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♦ MONEY FUND REFORM DONE, BUT PERHAPS NOT FINISHED?

Financial regulations promulgated largely during the Obama administration will almost certainly be reversed or amended during the Trump administration, market observers told iMoneyNet, perhaps to include provisions in money-market-fund regulations that became effective last October. Legislation introduced last year in the U.S. Senate and House of Representatives and cited below, which would have rescinded a key mandate in money-fund regulation, may be reintroduced in the current legislative session, although less to advance a deregulatory agenda than to energize the U.S. economy.

The Consumer Financial Choice and Capital Markets Protection Act, introduced as S. 1802 by Sen. Pat Toomey, R-Penn., and as H.R. 4216 by Reps. Gwen Moore, D-Wis., and Steve Stivers, R-Ohio, would have amended the Investment Company Act of 1940 to allow MMFs to value portfolio securities using the amortized-cost method "regardless of whether (fund) shareholders are limited to natural persons." The effect of the bill, therefore, would have rolled back the requirement in the new MMF regulation that institutional prime and tax-exempt funds convert to a variable-NAV structure.

A coalition of some 200 municipalities, chambers of commerce, state legislatures, city and county commissioners, colleges and universities, think tanks, and policymakers endorsed the legislation on a Web site created to generate support for it, but industry observers told iMoneyNet at the time that its chances for passage were slim in the run-up to the presidential election.

The results of the election may have ripened the political environment for a reintroduction of the legislation, however. "Deregulation is likely to be a significant theme for U.S. financial institutions, with the Trump administration and Republican leaders in Congress indicating broad support to limit and simplify the regulatory regime," Fitch Ratings noted recently.

Voicing the perspective of many supporters of deregulation, Hester Peirce, senior research fellow at the Mercatus Center at George Mason University and former SEC Commissioner-designate, asserted in a recent paper that financial regulation needs "a perspective shift away from the current regulator-centric approach to one that is grounded in the superior ability and incentives of market participants to collect, process, and act on information."

"I have to believe that the two bills introduced last year, or something similar, will be reintroduced in Congress because the conditions that prompted them are significantly stronger and more favorable than when the bills were introduced a year or so ago," Tony Carfang, managing director at Novantas Co.'s Treasury Strategies told *Money Fund Report®*.

"Remember, those bills were introduced long before more than $1 trillion left prime funds; before the LIBOR spread relative to Treasurys grew to more than 30 basis points, which has affected the short-term debt markets worldwide; and before U.S. municipalities lost half their funding. If anything," Carfang observed, "there's an even more compelling case to be made now for rolling back the VNAV provision in money-fund regulations, and that case can be made in a political environment that is much more favorable to deregulation." It could be, Carfang noted, that potential sponsors of bills that would amend current money-fund regulations are simply waiting for signals from the Trump administration about how to proceed.

Any initiative to roll back provisions in the money-fund regulation may meet some resistance, however, including from the Investment Company Institute. In a recent statement, ICI noted that "after six years of regulatory review and two years of costly implementation, our members are pleased that investors continue to value money-market funds as a crucial cash-management tool. We believe the market needs time to absorb these changes and there's no need for further activity." A spokesperson told *MFR*, however, that ICI "continues to monitor the implementation of the new rules and to discuss the effects of reforms with its members." It is unlikely, one market observer told *MFR*, that further reform could proceed "without a push for it from the association that represents the industry."

Rep. Moore is nonetheless considering a reintroduction of MMF legislation she co-sponsored last year. Sean Gard, Moore's chief of staff, told *MFR* that her rationale for doing so is motivated less by the Trump administration's interest in across-the-board financial deregulation than by the significant needs of municipalities in Wisconsin and nationwide to fund infrastructure improvements and to simulate business development.

"Representative Moore's view is that, overall, the Republican plan for deregulation could have calamitous effects for the U.S. economy," Gard stated, "but that providing regulatory relief to money-market funds presents minimal risks to financial stability and would provide significant benefits for cities, towns, states, and businesses."

He added that "an H.R. 4216-like bill would have a constituency of support" and that Rep. Moore's office is "tweaking draft language to reflect the fact that money-fund reform is now fully effective." He added that crafting bipartisan legislation is a collaborative process and that Rep. Moore is actively involving colleagues in the House and the Senate in this effort.

Carfang also focused on the pragmatic and more-or-less immediate effects of rescinding the requirement that some prime and municipal funds float their net asset values. "Think about this: regulators are talking about repatriating cash held by overseas subsidiaries of U.S. companies. Estimates of the amount of cash available for repatriation are in the $200 to $400 billion range, and it could take quite a long time for regulators and legislators to craft a workable repatriation plan, and it may even have to await comprehensive tax reform."

Carfang stressed that "the $1.2 trillion that moved from prime institutional to government institutional funds is two to four or more times larger than the money waiting to be repatriated," and that money-fund regulatory relief could direct cash to companies and municipalities much more quickly. "With a snap of legislative fingers to roll back the VNAV requirement in the money-fund regulation," he stressed, "the U.S. economy could get a more than $1 trillion boost."♦

MFR COMMENTARY

Net assets of 863 Taxable MMFs decreased $6.23 billion to $2.507 trillion as of Feb. 21. Total Taxable Institutional fund assets fell $7.38 billion. Taxable Retail fund assets gained $1.15 billion.

The iMoneyNet Money Fund Average™/All Taxable 7-Day Yield held steady at 0.27 percent. The All Taxable 30-Day Yield also was unchanged at 0.27 percent. The WAM shortened by one day to 41 days.

Net assets of 232 Tax-Free and Municipal MMFs increased $356.8 million, raising their total to $131.63 billion as of Feb. 20.

The iMoneyNet Money Fund Average™/All Tax-Free 7-Day Yield remained at 0.22 percent, while the All Tax-Free 30-Day Yield was also unchanged at 0.22 percent. The Tax-Free WAM shortened by one day to 25 days.

A one-week decrease of $5.87 billion brought total net assets of 1,095 Taxable and Tax-Free money funds to $2.639 trillion.