United States: Reallocation of cash induced by money market fund reforms

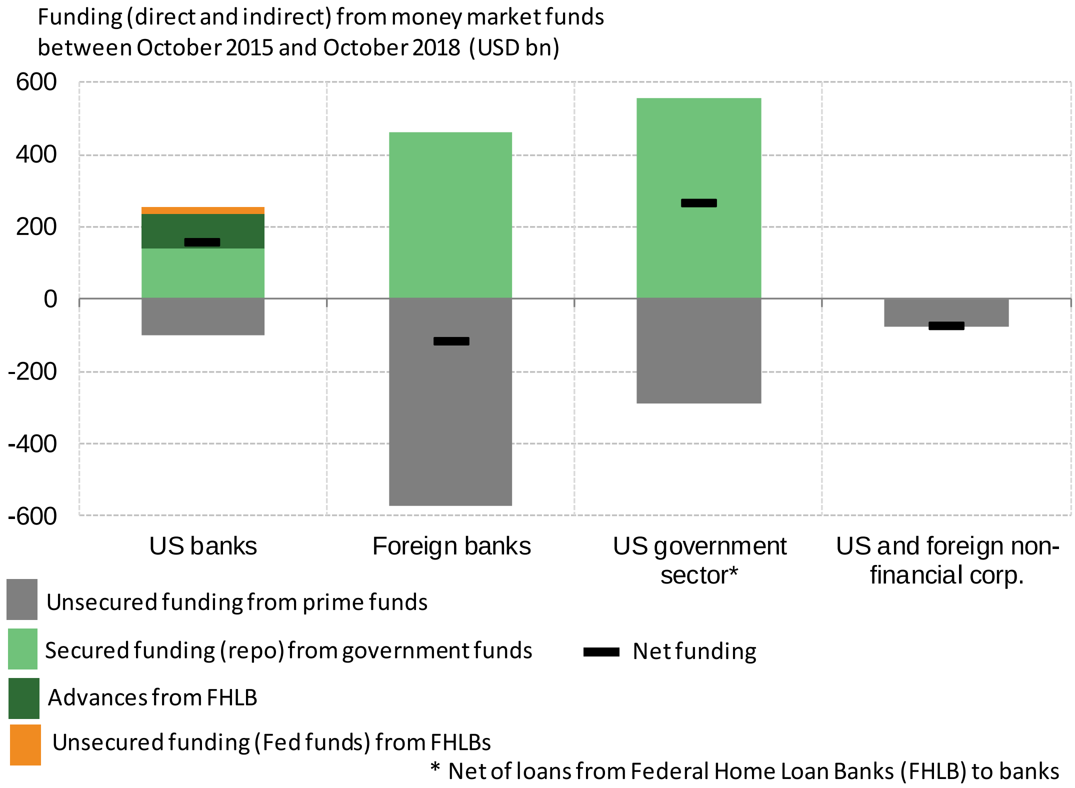
In 2014, the Securities and Exchange Commission (SEC) adopted reforms to limit the scope of US constant net asset value money market funds. Money market funds that until then were invested in private debt (prime funds) had to abandon this model while funds that were invested in public debt (government funds) retained the ability to provide a guarantee to investors that they would recover all of their original investment*.

Starting in October 2015, the reforms have led to a massive reallocation of cash from prime funds to government funds. Foreign banks, traditional borrowers of prime funds, were deprived access to US dollars while the US Treasury and federal agencies attracted fund inflows. Part of these fund inflows has been lent to US banks.

Overall, over the past three years, liquidity allotted directly or indirectly by money market funds to US banks increased by USD 155 bn, while funds allotted to foreign banks fell by USD 115 bn.

*See Choulet C., *US money market funds and US dollar funding*, BNP Paribas, EcoFlash, 16 July 2018

Transfer of liquidity from foreign banks to US banks



Sources: SEC, Federal Reserve, BNP Paribas