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US money fund, Treasury-market reform likely to be forcefully tackled by SEC-nominee Gensler, experts say

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By Neil Roland

In Brief

Gary Gensler, the US Securities and Exchange Commission chairman nominee, is sure to actively grapple with money-market mutual fund and Treasury market reforms in the wake of pandemic-related turmoil in those markets last March, securities and banking specialists predicted. “I expect him to be very aggressive,” said University of Maryland law professor Michael Greenberger, who worked with Gensler during the Clinton administration.

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“I expect him to be very aggressive,” said University of Maryland law professor Michael Greenberger, who worked with Gensler during the Clinton administration. “Money market funds and Treasury markets — he knows that stuff like the back of his hand.”

Paul Tucker, head of the nonpartisan Systemic Risk Council and former deputy governor of the Bank of England, said Gensler "will know the job of ensuring the financial system is both truly resilient and growth-friendly is not nearly done.” He added: “Gensler is capable of getting things done.”

Gensler, who was nominated Monday and still must be confirmed by the Senate, was an architect of 2010 Dodd-Frank Act derivatives provisions. As US Commodity Futures Trading Commission chief during the Obama administration, he also was by far the most aggressive financial regulator at implementing Dodd-Frank rules aimed at ensuring financial stability.

He had been a senior Treasury official during the Clinton administration and a Goldman Sachs investment bank partner.

— Current SEC rule —

The SEC took a swing at money fund reform during the Obama administration on the heels of runs in that market during the 2008-09 financial crisis.

The agency’s 2014 rules require a floating net asset value for prime money funds for institutional investors, allowing the daily share price to fluctuate along with changes in the market-based value of fund assets. Boards of directors of these non-government money funds are allowed to use liquidity fees and redemption suspensions, or gates, to try to block investor runs.

The SEC, under pressure from asset managers, resisted recommendations for tougher measures from the US Financial Stability Oversight Council, a risk panel of top Washington regulators led at the time by Treasury secretary Jacob Lew.

Last March, investors stampeded from prime money funds at a pace exceeding that in fall 2008. “Gensler ensures there are no obstacles at the SEC akin to those in 2014,” said Karen Petrou, a Washington-based consultant to banks and regulators.

Stanford University finance professor Anat Admati said: “As usual, we can expect a lot of lobbying and fighting, and are likely to hear some of the same flawed claims that were made prior to the 2014 rules. The way the process works is dismaying, and it is difficult for any one person to impact it, but Gary Gensler is savvy both about the issues and about the politics, so I am hopeful.”

Columbia University law professor Kathryn Judge added: “After the last crisis, many viewed it as a once-in-a-century crisis. Now that there have been two major economic crises, both requiring the government to intervene and support money market mutual funds, there should be broader consensus regarding the need for meaningful reform.”

She said she expects both Gensler and Treasury secretary nominee Janet Yellen, who would head the Financial Stability Oversight Council, to recognize the need for further money fund reform.

— Treasury market —

As for the Treasury market, an unprecedented dash for cash among investors led to broad-based selling last March. Dealers tried to step up but couldn’t keep pace, and the Federal Reserve intervened by buying $1.6 trillion in Treasuries to unfreeze the market.

Petrou said she expects a top SEC priority will be determining the extent to which the agency can mandate capital or liquidity buffers for large, leveraged hedge funds in light of their apparent role in the Treasury market volatility.

The SEC also may consider requiring more data from hedge funds on the financial forms they have to submit, she said.

Federal Reserve Governor Lael Brainard has called for possibly expanding the use of central clearing in Treasury cash markets and increasing access to trading platforms that provide more direct Treasury trading among market participants.

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