Finance officers renew push for stable net asset value

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Finance officers say a change in net asset value requirements put in place by the Securities and Exchange Commission years ago has “significantly” curbed money market mutual funds’ appetite for short-term municipal securities, negatively impacting issuers.

In a letter sent to the House Financial Services Committee and the Senate Banking Committee this week, the Government Finance Officers Association renewed its call for money market funds to go back to a fixed net asset value after the SEC flipped the switch to floating NAVs in institutional MMMFs. They noted that MMMFs are the largest purchasers of short-term municipal securities.

As a result of the SEC rule change that went into effect in 2016, GFOA said municipal MMMFs assets fell by nearly 50%, shrinking the funding pool available to municipal borrowers.

“Municipalities fortunate enough to continue selling their debt to tax-exempt funds saw their borrowing costs increase by nearly double the Federal Reserve’s rate increases since implementation of the rule,” GFOA wrote. “Those short-term costs have increased even more for state and local governments that can no longer sell their debt to MMMFs and must borrow from other investors or replace the debt with bank loans.”

The SEC’s rule 2a-7 allows funds investing in federal government securities, as well as “retail” funds that have policies and procedures in place designed to limit investors to “natural persons,” to use a stable NAV. Natural persons means human beings, rather than business entities. Other MMMFs were required to “float” their NAVs, meaning that the value of a share can fluctuate rather than remain at a fixed $1. The change was designed to prevent investors from causing a “run” on MMMFs by pulling out of them in a scenario similar to one that occurred during the financial crisis in 2008.

Sens. Pat Toomey, R-Pa., Bob Menendez, D-N.J., and Gary Peters, D-Mich., as well as Reps. Gwen Moore, D-Wis., and Steve Stivers, R-Ohio, have sponsored legislation reversing the SEC rule.

“For me, this is about ensuring our local governments have the tools to do what they need to do, like invest in their infrastructure,” Stivers wrote in a statement to The Bond Buyer. ”Returning these funds to stable net assets will bring back demand for these money market funds and help our local communities.”

Toomey introduced the Consumer Financial Choice and Capital Markets Protection Act in March. A House version of the bill was introduced by Moore on Sept. 25, with three Republicans and four Democrats also sponsoring it.

Rep. Steve Stivers, R-Ohio, is co-chair of the Municipal Finance Caucus
Brian Tumulty, The Bond Buyer

“Maintaining access to capital markets for our state and local governments is important because it helps them build and maintain important infrastructure and decreases systemic risk by lessening local government dependency on big banks and the derivatives market," Moore said in a statement sent to The Bond Buyer.

Moore said her legislation would not disturb transparency or liquidity enhancements for money market mutual funds the SEC enacted and instead would allow funds that buy municipal bonds to continue to use a stable NAV, keeping purchasers of state and local government debt in the market.

Moore hopes to get it "over the finish line this Congress."

GFOA, the National Association of Counties, the U.S. Conference of Mayors, the National League of Cities, the International City/County Management Association, the National Association of Health and Education Facilities Finance Authorities, National Council of State Housing Agencies, the American Public Power Association and the Large Public Power Council signed the letter, expressing their support of the bills.

MMMFs with a stable NAV are the most commonly used investment by state and local governments, and forcing governments to find alternative investments to prime and municipal MMMFs creates additional risk for public funds by driving them to lower yields or less suitable products, GFOA wrote.

"Such options may not meet liquidity standards required by their governments to meet cash management policies and statutes," GFOA wrote.

The legislation could be pushed through a vehicle already going through the Senate Banking Committees or House Financial Services Committee, could go through a transportation bill, or stand alone.

If the legislation again does not go through, Emily Brock, director of the GFOA's Federal Liaison Center, said local governments have shown they can adapt.

"State and local governments are nimble creatures and they have carried on in the wake of 2a-7, but it would certainly be a better environment for us if we could get the floating NAV to go back to stable," Brock said.

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