Businesses and Money Funds: Managing Cash Flows

Presented To

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The Power of Experience®

Agenda

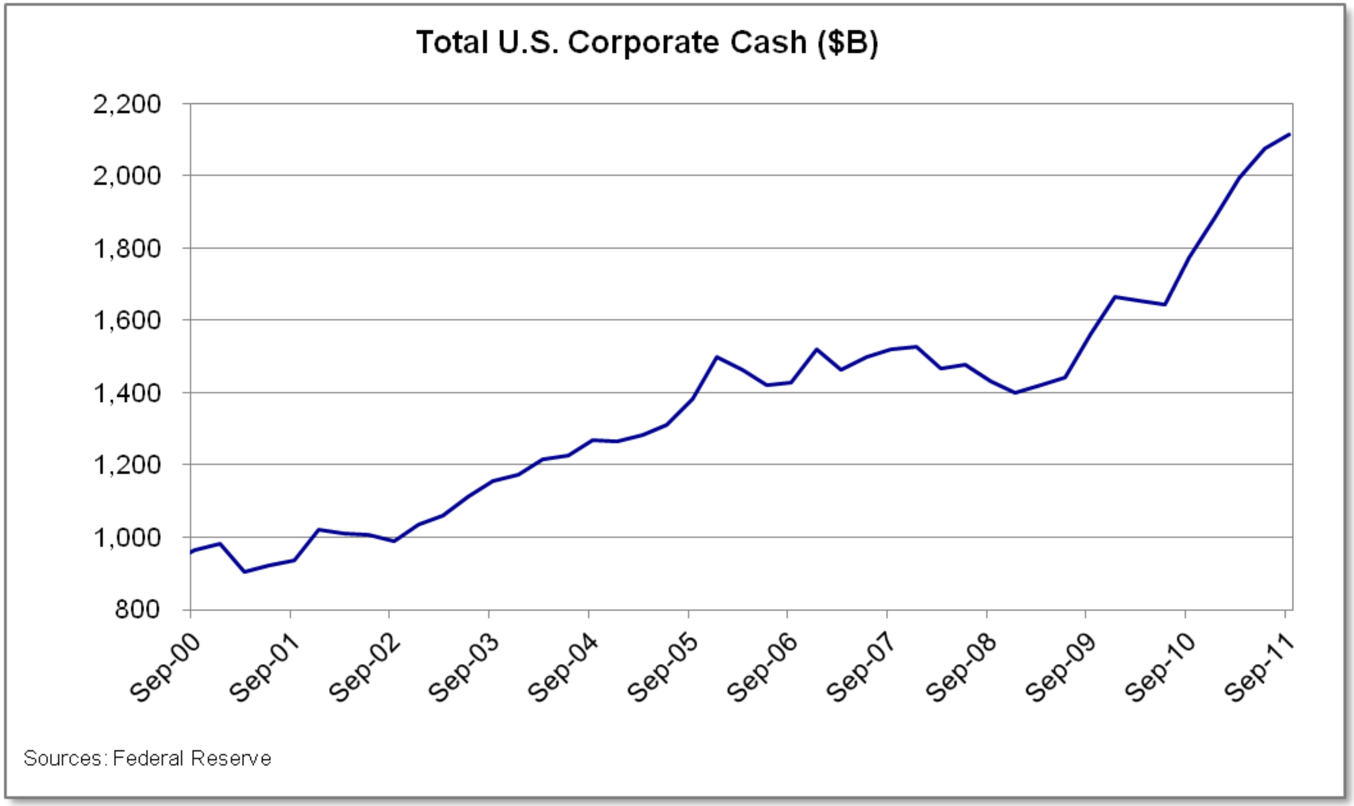
Corporate Cash – $2 Trillion

Regulatory Landscape for Treasurers

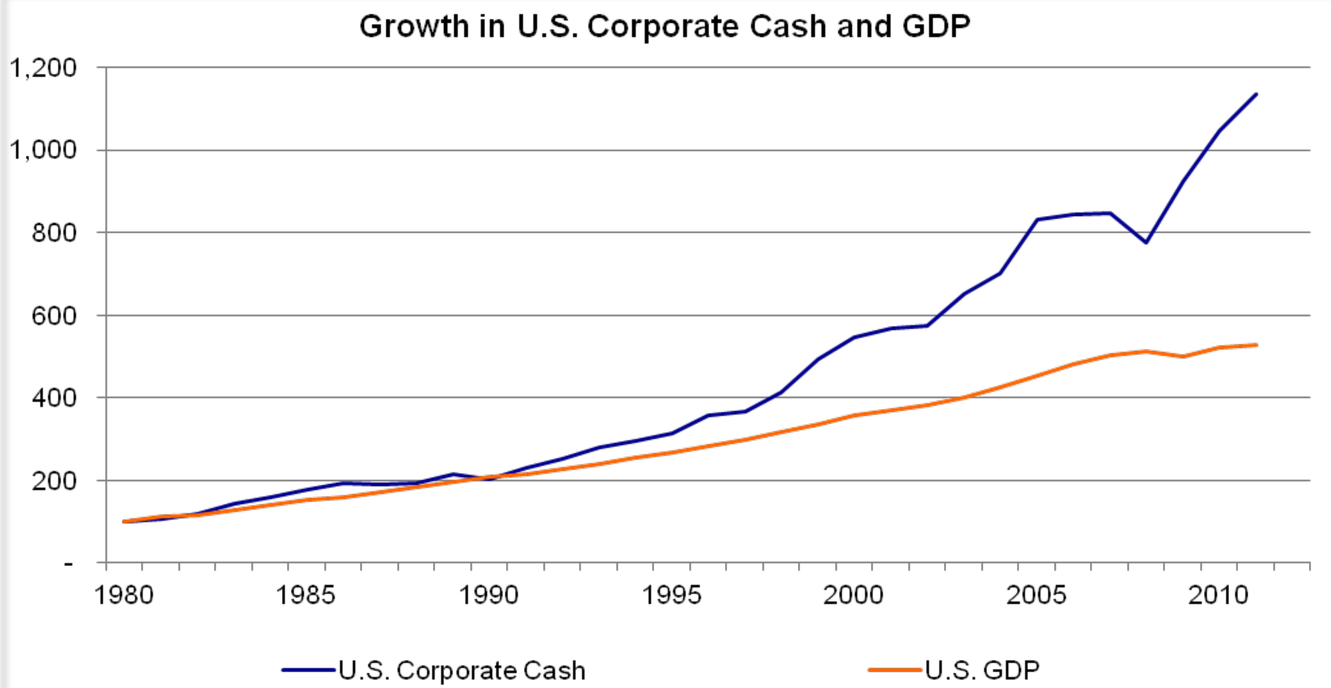
Impact of MMF Regulations on U.S. Businesses

Corporate Cash At Record Levels

The U.S. Federal Reserve reports U.S. corporate cash as of 9/30/11 was $2.11 trillion.



