

Money Market Fund Regulations: The Voice of the Treasurer

April 19, 2012



Treasury
Strategies.

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**Study Commissioned by the
Investment Company Institute**



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Overview & Participant Demographics



Treasury Strategies surveyed 203 unique corporate, government, and institutional investors between Feb 13, 2012 and March 6, 2012. The respondents are sophisticated investors (corporate treasury executives) with 61% of them overseeing short-term investment pools of \$100 million or more.

The executives surveyed were selected from the Treasury Strategies proprietary database of diverse financial executives. The set of responses included both large and small corporate, institutional, and government entities, across multiple industries. The respondents represent approximately \$176.5 billion in total short-term investment assets, and \$58.5 billion in total money market fund assets.

Survey respondents were asked 31 questions concerning:

- Their cash pools,
- Their investment objectives, and
- The three regulatory issues

The survey was executed through a web-based instrument, with follow-up emails conducted for points of clarification. These were followed by phone interviews with a sample of 15 respondents. For each of the three regulatory issues, the executives were given a short statement of the issue, followed by an argument for and an argument against the proposal. This was to ensure balance in understanding and an objective response.

Follow-up in-depth telephone interviews both **confirmed and reinforced the findings.**



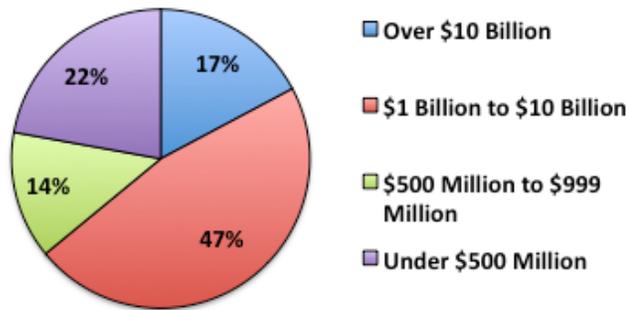


Overview & Participant Demographics



Treasury Strategies' survey is comprised of **203 unique respondents**. Key demographic information is detailed below:

Revenue Size

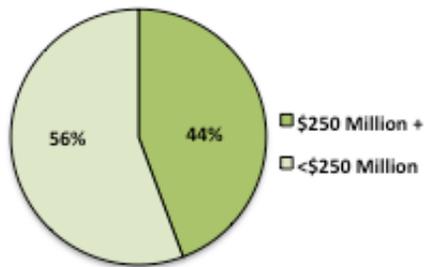


203 Respondents

The largest share of respondents have annual revenues between \$1 billion-\$10 billion.

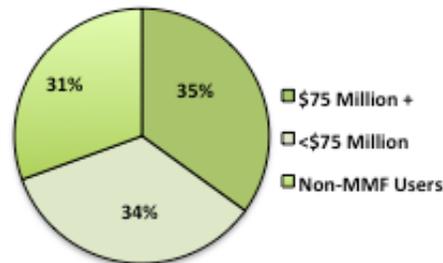
All of the respondents have roles in US treasury departments or within overseas treasury departments that have US cash operations.

US-Based, USD Short-Term Investments



203 Respondents

Current MMF Assets



203 Respondents

Respondent organizational titles include the following:

- Chief Executive Officer
- Chief Financial Officer
- Treasurer
- Assistant Treasurer
- Treasury Manager
- Director of Finance



