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## Money Fund Rule, New Talent Help SEC Step Up Oversight

By Peter Ortiz March 30, 2011

The SEC's money market reform rule is paying major dividends for the regulator in its effort to gather and analyze industry data and guard against risk, an SEC commissioner said Monday.

Commissioner Luis Aguilar noted in a speech that the rule's disclosure requirement "has already proven to be a game-changer in terms of the information that the SEC has about industry participants and their portfolios." A former money market fund portfolio manager hired by the SEC in November also has helped to "analyze the data and identify potential problems," he said at the North American Securities Administrators Association's 2011 Annual Public Policy Conference.

The rule has enabled the Securities and Exchange Commission to examine risk coming from portfolio compositions, exposure to different issuers and changes in portfolio maturities, Aguilar said. The SEC also is able to examine risk that could stem from the pricing of securities; exposure to repo counterparties; investments in new types of securities, including structured products; available liquidity and spreads between market-based NAV per share and the \$1 share price, he said.

"In plain English, the SEC is now able to answer questions it could not in the past," Aguilar said, adding that some fund managers have heard from agency staff about outlier portfolio or unusual holdings. "Our examiners are now armed with better information and greater expertise when they walk in the door to examine a money market fund, and that is an improvement for all involved."

Bob Plaze, associate director of the SEC's Division of Investment Management, says his team's ability to monitor money market funds comes down to three things: the industry data; the ability to analyze that data; and the ability to evaluate if there is a problem and understand the implications of whatever options they choose as a remedy. Sharon Pichler, who retired from Janus in 2007 after working at the firm as a money market fund portfolio manager since 1994, joined the SEC in November as a senior financial analyst and has been instrumental in helping regulators better interpret the data, Plaze says.

"With this new data, we can look into a mutual fund and see what is happening and why," Plaze says. "But Sharon can help us turn raw data into meaningful information."

Pichler's experience also has enabled the SEC to be on "the leading edge" of understanding new types of securities that money market funds are investing in, Plaze says. The commission is able to seek answers on whether the securities work the way they are intended to work and to identify the risks.

Pichler, who also worked as a money fund manager at USAA from 1990 to 1994, says she was ready to go back to work when she learned the SEC was looking for an experienced industry professional last year. Most of her time is spent analyzing the data funds are required to give to the SEC every month.

The SEC's Office of Compliance Inspections and Examinations has turned to Pichler for help understanding what to look for in money market funds and potential problems. She also has helped examiners returning from visits to funds and has answered calls from them during the middle of on-site visits, Plaze says.

A strong focus of the SEC is in guarding against money market funds' getting into any trouble that could spark a "contagion" that impacts all money market funds, Pichler says. That diligence is something the entire industry should welcome, she says.

Andrew "Buddy" Donohue, partner in the investment management practice of Morgan Lewis, says the SEC's budget constraints prevent it from hiring more experts like Pichler. But having Pichler on staff is invaluable because she brings an understanding of how money market funds work beyond the SEC's regulatory knowledge. Donohue was the director of the SEC's Division of Investment Management before stepping down in November.

"She has the appreciation and experience of what happens in the real world," Donohue says. "She speaks the language of the portfolio manager."

Niels Holch, executive director of the Coalition of Mutual Fund Investors, says the fund data provides the SEC with a "much better picture of what is happening within the industry and gives them the ability to evaluate risks in a more robust way than... when there was no information flowing to the SEC on a regular basis." But he adds that they will need more than one person to help evaluate this data.

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