

# Assessing the Impacts of the New US Money Market Fund Regulations

April 20, 2017

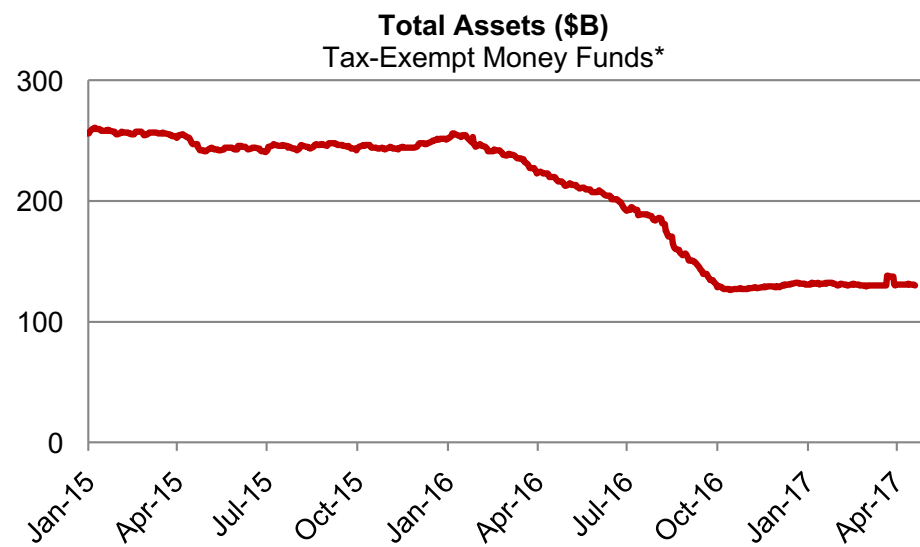
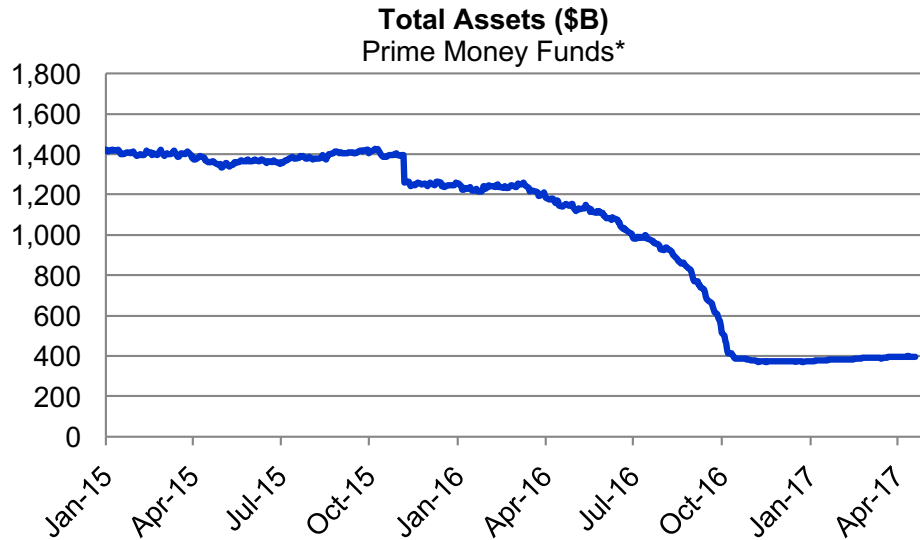


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# New US MMF regulations: Day 131



- There has been a massive flight from Prime and Tax Exempt money funds in response to new regulations that were implemented on October 14, 2016.
- Between January 1, 2015 and April 19, 2017, **\$1.15\* trillion has exited** Prime and Tax Exempt money funds. Over half of this exodus occurred in the three months prior to implementation.
- Prime funds, a key source of funding for corporations and banks, have seen a **72%\* drop from \$1.41 trillion in Jan. 2015 to \$0.40\* trillion on April 19, 2017.**
- Tax exempt funds, a key source of funding for municipalities, universities and hospitals, have experienced a **49%\* decline since the beginning of 2015.**

Source: Treasury Strategies, Crane Data

\*12 MMF were added to the CraneData dataset on 3/22/17. Analysis is unadjusted for this change..