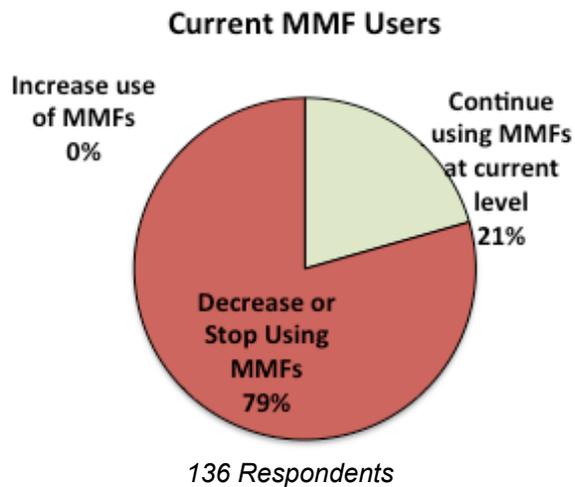


Findings & Conclusions

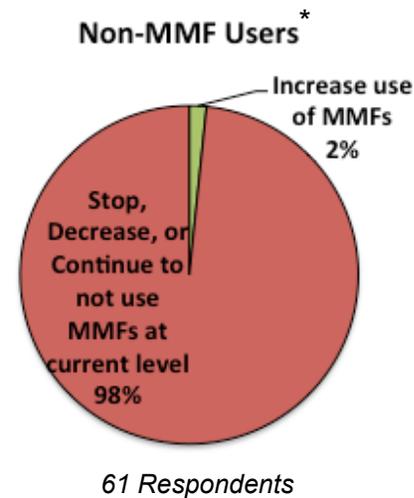
Floating NAV Proposal



If the floating NAV proposal were enacted, what action would your organization most likely take?



79% of current MMF user respondents would either decrease or stop using MMFs, given the enactment of the floating NAV proposal.



98% of non-MMF users would continue to avoid investing in MMFs under the floating NAV proposal.

Based on survey responses, we estimate that total corporate assets in MMFs would see a net decrease of 61% due to this proposal.

** Responses from participants who were not currently invested in MMFs were acquired because they may be periodic users of MMFs.*



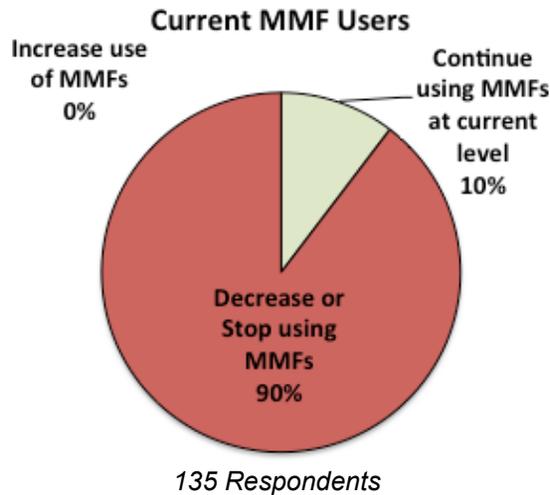


Findings & Conclusions

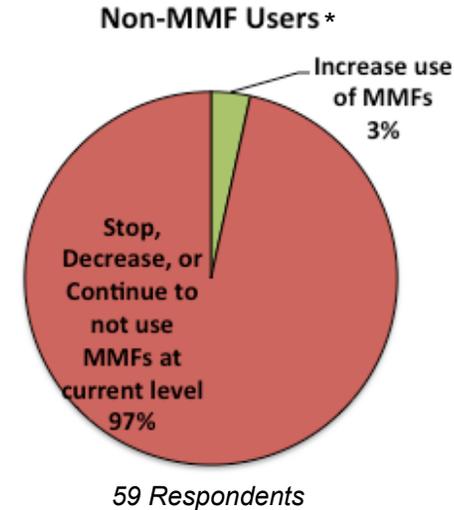
Redemption Holdback Provision



If regulators required money market funds to have such a redemption holdback, what action would your organization likely take?



90% of current MMF users would either decrease or stop use of MMFs given the enactment of the holdback provision.



97% of non-MMF users would continue to avoid investing in MMFs under the holdback provision

Based on survey responses, we estimate that total corporate assets in MMFs would see a net decrease of 67% due to this proposal.

