Money Market Fund Regulations: The Voice of the Treasurer

April 2012

The Power of Experience®

Study Commissioned by the Investment Company Institute

The Power of Experience®

Contents

Treasury Strategies
The Power of Experience®

April 9, 2012

Investment Company Institute
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Re: Proposed Regulations to Money Market Funds

Treasury Strategies, the world's leading consulting firm in the area of treasury, payments, and liquidity management, is pleased to present *Money Market Fund Regulations: The Voice of the Treasurer*, a report sponsored by the Investment Company Institute.

The objective of this analysis is to provide a thorough understanding of the view of corporate treasury executives toward current money fund regulatory proposals, and to assess their likely behaviors should any be enacted. We examined three proposals:

- The Floating Net Asset Value (NAV)
- The Redemption Holdback
- The Loss Reserve/Capital Buffer

We surveyed 203 financial executives representing corporate, government, and institutional investors between February 13, 2012 and March 6, 2012. The respondents are sophisticated investors (executives with treasury and cash management responsibilities for their institutions) with 61% of them overseeing short-term investment pools of $100 million or more.

As detailed in the report, the reaction from this cross section of U.S. institutional investors was overwhelmingly negative. For each of the three proposals, the majority of treasurers surveyed indicated that if enacted, they would either decrease or discontinue their use of money market funds. Analyses by industry and by company size show that this sentiment is pervasive. There were no material differences by respondent sector.

Floating Net Asset Value
If money fund NAVs were required to float:

- None of the respondents currently invested in MMFs would increase their level of investments in money funds.
- 21% would continue using funds at the same level.
- 79% would either decrease use or discontinue altogether.
- Should this regulation be enacted, we estimate that money market fund assets held by corporate, government and institutional investors would see a net decrease of 61%.

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Redemption Holdback
If money market funds were required to institute a 30-day holdback of 3% of all redemptions:

- 10% of the respondents currently invested in MMFs would continue using funds at the same level.
- 90% of respondents would either decrease their use or discontinue altogether.
- Should this regulation be enacted, we estimate that the money market fund assets held by corporate, government and institutional investors would see a net decrease of 67%.

Loss Reserve/Capital Buffer
If money market funds were required to maintain a loss reserve or capital buffer:

- 8% of the respondents currently invested in MMFs would increase their level of investments in money funds.
- 56% would continue using funds at the same level.
- 36% would either decrease their use or discontinue altogether.

However in a follow-up question, if the cost of the reserve or capital were to reduce the yield of the fund:

- 53% of those respondents to the follow-up, who originally answered that they would continue or increase usage, would decrease or stop usage of MMFs if the yield were to decrease by 2bp or more (0.02%).
- 92% of those respondents to the follow-up, who originally answered that they would continue or increase usage, would decrease or stop usage of MMFs if the yield were to decrease by 5bp or more (0.05%).

Conclusions
On the basis of this comprehensive analysis, Treasury Strategies concludes that corporate, government and institutional investors will respond negatively to each of these three proposals. The overwhelming majority of treasurers will either scale back their use of money market funds or discontinue use of them altogether.

We further conclude that corporate treasurers:

- View money market funds as an essential cash management tool
- Use them intensively
- Understand the risks, the returns and the tradeoff between the two

The clear message of our research is that should any of these proposals be adopted, treasurers will act as one accord and simply abandon MMFs.

Respectfully,

Treasury Strategies, Inc.

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Overview & Participant Demographics

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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:

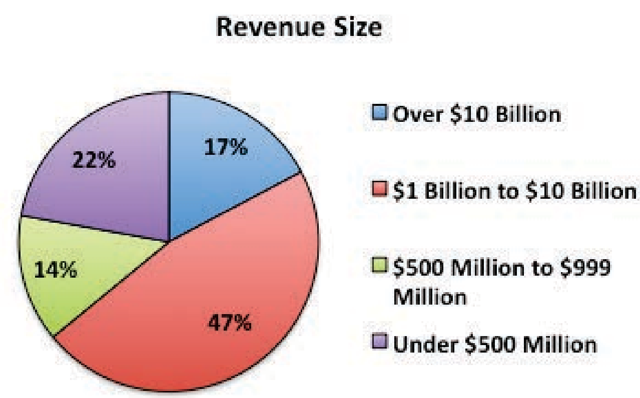
- Their cash pools,
- Their investment objectives, and
- The three regulatory issues

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**. The attached pages of verbatim comments illustrate the intensity of the respondents' reactions.

Overview & Participant Demographics

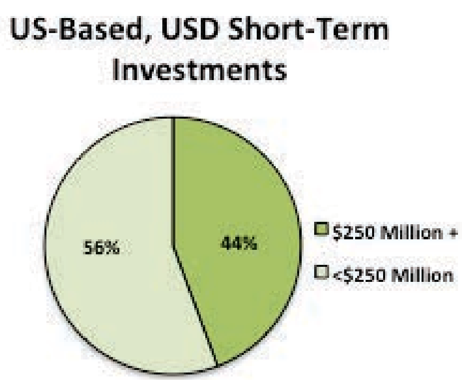
Treasury Strategies' survey is comprised of ***203 unique respondents***. Key demographic information is detailed below:



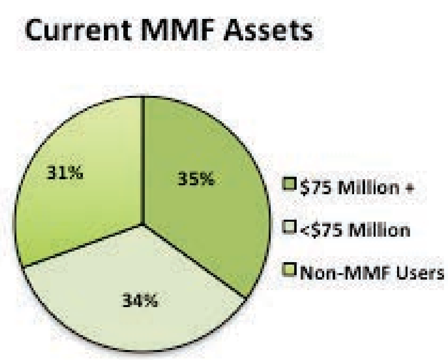
203 Respondents

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.



203 Respondents



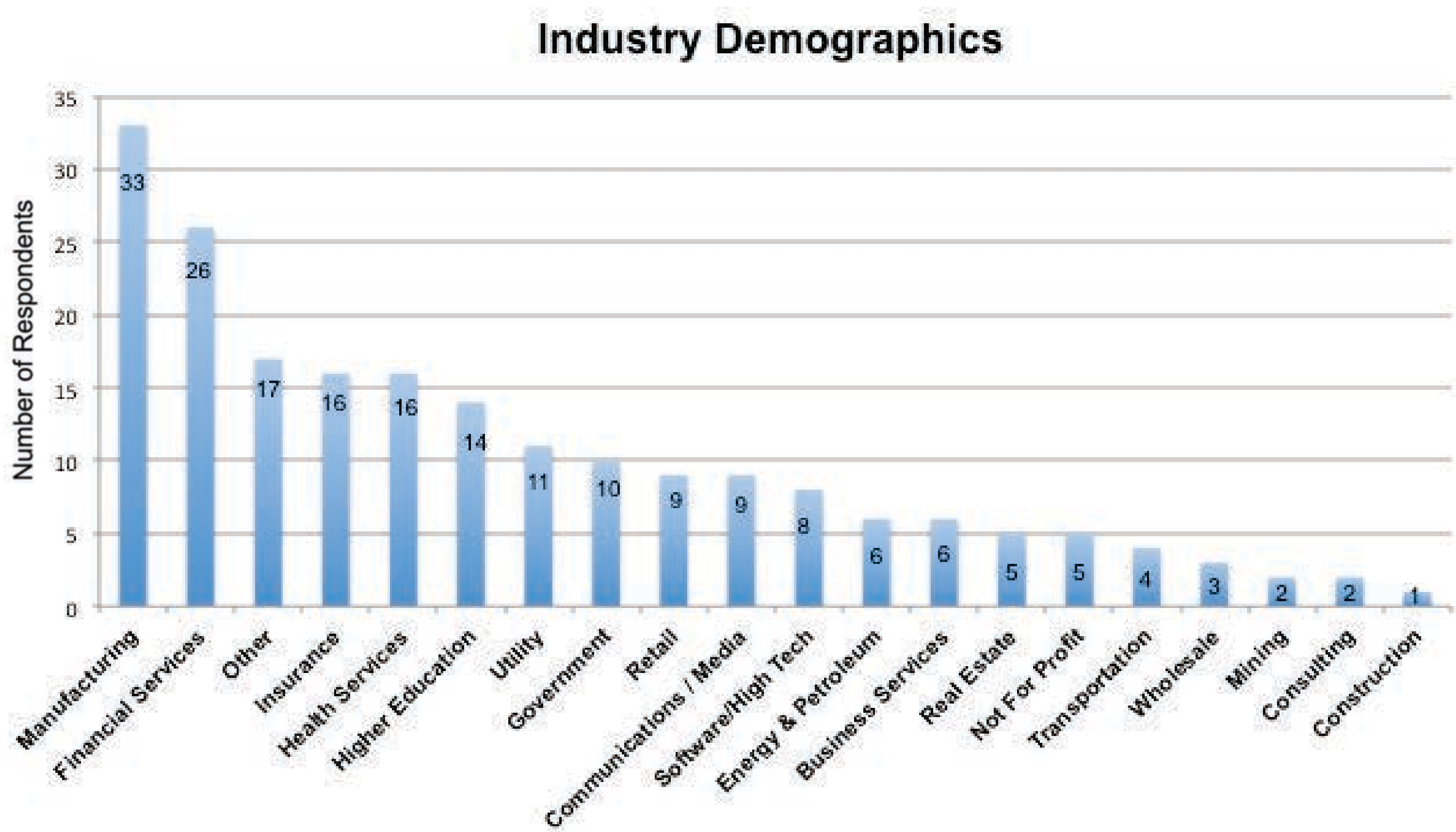
203 Respondents

Respondent organizational titles include the following:

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

Overview & Participant Demographics

Treasury Strategies' survey is comprised of ***203 unique respondents***. Participant industry distribution is shown below.