# Short-term growth in Prime money funds since the beginning of 2017

Total Assets (\$B)  
Prime Money Funds\*



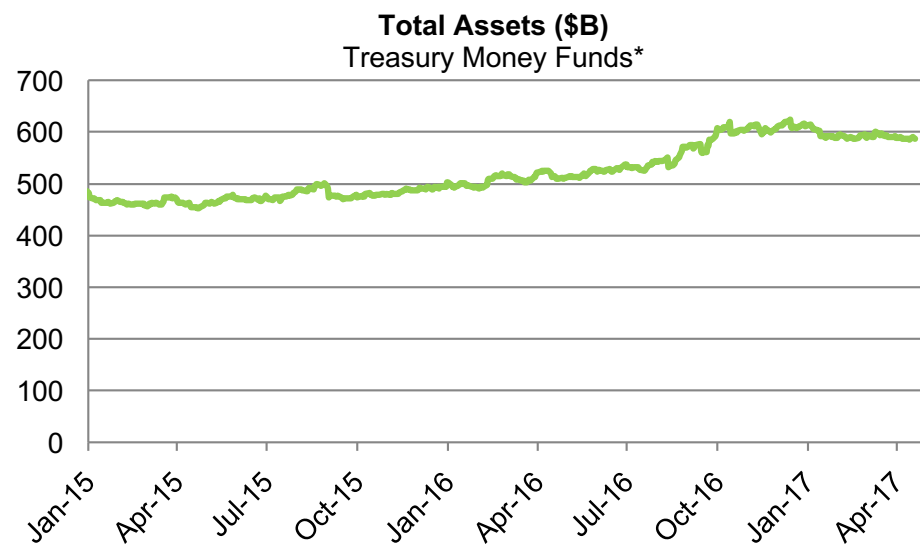
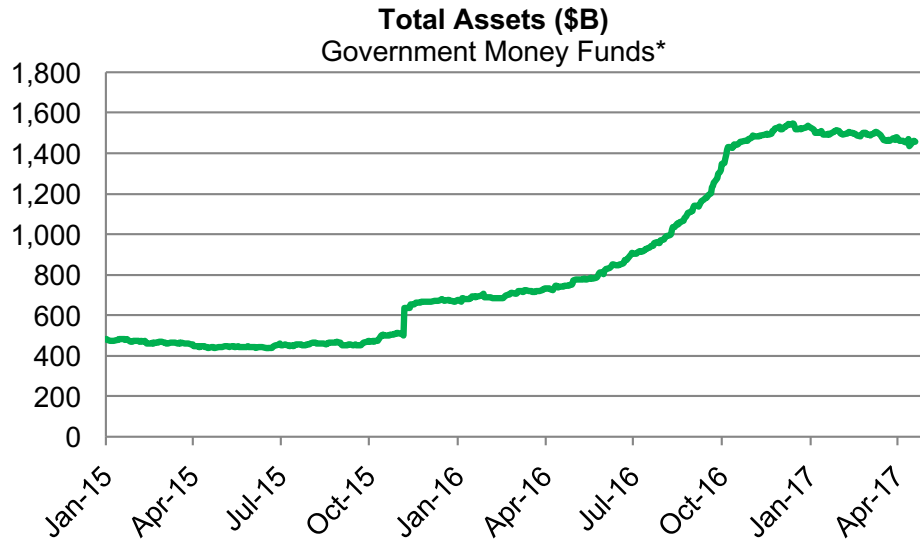
- After a dramatic drop off of nearly \$1T in 2016 Prime Funds are showing potential signs of recovery, **growing by \$20.7B\* since January 1, 2017.**
- The increase appears is driven by Institutional Investors, as **Institutional Prime Funds have grown \$21.4B** and Retail Prime Funds have declined by \$0.7B.
- Since the new regulations that was enacted in October, assets in Prime Funds have grown \$6.9B\*.

