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From: The Division of Economic and Risk Analysis¹

Date: March 17, 2014

Re: Government Money Market Fund Exposure to Non-Government Securities

The Division of Economic and Risk Analysis has studied the exposure of government money market funds to non-government assets between November 2010 and November 2013. The analysis provides information that characterizes the usage level of non-government securities in government money market funds, and it is intended to assist the Commission in developing final rules regarding Money Market Fund Reform, including any appropriate exemption for government money market funds.

Data and Methodology

We collect information from Form N-MFP submissions between November 2010 and November 2013 for all government money market funds. From these filings, we extract reported portfolio holdings for each government fund, including the fund-identified classification of each security (item 31).

We then categorize securities into one of two types. They are either *Government Securities*, which include Treasury Debt, Treasury Repurchase Agreements, Government Agency Debt, Government Agency Repurchase Agreements, and “Other” Government securities, or *Other Securities*, which contain all remaining non-government securities.²

Our classification procedure tried to identify *Other Securities* that may actually qualify as *Government Securities*. For example, a position in another government money market fund may contain assets that qualify as *Government Securities*. It is possible that some assets that we classified as *Other Securities* for purposes of this analysis may still qualify as *Government Securities*. Given this possibility, the results below should be viewed as upper bounds on the extent to which Government money market funds hold *Other Securities*.

¹ This is a memo by the Staff of the Division of Economic and Risk Analysis of the U.S. Securities and Exchange Commission. The Commission has expressed no view regarding the analysis, findings or conclusions contained herein.

² For example, non-government tri-party repos, CP issued by a foreign government or an institution owned by a foreign government, Financial Company CP and Variable Rate Demand Notes without a demand feature or guarantee.

Overview of Government Funds

We begin by examining the number and size of government funds. The two tables below show the number and total net assets of funds by dollar size and fund type.

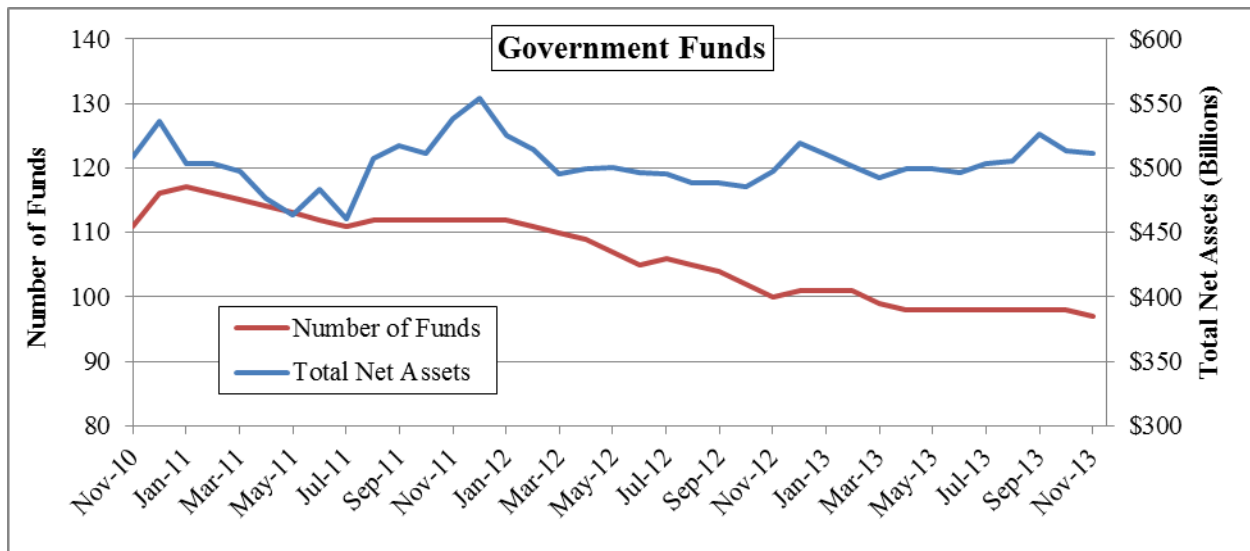
**Number of Money Market Funds
By Dollar Size and Fund Type as of November 2013**

Size	All Funds	Government
>\$100 billion	3	0
\$50-\$100 billion	4	1
\$20-\$50 billion	31	6
\$10-\$20 billion	48	11
\$1-\$10 billion	190	32
\$100 million to \$1 billion	222	31
Less than \$100 million	67	16
Total	565	97