Overview & Participant Demographics

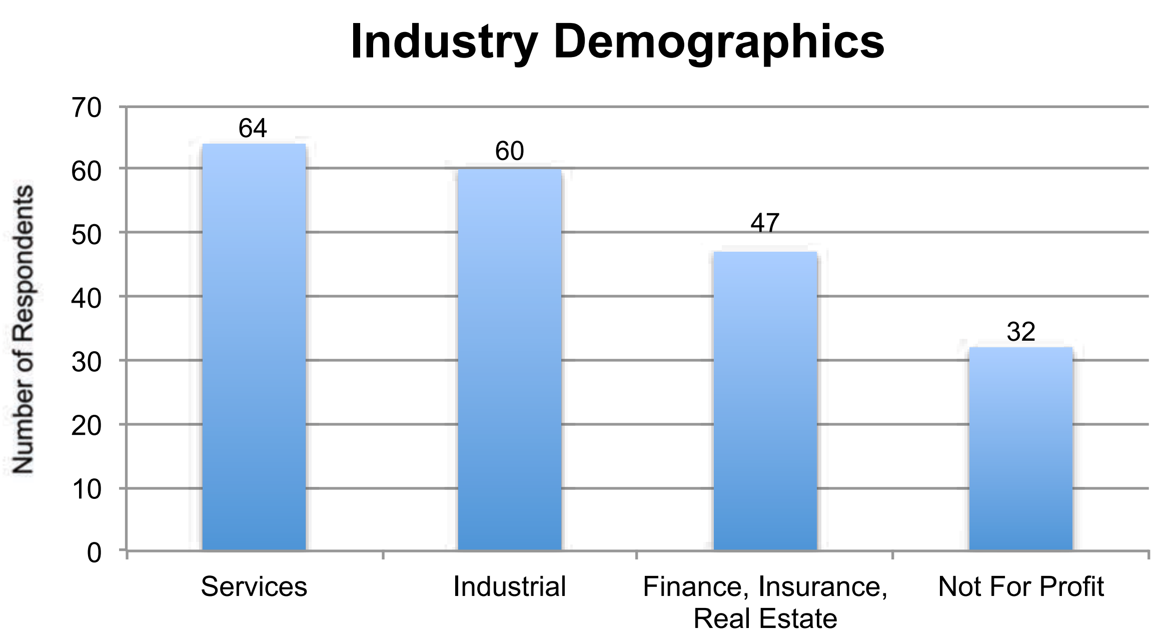
At a high-level, the participant industry distribution is shown below. Detailed industries were grouped as follows:

Services
- Communications/Media
- Retail
- Software/High-Tech
- Business Services
- Transportation
- Consulting
- Health Services
- Other

Industrial
- Manufacturing
- Utilities
- Energy & Petroleum
- Wholesale
- Mining
- Construction
- Other

Finance, Insurance, Real Estate
- Financial Services
- Insurance
- Real Estate
- Other

Not-For-Profit
- Government
- Higher Education
- Not-For-Profit
- Other



Findings & Conclusions

- Floating NAV
- Redemption Holdback
- Loss Reserve/Capital Buffer
- Outflow of Corporate MMF Assets

Findings & Conclusions
Floating NAV Proposal

Survey Question:

There is a proposal to change MMFs from a constant $1 net asset value (NAV) to a floating net asset value. Under typical market conditions, it is anticipated that the share prices would fluctuate within a very narrow range.

Proponents say this will ensure everyone pays and receives a price that automatically reflects any gains or losses and that it reduces the potential for runs on MMFs during adverse situations.

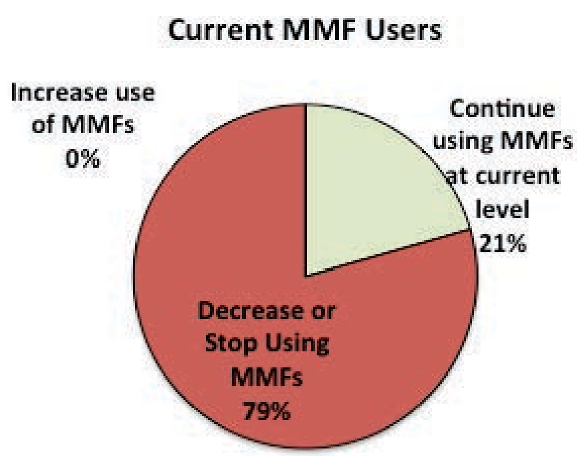
Opponents argue that a floating NAV would impair the use of funds as a liquidity instrument, as well as cause other legal, accounting, tax, and market disruptions.

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

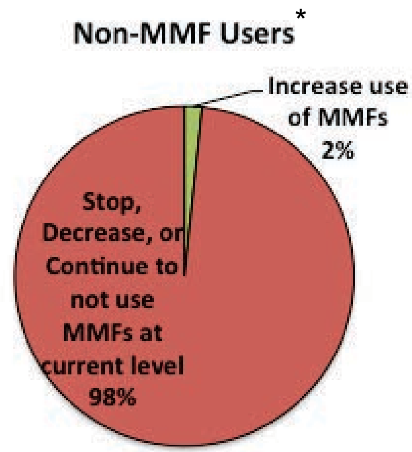
A. Increase use of MMFs
B. Continue using MMFs at current level
C. Decrease use of MMFs
D. Stop using MMFs entirely

Findings & Conclusions
Floating NAV Proposal

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



136 Respondents



61 Respondents

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

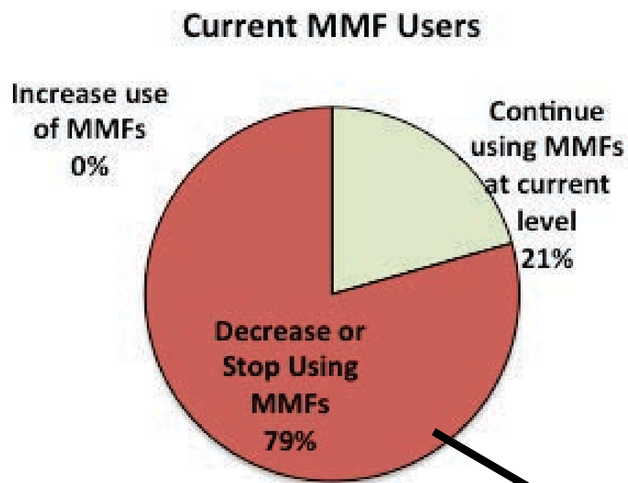
98% of non-MMF users would continue to avoid investing in MMFs under the floating NAV proposal.

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 who are not currently invested in MMFs. Page 13 provides a detailed breakdown of respondents.*

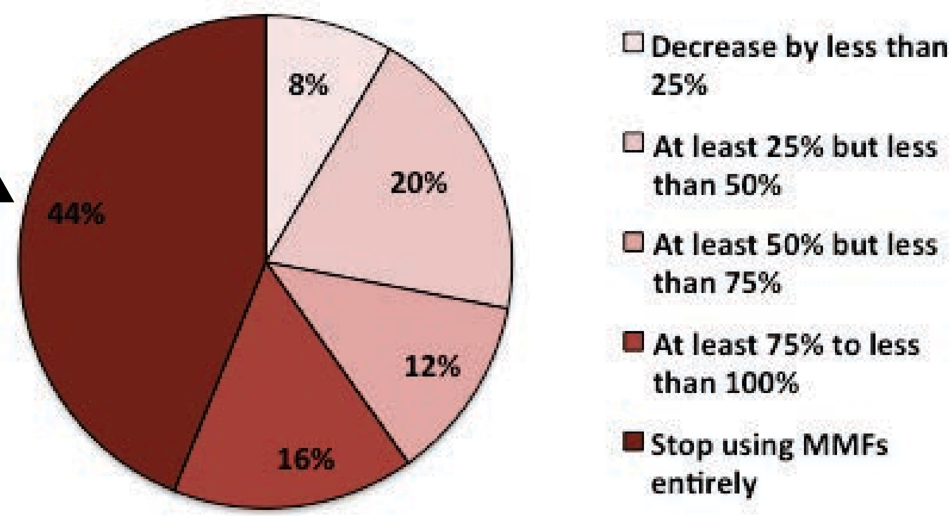
Findings & Conclusions
Floating NAV Proposal

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



136 Respondents

Of the current MMF users that responded that they would stop or decrease use of MMFs, nearly three-fourths said that they would decrease MMF usage by at least 50%.



108 Respondents

Findings & Conclusions
Floating NAV Proposal–By Segment

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

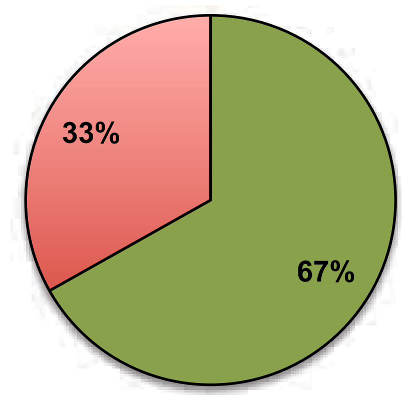
	Increase Usage	Continue at Current Level	Decrease Usage	Stop Using	Total
Industry*					
Services	0	6	22	9	37
Industrial	0	7	16	16	39
Financial Services, Insurance, Real Estate	0	9	11	14	34
NFP	0	6	12	8	26
Annual Revenue*					
< $1B	0	10	17	18	45
$1B+	0	18	44	29	91
Short-Term Portfolio Size*					
< $250M	0	14	29	20	63
$250M +	0	14	32	27	73
Current MMF Assets*					
< $75M	0	14	32	20	66
$75MM+	0	14	29	27	70
Currently in MMF Assets*	0	28	61	47	**136**
Memo: Not Currently in MMFs	1	12	23	25	**61**
All Respondents	**1**	**40**	**84**	**72**	**197**

** Includes only respondents that are currently invested in MMFs*

Findings & Conclusions
Floating NAV Proposal

33% of respondents indicated they have an *existing* investment policy, law, or other restriction that prohibits them from investing short-term cash in a floating (fluctuating) NAV instrument.

