Opening Statement

by

Commissioner Elisse B. Walter

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"The SEC, by virtue of its institutional expertise and statutory authority, is best positioned to implement reforms to address the risk that money market funds present to the economy."[1] Although this sounds like it might be a quote from the Commission, I am actually quoting a statement from the Financial Stability Oversight Council's 2013 Annual Report. And I strongly believe that today's proposing release reveals how true that statement is. While all rule releases reflect the work and expertise of many people around the Commission, the product that is before the Commission today is a prime example of collaboration, harnessing expertise from all corners of the agency including staff from a variety of Divisions and Offices and each of the Commissioners and their staffs. Since the beginning of the year, the Commissioners and the staff have been heavily engaged in developing this proposal - committed not just to getting it done, but to getting it done in the right way - a proposal that analyzes the range of alternatives for money market fund reform; a proposal based on a careful analysis of available data by SEC economists, working side by side with the subject matter experts in the Division of Investment Management; a proposal that addresses the risks that money market funds may present to the financial system; and, perhaps most significant, a proposal that addresses the Commission's core mission of protecting investors. Let me touch upon these aspects.

First, the proposing release provides a thoughtful discussion of alternative money market fund reforms, both the elements of the proposed reforms before us today, and those elements that the Commission has determined not to propose. As you've heard this morning, one reform that the Commission is proposing is to require a floating net asset value for many money market funds. Another proposed reform is to allow a fund to charge liquidity fees and to gate redemptions when liquid assets fall below a threshold amount. However, I would caution commenters on assuming that the Commission will be deciding between these two reforms. As the release discusses, these two options are not mutually exclusive solutions. Each serves a purpose to mitigate systemic risks to financial companies and markets and to protect investors, and each does so in different ways. A floating net asset value removes the first mover advantage that exists today when an investor has an incentive to, and can, redeem its shares for their stable value even when the fund has experienced a loss and the shares are worth less than their stable value. While a floating net asset value lessens the incentive to redeem preemptively, it does not eliminate it because early redeemers can still reap the benefits of the fund's more liquid assets, to the detriment of remaining shareholders. Liquidity fees and gates are tools that address this by transferring the cost of liquidity to those shareholders who value it most, or by preventing redemptions. My preliminary preference would be to combine these two options, and I welcome comment on how they might work together.

Second, the proposing release shows the Commission's continuing strides in integrating economic analysis into the regulatory process - not just the "cost-benefit" analysis of our policy choices, but the use of data analysis to inform the Commission about how to make those choices. As the staff has already indicated in its statements, the study by Risk Fin was tremendously informative to a number of aspects of this proposal. In addition, another area where Risk Fin's analysis was particularly helpful was its analysis of retail money market funds. For many years, money market funds have served as useful short-term investment options for retail investors - that is, investors such as the owners of the small business on Main Street, as well as my dear Aunt Millie (who after 5 years of cameos in speeches needs no introduction). Both when adopting the money market fund reforms in 2010 and more recently in considering today's rule proposal, one of my primary concerns has been to consider how we could tailor reform in a way that mitigated systemic risk while recognizing the importance of money market funds to retail investors. And in Risk Fin's analysis of money market funds, I was struck by the difference in behavior between investors in retail funds and other prime funds in 2008. It made me skeptical that, at least for some aspects of money market fund reform, a "one size fits all" approach is the right answer. For that reason, I applaud the staff for recommending that retail money market funds be allowed to maintain a stable net asset value. This approach is consistent with the data, and it preserves for Aunt Millie and others an investment product on which they have come to rely. I realize that working through the details of implementing a retail exemption has been tricky -including how to distinguish retail funds from other funds. I believe that the staff's proposed method to make this distinction - limitations on redemptions - is both sound and workable. And I note that the idea for this standard came from a comment letter, showing the value of the comment process. Nonetheless, as the proposal indicates, I welcome comment on how to make this distinction and what funds might be captured under the solution proposed. It's important for commenters to focus on the specific definition of retail money market fund proposed, and, thus, the scope of the proposed exemption, which requires a fund relying on it to impose a limit on redemptions. That could restrict the number of funds that qualify. And, I'm particularly interested in comments concerning whether money market funds that invest primarily in municipal securities are likely to fall within the retail exemption as proposed.

Finally, I'd like to highlight that this proposal does more than just propose changes to the rules governing money market funds - it recognizes the vital role of enhanced disclosure, both in increasing investor protection and reducing systemic risk. I strongly support all of the enhanced disclosures that the Commission is proposing today, which will apply to retail, government, and institutional money market funds alike. These enhanced disclosures build upon the disclosure requirements we adopted in 2010, and I think that there is a lesson that we can learn from those reforms. When the Commission proposed and ultimately adopted enhanced disclosures in 2010, some argued that providing investors with this information would be harmful because it would, for example, cause investors to redeem their money market fund shares whenever there was a deviation of the market-based net asset value from the stable net asset value. Experience with these enhanced disclosures, however, indicates that these concerns have not been realized. To the contrary, as the release discusses, the increased transparency has been a useful tool for the Commission, for investors, and for the industry in analyzing money market fund operations and risks. And in fact money market funds that hold more than 50% of the total money market fund assets now voluntarily disclose their market-based net asset value daily, including most of the largest money market fund sponsors. I urge commenters to consider these factors when reviewing the enhanced disclosures we propose today. As I said when adopting the 2010 reforms, disclosure is the cornerstone of functional markets, and the enhanced disclosures proposed today will empower money market fund investors to make more informed investment decisions.

I would like to conclude by giving my thanks to the staff - from Investment Management, from Risk Fin, from the General Counsels office, and staff from other areas of the

Commission that helped with this release. Your perseverance, and your patience, have gotten us here today. And I would also like to thank my fellow Commissioners for showing engagement and commitment to this proposal in the face of such intense scrutiny. I am proud of what we have accomplished, and am grateful to all of you for helping to make that happen. Thank you, and I have no questions.

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[1] Financial Stability Oversight Council, 2013 Annual Report, at 11.