**Distribution of the Money Market Industry's Total Net Assets
(\$ Billions) By Dollar Size and Fund Type as of November 2013**

Size	All Funds	Government
>\$100 billion	366.5	0
\$50-\$100 billion	259.9	56.8
\$20-\$50 billion	909.5	155.1
\$10-\$20 billion	723.4	171.0
\$1-\$10 billion	652.5	114.0
\$100 million to \$1 billion	92.8	13.9
Less than \$100 million	3.3	0.8
Total	3008.0	511.6

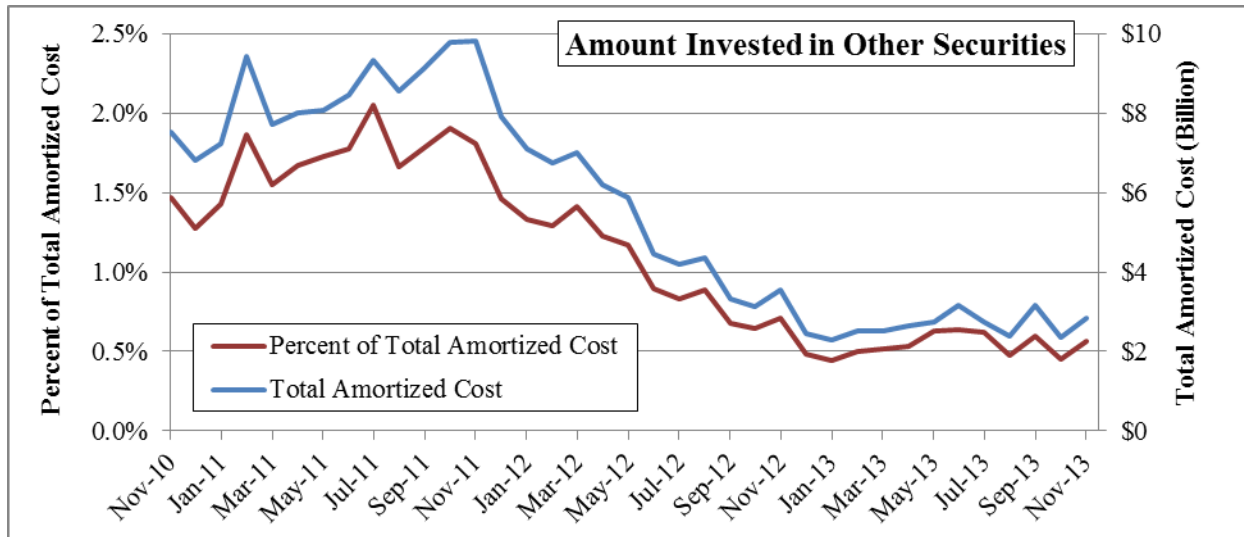
The chart below indicates the number of government funds (red) declined from a high of 117 in January 2011 to 97 in November 2013, while total net assets (blue) remained, with the exception of March 2013, fairly constant around \$500 billion since 2012.