Investment Policy, Law, or Other Restriction for Floating NAV Instruments



- No Current Restriction
- Existing Investment Policy, Law, or Other Restriction

196 Respondents

Findings & Conclusions: Telephone Interview Verbatim Responses

Floating NAV Regulation

- *"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."*

- *"This is the 5th company I've worked for – without exception, if there was a floating NAV we are done using MMFs. This is because some companies have restrictions in their revolvers that preclude them from investing cash in anything that had a floating NAV. To the extent that the company doesn't have a clause in their investment policy, they do have a clause on defining "cash" as the same definition in GAAP regulations – and nothing with a floating NAV is considered cash."*

Findings & Conclusions

- Floating NAV
- Redemption Holdback
- Loss Reserve/Capital Buffer
- Outflow of Corporate MMF Assets

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Findings & Conclusions
Redemption Holdback Provision

Treasury Strategies

Survey Question:

Another proposed idea is that each time you redeem money market fund shares, the fund would hold back part of the redeemed amount, such as 3%. This amount would be released to you in thirty days, provided the fund maintained its constant $1.00 NAV. If the fund did not maintain its constant $1.00 NAV during this time, any losses would be borne first by the 3% that was held back.

Proponents say this change will make investors more cautious about redeeming shares during a period when it might be possible the fund can no longer maintain a $1.00 share price; also that the non-refunded fees will benefit investors that did not redeem any shares.

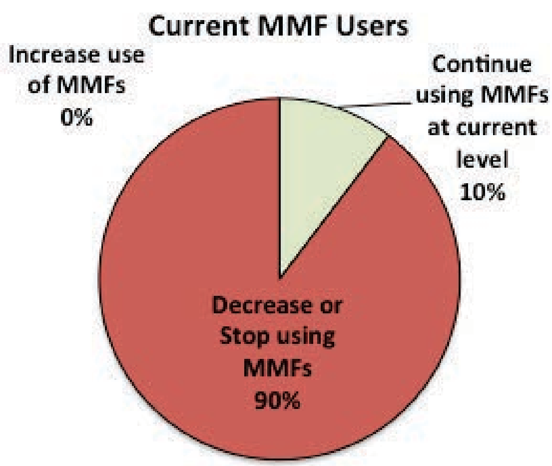
Opponents argue that that this defeats the liquidity feature of MMFs and will make the funds less attractive as a cash management tool.

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

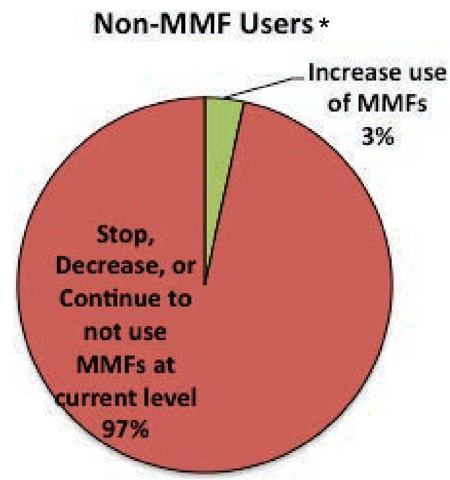
A. Increase use of MMFs
B. Continue using MMFs at current level
C. Decrease use of MMFs
D. Stop using MMFs entirely

Redemption Holdback Provision

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



135 Respondents



59 Respondents

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

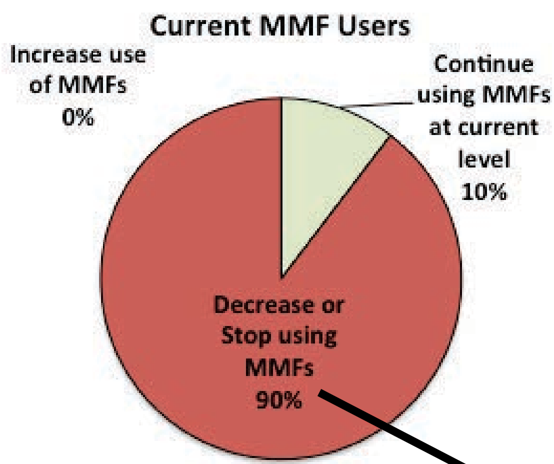
97% of non-MMF users would continue to avoid investing in MMFs under the holdback provision

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 who are not currently invested in MMFs. Page 20 provides a detailed breakdown of respondents.*

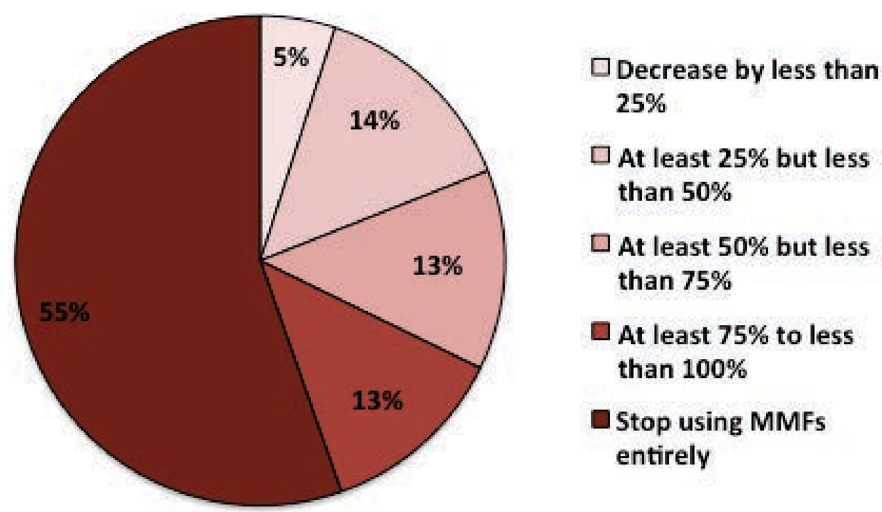
Findings & Conclusions
Redemption Holdback Provision

If a redemption holdback was enacted and your organization would decrease or discontinue use of MMFs, by how much would your investment decrease?



135 Respondents

Of the current MMF users that responded that they would stop or decrease use of MMFs, 81% said that they would decrease MMF usage by at least 50%.



121 Respondents

Findings & Conclusions: Redemption Holdback Provision–By Segment

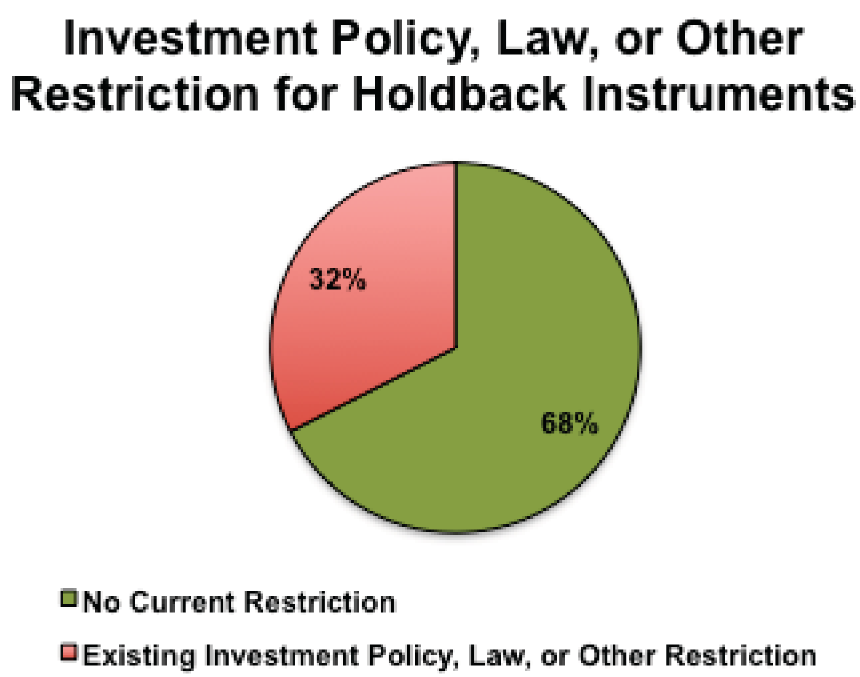
If regulators required money market funds to have such a redemption holdback, what action would your organization likely take?

	Increase Usage	Continue at Current Level	Decrease Usage	Stop Using	Total
Industry*					
Services	0	2	18	17	37
Industrial	0	5	16	18	39
Financial Services, Insurance, Real Estate	0	4	8	21	33
NFP	0	3	12	11	26
Annual Revenue*					
< $1B	0	4	14	27	45
$1B+	0	10	40	40	90
Short-Term Portfolio Size*					
< $250M	0	7	24	31	62
$250M +	0	7	30	36	73
Current MMF Assets*					
< $75M	0	5	26	34	65
$75MM+	0	9	28	33	70
Currently in MMF Assets*	0	14	54	67	**135**
Memo: Not Currently in MMFs	2	9	16	32	**59**
All Respondents	**2**	**23**	**70**	**99**	**194**

** Includes only respondents that are currently invested in MMFs*

Findings & Conclusions
Redemption Holdback Provision

32% of respondents indicated they have an investment policy, law, or other restriction that prohibits them from investing short-term cash in an instrument with a redemption holdback.



