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♦ PIWOWAR DEFENDS SEC, OUTLINES APPROACH TO MMF REGULATION

Commissioner Michael Piwowar, speaking Jan. 27 about how he'll approach regulatory issues that come before the Securities and Exchange Commission, provided a spirited defense of the agency's autonomy in securities regulation and warned against threats from special interests and "encroachments" by other regulators. He may also have given the money-market fund industry some reason to hope that structural reforms won't be part of the Commission's final rule, which is expected to be adopted later this year.

Speaking generally about threats to the SEC's core mission, Piwowar expressed the concern that "banking regulators, through the Financial Stability Oversight Council, are reaching into the SEC's realm as market regulator." The Commission's autonomy, Piwowar stressed, is not just an abstract issue. "The FSOC, within which the banking and prudential regulators exert substantial influence, represents an existential threat to the SEC and the other member agencies," he said.

Citing money-market fund reform specifically, Piwowar noted that the SEC has "ceded ground to the FSOC and banking regulators." He referred indirectly to the decision in 2012 by former Chairman Mary Schapiro to involve the FSOC in the MMF-reform effort as a "wholesale abdication of the Commission's responsibility" and "one of the most shocking decisions in the 80-year history of the SEC."

Piwowar conceded that some additional money-market fund reforms are needed, but he added that the "baseline" for additional reforms should be the current regulatory framework, including the reforms enacted in 2010, not the framework that existed during the crisis in 2008-09. The 2010 reforms "provided much-needed investor-protection improvements in the areas of disclosure, liquidity, credit quality, and operations," he said, but they were neither sufficient to provide investors with full fund-holdings information and transparency nor adequate to mitigate the advantages of "first-movers" in a financial crisis.

Banks' Role Debated

Piwowar told a U.S. Chamber of Commerce audience during an event that was Webcast that he was skeptical that money funds pose a systemic risk to the broader economy. "The only somewhat coherent systemic-risk argument about money-market funds that I have heard articulated is that a run on money-market funds could lead to banks failing because they cannot roll over short-term debt. The moral of that story," he argued, "is not that money-market funds have 'structural vulnerabilities.' It is that banks are too reliant on short-term funding," and he added that banking regulators have the authority to directly remedy that bank "shortcoming."

Fund sponsors may not necessarily be pleased if regulators employ that remedy, Robert Plaze, former deputy director of the SEC's Division of Investment Management and a partner at Stroock & Stroock & Lavan, told iMoneyNet. "Almost all serious economic research looking at the role of money-market funds in the 2009 financial crisis has concluded that they have structural vulnerabilities to shareholder runs," Plaze said.

"Perhaps banks are, as Commissioner Piwowar states, too reliant on short-term funding," Plaze added, "but if the Fed concludes that the SEC will not seriously address money-market funds' vulnerabilities, their next step may very well be to force U.S. banks to pull back on their short-term borrowing by imposing capital charges on short-term debt. This could dry up the supply of high-quality investments for money-market funds, pushing them back to foreign banks."

Regarding fund information and transparency – the second of the two areas Piwowar indicated need additional reform – Plaze observed that "increased transparency will do little to solve vulnerabilities." In fact, he contended, the type of daily disclosure the SEC has proposed will serve primarily as a signal to start a run once a credit event occurs. "Armed with information retail investors won't understand or don't have time to read every day, institutional investors will be best-positioned to redeem early at the first sign of a problem, leaving retail investors to bear the losses after the institutional guys have redeemed their shares and taken all of a fund's liquidity."

Reason for Optimism

"This is the first time that Commissioner Piwowar has said anything substantial about money-market fund reform that I'm aware of," Niels Holch of Holch & Erickson, told *Money Fund Report*. "It's important to note that although Piwowar supports additional money-fund reforms, he narrows the areas that any specific new reforms should address." It's also noteworthy, Holch said, that Piwowar is joining other commissioners and the chairman in "standing up to the FSOC and resisting the efforts of the bankers on the Council to muscle their way onto the SEC's turf."

The systemic-risk issue Piwowar addressed is important, Holch said. "Piwowar makes the important point that structural reforms to money funds hold the wrong party responsible for systemic problems. If unleveraged money funds hold short-term bank debt that can't be rolled over, the problem clearly isn't with the funds, but with the banks' reliance on overnight funding. The Fed should focus its attention on that issue."

Holch told iMoneyNet that despite suggestions in the speech that Piwowar may favor narrowly-tailored reforms, "it's impossible to know whether ultimately he'll take a minimalist approach to reform or a more expansive approach."

Narrow, minimal reform would please fund investors and preserve important features of money funds, Holch noted. "Because money funds are cash-management products, any move away from a fixed NAV impairs the attractiveness of money funds to corporate treasurers for cash-management purposes, and it harms retail investors as well. If institutional assets move out of money funds, the loss of scale will make a retail investor-only product less viable and more expensive."♦

MFR COMMENTARY

Net assets of 1,015 Taxable MMFs decreased $4.66 billion to $2.444 trillion as of Jan. 28. Total Taxable Institutional fund assets were down by $1.29 billion. Taxable Retail fund assets fell $3.36 billion.

The iMoneyNet Money Fund Average™/All Taxable 7-Day Yield remained at 0.01 percent for a 37th straight week. The All Taxable 30-Day Yield held steady at 0.01 percent for a 34th consecutive week. The Taxable WAM was unchanged from the previous week at 47 days.

Net assets of 420 Tax-Free and Municipal MMFs declined $2.29 billion, bringing the total to $269.29 billion as of Jan. 27.

The iMoneyNet Money Fund Average™/All Tax-Free 7-Day Yield was unchanged at 0.01 percent for the 39th consecutive week. The All Tax-Free 30-Day Yield remained at 0.01 percent for a 57th straight week. The Tax-Free WAM shortened to 33 days from 35 days the previous week.

A one-week decrease of $6.95 billion brought total net assets of 1,435 Taxable and Tax-Free money funds to $2.713 trillion.