Source: Treasury Strategies, Crane Data

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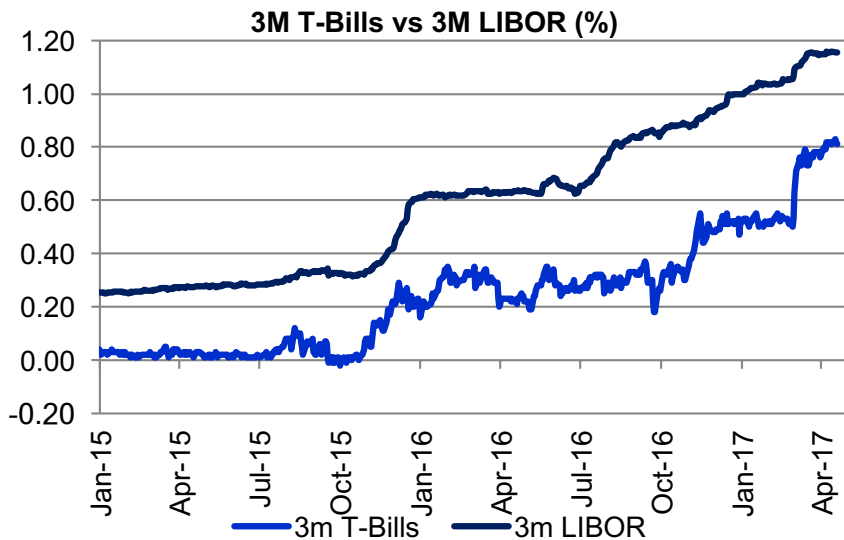
- Government and Treasury money funds combined have **grown by \$1.08\* trillion in assets** since January 1<sup>st</sup>, 2015. This is very closely aligned to the amount that has exited Prime and Tax Exempt funds.
- Government funds have been the primary beneficiary of this asset shift, going from about **\$0.5 trillion in January 2015 to \$1.46\* trillion today**.
- With almost all of the outflow leaving the private sector and moving into Treasury and Government funds, borrowers are faced with higher rates and fewer borrowing options. LIBOR has spiked, as have rates on short term municipal debt.
- There has been an outflow of **\$87.0\* billion or 5.6%\* from Government funds** since the FOMC announced its rate increase in December 2016. This is compared to a 10.2%\* inflow during the same period after the previous rate increase.
- Total MMF assets have declined by \$86.5\* billion since the December 2016 increase, compared to a \$37.7\* billion outflow during the same period after the 2015 rate increase.

Source: Treasury Strategies, Crane Data

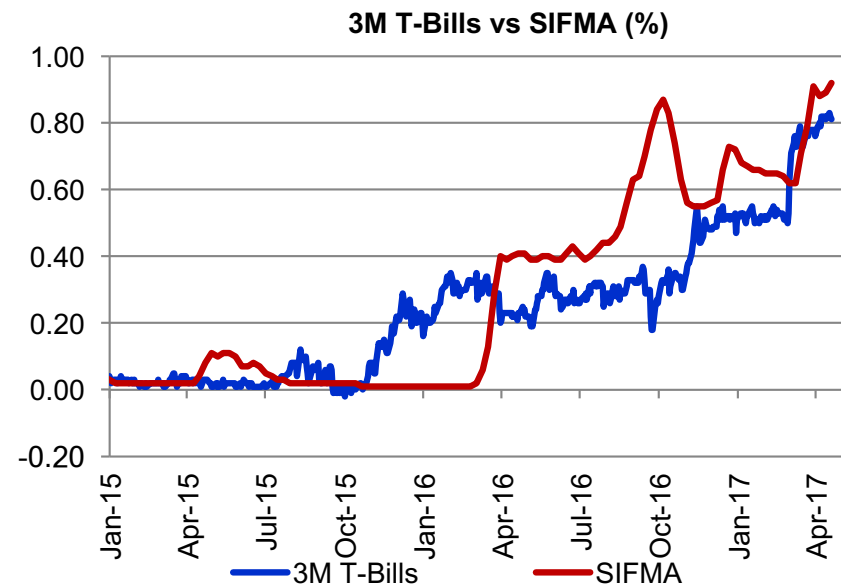
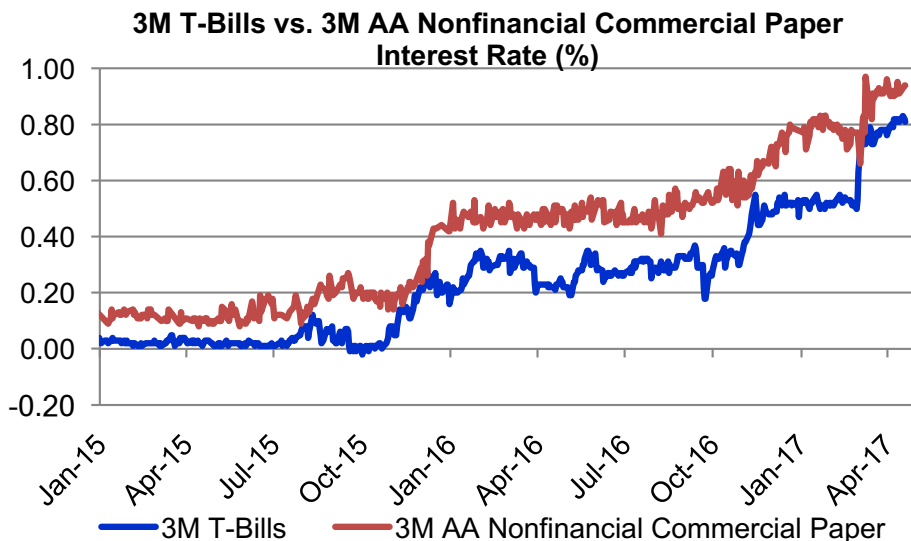
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# Money Fund Asset Flows Disrupt Market Rates, Impacting Global Markets