** Responses from participants who were not currently invested in MMFs were acquired because they may be periodic users of MMFs.*



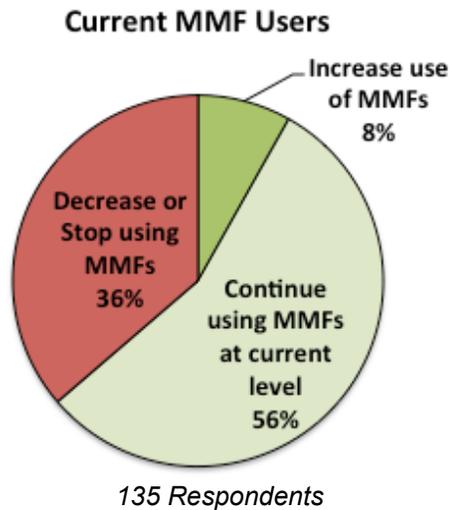


Findings & Conclusions

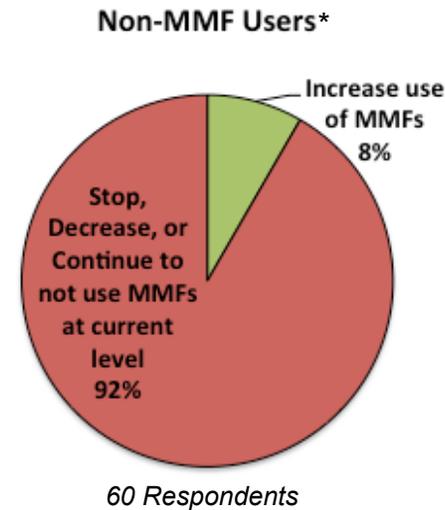
Loss Reserve Proposal



If a loss reserve (capital buffer) were required for non-government MMFs, what action would your organization most likely take?



36% of current MMF users would either decrease or stop using MMFs given the enactment of the loss reserve proposal.



92% of non-MMF users would continue to avoid investing in MMFs under the loss reserve proposal

Based on survey responses, we estimate that total corporate assets in MMFs would see a net decrease of 13% due to this proposal. However, if the yield of MMFs decreased as a result of this proposal, corporate investment levels would likely decrease further.

** Responses from participants who were not currently invested in MMFs were acquired because they may be periodic users of MMFs.*





Findings & Conclusions

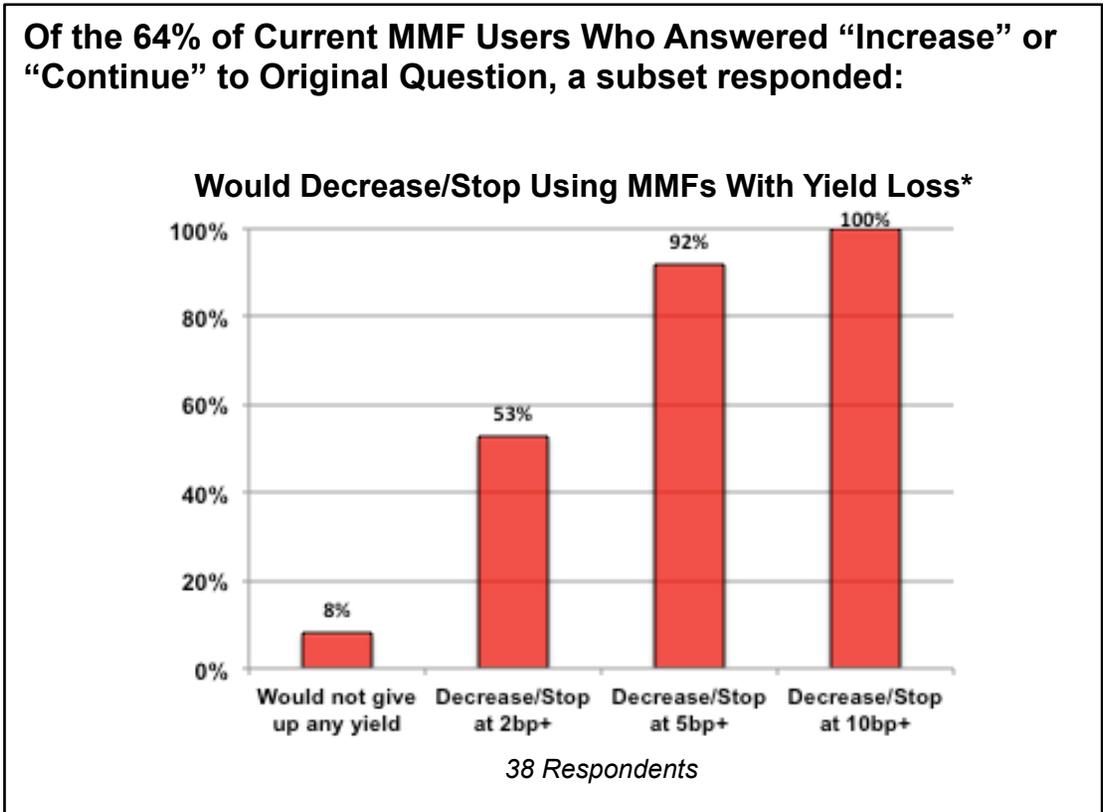
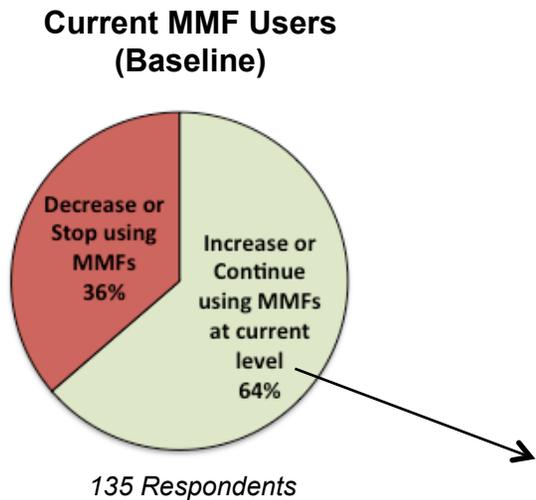
Loss Reserve Proposal – Elasticity