194 Respondents

Findings & Conclusions: Telephone Interview Verbatim Responses

Redemption Holdback Regulation

- *"That's 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."*

- *"I have concerns over investors that are using portals. Will the portal know to hold back the 3%?"*

- *"I park my funds in MMFs overnight knowing that my money will be there the next day. If they get to hold onto 3 cents of my dollar for 30 days, I don't have my money. Why not just keep it in a savings account where at least I can get to all of it?"*

- *"We have enough cash and liquidity balances going in and out. We have flexibility enough to deal with this – 1-2% being held back won't be a bother. We can plan our cash flow easily enough. Administrative headache though."*

Findings & Conclusions

- Floating NAV
- Redemption Holdback
- Loss Reserve/Capital Buffer
- Outflow of Corporate MMF Assets

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Findings & Conclusions
Loss Reserve Proposal

Survey Question:

Another proposal would require non-government money market funds to build up a modest loss reserve (capital buffer).

Proponents say this will protect investors against some market fluctuations and increase the stability of the instrument.

Opponents argue that the loss reserve will increase costs to investors and decrease yields.

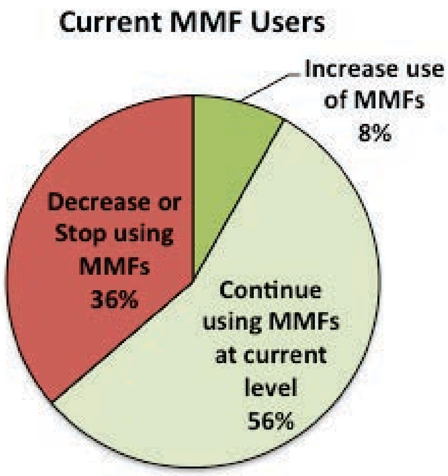
If a loss reserve were required for non-government MMFs, what action would your organization most likely take?

A. Increase use of MMFs
B. Continue using MMFs at current level
C. Decrease use of MMFs
D. Stop using MMFs entirely

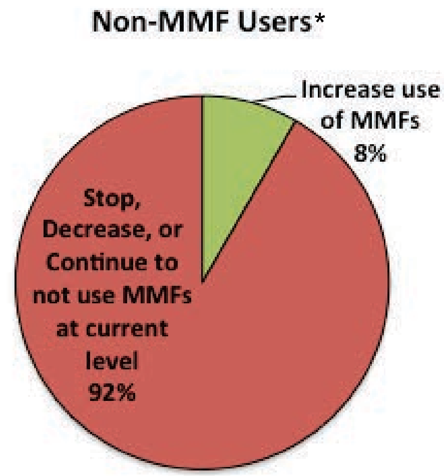
In a follow-up question, we tested the yield elasticity of the responses.

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?



135 Respondents



60 Respondents

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

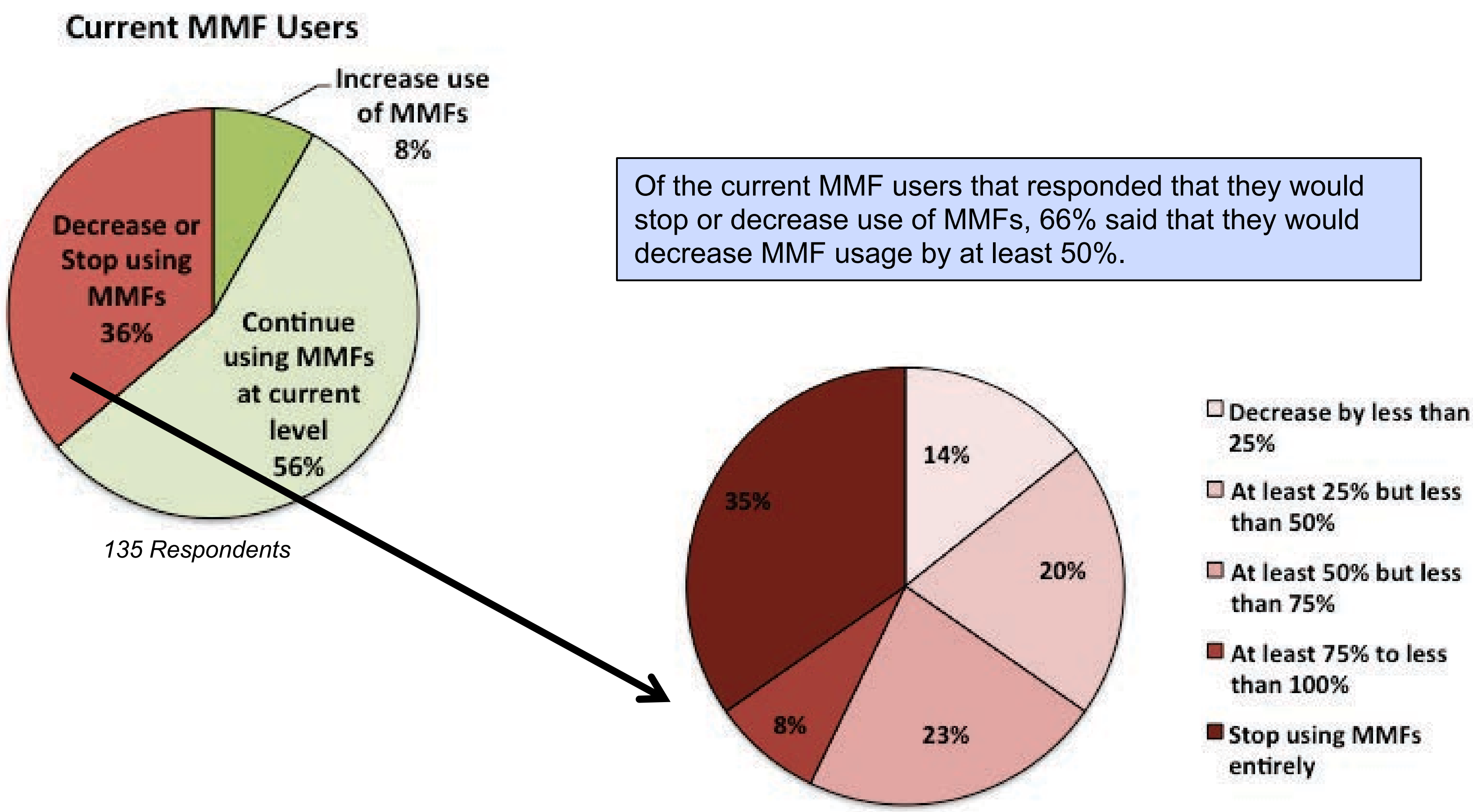
92% of non-MMF users would continue to avoid investing in MMFs under the loss reserve proposal

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 (see detail on page 27).

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



135 Respondents

Of the current MMF users that responded that they would stop or decrease use of MMFs, 66% said that they would decrease MMF usage by at least 50%.

49 Respondents

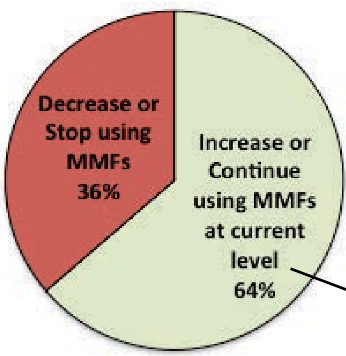
Findings & Conclusions
Loss Reserve Proposal–Elasticity

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 the sensitivity of respondents 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?

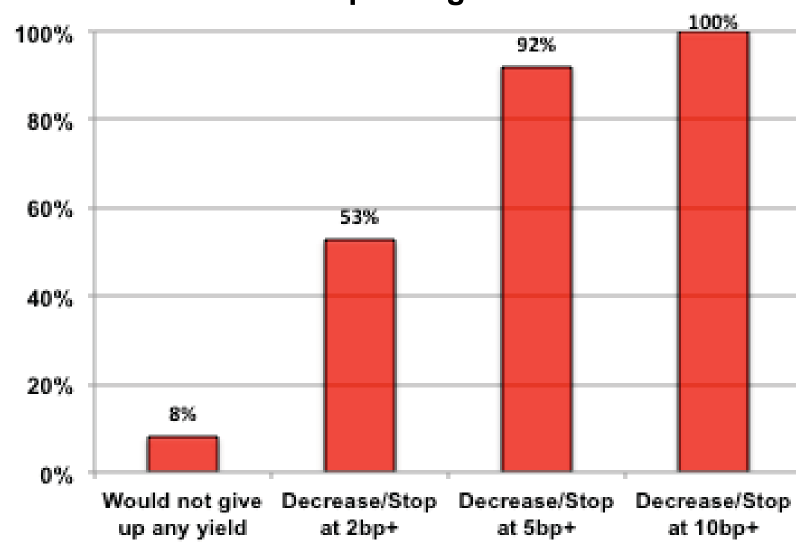
Current MMF Users (Baseline)



135 Respondents

Of the 64% of Current MMF Users Who Answered "Increase" or "Continue" to Original Question, a subset responded:

Would Decrease/Stop Using MMFs With Yield Loss*



38 Respondents

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

Findings & Conclusions: Telephone Interview Verbatim Responses

Loss Reserve/Capital Buffer Regulation

- *"If the fund required the investor to raise the loss reserve funds, they would move to another MMF that the fund sponsor raised the funds. Or, if all MMFs required investors to raise the funds, they would move their ST investments to MMDA/ Savings accounts."*
- *"It doesn't matter who has to pay for it, it's going to come out of someone's pocket. Even if it's the fund sponsor – they're going to recoup it from corporates in some way. Or cut costs in other areas, and not lower the management fee or charge it in some way – maybe they eat it in the ST but not in the long run."*
- *"The way I read the question is that the fund parent/sponsor would fund the reserve, much like banks do today. This would not have any bearing on our usage of MMFs. However, if we were required to pay in to build up the fund we would not use MMFs."*
- *"If there's a reserve fund, it's more attractive. However, it's tough to read too much into that – isolated dollars means that's going to affect my investment return. The answer I gave (decrease use) is a simplistic answer – MMFs are already diversified so that's all the safety we need."*
- *"I would be curious to see who would pay for it. The banks would probably find a way to pay for the capital buffer and not have it impact yield in the short-term, but the other smaller MMFs would have to find a way to pay for it (or the investors) if they don't have a bank backing it. It will be interesting to see how the market reacts to this."*
- *"It's probably not going to offer me the best yield if this happens. I think there are sufficient rules to allow for liquidity in MMFs today. I had assumed that the fund investor (like myself) would be providing the funds. I didn't think that the parent would be funding the loss reserve."*
- *"If the fund investors were to raise the funds, it would take a long time since yields are so low anyway. In that case, we would get a lower yield on our investment – but this is not of concern as we don't place our money in MMFs for yield, only for liquidity and safety of principal."*

Findings & Conclusions

- Floating NAV
- Redemption Holdback
- Loss Reserve/Capital Buffer
- Outflow of Corporate MMF Assets

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Findings & Conclusions
Outflow of Corporate MMF Assets

If further MMF regulation 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.

