

Frequently Asked Questions About the Treasury's Guaranty Plan for Money Market Mutual Funds

On September 19, the U.S. Department of the Treasury announced an emergency, temporary guaranty plan to protect shareholders of money market mutual funds from losses if their funds are unable to maintain a \$1.00 net asset value ("break the buck"). ICI engaged in detailed discussions with the Treasury and the U.S. Securities and Exchange Commission on the plan, and on September 21 and 22, Treasury issued further clarifications. While many details remain uncertain, the following questions and answers outline the major features of the plan as they now stand:

What does the guaranty plan cover?

The guaranty plan is designed to protect current shareholders of money market mutual funds if their funds cannot maintain a \$1.00 net asset value (NAV). Funds must elect to enroll voluntarily in the plan and pay a fee for coverage. If a fund enrolls, its shareholders will be protected for assets they have in their accounts as of the close of business on Friday, September 19.

What funds are eligible to participate?

The latest Treasury guidance says that "All money market mutual funds that are regulated under Rule 2a-7 of the Investment Company Act of 1940 and are publicly offered and registered with the Securities and Exchange Commission will be eligible to participate in the program." The guidance also clarified that tax-exempt money market funds would be eligible to participate.

Why is the guaranty limited to accounts and assets as of Friday, September 19?

The decision to limit the guaranty program to the value of accounts at the close of business on September 19 arose from grave concerns that ICI raised with the Treasury over the plan's potential effects on flows among funds. Recently, large institutional shareholders, who hold almost two-thirds of assets in money market funds, have been moving money from general-purpose money market funds into funds that invest primarily in Treasury securities. The guaranty plan raised fears that this flow of funds would suddenly reverse if general-purpose funds joined the guaranty plan. By limiting the protection to account balances as of September 19, Treasury's amendments should alleviate that problem.

Why should I invest now in a money market fund if I've missed out on the guaranty plan?

Money market funds have long provided investors with capital preservation along with competitive rates of return. Money market funds are strictly regulated by the U.S. Securities and Exchange Commission and operate under tight requirements for the liquidity, creditworthiness, and diversification of their assets. In 25 years, \$325 trillion in assets have flowed in and out of money market funds with only two break-the-buck episodes. Those same regulations are in place for all investors, whether they are covered by the guaranty plan or not.

Does Congress have to approve this guaranty plan?

No. The guaranty plan was designed by the Secretary of the Treasury and approved by the President under authority of the Exchange Stabilization Fund.

Money market funds have \$3.4 trillion in assets. The plan is funded with \$50 billion. Is that enough?

We believe that large redemptions and other recent strains in money market funds have been caused primarily by lack of active trading in the money markets, principally in markets for asset-backed commercial paper and agency paper. The Federal Reserve took additional steps on September 19 to improve liquidity in those markets. If those steps continue to succeed in unlocking these markets, we have every hope and expectation that this insurance pool will never be drawn.

How long does the guaranty last?

Treasury intends for the plan to last no more than one year.

Are retail and institutional shareholders all covered? What about foreign shareholders?

The plan will cover all shareholders, retail and institutional, domestic and foreign, in the eligible funds that enroll.

What about foreign-domiciled funds?

Only U.S.-registered funds that operate under Rule 2a-7 and are publicly offered are eligible for the plan.

How do money market funds enroll in the plan?

That is still to be determined. Treasury has not yet opened enrollment in the plan.

What will the plan cost? Who will bear the fees?

Treasury has not yet specified the fees for coverage, nor whether fees will be paid from fund assets or by fund management.

How will the coverage work?

If a covered fund cannot maintain a \$1.00 NAV, and the fund sponsor chooses not to provide credit support to avoid breaking the buck, the fund board would notify the guaranty program that it has determined to liquidate the fund. The fund would then close and liquidate. The Treasury guaranty plan would pay the fund the difference between a \$1.00 NAV and its shareholder payout; the fund would distribute that payment to shareholders.

What should I do if I'm concerned about the safety of my money market fund?

Contact the fund company for its latest available information on fund investments. Funds will decide whether to enroll in the guaranty plan after Treasury formally announces operational details, fees, and the enrollment process.

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