



PUBLIC POLICY STATEMENT

Maintaining the Stable Net Asset Value Feature of Money Market Funds (2010)

Background

The stable net asset value (NAV) is the predominant safety feature of money market funds. A stable NAV means that the chance of the fund losing principal or “breaking a buck” is minimized because it always maintains a \$1.00 value (investors will receive \$1.00 back for every \$1.00 invested). The fund is managed towards that goal.

State and local governments are a major purchaser of money market funds – holding \$92 billion in stable NAV money market funds in 2009. Many governments choose to use – or are required to use as directed by state statutes, federal restrictions, and policies - money market funds as a cash management tool, as they carry little credit risk.

Additionally, money market funds hold 65% of outstanding short-term municipal debt, making them the largest holder of short-term tax-exempt debt.

The Securities and Exchange Commission is expected to propose changes to its Rule 2a-7. Rule 2a-7 under the Investment Company Act of 1940 sets forth the regulatory framework for money market funds. The anticipated proposed changes would mandate that money market funds use a floating NAV rather than a stable NAV by eliminating their ability to use the amortized cost method of valuation. A floating NAV would strip away this key safety trait of the funds for investors - a dollar in-dollar out investment tool. This proposal could eliminate the entire stable NAV money market fund market, which would adversely affect state and local governments. Additionally, while state investment pools are not covered under Rule 2a-7, they use it as a guide for their own pools, so a change to the Rule would expose funds in many state pools across the country as well.

Policy Statement

The Government Finance Officers Association (GFOA) strongly opposes changes to SEC Rule 2a-7 that would require or allow funds to use a floating NAV rather than the current stable NAV. Governments depend on the safety and liquidity of money market funds for their constantly flowing operating funds and as part of their cash management strategy. Without being able to invest in these funds, governments would have to look to other investment vehicles that would be less attractive, less liquid and may carry greater risks. Furthermore, if this major purchasing power of municipal bond were to exit the market, state and local governments would suffer higher borrowing costs on their short-term debt.

The GFOA also strongly believes that the SEC should consult with state and local governments regarding any changes to this market, and allow the opportunity for GFOA and others in our community to comment and provide analysis on any SEC changes to Rule 2a-7 that will have an effect on the public sector.

Policy adopted by the GFOA Membership, June 8, 2010.