- Borrowers formerly reliant on money funds must seek financing elsewhere, pressuring LIBOR, Commercial Paper and the SIFMA Muni Index. This disrupts the normal equilibrium between market instruments and rates.
- Three month LIBOR is consistently 15 – 25 basis points above its historical spread over Treasuries. \$7 - 10 trillion of debt globally is indexed to LIBOR, raising private sector borrowing costs by tens of billions of dollars.
- \$350 trillion of derivatives worldwide are tied to LIBOR. The slightest disruption to this market could lead to serious consequences.



Sources: Treasury Strategies, Crane Data, Federal Reserve Bank of St. Louis

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# Key Money Fund Statistics

Assets (\$B)*				
Fund Type	Level Today	Change: 1 week	Change since 10/14/16	Change since 1/1/16
Prime	396	-3	7	-860
Government	1,456	-2	19	780
Treasury	587	0	-11	85
Tax-exempt	130	0	4	-122

Source: Treasury Strategies, Crane Data

Key Rates (%)			
Index	Today	10/14/16	1/1/16
30-day LIBOR	0.99	0.54	0.42
90-day LIBOR	1.16	0.88	0.61
90-day AA Paper	0.94	0.55	0.52
SIFMA	0.92	0.83	0.01

Weighted Average 7-Day Yield (%)*			
Fund Type	Today	10/14/16	1/1/16
Prime Inst.	0.73	0.29	0.18
Government Inst.	0.49	0.17	0.06
Treasury Inst.	0.46	0.12	0.04
Tax-exempt	0.39	0.34	0.01

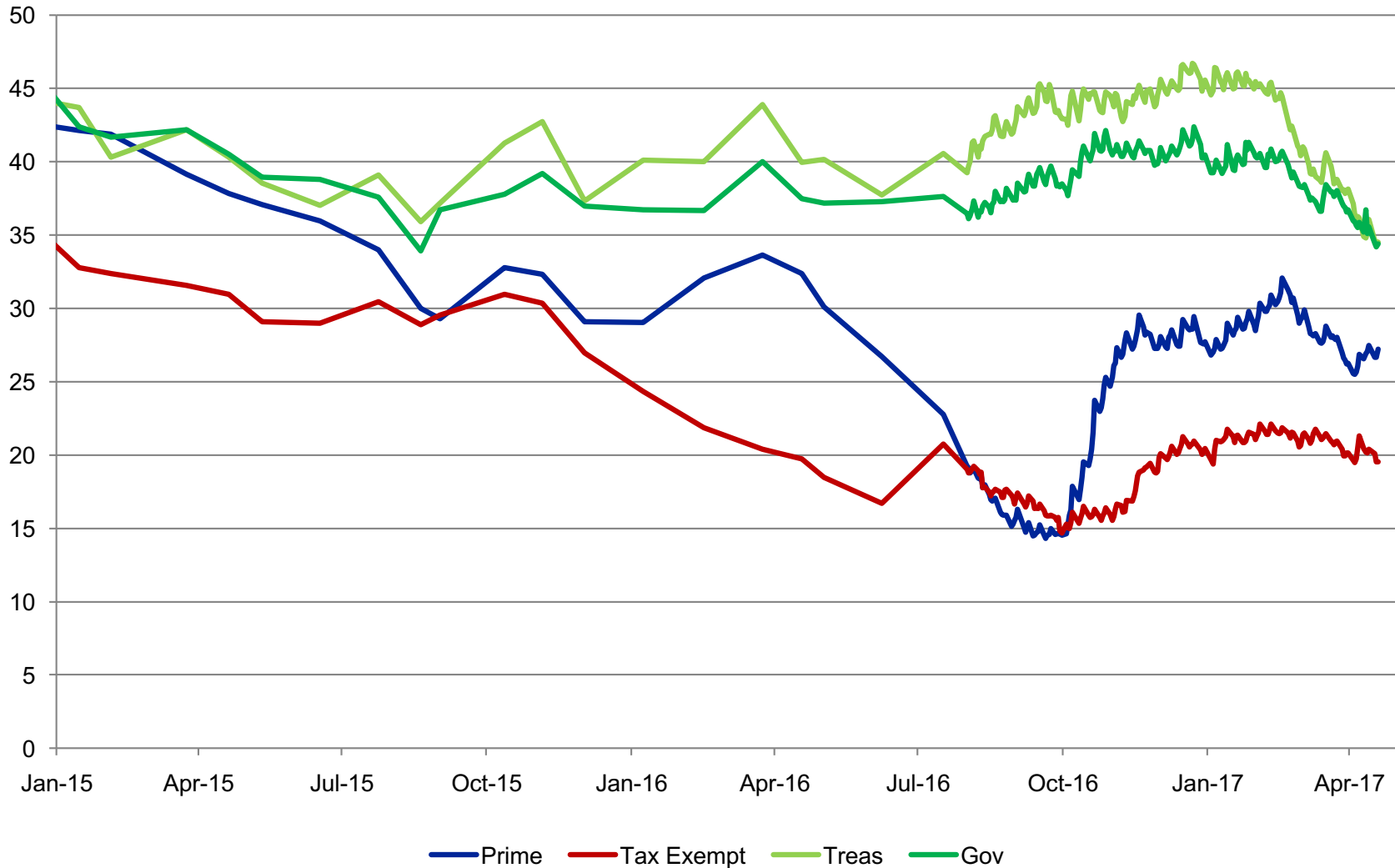
Source: Treasury Strategies, Federal Reserve

