

Money Fund Report®

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LEADING THE INDUSTRY IN MONEY FUND NEWS

#1879

◆ CHAMBER EDUCATES REGULATORS ABOUT BENEFITS OF MMFs TO BUSINESSES

The U.S. Chamber of Commerce, the world's largest business federation representing the interests of over 3 million companies, is in the midst of a multipronged campaign to explain why regulators should "proceed with extreme caution" before again modifying regulations for Rule 2a-7 money-market funds that could have unintended consequences for businesses.

Regulatory changes under review include a floating net asset value, capital buffer, and mandatory redemption restrictions. The USCC recently sent a letter to the Securities and Exchange Commission in response to Chairman Mary Schapiro's Nov. 7 speech to the Securities Industry and Financial Markets Association annual meeting.

"While the SEC's new money-market fund reforms were a critical first step, and many voices have said 'You've done enough,' I believe additional steps should be taken to address the structural features that make money-market funds vulnerable to runs," Schapiro said then.

"We are deeply concerned that the potential changes will have far-reaching implications on the ability of the business community to continue to rely on short-term financing and liquidity management from money-market funds at what remains a very precarious period in our nation's economic recovery," stated the Nov. 17 letter by David Hirschmann, president of the Chamber's Center for Capital Markets Competitiveness. "Therefore, we urge the Commission to proceed with extreme caution on both the nature and timing of any proposed change."

"I think that when most people think about what impact something is going to have on the fund and the advisers, they don't necessarily take into account the users of a product, like our treasurers, our companies, state and local governments, and institutional investors," explained Alice Joe, senior director of the CCMC, which was created to promote a modern and effective regulatory structure for capital markets to drive economic growth and job creation.

The Chamber has enlisted the help of Treasury Strategies to give corporate treasurers a voice in the ongoing debate about additional MMF regulatory changes

"We are sort of an on-call sounding board," Tony Carfang, a partner at Treasury Strategies, told iMoneyNet, evaluating various proposals and reacting to them as they arise, providing background information, helping to understand the corporate treasurer's point of view, and trying to anticipate how treasurers might change behaviors under different regulatory scenarios. The USCC is saying, "Let's make sure that corporate treasurers have their voices heard," he added.

The USCC and Treasury Strategies present a united front in stating that the changes to Rule 2a-7 adopted in February 2010 helped "preserve and strengthen" money-market funds. Carfang said those changes "solved the problem" and likened them to performing heart surgery. "You don't go and do a heart surgery the second time on a healthy patient," he said.

Concerned About Negative Changes

One of the biggest concerns would be moving MMFs to a floating NAV, according to Joe. "If they floated the net asset value, from an investment perspective, our treasurers have told us that they are not going to invest in them (money-market funds)

anymore. They are going to pull out," she told iMoneyNet. "For those who rely on them for short-term financing, the big (firms) will be able to get financing from someone else, but it is going to cost more and they are going to have to realign their spending strategy from that perspective."

She added that if companies get money from a bank, or tap another less-typical source, they would be taking capital away from businesses that are not as creditworthy, and that could slow economic growth.

"The market is in equilibrium. There's \$2.6 trillion in money-market funds that are paying virtually zero interest whose investors have chosen to stay in money-market funds rather than move to other issuers," Carfang explained. "There is a reason for that. It's the convenience, the diversification, the credit management, and we can't throw all of that out the window."

He noted that \$640 billion has already flowed out of secondary markets and into insured bank deposit accounts since 2009, with 60 percent of it going to just four banks. He warned that if that continues it will "create additional concentration risk and a too-big-to-fail risk."

The CCMC hopes to spread awareness and give the corporate treasurers a voice by talking to the media, building coalitions, educating Congress, and visiting regulators. Additionally, treasurers are traveling to Washington, D.C. for face-to-face meetings with regulators, including the SEC, to educate staff members about how the corporate treasury function works.

Those fly-ins, said Joe, made it "very obvious that if they have never worked in the treasury department of a corporation, it certainly makes sense that they wouldn't fully appreciate all the nuances that go into managing cash and financing (operations)."

The USCC has also conducted focus groups to see how people view MMFs, which showed that part of its communication plan should include a primer written in "plain English" to explain how money funds help businesses manage cash flow.

Carfang added that regulators should also evaluate how money funds have performed during the last 18 months, with a focus on identifying a specific problem instead of passing regulations without knowing what the problem is. "Let's get really specific to defining the problem and deciding if these reforms are sufficient," Carfang concluded. "Let's do this methodically, instead of battling it out with emotional headlines in the newspapers."◆

MFR COMMENTARY

Net assets of 1,115 Taxable MMFs increased by \$14.30 billion to \$2.376 trillion as of Dec. 13. Taxable Institutional funds rose by \$14.30 billion; Taxable Retail funds rose by \$3.1 million.

The iMoneyNet Money Fund Average™/All Taxable 7-Day Yield held steady at 0.02 percent for a 20th consecutive week. The All Taxable 30-Day Yield remained at 0.02 percent for an 18th straight week. The WAM lengthened to 44 days from 43 days the week before.