Findings & Conclusions: Telephone Interview Verbatim Responses

Additional Regulations and Other Findings

- *"I think that the regulations as they stand now are sufficient – we don't need more regulatory requirements on MMFs. To the extent that they keep piling the regulations it makes it less attractive for us as investors."*

- *"2010 regulations were sufficient to control MMFs. Since 2010 there were some bumps in the road in the market, and there weren't any issues with MMF liquidity, etc."*

- *"I'm concerned that if we don't have MMFs we would put the funds in the bank. This means less diversification and we would still have liquidity risk. Even with FDIC insurance you may not get all of your funds at once if something happens with the banking system."*

- *"More regulations will not help the industry – only hinder it. Investors will start looking to other instruments."*

- *"The only benefit to MMFs is the overnight liquidity today, so this will take away any benefit of using MMFs."*

- *"I have concerns about the MMF shrinking or going away completely. MMFs are buying short-term CP – one feeds the other. People who want short-term debt financing would have a difficult time if the MMF industry went away. If you start tinkering with it too much, they aren't attractive instruments anymore."*

Appendix

Methodology

Developed draft survey instrument

Tested survey instrument with corporate treasurers

Distributed survey to TSI corporate treasury industry contacts and LinkedIn groups

Filtered survey responses to exclude:

- Non-corporate treasury, non-institutional treasury, or non-government treasury responses
- International respondents with no US treasury operations
- Incomplete responses, which did not respond to investment decision drivers question
- Responses which were logically inconsistent (e.g., responded that currently invested in MMFs, but 0% of MMFs in total portfolio)
- Duplicate responses (retained response from most senior title or most complete response)

Identified responses which required further clarification (e.g., portfolio value unit of measure) and requested clarification via email

Constructed a diverse subset of responses and contacted via telephone for further insights

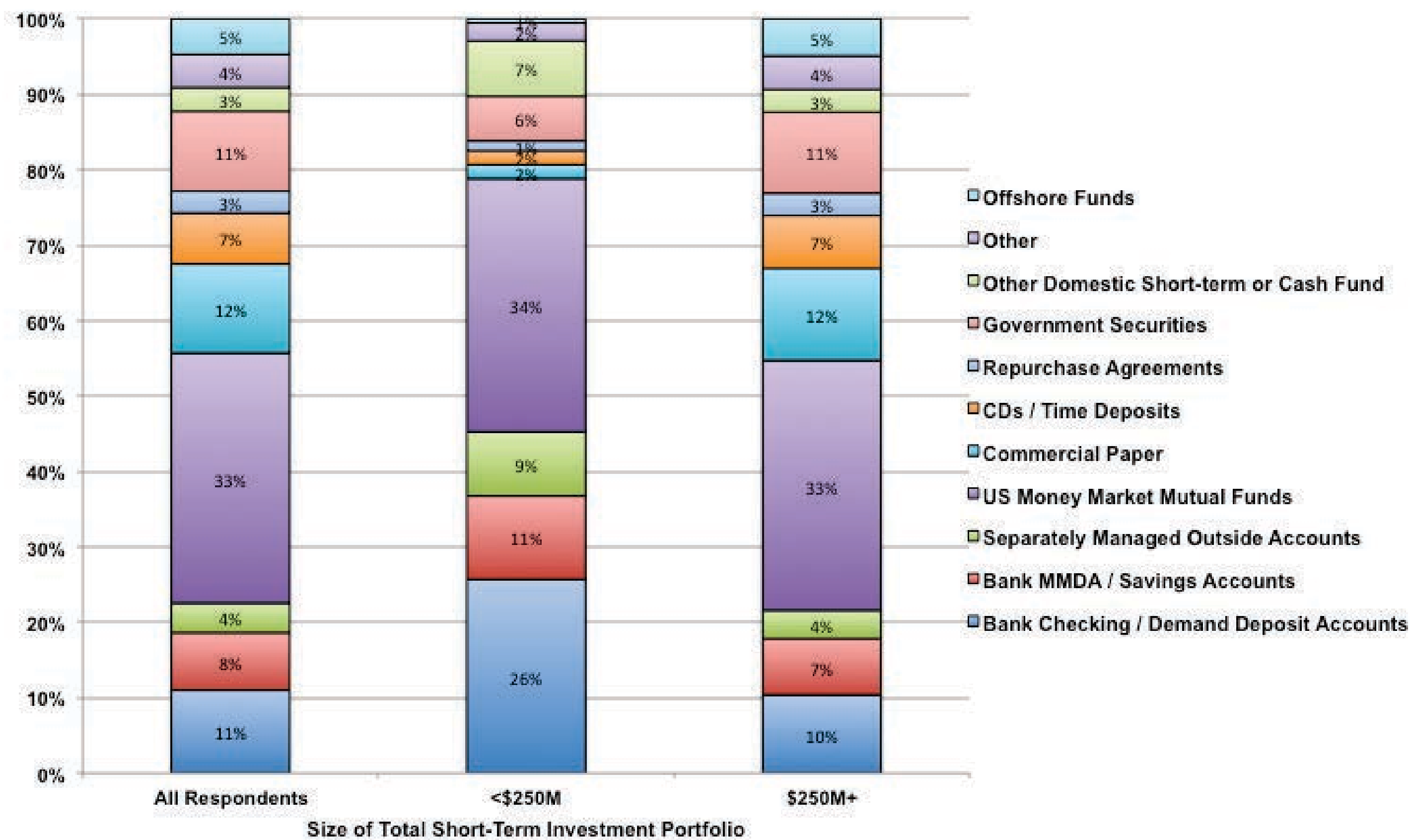
Compiled and documented survey results

Findings & Conclusions
Distribution of Portfolio

Money market funds are the most commonly used investment vehicle for businesses of all sizes.

- Businesses invest, on average, **33% of their short-term cash in money market funds** and **11% in bank checking accounts**.

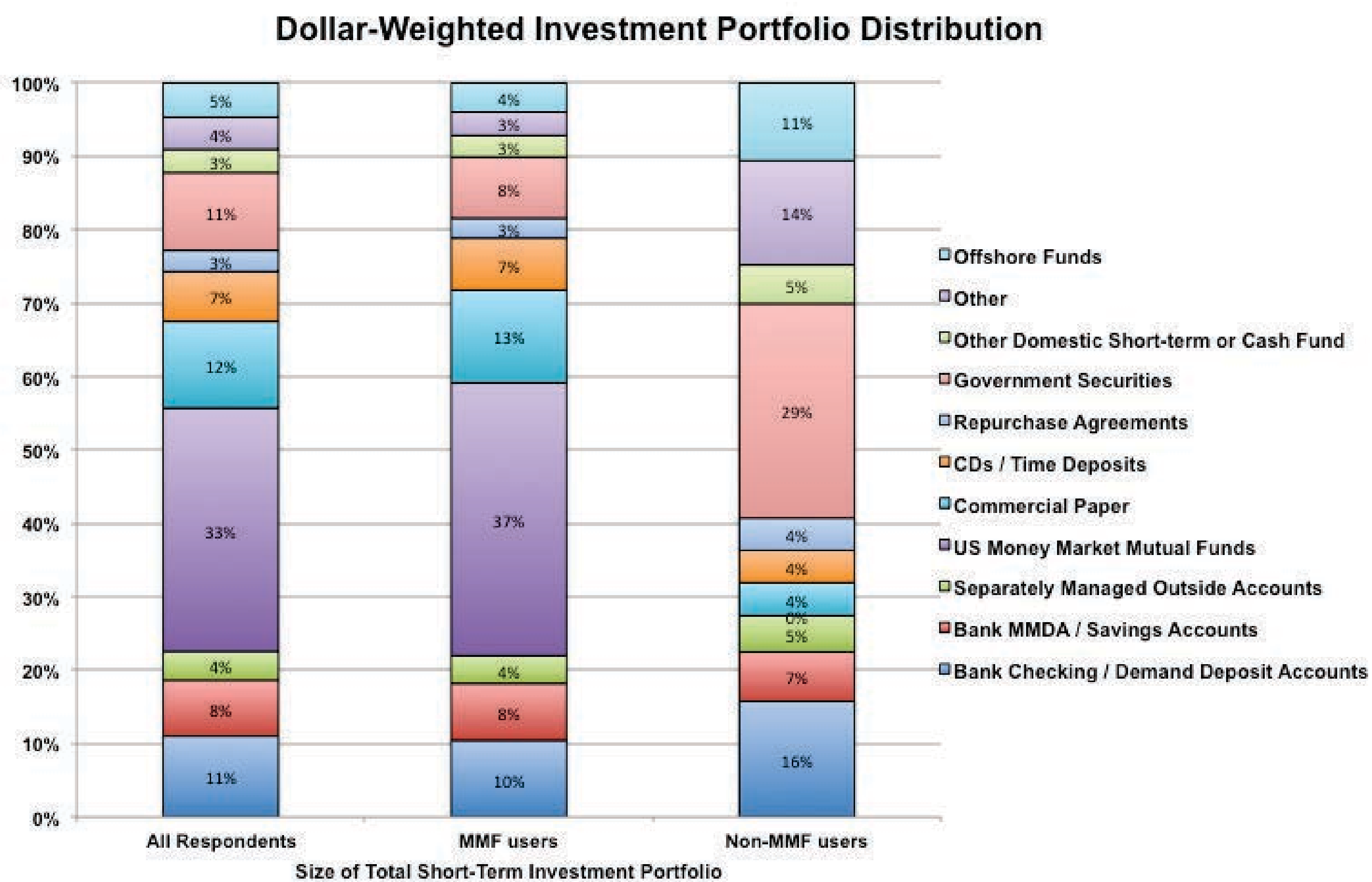
Dollar-Weighted Investment Portfolio Distribution