U.S. Corporate Cash Growing Faster than GDP



Sources: Treasury Strategies, Inc., Federal Reserve and BEA
Note: 1Q 1980 = 100

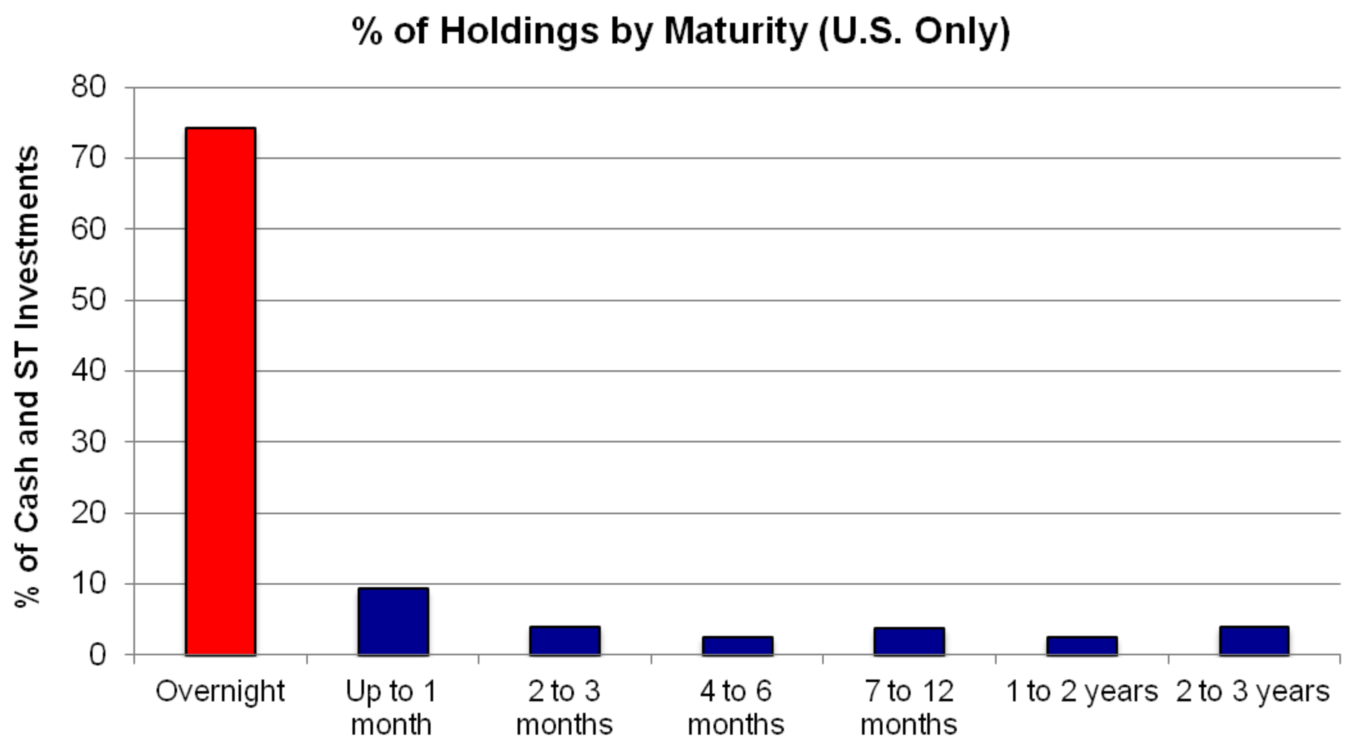
Corporate Cash as % GDP by Region

Country/Region	2000	2012
United Kingdom	26%	50%
Eurozone	15%	21%
United States	10%	14%

Source: Treasury Strategies estimate

Maturity Structure

U.S. corporations hold almost 75% of total liquidity in overnight investments, money funds and bank deposits.



