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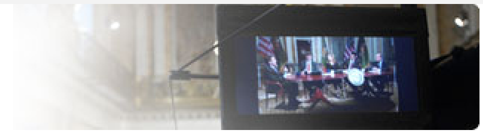

Financial Stability Oversight Council Releases Proposed Recommendations for Money Market Mutual Fund Reform

11/13/2012

Council Develops Reform Alternatives for Public Comment

WASHINGTON – In an effort to address threats money market mutual funds (MMFs) can pose to the financial system, the Financial Stability Oversight Council (the Council) today voted unanimously to advance proposed recommendations for reform for public comment. Using its authority under Section 120 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Council is proposing several alternatives for structural reforms to address the risks posed by MMFs.

The Council seeks comment on the proposed recommendations for structural reforms of MMFs that reduce the risk of runs and significant problems spreading through the financial system stemming from the practices and activities associated with MMFs. The Council is proposing three alternatives for consideration:

- *Alternative One: Floating Net Asset Value*. Require MMFs to have a floating net asset value ("NAV") per share by removing the special exemption that currently allows MMFs to utilize amortized cost accounting and / or penny rounding to maintain a stable NAV. The value of MMFs' shares would not be fixed at $1.00 and would reflect the actual market value of the underlying portfolio holdings, consistent with the requirements that apply to all other mutual funds.
- *Alternative Two: Stable NAV with NAV Buffer and "Minimum Balance at Risk."* Require MMFs to have an NAV buffer with a tailored amount of assets of up to 1 percent to absorb day-to-day fluctuations in the value of the funds' portfolio securities and allow the funds to maintain a stable NAV. The NAV buffer would have an appropriate transition period and could be raised through various methods. The NAV buffer would be paired with a requirement that 3 percent of a shareholder's highest account value in excess of $100,000 during the previous 30 days — a minimum balance at risk (MBR) — be made available for redemption on a delayed basis. Most redemptions would be unaffected by this requirement, but redemptions of an investor's MBR itself would be delayed for 30 days. In the event that an MMF suffers losses that exceed its NAV buffer, the losses would be borne first by the MBRs of shareholders who have recently redeemed, creating a disincentive to redeem and providing protection for shareholders who remain in the fund. These requirements would not apply to Treasury MMFs, and the MBR requirement would not apply to investors with account balances below $100,000.
- *Alternative Three: Stable NAV with NAV Buffer and Other Measures.* Require MMFs to have a risk-based NAV buffer of 3 percent to provide explicit loss-absorption capacity that could be combined with other measures to enhance the effectiveness of the buffer and potentially increase the resiliency of MMFs. Other measures could include more stringent investment diversification requirements, increased minimum liquidity levels, and more robust disclosure requirements. The NAV buffer would have an appropriate transition period and could be raised through various methods. To the extent that it can be adequately demonstrated that more stringent investment diversification requirements, alone or in combination with other measures, complement the NAV buffer and further reduce the vulnerabilities of MMFs, the Council could include these measures in its final recommendation and wouldreduce the size of the NAV buffer required under this alternative accordingly.

The Council's proposed recommendations are not mutually exclusive and could be implemented in combination to address the structural vulnerabilities that result in the susceptibility of MMFs to runs.

Additionally, the Council recognizes that there may be other reforms, not described above, that may achieve similar outcomes. As a result, the Council also is seeking public comment on other potential reforms of MMFs that meet the objectives of addressing the structural vulnerabilities inherent in MMFs and mitigating the risk of runs.

The Council also recognizes that regulated and unregulated or less-regulated cash management products may pose risks that are similar to those posed by MMFs and that further MMF reforms could increase demand for non-MMF cash management products. The Council and its members intend to use their authorities, where appropriate and within their jurisdictions, to address any risks that might arise from a migration to non-MMF cash management products. In addition, the Council seeks comment on other possible reforms that would address such risks.

The proposed recommendations will be issued for a 60-day public comment period. Members of the public are encouraged to provide comments through regulations.gov.

The proposed recommendations are available at the following link: http://www.treasury.gov/initiatives/fsoc/rulemaking/Pages/open-notices.aspx

In addition, the Council voted to approve the minutes from its October 18, October 29, and October 30 meetings. All of these documents are available at www.fsoc.gov.

Present at today's Council meeting were:

- Tim Geithner, Treasury Secretary (Chairperson of the Council);
- Ben S. Bernanke, Chairman of the Board of Governors of the Federal Reserve System;
- Richard Cordray, Director of the Consumer Financial Protection Bureau;
- Edward DeMarco, Acting Director of the Federal Housing Finance Agency;
- Gary Gensler, Chairman of the Commodity Futures Trading Commission;
- Martin Gruenberg, Acting Chairman of the Federal Deposit Insurance Corporation;
- Debbie Matz, Chairman of the National Credit Union Administration;
- Mary Schapiro, Chairman of the U.S. Securities and Exchange Commission;
- Thomas Curry, Comptroller of the Currency;
- S. Roy Woodall, Jr., Independent Member with Insurance Expertise;
- John P. Ducrest, Commissioner, Louisiana Office of Financial Institutions (non-voting member; attending by phone);
- John Huff, Director, Missouri Department of Insurance, Financial Institutions, and Professional Registration (non-voting member);
- David Massey, Deputy Securities Administrator, North Carolina Department of the Secretary of State, Securities Division (non-voting member); and
- Michael McRaith, Director of the Federal Insurance Office (non-voting member)

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