Total Short-Term Assets of All Respondents = $176 Billion

Findings & Conclusions
Distribution of Portfolio

Respondents that are not current MMF users tend to be more heavily invested in offshore funds, government securities, and bank demand deposits than their peers who utilize MMFs.



Total Short-Term Assets of All Respondents = $176 Billion

Findings & Conclusions
Investment Drivers

Safety of Principal is a key factor for businesses when making cash and short-term investment decisions.

- 94% of survey respondents rated it as an “extremely important factor.”

Daily Liquidity at Par is also a key factor in cash and short-term investment decisions.

- 54% of survey respondents rated it as an “extremely important factor.”

Respondents were asked to rank all factors from 1 to 5 (1 = not important, 5 = extremely important).

Primary Factors in Short-term Portfolio Decisions	5	4	3	2	1
Safety of Principal	190	10	1	0	2
Daily Liquidity at Par	109	46	26	14	7
Diversification	46	72	45	25	14
Yield	18	56	81	30	17
Other*	12	3	4	1	19

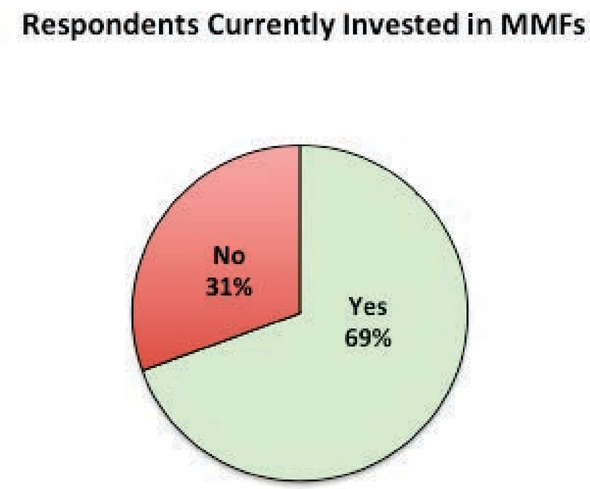
*Other responses included being able to invest late in the day, Requirements of Loan and CMA Agreements, and FDIC Insurance.

203 Respondents

Findings & Conclusions
MMF Investment Drivers

MMFs, and specifically prime money funds, represent an **essential investment vehicle** for businesses.

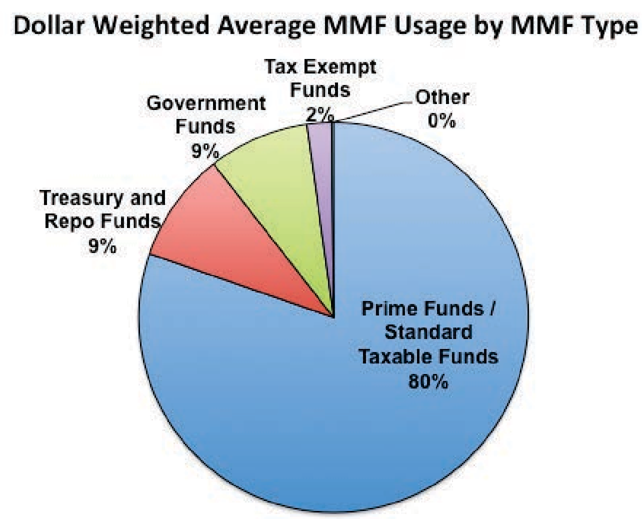
- A majority of respondents, 69%, are currently invested in money market funds.
- Over half of this cash (80%) is invested in prime funds/ standard taxable funds.



203 Respondents

MMF Type	Incidence of Usage*
Prime Funds/Standard Taxable Funds	101
Treasury & Repo Funds	39
Government Funds	60
Tax Exempt Funds	15
Other Funds	2

**Note there were 141 respondents, but respondents could select multiple investment types currently being used.*

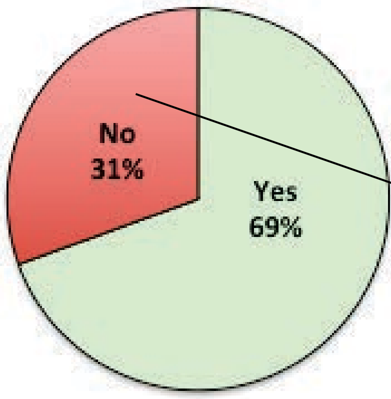


141 Respondents

Findings & Conclusions
Non-MMF Users

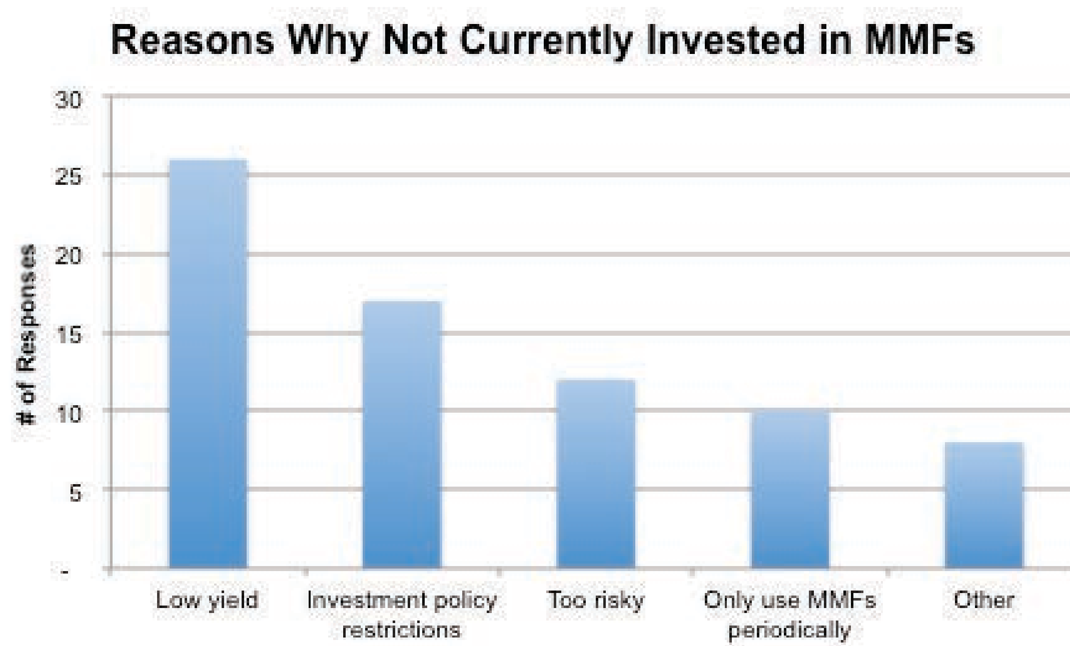
Companies that are not invested in MMFs have primarily made this decision due to the current yield environment and not because they feel MMFs are risky under today's regulations.

Respondents *Not* Currently Invested in MMFs



203 Respondents

Low yield, *not risk*, is the primary driver for businesses that are not currently invested in MMFs.



Note: Respondents could select multiple answers.

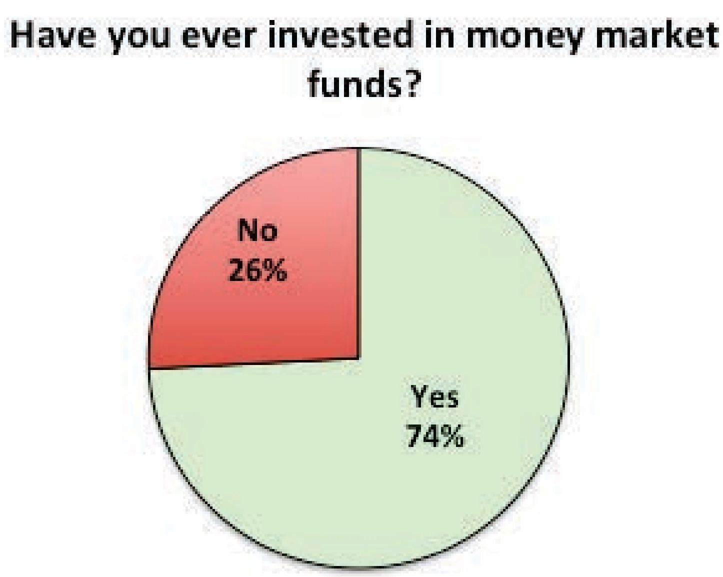
*Other includes: Earnings credit rate is higher than MMF yields, uncertainty from regulatory changes, potential short-term requirements, little cash to invest, or MMFs not being a board-approved investment.