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# Tax-Exempt portfolios have remained short compared to 2015 levels



**Weighted Average Maturity (Days)**  
All Funds\*

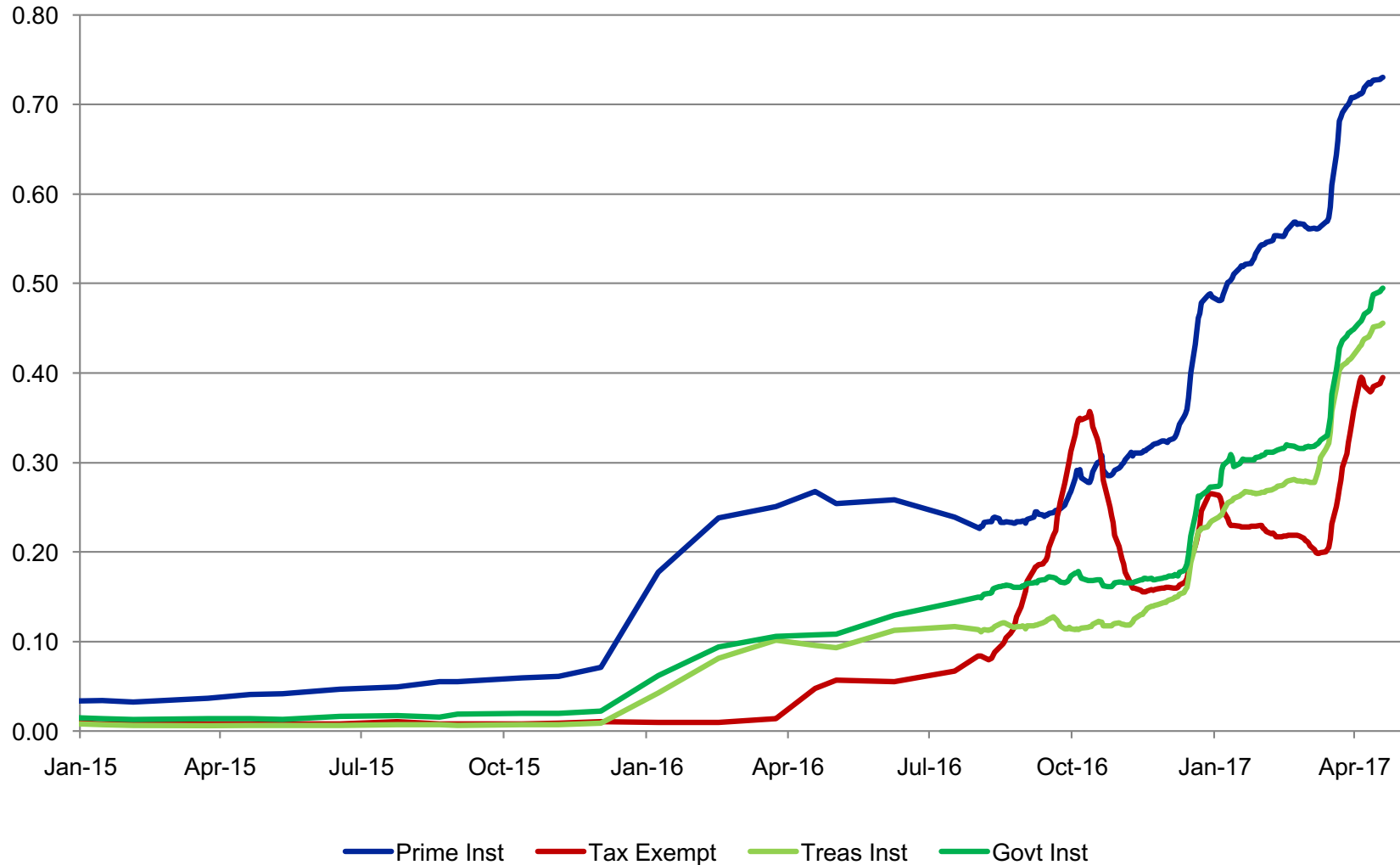


Source: Treasury Strategies, Crane Data

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# Short-term MMF yields to investors have increased