64% of current MMF users, or 86 respondents, said they would increase or continue use of MMFs under the loss proposal.

These respondents were asked a follow-up question to determine their sensitivity to changes in yield that might result upon enacting a loss reserve or capital buffer. The survey question did not specify a particular market yield environment. 38 responded to the follow-up question and the results are shown below.

If this loss reserve or capital buffer results in a lower yield to investors, how much yield would you be willing to give up in order to have this buffer before you would decrease or discontinue your use of non-government money market funds?



*Note: Responses are cumulative (e.g. a respondent that would decrease/stop at 2bp yield loss would also decrease/stop at 5bp yield loss.)





Treasurer Verbatim Responses



- *“Local government investment pools by statute have to be stable \$1 NAV – so we would pull out of MMFs if this regulation passed.”*
- *“The biggest issue I have with this regulation is the administrative pain it will cause for accounting. When you start having more administrative headaches, it makes you think more about leaving it at the bank.”*
- *“It's simply against our investment policy to be invested in an instrument with a floating NAV.”*
- *“[The redemption holdback is] a nightmare in many different respects. There are a number of accounting issues including identifying future receivables, especially if it's over month-end or quarter-end. It also means an extra line on the balance sheet. Cash forecasting will also be more difficult as you have different funds coming in at different times.”*





Findings & Conclusions

Outflow of Corporate MMF Assets



If further MMF regulations were enacted, corporate treasurers would move assets from MMFs into a wide variety of instruments, the most common being bank checking/demand deposit accounts, separately managed outside accounts, government securities, and bank MMDA/savings accounts.

Instrument	Rank 1	Rank 2	Rank 3
Bank Checking/Demand Deposit Accounts	52	25	23
Separately Managed Outside Accounts	22	12	12
Government Securities	20	20	20
Bank MMDA/Savings Accounts	16	30	17
CDs/Time Deposits	16	19	24
Commercial Paper	15	16	13
LGIPs, Enhance Cash, or Other Pools	9	12	18
Repurchase Agreements	7	13	7
Offshore Funds	5	2	3
Other	2	1	2

Note: Respondents were asked to designate their first, second, and third choice; the count of respondents in each category is above.





Q&A



Send us your questions using the question mark icon at the bottom right of your screen.

Please allow members of the media to send their questions first. We will open the floor for non-media in a few minutes.





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