The Recent Bank Collapse: Are Your Accounts Safe?

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Are Your Accounts Safe After the Recent Bank Collapses? Yes.

The collapse of Silicon Valley Bank (SVB) has been dominating headlines and causing confusion and concern among investors. Our clients are our number one priority, and we want to be sure you understand the current bank collapse situation and how it might affect your accounts. The bottom line: Your accounts are safe.

We want to reassure you that Commonwealth Financial Network®, the firm we partner with to better serve you, does not expect the recent events concerning SVB to have any impact on its management of your accounts. Commonwealth takes the responsibility of securing the assets of clients very seriously and will continue to be vigilant as events unfold.

The firm stands behind Federal Deposit Insurance Corporation (FDIC) coverage of its Core Accounts Sweep Program provided to clients. The FDIC insures up to $250,000 per depositor at each insured bank. Commonwealth's network of 27 banks creates a safety net for much more than that by cascading funds across insured institutions to offer maximum security.

Your brokerage accounts, which are maintained with Fidelity Investments, are protected by the Securities Investor Protection Corporation (SIPC). In addition to SIPC protection, National Financial Services LLC (NFS), a registered broker-dealer and Fidelity company, provides additional "excess of SIPC" coverage to brokerage accounts. This coverage would be used only when SIPC coverage is exhausted, offering yet another layer of security.

The details and strength of this insurance coverage are described in the article, "Distressed Banks, Commonwealth's Core Account Sweep Program, and Money Market Funds" below written by Commonwealth's Sam Millette, director, fixed income. Sam also delves into the topic of money markets and the low-risk option they provide.

As always, we strive to keep you informed. If you have any questions about the bank collapses, your accounts, or this article, please don't hesitate to contact my office.

Distressed Banks, Commonwealth's Core Account Sweep Program, and Money Market Funds

Authored by Brad McMillan, CFA®, CAIA, MAI, managing principal, chief investment officer, and Sam Millette, director, fixed income, at Commonwealth Financial Network®.
Present by: Paul Bonapart

The recent collapse of SVB and Signature Bank, along with the struggles of Silvergate Bank and First Republic Bank, attracted notable investor attention and concern last weekend.

While this is a complex and rapidly changing situation, one area of potential concern for investors has been the impact of these high-profile bank collapses on the Core Account Sweep Program offered by Commonwealth Financial Network® and money market mutual fund investments. In this piece, we'll examine these two popular solutions for short-term cash positions with an emphasis on how they might be affected by the recent bank failures.

Core Account Sweep Program
As an alternative to using money market funds for clients' short-term cash needs, Commonwealth has a Core Account Sweep Program that automatically sweeps eligible cash balances into deposits at partner banks. This program provides FDIC insurance as long as balances stay below $250,000 per bank. With 27 primary banks, two of them acting as excess banks in the program, clients can benefit from Commonwealth's broad network of banking relationships to deposit excess cash and receive FDIC insurance. In short, the advantage of this network is that funds are spread out across banks to give clients as much coverage as possible.

Additionally, all 27 banks went through rigorous reviews and continue being evaluated on a regular basis to ensure the strength and safety of the program.

While a full list of banks in the program and additional details on the program can be found here, it's important to note that the Core Account Sweep Program did not have direct exposure to any of the banks that recently collapsed.

Insurance Protection for Your Investments
You should be aware that your brokerage account, which is maintained with NFS at Fidelity, is afforded protection by the SIPC. Securities in accounts carried by NFS are protected up to $500,000 in accordance with SIPC. The $500,000 total amount of SIPC protection is inclusive of up to $250,000 protection for claims for cash, subject to periodic adjustments for inflation in accordance with terms of the SIPC statute and approval by SIPC's Board of Directors. NFS has also arranged for coverage above these limits. Neither coverage protects against a decline in the market value of securities, nor does either coverage extend to certain securities that are considered ineligible for coverage.

What Are Money Markets?
Money market funds are mutual funds that invest in liquid, short-term securities. Investors have traditionally used money market funds to generate income while keeping their short-term cash balances liquid. As these are investment funds sponsored by an investment company, they do not have any guarantee of principal or FDIC coverage. But money market mutual funds aim to keep Net Asset Value (NAV) stable at $1.00 and are generally viewed as low-risk investments.

With that said, *low-risk* is not *no-risk* and we've seen rising concerns about the impact of banking industry struggles on money market funds, as these funds can and do invest in a wide variety of short-term investments.

There are three primary types of money market funds, with the type of fund determining the underlying holdings that can be purchased. First, government money market funds invest in cash and federal government-backed securities. Some government funds can invest in securities issued by government agencies while others are Treasury only.

Next, there are municipal money market funds that invest in municipal bonds to generate tax-exempt interest. Neither government nor municipal money market funds were exposed to the recent bank collapses.

The third type of money market fund is a prime money market. Prime money markets can invest in the same government-backed securities as government money markets, but they have additional asset classes they can use as well. Investment options for prime money markets include bankers' acceptances, certificates of deposit, commercial paper from corporate issuers, and corporate notes—all of which are subject to credit risk.

Fidelity Money Market Funds
Commonwealth typically recommends that advisors use the Fidelity money market platform for their money market needs. These funds have the benefit of trading NTF

(no transaction fee or without trading fees) with daily liquidity on our platform and come with the backing and expertise of one of the world's largest asset managers.

In its prime retail money market platform, Fidelity did not have any exposure to SVB, Signature, or First Republic last week. This should help reassure investors in Fidelity prime money markets at this time. Of course, given the short-term nature of money market funds, these exposures could change in the future. But Fidelity will continue to manage the funds with a focus on stability, safety, and liquidity.

For investors who are still concerned about credit risk in prime money market funds, a switch to government funds may make sense due to the lower credit risk associated with government-backed securities. Government money market funds typically have lower yields than prime funds, reflecting the more limited investments and lower-risk profile.

Looking Ahead for Investors

Ultimately, the current high-profile struggles for the banking industry serve as a reminder that risks for investors are ever-present and can escalate quickly. While the fallout from the recent bank failures is expected to remain contained at this time, the increased uncertainty and market impact can't be ignored.

Going forward, we'll likely see additional market turbulence in the short term; however, the impact on money market funds and the Core Account Sweep Program is expected to remain limited.

If you have questions about any of the topics discussed here, please feel free to reach out to my office.

My staff and I deeply appreciate the continuing opportunity to work with you. Thank you.

Sincerely,

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