Weighted Average 7-Day Yield (%)  
Select Fund Types\*



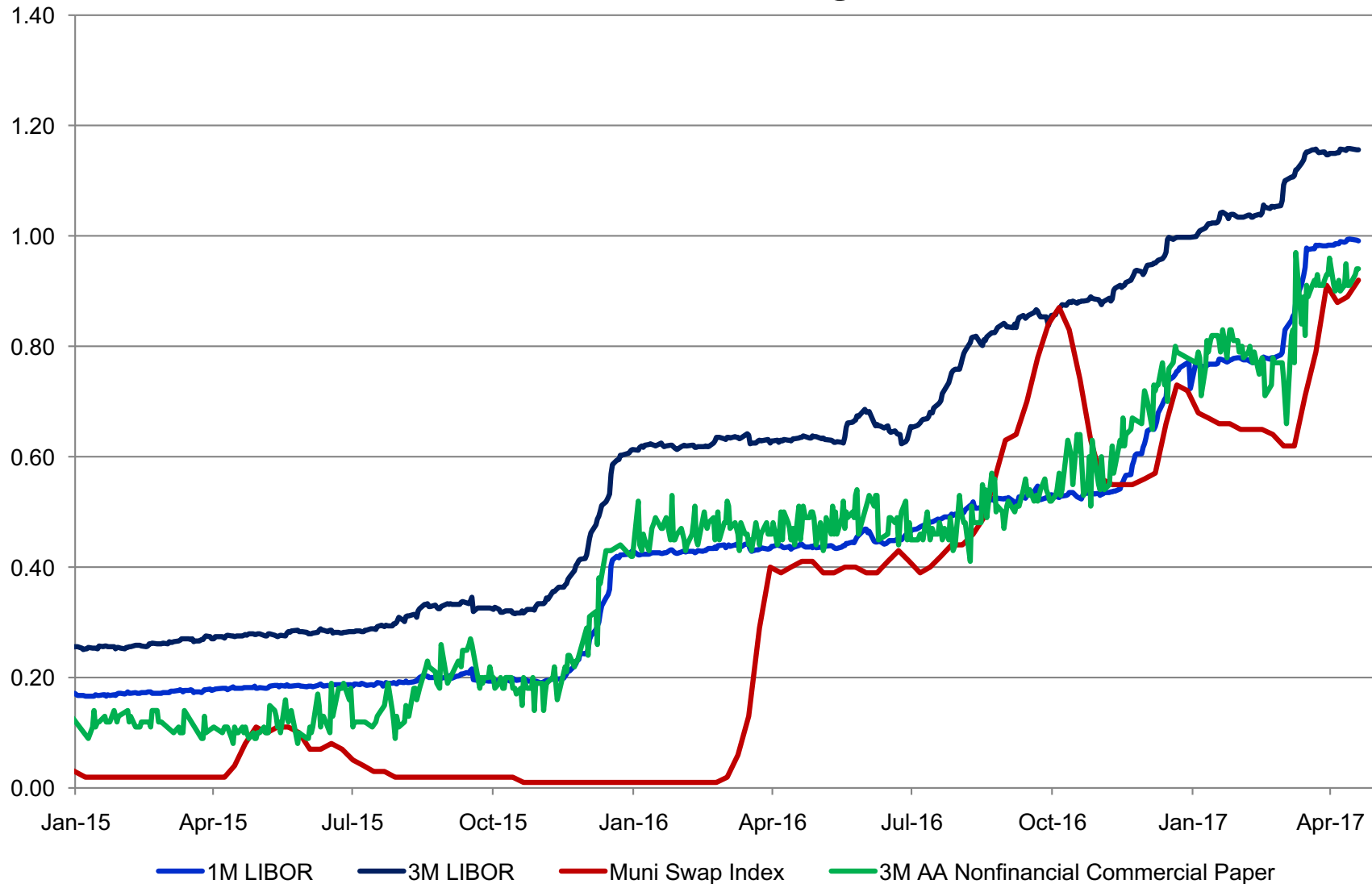
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