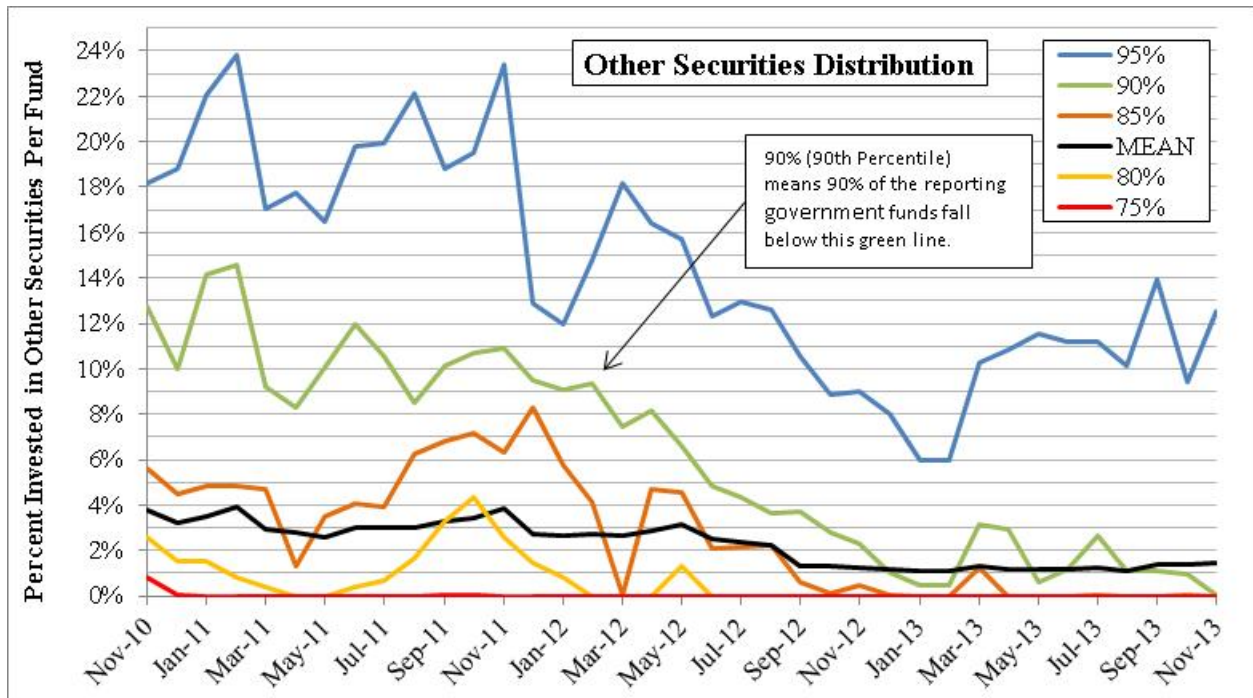
Concentration of *Other Securities*

We next examine the concentration of *Other Securities* in government funds to assess the reliance of government funds on non-government securities and how this reliance evolves over time.

For each fund in our sample, we aggregate the amortized-cost dollar holdings of *Government Securities* and *Other Securities*. Using the scale on the right-hand axis in the following figure, we report the total dollar amount invested in *Other Securities* for all government funds between November 2010 and November 2013 (blue). Using the scale on the left-hand axis, we show the total dollars invested in *Other Securities* as a percentage of the government funds total amortized-cost (red). The figure shows the total dollars invested in *Other Securities* is small compared to the amount invested in *Government Securities*. For example, in November 2013, \$2.8 billion or 0.6% was invested in *Other Securities* compared to \$503 billion or 99.4% in *Government Securities*.