The 468 Tax-Free and Municipal MMFs experienced outflows of \$157.4 million, lowering the total to \$289.78 billion as of Dec. 12.

The iMoneyNet Money Fund Average™/All Tax-Free 7-Day Yield remained at 0.01 percent for a 15th consecutive week. The All Tax-Free 30-Day Yield was 0.01 percent for a 14th straight week. The WAM lengthened to 34 days from 33 days the prior week.

Total net assets of 1,583 Taxable and Tax-Free money funds increased by \$14.14 billion, raising the grand total to \$2.666 trillion.

Money Fund Report

SUMMARY OF MONEY FUND ACTIVITY

Period Ending: 12/13/11 — Taxable Funds • 12/12/11 — Tax-Free Funds

# of Money Funds	Net Assets (\$Mils)	1-Week Change		7-Day Yield (%)	30-Day Yield (%)	Compound 7-Day Yield (%)	Compound 30-Day Yield (%)	12-Month Yield (%) (11/11)	Average Maturity (Days)
Taxable Money Funds									
32	70,875.0	78.9	Treasury Retail	0.00	0.00	0.00	0.00	0.01	52
32	70,796.1			0.00	0.00	0.00	0.00		53
41	17,360.2	393.9	Treas & Repo Retail	0.01	0.01	0.01	0.01	0.01	42
41	16,966.3			0.01	0.00	0.01	0.00		41
114	111,413.5	559.5	Govt & Agency Retail	0.01	0.01	0.01	0.01	0.01	46
114	110,854.0			0.01	0.01	0.01	0.01		45
187	199,648.7	1,032.3	Government Retail	0.01	0.01	0.01	0.01	0.01	47
187	198,616.4			0.01	0.01	0.01	0.01		47
316	523,792.2	-1,029.2	First Tier Retail	0.01	0.01	0.01	0.01	0.01	44
316	524,821.4			0.01	0.01	0.01	0.01		44
316	523,792.2	-1,029.2	Prime Retail	0.01	0.01	0.01	0.01	0.01	44
316	524,821.4			0.01	0.01	0.01	0.01		44
503	723,440.9	3.1	Taxable Retail	0.01	0.01	0.01	0.01	0.01	45
503	723,437.8			0.01	0.01	0.01	0.01		45
330	728,629.3	8,673.9	Government Institutional	0.01	0.01	0.01	0.01	0.01	46
330	719,955.4			0.01	0.01	0.01	0.01		47
282	924,391.2	5,621.7	First Tier Inst	0.05	0.05	0.05	0.05	0.05	40
282	918,769.5			0.05	0.05	0.05	0.05		39
282	924,391.2	5,621.7	Prime Institutional	0.05	0.05	0.05	0.05	0.05	40
282	918,769.5			0.05	0.05	0.05	0.05		39
612	1,653,020.5	14,295.6	Taxable Institutional	0.03	0.03	0.03	0.03	0.03	43
612	1,638,724.9			0.03	0.03	0.03	0.03		42
1115	2,376,461.4	14,298.7	Taxable (All)						
1115	2,362,162.7								
iMoneyNet MONEY FUND AVERAGE™/Taxable (All)				0.02	0.02	0.02	0.02	0.02	44
PriorWeek's Averages				0.02	0.02	0.02	0.02		43
Tax-Free Money Funds									
95	119,188.9	425.6	Tax-Free National Retail	0.01	0.01	0.01	0.01	0.02	33
95	118,763.3			0.01	0.01	0.01	0.01		32
122	88,252.4	-164.7	Tax-Free National Inst	0.02	0.02	0.02	0.02	0.03	34
122	88,417.1			0.02	0.02	0.02	0.02		32
151	69,428.9	-325.2	Tax-Free State Retail	0.01	0.01	0.01	0.01	0.01	36
152	69,754.1			0.01	0.01	0.01	0.01		35
100	12,913.3	-93.1	Tax-Free State Inst	0.01	0.01	0.01	0.01	0.02	32
100	13,006.4			0.01	0.01	0.01	0.01		32
468	289,783.5	-157.4	Tax-Free (All)						
469	289,940.9								
iMoneyNet MONEY FUND AVERAGE™/Tax-Free (All)				0.01	0.01	0.01	0.01	0.02	34
PriorWeek's Averages				0.01	0.01	0.01	0.01		33
1583	2,666,244.9	14,141.3	Grand Total - MMFs (All)						
1584	2,652,103.6								

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7- and 30-day yields represent annualized results for the periods, net of management fees and expenses. 12-month yields assume reinvestment of dividends for up to one year. Money Fund Report® Compound Averages follow the calculation method approved by the SEC:

$$\text{compound average} = \left(\left\{ 1 + \frac{\text{7-day average yield}}{(100 \times 52.142857)} \right\}^{52.142857} - 1 \right) * 100$$