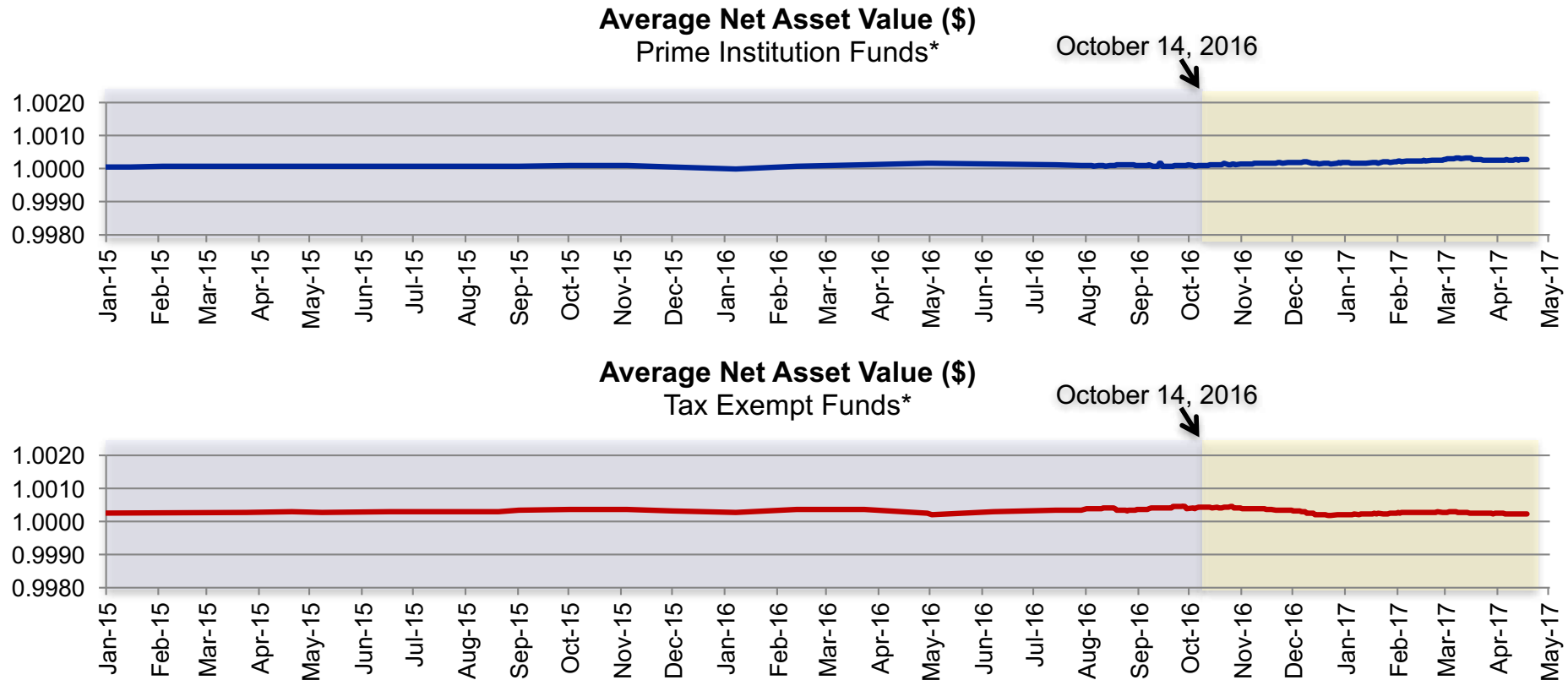
# Short-term money markets are more volatile due to MMF asset flows

