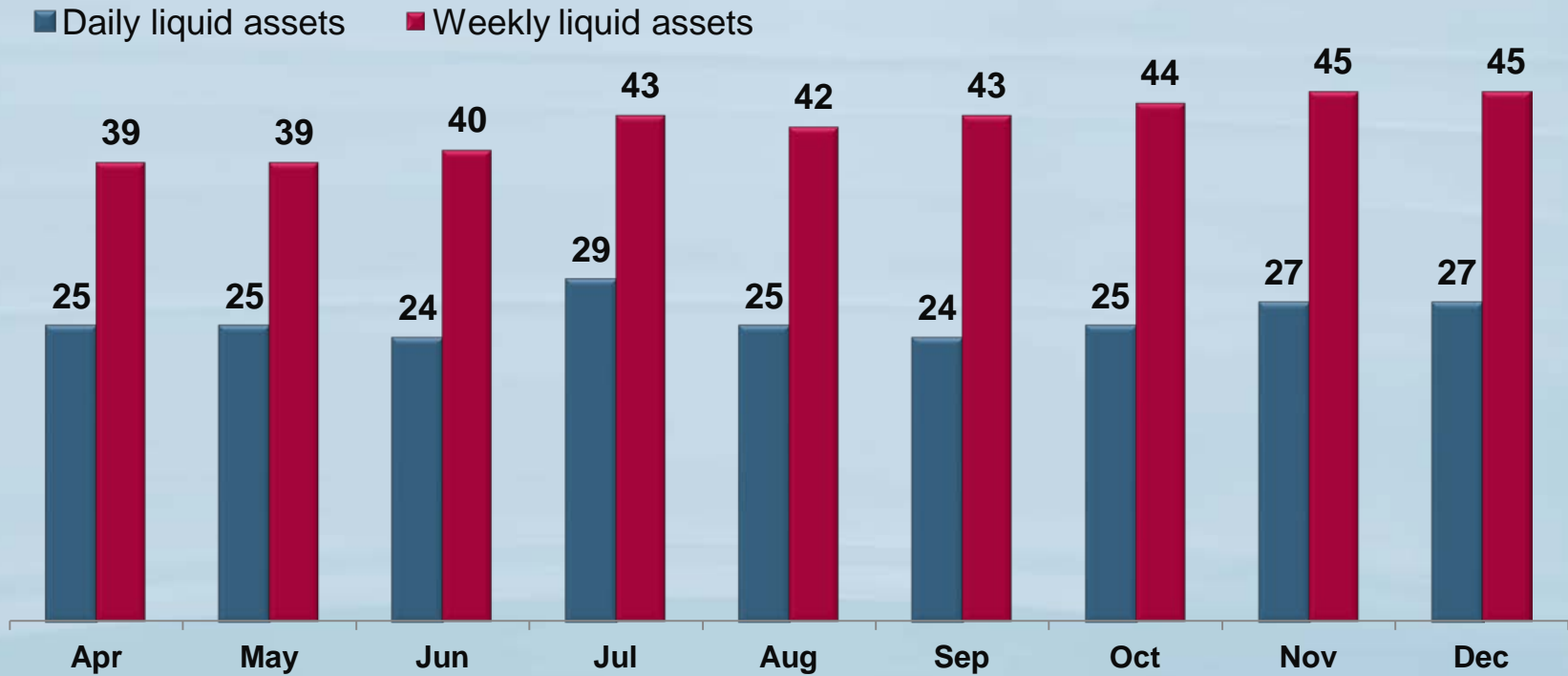
Liquid Funds are More Resilient: U.S. Experience through U.S. Debt and Euro Crises



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