Source: Treasury Strategies, Inc. Quarterly Corporate Cash Survey™, December 2011

Instruments

U.S. corporations hold approximately 75% of total liquidity in bank accounts (DDA, MMDA/Savings, and Sweep) or money market mutual funds.

% of Holdings by Instrument (U.S. Only)	Dec-11
DDA Accounts	38%
Money Market Mutual Funds	23%
MMDA/Savings Accounts	12%
Government Securities	7%
Sweep Accounts	7%
Other Instruments	13%

Source: Treasury Strategies Inc. Quarterly Corporate Cash Survey™, December 2011

New and Proposed Regulations Slam Corporate Treasurers

Regulators around the world are implementing massive and intrusive regulations. Although the primary targets are large financial institutions, the victims are corporate treasurers.

Four regulations, each far reaching but unproven, are landing on the treasurer's desk simultaneously:

- Proposed second round of MMF regulations
- Derivative regulations
- Basel III
- Volcker Rule

2010 Amendments to SEC Rule 2a-7

In response to issues money market funds faced in the 2008 financial crisis, the SEC made significant modifications to regulations in early 2010.

- Enhanced Liquidity
- Higher Credit Quality
- Shorter Portfolio Maturity
- Greater Diversification

These reforms have strengthened money market funds as they have weathered continued volatility in the financial markets.

2010 Amendments to SEC Rule 2a-7 Appear to be Successful

The 2010 amendments to SEC Rule 2a-7 appear to have successfully addressed the root causes of the three types of financial runs.

Type of Financial Run	Proximate Cause	2010 MMF Regulations
Credit Driven	Credit Loss	Tightened Credit Standards
Liquidity Driven	Market Seizing	Instituted Liquidity Requirement of 10% Next Day, 30% Weekly Shortened Maturity Structure
Speculative	Uncertainty/ Misinformation	Reporting of Holdings Reporting Shadow NAV

Additional Money Market Fund Regulation is Coming

Now financial regulators say additional changes will be made to regulations that impact the money market fund industry, despite the success of the 2010 amendments.

Changes being proposed:

- Floating NAV
- Capital Buffers
- Redemption Holdbacks

Impact on Corporate Treasury Function

Floating Net Asset Value

- Violates investment policies
- Requires costly changes to treasury and accounting systems

Capital Buffers

- Increases costs passed onto shareholders
- Reduces yield on investments

Redemption Holdback

- Prevents full access to cash
- Complicates cash forecasting
- Increased borrowing costs

Impact on Commercial Paper Programs

- Companies with short-term financing needs prefer to issue commercial paper because of its flexibility, efficiency, and affordability.
- Money Market Funds purchase over one-third of all corporate commercial paper.
- A reduced capital pool will impair a corporate treasurer's ability to obtain financing through commercial paper.
- Forcing companies to go to bank lending will substantially increase borrowing costs.

Questions for Financial Regulators

Why More?

Regulators haven't studied the reforms already in place. How have 2010 amendments to 2a-7 impacted the safety of money market funds? How have funds performed under the 2010 amendments? What evidence exists that there is still a risk?

Why Now?

Timing is bad. Putting out a proposal now (in a time of economic recovery) could cause a crisis. MMF reform along with the Volcker Rule and Basel III will hamper businesses' ability to access affordable financing. Derivatives regulations will also tie up corporate cash and impair a company's ability to hedge risk.

Why These?

The solutions the SEC has put forth are the wrong solutions. They don't address perceived systemic risk or advance economic recovery.

U.S. Chamber of Commerce's Money Market Fund Campaign

The U.S. Chamber of Commerce represents the corporate treasurers' voice in the money market fund debate. We provide education and advocacy through different ways:

- Public Events
- Comment Letters
- Corporate Treasurer Fly-Ins
- Meetings with Financial Regulators
- Meetings with Lawmakers
- Media Roundtables

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About the Center for Capital Markets Competitiveness (CCMC)

Who We Are

The U.S. Chamber of Commerce created the Center for Capital Markets Competitiveness (CCMC) to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy. The mission of CCMC is to maintain and advance America's global leadership in capital formation by supporting capital markets that are the most fair, efficient, and innovative in the world.

About Treasury Strategies, Inc.

Who We Are

Treasury Strategies, Inc. is the leading treasury consulting firm working with corporations and financial services providers. Our experience and thought leadership in treasury management, working capital management, liquidity and payments, combined with our comprehensive view of the market, rewards you with a unique perspective, unparalleled insights and actionable solutions.

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We help you maximize worldwide treasury performance and navigate regulatory and payment system changes through a focus on best practices, technology, liquidity and controls.

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