## Short-Term Borrowing Indices



Sources: Treasury Strategies, Bloomberg, Federal Reserve Board

# NAV remains a consistent \$1 in variable NAV funds after implementation



- On October 14<sup>th</sup>, 2016, Tax Exempt and Institutional Prime Money funds moved from a constant NAV of \$1 to a variable NAV that can change daily given market factors.
- Prior to the implementation date, funds had to publish a market based NAV, or shadow NAV, based on a daily mark-to-market of their portfolios.
- Both the shadow NAV prior to implementation and the variable NAV afterwards have consistently been within one tenth of a cent of \$1.

Note: Net asset values prior to October 14, 2016 are market-based or “shadow NAVs”. After October 14, 2016 they reflect the actual NAVs of the applicable funds.  
Sources: Treasury Strategies, Crane Data

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# NAV remains a consistent \$1 in variable NAV funds after implementation

Average Net Asset Value (\$) Prime Institutional Money Funds*				
Period	Min	Max	Median	Average
Last Week	1.0003	1.0003	1.0003	1.0003
Last Month	1.0003	1.0003	1.0003	1.0003
Last Quarter	1.0002	1.0003	1.0003	1.0003
Last Year	1.0002	1.0003	1.0003	1.0002

Average Net Asset Value (\$) Tax Exempt Money Funds*				
Period	Min	Max	Median	Average
Last Week	1.0002	1.0002	1.0002	1.0002
Last Month	1.0002	1.0003	1.0002	1.0002
Last Quarter	1.0002	1.0003	1.0003	1.0003
Last Year	1.0002	1.0003	1.0003	1.0003

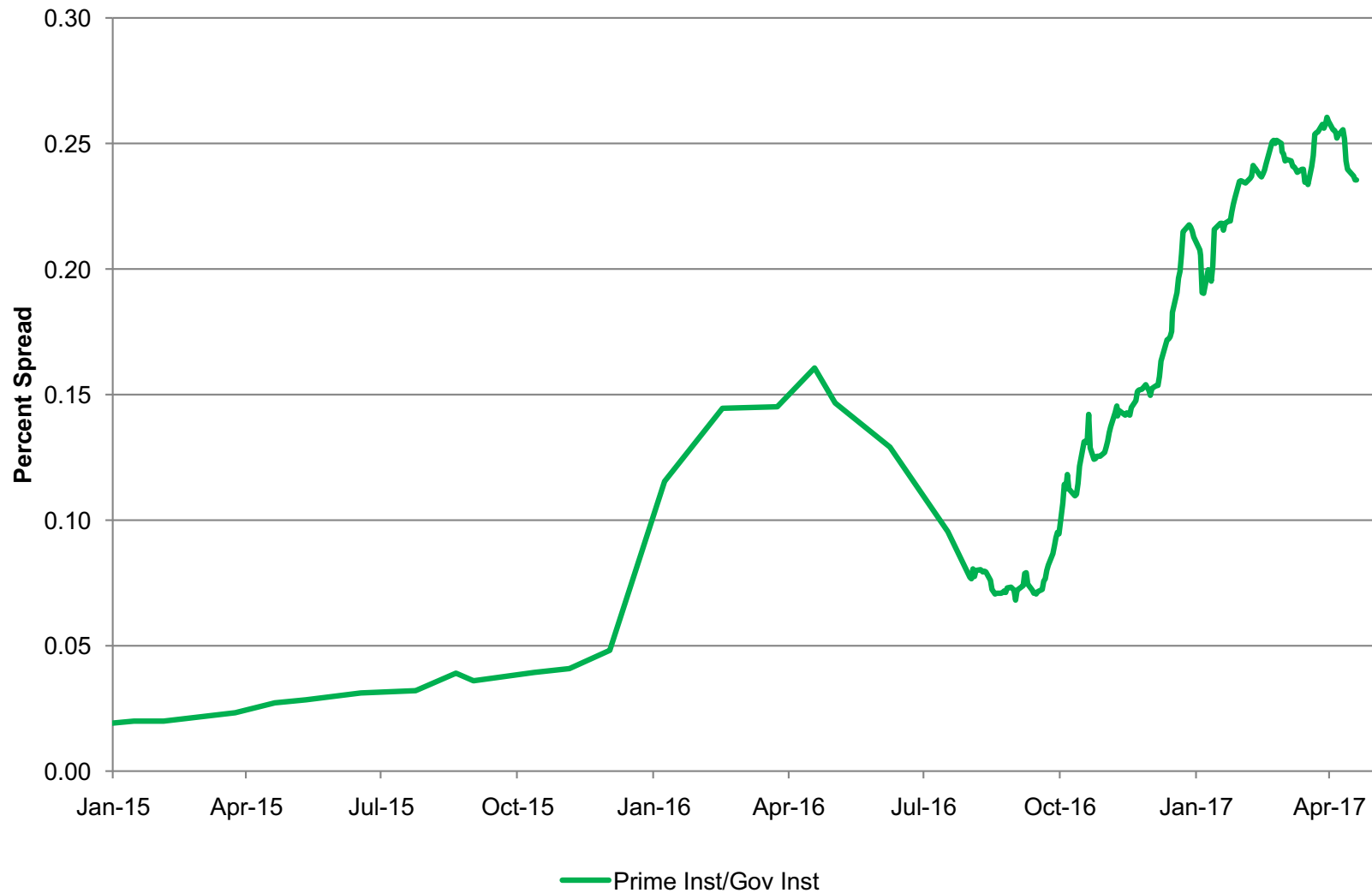
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# Spreads between Prime and Government funds have been volatile



### Spread Between MMF Investment Options Select Fund Types\*



Source: Treasury Strategies, Crane Data

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