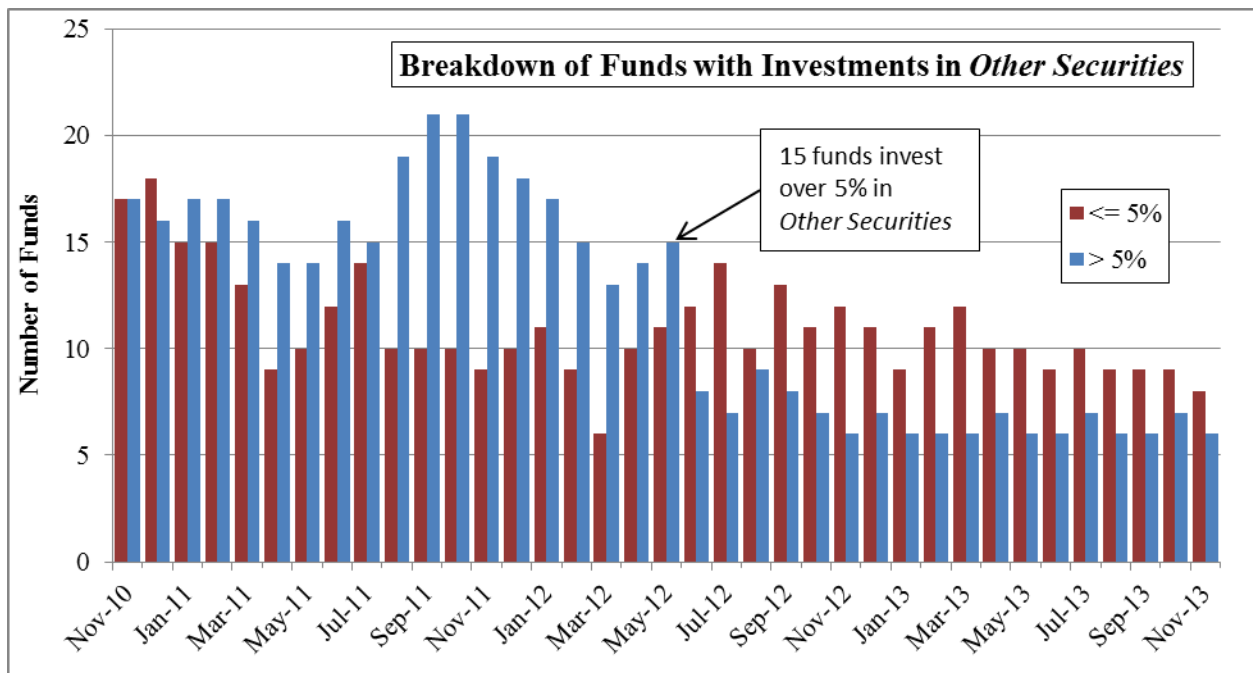


The next figure plots the distribution of *Other Securities* from November 2010 through November 2013 using each government fund's aggregate investment in *Other Securities*. Similar to the chart above, the figure illustrates that the amount invested in *Other Securities* steadily declined over the sample period. For example, the 90th percentile (green) line indicates that investments in *Other Securities* declined from 12.7%, representing 11 funds, in November 2010 to nearly zero in November 2013. Moreover, the 80th percentile (yellow) line illustrates that around 80% of all government funds have had no investments in *Other Securities* since June 2012. The line representing the mean (black) depicts that the average usage of *Other Securities* also declined over the sample period with about 1.5% invested in non-government securities in November 2013.



Distribution of *Other Securities* Usage

For those funds that invest in *Other Securities*, the histogram below breakdowns the number of funds into two distinct bins defined by the percent of a fund’s aggregate amortized-cost dollars. During the first half of the sample from November 2010 to May 2012, each month the number of funds holding more than five percent of their portfolio in *Other Securities* was significantly larger than ten. In contrast, over the second half of the sample period from June 2012 to November 2013, the number of funds holding more than five percent of their portfolio in *Other Securities* dropped to between six and nine with an average during 2013 of approximately six funds. The drop in the number of funds can be attributed to a shift from non-government assets into agency debt.³ The number of funds making use of *Other Securities* but holding less than 5%, ranged from six to eighteen funds over the sample period with an average of approximately eleven funds.



³ Five of the funds that invested more than five percent in *Other Securities* in May 2013 fell below five percent in June 2013 when they rotated their portfolio holdings from *Other Notes* and *Other Repurchase Agreements* into *Government Agency Debt*.

Next, we report details about investments in *Other Securities* for November 2010, November 2011, November 2012, and November 2013. For each month, we segment funds into one of four bins depending on the percent of their fund's investment in *Other Securities*. We then report the average investment within each bin. The entry for November 2013 indicates that the average investment in *Other Securities* for the six funds holding less than 0.5% in *Other Securities* was 0.08%. Across the smallest three bins, that is with investments in *Other Securities* up to 5%, the average investment is 1.01%. In contrast, the average investment for the six funds holding more than 5% in *Other Securities* was 22.1%. Each of the four months exhibits the same pattern in that funds with more than 5% invested in *Other Securities* have a much larger average investment than funds holding less than 5% in *Other Securities*.

**Number of Government Funds and Average Investment in *Other Securities*
within Different Investment Intervals**

Interval	November 2010		November 2011		November 2012		November 2013	
	No of Funds	Average Investment	No of Funds	Average Investment	No of Funds	Average Investment	No of Funds	Average Investment
<= 0.5%	5	0.01%	4	0.03%	3	0.01%	6	0.08%
(0.5%-1.0%]	2	0.7%	0	0%	1	1.0%	0	0%
(1.0%-5.0%]	9	3.0%	5	3.3%	8	2.5%	2	3.8%
> 5.0%	18	22.8%	19	22.0%	6	17.4%	6	22.1%

Finally, we investigate the size of funds that invest in *Other Securities* during November 2013. Two of the 18 (=1+6+11) funds with a size greater than \$10 billion invested in *Other Securities*. One invested less than 0.5% in *Other Securities* and the other invested more than 5%. These 18 funds represent about three-fourths of the government fund dollars with an average fund size of approximately \$21 billion. Of the remaining 79 funds, 12 invested in *Other Securities* with an average fund size of approximately \$2 billion, indicating the usage of *Other Securities* is skewed towards smaller government funds. Of those 12 funds, five invested less than 0.5% in *Other Securities*.

**Number of Government Funds That Invest in *Other Securities* and Total Net Assets
(\$ Billions) November 2013**

Size bin	Net Assets	No of Funds	<=0.5%	(0.5%-1%]	(1%-5%]	>5%
\$50-\$100 billion	56.8	1	0	0	0	0
\$20-\$50 billion	155.1	6	1	0	0	0
\$10-\$20 billion	171	11	0	0	0	1
\$1-\$10 billion	114	32	2	0	0	0
\$100 million to \$1 billion	13.9	31	2	0	0	3
Less than \$100 million	0.8	16	1	0	2	2
Total	511.6	97	6	0	2	6