Findings & Conclusions
Non-MMF Users

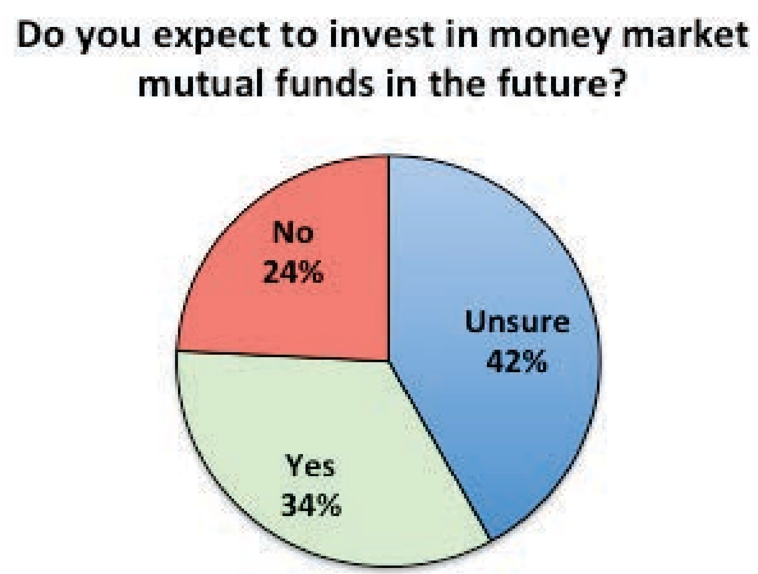
Many respondents who are not currently invested in MMFs have invested in MMFs in the past, but were unsure about this investment in the future.

74% of respondents who are not currently invested in MMFs have used them in the past.

42% noted that they were **uncertain about investing in this security in the future.**



62 Respondents



62 Respondents

Findings & Conclusions
MMF Investment Drivers

Safety of Principal is a key factor for businesses when making MMF investment decisions.

- 93% of survey respondents rated it as an “extremely important factor.”

Daily Liquidity at Par is also a key factor in MMF investment decisions.

- 67% of survey respondents rated it as an “extremely important factor.”

Respondents were asked to rank all factors from 1 to 5 (1 = not important, 5 = extremely important).

Primary Factors in MMF Portfolio Decisions	5	4	3	2	1
Safety of Principal	127	7	2	0	1
Daily Liquidity at Par	92	25	14	4	2
Diversification	36	53	24	16	8
Yield	15	38	45	26	13
Other*	4	4	3	0	7

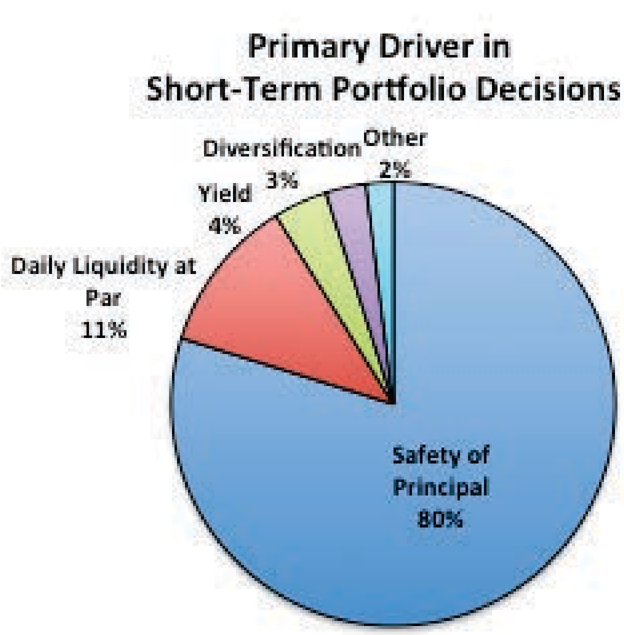
*Other responses included being able to invest late in the day, investing with credit provider, and compliance with investment policy.

137 Respondents

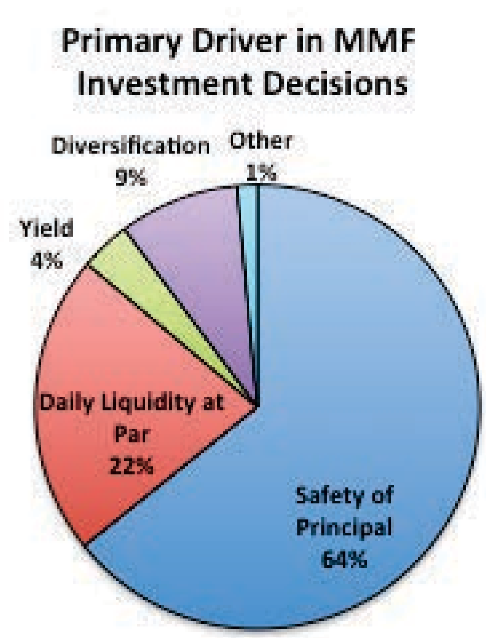
Findings & Conclusions
MMF Investment Drivers

The primary factors that drive MMF investment decisions highlight the specific role MMFs play in the overall portfolio.

- **Safety of Principal** is the primary factor for businesses when making cash and short-term investment decisions.
- **Daily Liquidity at Par** is a much higher driver of investment decisions in MMFs than it is for overall portfolio investment decisions.
- **Diversification** is also an important factor.



203 Respondents

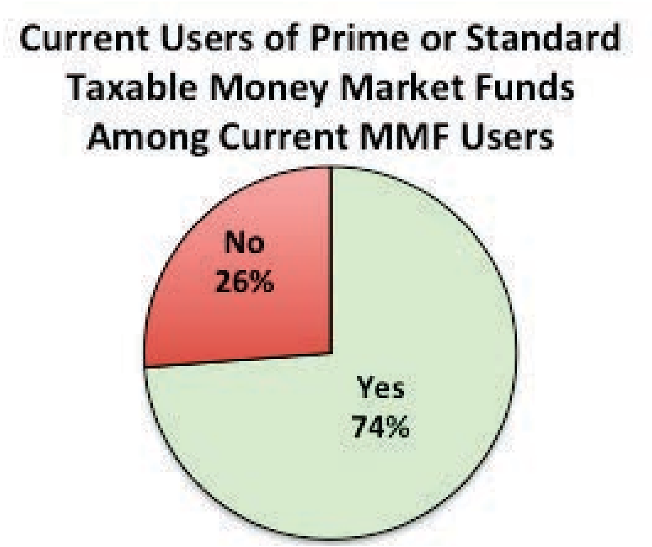


137 Respondents

Findings & Conclusions
Investment in Prime Funds

For those corporate treasurers that use MMFs, the majority are **heavily reliant upon prime funds.**

- 74% of current MMF users invest in prime money funds.
- As evidenced below, proposals which reduce the yield of prime funds, relative to government funds, could result in **as many as 50% of investors moving their investments** into government funds.



141 Respondents

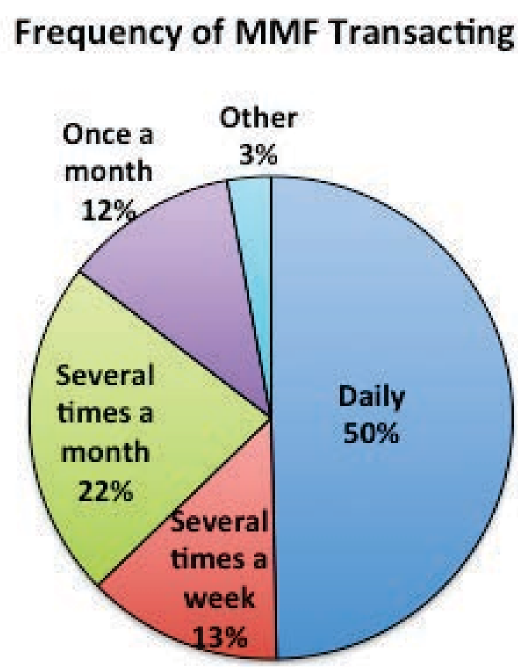
Decrease in prime fund yield necessary for businesses to reallocate investments from prime funds into government funds	% of Respondents
Wouldn't reallocate based on yield	50%
Prime Funds paying less than 2 bp over Government Funds	8%
The Prime Fund spread over Government Funds is 2 bp up to 4 bp higher	6%
The Prime Fund spread over Government Funds is 4 bp up to 6 bp higher	7%
The Prime Fund spread over Government Funds is 6 bp up to 8 bp higher	7%
The Prime Fund spread over Government Funds is 8 bp up to 10 bp higher	7%
Prime Funds must earn at least 10 bp over Government Funds	16%
Total	**100%**

104 Respondents

Findings & Conclusions
Transaction Activity Levels

Money market funds are essential daily cash management tools for corporate investors. Businesses are actively evaluating and transacting within their money market fund holdings on a day-to-day basis.

- Half of the businesses that currently invested in MMFs are transacting (moving funds in or out) with these funds on a **daily basis.**



137 Respondents

Survey Instrument

Institutional Money Market Fund Survey
Prepared by Treasury Strategies, Inc.
February 2012

Treasury Strategies is conducting this brief survey to assess the potential impacts of proposed regulatory changes to Money Market Mutual Funds (MMFs). We thank you for your participation in this brief survey.

In addition to having an impact in shaping the regulatory future of money funds, by completing this survey you will also receive a document summarizing the results of this survey.

Thank you once again for your participation!

