U.S. Treasurers Will Leave Money Market Funds Should the SEC Change Regulation, According to Treasury Strategies Study

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Washington, DC, April 19, 2012 - U.S. treasurers report that they will sharply reduce their use of money market funds if the Securities and Exchange Commission (SEC) adopts any of the three concepts it is considering to reform money market funds. The SEC has said it is pursuing these changes to change the structure of money market funds. Treasury Strategies, Inc., conducted a survey to study the receptiveness of corporate treasurers, government and institutional investors to each reform concept.

The report, *Money Market Fund Regulations: The Voice of the Treasurer*, concludes that the overwhelming majority of treasurers will either scale back their use of money market funds or discontinue use of them altogether if any of its SEC's three concepts to change money market fund operations takes effect. Those three concepts include floating the net asset value (NAV), imposing a redemption holdback, or imposing capital requirements.

"The large cross section of treasurers surveyed gives this report the 'voice of the treasurer' – a voice that spoke out with an overwhelmingly negative response to each reform concept," says Cathy Gregg, a Partner at Treasury Strategies.

ICI commissioned the study to help understand the effects of the SEC concepts on money market fund investors. The Institute will file the study as part of a new comment letter to the SEC. Treasurers are crucial users of money market funds: institutional share classes account for $1.7 trillion, or 65 percent, of the $2.7 trillion in money market funds asset as of the end of February 2012. Key study findings below.

Every SEC Reform Concept Will Cause a Dramatic Drop-Off in Both Treasurers' Use of Funds and Corporate Assets in Funds:

1. If money market fund NAVs were required to float:

- 79 percent of respondents would either decrease their use or discontinue altogether.
- 61 percent of corporate money market fund assets would move to other investments if this concept were adopted.

2. If money market funds were required to institute a 30-day holdback of 3 percent of all redemptions:

- 90 percent of respondents would either decrease their use or discontinue altogether.
- 67 percent of corporate money market fund assets would move to other investments if this concept were adopted.

3. If money market funds were required to maintain a loss reserve or capital buffer:

- 36 percent of respondents would either decrease their use or discontinue altogether when the question did not suggest that investors would suffer any reduced yield.
- In a follow-up question directed to the 64 percent who initially stated they would continue or increase their usage of money funds, 84 percent of the follow-up respondents indicated they would decrease or stop their usage altogether if the capital buffer were to reduce the yield of the fund by 5 basis points.

Further Regulation Would Push Corporate Money into Many Instruments

“There’s a belief in some quarters that treasurers would move their cash and short-term assets to bank checking accounts if money market funds became unusable. This study indicates that such investors would move their cash to a variety of other vehicles and investments, some less regulated and transparent than money market funds,” says ICI Chief Economist Brian Reid.

Corporate Treasurers Value, Understand and Intensively Use Money Market Funds

The report concludes that corporate treasurers view money market funds as an essential cash management tool and use them intensively. In addition, treasurers understand the risks, returns and tradeoff between the two.

“The message from treasurers is clear. While they value money funds, they will simply abandon the instrument should any of these concepts be adopted. The potential implications of such a widespread run away from money funds are staggering.” says Treasury Strategies’ Gregg.

About the Survey

Treasury Strategies surveyed 203 unique corporate, government, and institutional investors between February 13 and March 6, 2012, asking 31 questions regarding their cash pools, investment objectives, and the three regulatory proposals. The respondents are sophisticated investors (U.S. treasurers) with 61 percent of them overseeing short-term investment pools of $100 million or more. The set of responses includes 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. For more details on survey methodology, see the report.
