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On Money Market Funds, Financial Times Column Gets Recent History Wrong

By Paul Schott Stevens

John Authers's recent *Financial Times* column ("[Time to Throw Some Light on Shadow Banking](#)") provides an incomplete view of the recent history of U.S. money market funds and regulatory action around these funds. Readers need more facts.

Let's start with hard data on fund flows, which undercut Authers's tale of a "catastrophic bank run" on the money market fund sector in September of 2008. In the fall of that year—amidst a global banking crisis that had already taken down more than a dozen major institutions—about \$300 billion flowed out of prime money market funds (which hold securities issued by financial institutions). Note, however, that for every dollar that left these funds, 61 cents flowed into Treasury, government, and agency money market funds. In a flight to quality, investors moved to less-risky assets, and many chose money market funds as their vehicle to do so.

The facts also contradict Authers's suggestion that investor confusion over the risks of money market funds drove outflows during the crisis. The disclosure of risks in money market funds is ample. Every money market fund prospectus and advertisement states that the funds aren't insured and can lose money. Indeed, institutional investors have stated in [sworn testimony](#) before the U.S. Congress that they understand these risks and act accordingly. The U.S. Securities and Exchange Commission (SEC) recently completed a thorough [economic analysis](#) of the experience of money market funds during the crisis—investor misperception of risk was not cited as a significant factor.

After his glance at the experience of money market funds during the financial crisis of 2008, Authers concludes that "change is needed." He ought to have mentioned that change already happened. Thanks in part to the fund industry's embrace of reform, in 2010, the SEC became the first agency to address any of the financial products hit by the crisis, passing [a package of sweeping changes](#) that tightened regulation considerably and made money market funds more resilient. Periods of subsequent market turmoil have [demonstrated](#) how these reforms enhanced financial stability.

"Shadow banking" has always been an inappropriate term to hang on money market funds. In light of recent history, it is even less appropriate.

Paul Schott Stevens was President and CEO of ICI.