Part I: Demographics and Qualifications

Name
Title
Company
Phone
Email
Company Location
Revenue
Industry

Survey Instrument

Part II: Overall Investment Practices

1. **Approximately how much in total does your organization have in USD cash and short-term investments?**

2. **Approximately what percent of your USD pool is invested in each of the following instruments?**
   - Bank checking/Demand deposit accounts
   - Bank MMDA/Savings accounts
   - Separately managed outside accounts
   - US money market mutual funds
   - Commercial paper
   - CDs/Time deposits
   - Repurchase agreements
   - Government securities
   - Other domestic short-term or cash fund (Short-term Investment Funds, Local Government Investment Pools, Enhanced Cash)
   - Offshore funds
   - Other (specify)
   - a.
   - b.

Survey Instrument

3. **How important is each of the following features in your *overall portfolio* decisions? Please rate each choice using a scale of 1 to 5 (where 1= not at all important and 5= extremely important)**
   - Yield
   - Safety of Principal
   - Diversification/Diversified Portfolio
   - Daily Liquidity at Par
   - Other (specify)

4. **What is the *primary* feature in your portfolio decisions (only select one)?**
   - Yield
   - Safety of principal
   - Diversification/diversified portfolio
   - Daily liquidity at par
   - Other (specify)

Survey Instrument

Part III: Money Market Mutual Fund Investment Practices

If answered 0% in earlier question indicating that not currently invested in MMFs, they will be directed to the following questions:

5. Have you ever invested in MMFs?

Yes

No

6. Why are you not currently invested in MMFs (select all that apply)?

Low yield

Investment policy restrictions

Only use MMFs periodically

Other (please specify)

7. Would you consider investing in MMFs in the future?

Yes

No

Survey Instrument

Participants with 0% in MMFs will be directed now to Part IV.

8. Do you currently invest in Prime or Standard Taxable Money Market Funds?

Yes
No

8a. What percent of your money market fund investments is in each of the following types of MMFs?

Prime Funds/Standard Taxable Funds
Treasury and Repo Funds
Government Funds
Tax Exempt Funds
Other (specify)
a.
b.

8b. *If answered "Yes" in #8*: If the yield on Prime Funds decreased relative to Government Funds, at what point would you reallocate your investments from Prime Funds into Government Funds?

Prime Funds must earn at least 10 bp over Government Funds
The Prime Fund spread over Government Funds is 8 bp up to 10 bp higher
The Prime Fund spread over Government Funds is 6 bp up to 8 bp higher
The Prime Fund spread over Government Funds is 4 bp up to 6 bp higher
The Prime Fund spread over Government Funds is 2 bp up to 4 bp higher
Prime Funds paying less than 2 bp over Government Funds
Wouldn't reallocate investments from Prime Funds to Government Funds based on yield

Survey Instrument

9. **For *money market funds*, how important is each of the following features in your investment decision? Please rate each choice using a scale of 1 to 5 (where 1= not at all important and 5= extremely important):**

    Yield
    Safety of Principal
    Diversification/Diversified Portfolio
    Daily Liquidity at Par
    Other (specify)

10. **What is the *primary* feature in your decision to invest in money market funds (only select one)?**

    Yield
    Safety of principal
    Diversification/diversified portfolio
    Daily liquidity at par
    Other (specify)

11. **How often do you transact – either increasing or decreasing your invested amount – with the money market funds you use?**

    Daily
    Several times a week
    Several times a month
    Once a month
    Other (specify)

Survey Instrument

In the following section we will ask about how three different MMF regulatory proposals would impact your company's cash management practices if enacted.

Part IV: Regulatory Proposals

There is a proposal to change MMFs from a constant $1 net asset value (NAV) to a floating net asset value. Under typical market conditions, it is anticipated that the share prices would fluctuate within a very narrow range.

Proponents say this will ensure everyone pays and receives a price that automatically reflects any gains or losses and that it reduces the potential for runs on MMFs during adverse situations.

Opponents argue that a floating NAV would impair the use of funds as a liquidity instrument, as well as cause other legal, accounting, tax, and market disruptions.

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

Increase use of MMFs
Continue using MMFs at current level
Decrease use of MMFs
Stop using MMFs entirely

Survey Instrument

***12a. If you answered (a)*, By how much would your money market fund investment increase?**

Increase by less than 25%
25% but less than 50%
50% but less than 75%
75% to 100%
More than 100%

***12b. If you answered (c)*, By how much would your investment decrease?**

Decrease by less than 25%
25% but less than 50%
50% but less than 75%
75% to less than 100%

13. Do current investment policies, laws, or other restrictions prohibit you from investing short-term cash in a floating (fluctuating) NAV instrument?

Yes
No

Survey Instrument

Another proposal would require non-government money market funds to build up a modest loss reserve (capital buffer).

Proponents say this will protect investors against some market fluctuations and increase the stability of the instrument.

Opponents argue that the loss reserve will increase costs to investors and decrease yields.

14. If a loss reserve were required for non-government MMFs, what action would your organization most likely take?

Increase use of non-government MMFs
Continue using non-government MMFs at current level
Decrease use of non-government MMFs
Stop using MMFs entirely

***14a. If you answered (a)*, By how much would your investment in non-government MMFs increase?**

Increase by less than 25%
25% but less than 50%
50% but less than 75%
75% to 100%
More than 100%

Survey Instrument

***14b. If you answered (c)*, By how much would your investment in non-government MMFs decrease?**

Decrease by less than 25%
25% but less than 50%
50% but less than 75%
75% to less than 100%

Survey Instrument

Another proposed idea is that each time you redeem money market fund shares, the fund would hold back part of the redeemed amount, such as 3%. This amount would be released to you in thirty days, provided the fund maintained its constant $1.00 NAV. If the fund did not maintain its constant $1.00 NAV during this time, any losses would be borne first by the 3% that was held back.

Proponents say this change will make investors more cautious about redeeming shares during a period when it might be possible the fund can no longer maintain a $1.00 share price; also that the non-refunded fees will benefit investors that did not redeem any shares.

Opponents argue that that this defeats the liquidity feature of MMFs and will make the funds less attractive as a cash management tool.

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

Increase use of MMFs
Continue using MMFs at current level
Decrease use of MMFs
Stop using MMFs entirely

***15a. If you answered (a)*, By how much would your investment increase?**

Increase by less than 25%
25% but less than 50%
50% but less than 75%
75% to 100%
More than 100%

***15b. If you answered (c)*, By how much would your investment decrease?**

Decrease by less than 25%
25% but less than 50%
50% but less than 75%
75% to less than 100%

16. Do current investment policies, laws, or other restrictions prohibit you from investing short-term cash in an instrument with a redemption holdback?

Yes
No
Other (specify)
a.
b.

Survey Instrument

Part V: Fund Alternatives

17. You indicated that in response to potential reforms, you might increase your investment in MMFs. From where would the additional funds come? (Indicate first, second and third choices).

Bank demand deposit accounts
MMDA/Savings accounts
Separately managed outside accounts
Commercial paper
CDs/Time deposits
Repurchase agreements
Government securities
Other domestic short-term or cash fund (Short-term Investment Funds, Local Government Investment Pools, Enhanced Cash)
Offshore funds

Survey Instrument

18. You indicated that in response to potential reforms, you might decrease your investment in MMFs. Where would these funds be moved? (Indicate first, second and third choices).

Bank demand deposit accounts
MMDA/Savings accounts
Separately managed outside accounts
Commercial paper
CDs/Time deposits
Repurchase agreements
Government securities
Other domestic short-term or cash fund (Short-term Investment Funds, Local Government Investment Pools, Enhanced Cash)
Offshore funds
Other (specify)
a.
b.

19. Would you be willing to participate in a follow-up telephone call to discuss these issues further?

Yes Telephone number:
No

Survey Instrument

20. Best time to call:

Morning
Noon
Afternoon
Anytime

This completes the survey. Thank you very much.

Follow-up Question via Email to Loss Reserve/Capital Buffer Responses of "Increase" or "Continue to Use":

You indicated that if non-government money market funds (NGMMFs) were required to maintain a loss reserve (capital buffer), you would "continue/increase" using them:

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 NGMMFs?

a) I would not be willing to give up any yield.
b) I would be willing to forego up to 2 basis points of yield.
c) I would be willing to forego up to 5 basis points of yield.
d) I would be willing to forego up to 10 basis points of yield.
e) This feature is important. I would be willing to forego more than 10 basis points of yield.

Telephone Interview Script

Thank you for completing our online survey regarding the potential impacts of regulation on the money market fund (MMF) industry. We appreciate your time and thoughtfulness in completing the survey and for speaking with us today.

We would like more insight into your responses on the proposed regulatory questions:

Floating NAV regulation

- You answered that you would (continue to use, decrease use, increase use, stop use). Can you describe what factors were used to determine your answer?
- What assumptions did you use in determining that you would change/not change your current usage of MMFs?

Loss Reserve/Capital Buffer regulation

- You answered that you would (continue to use, decrease use, increase use, stop use). Can you describe what factors were used to determine your answer?
- What assumptions did you use in determining that you would change/not change your current usage of MMFs?

Holdback regulation

- You answered that you would (continue to use, decrease use, increase use, stop use). Can you describe what factors were used to determine your answer?
- What assumptions did you use in determining that you would change/not change your current usage of MMFs?

Telephone Interview Script

If responded that will continue usage only on loss reserve:

- Can you please describe why your response for the "Loss Reserve" proposal was different from the "Floating NAV" and "Holdback" proposals?
- What assumptions went into determining the difference in response between proposed regulations?
  - Where do you assume that the additional funds for the loss reserve regulation will come from?
  - Are you concerned about a lower yield due to increased regulation of MMFs?

Given the 2010 MMF regulations, do you feel there is a need for additional MMF regulations today?

Is there anything else you would like to comment on?

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Financial Services Practice

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