



The Power of Experience®

Infrastructure, Overseas Cash and Money Market Funds

Dec. 5, 2016

SEC regulations that went into effect in October 2016 have crippled the market for private sector and municipal money market mutual funds (MMFs). The regulations contain a number of provisions which make these funds less attractive to investors. By eliminating the stable net asset value feature of MMFs for “non-natural persons” (corporate and institutional investors), it substantially reduces their usefulness as a daily cash management tool.

The result has been devastating, a \$1.1 trillion dollar shift of capital out of the private sector and into government funds, limiting capital availability and raising borrowing costs for America’s businesses and municipalities.

- Prime funds, a key source of funding for corporations and banks, have seen a **74% drop, or \$1.04 trillion**, since Jan. 2015 to from \$1.41 trillion down to \$0.37 trillion on Dec. 1, 2016.
- Tax exempt funds, a key source of funding for municipalities, universities and hospitals, have experienced a **51% decline, or \$132 billion**, down from \$260 billion to \$128 billion.
- Government and Treasury money funds combined have **grown by \$1.16 trillion in assets** since January 1st, 2015. This amount is almost identical to the amount that has exited Prime and Tax Exempt funds.

The bipartisan HR 4216, The Consumer Financial Choice and Capital Markets Protection Act, co-sponsored by Rep. Gwen Moore (D-WI) and Steve Stivers (R-OH) along with many others, takes some common sense steps to revive these investments and restore funding for America’s businesses, state and local governments, universities and hospitals.

- The bill eliminates the impractical and non-operational distinction between “natural persons” and “non-natural persons”, allowing corporate treasurers and institutional investors to once again invest in stable net asset value Prime and Tax Exempt money funds.
- The bill rolls back some of the onerous accounting and recordkeeping activities on *de minimis* and typically offsetting daily fluctuations for corporations, making the funds a useful cash management tool again.

The following are specific and immediate benefits of the bill:

Infrastructure Investments.

- The cost of short-term credit for municipalities has spiked from under 0.05% at the beginning of the year to 0.56% today even though there have been no Fed rate increases. This raises the costs for infrastructure projects and eliminates some projects at the margin.
- HR 4216 would reverse the capital outflows and allow investors to return to money funds, expanding the pool of capital available for state and local infrastructure projects, education and healthcare.
- Current federal plans to expand infrastructure investments will require state and local governments to seek funding from the capital markets. HR 4216 will help increase that pool of available funding.

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Business investments.

- For America's businesses, interest spreads based on LIBOR have widened as a result of the new SEC regulations on MMFs. This bill will help return global short-term markets back to their historical equilibrium and allow businesses to better access investment capital.
- The onset of these regulations has increased borrowing costs by 0.25% over historical spreads and reduced credit availability by \$1 trillion. For all but the most credit worthy borrowers, the cost of credit is even higher and the availability lower.

Overseas corporate cash.

- Estimates of overseas corporate cash that could be repatriated exceed \$1 trillion and it is important that the capital markets channel those funds into the real economy to stimulate growth, investment and jobs.
- Unfortunately, because of these new MMF regulations, corporate treasurers will more likely invest the returning cash into Government MMFs, temporarily stranding that cash.
- With the changes from HR 4216, that cash could be invested in Prime and Municipal money funds and be put to work immediately.

In conclusion, Prime and Municipal money market funds help businesses and local governments meet their daily cash flow needs. They are essential for putting corporate cash to work in the productive economy. They are essential in providing financing for infrastructure projects. The regulations on Prime and Municipal money market funds which went into effect on Oct 14, 2016 contain provisions that make these funds unattractive for "non-natural persons" such as corporate treasurers and institutional investors. Their response in the run-up to implementation has been to shift over \$1 trillion out of these funds, effectively stranding that capital in Government funds. HR 4216 addresses this by restoring some of the investor utility which will allow short-term capital to flow back in to productive investments in the U.S. economy.

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