Metropolitan Mayors Caucus

August 4, 2017

The Honorable Randy Hultgren
United States Representative - Illinois, 14th District
2455 Rayburn HOB
Washington, DC 20515

Dear Congressman Hultgren:

The Metropolitan Mayors Caucus respectfully requests that you support H.R. 2319, the "Consumer and Financial Choice and Capital Markets Protection Act of 2017," which is currently under consideration before the House Committee on Financial Services. This bipartisan measure is crucial to preserving the livelihood of our local governments and their ability to access cost-efficient financing for essential infrastructure projects.

The Mayors of the Chicago region are concerned that recent changes made by the Securities Exchange Commission (SEC) pertaining to Money Market Funds and net asset values (NAV) will hurt Illinois' schools, colleges, and local governments. When these changes went into effect in October 2016, Money Market Funds became less attractive to investors, which in turn limited the amount of Money Market Funds purchasing these tax-exempt bonds. This has resulted in higher interest rates that drive up the cost of local infrastructure projects.

The new amendments to Rule 2a-7 require money market funds that are available to corporate treasurers, public finance officers, pension fund managers, and other institutions that invest short term cash, to no longer operate on a stable net asset value (NAV) basis. Funds that invest in U.S. government securities, or are available only to investors who are "natural persons" are exempt from the floating NAV requirement.

As of result of the rule's implementation, nearly $1.2 trillion has exited prime and municipal money market funds, and moved into Treasury and Government funds. As the implementation date approached, short-term interest rates spiked to their highest level since the financial market crisis. Municipal funds, a key source of funding for state and local governments and their infrastructure projects, experienced a 50 percent decline over the same period. Prime funds, a key source of funding for corporations, saw a 72 percent drop from a year earlier. Overall, private sector borrowing costs rose by tens of billions of dollars, and municipal short-term borrowing increased on average from under five basis points at the beginning of 2016 to as high as 75 basis points by the end of 2016.

The Consumer Financial Choice and Capital Markets Protection Act of 2017 makes common sense reforms to revive these lost investments and restore cost-effective short-term funding for America's businesses, state and local governments, universities, hospitals and affordable

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housing projects. In addition to eliminating the impractical and non-operational distinction between "natural persons" and "non-natural persons," the bill:

- Rolls back some of the onerous accounting and recordkeeping requirements on de minimis and typically offsetting daily fluctuations for institutions making investments in those funds, thus making them useful cash management tools again;

- Codifies the ability of any fund to operate without imposing a mandatory liquidity fee on a redeeming shareholder, which eliminates the distinction between funds investing exclusively in U.S. government securities and non-government funds where only government funds can operate free of mandatory liquidity fees;

- Maintains and protects the essential reforms to Rule 2a-7 that were adopted by the SEC in 2010 and 2014 to increase liquidity and transparency, and minimize the risk of heavy redemptions in response to the financial crisis of 2008, including the authority of fund boards to impose discretionary redemption gates and liquidity fees during times of stress; and

- Prohibits Federal assistance from being provided directly to any money market fund, regardless of whether it operates as a Stable Value Fund or a Floating NAV Fund.

The Consumer Financial Choice and Capital Markets Protection Act is supported by nearly 250 national, state and local entities and financial professionals who are issuers, borrowers and investors in money market funds, including the Government Finance Officers Association, the Association for Financial Professionals, the National Association of Corporate Treasurers, the National Association of Counties, U.S. Conference of Mayors, National League of Cities, National Association of Health and Educational Facilities Finance Authorities, and the American Public Power Association.

H.R. 2319 is a rational approach to help preserve this market for investors and local governments, while still ensuring adequate safeguards and regulation. Thank you for your time and consideration to this matter.

Sincerely,

David E. Bennett

David E. Bennett
Executive Director