Regulations to Spark Firms' Money Fund Exodus

By Danielle Sottosanti, *Ignites*, July 3, 2013 [subscription required]

More fund firms will follow Calvert Investments and The Hartford out of the money market fund business, with anticipated regulatory reform as the primary impetus for their departure, an *Ignites* poll predicts.

Indeed, a total of 85%, or 160 respondents, say more firms will exit the business. That includes 55% who say concerns about increased regulation primarily will drive departures. Another 30% attribute the expected exodus to the low-yield environment.

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Meanwhile, the Securities and Exchange Commission has proposed two alternatives for money market reform that could be adopted together or separately, as well as additional diversification and disclosure measures that would apply under either alternative.

Amid these developments, experts are divided on whether the industry will witness a fund firm exodus from the money market fund business.

Niels Holch, executive director of the Coalition of Mutual Fund Investors, and Mike Krasner, managing editor of iMoneyNet, agree with the *Ignites* poll's majority response that more firms will choose to exit the business.

Smaller firms are most likely to leave because they lack the scale of larger firms, making it more difficult for them to cope with the low-yield environment and increased compliance costs, they concur.

"Overall, the biggest concern for funds is the cost of new regulation," Holch says.

The SEC's proposed disclosure measures are among the heightened regulations that will make it harder for smaller firms especially to make a profit, he explains.

"Whichever way the SEC goes in creating a new proposal, it probably means the smaller players will exit the market because of the need for scale," Holch says.

"The low-yield environment only exacerbates this problem," he adds.