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♦ NEW LEGISLATION WOULD TURN BACK THE CLOCK ON MMF REGULATIONS

A host of political and procedural hurdles may have slowed the momentum for across-the-board rollbacks in Obama-era financial regulations that were promised early in the Trump administration. Nonetheless, some money-market-fund industry observers hope the momentum will be regained at least enough to help push through bipartisan legislation introduced recently both in the U.S. Senate and in the House of Representatives that would rescind the VNAV requirement for institutional prime and tax-exempt municipal money funds.

Senate bill S.1117 – the "Consumer Financial Choice and Capital Markets Protection Act of 2017" – sponsored by Pat Toomey (R-Pa.) and co-sponsored by colleagues Joe Manchin (D-W.Va.), Mike Rounds (R-S.D.), and Robert Menendez (D-N.J.) and the nearly identical House version, H.R. 2319, sponsored by Keith Rothfus (R-Pa.) and co-sponsored by Gwen Moore (D-Wis.) and Steve Stivers (R-Ohio), are intended "to help municipalities, schools, and hospitals once again access low-cost capital for publicly-beneficial investments," their sponsors contend. Both mirror legislation introduced in the prior congressional session, although only the House bill was given a formal committee hearing at the time and was tabled thereafter.

Reforms to U.S. money-market funds, including institutional tax-exempt MMFs, mandated in 2014 by the Securities and Exchange Commission, have "caused short-term borrowing costs for state and local governments and American companies to increase significantly, (which) means fewer jobs, less infrastructure development, and more strain on local governments," Rothfus said in defense of the House bill, adding that its passage "will reverse the damaging effects" of the reform regulation, and "(allow) capital to return to prime and municipal funds while safeguarding the stability, safety, and soundness of our financial system."

Specifically, the bill would rescind the provision in the SEC regulation that requires institutional prime and tax-exempt money funds to float their net asset values. It would also allow funds "to use the amortized-cost method of valuation, or the penny-rounding method of pricing, regardless of whether their shareholders are limited to natural persons."

"We're delighted the bill has been introduced," said Tony Carfang, managing director at Novantas' Treasury Strategies. "It does just what we recommended in a white paper, 'Money-Market Regulation: Winners, Losers, and Long-Term Consequences,'" which documents, Carfang said, "the immense damage from the poorly-conceived MMF regulation, in particular to the private and municipal sectors."

Addressing public-sector financing specifically, the Treasury Strategies report noted that "the most efficient way for municipal entities to obtain short-term working capital is via tax-exempt money-market funds," but it added that such funds "have been decimated by the new MMF regulations." As iMoneyNet reported, assets of tax-exempt funds were nearly halved in 2016, and as of the week ended May 23, total assets stood at $129.68 billion.

Emily Swenson Brock, director of the Federal Liaison Center, a division of the Government Finance Officers Association, told the House Committee on Financial Services last month that her organization would strongly support the legislation. "Our members rely on the hallmark stable-NAV feature of tax-exempt money funds," she noted in a letter to the committee. "Their secure nature, simple accounting methodology and management, and liquidity, all are necessary for governments to protect public funds, access cash, and pay bills when they are due." In changing the structure of such funds, she stressed, "The SEC has created administrative and costly burdens to governments large and small, in addition to having them look to other, more expensive investment options."

"I personally feel that this is a good piece of legislation, both for issuers and for investors," Colleen Meehan, senior vice president and director of municipal money-market securities for BNY Mellon Cash Investment Strategies, a division of the Dreyfus Corporation, and an iMoneyNet Advisory Board member, told *MFR*. "For investors, muni funds, which the SEC-reform regulation has severely impaired, are a great portfolio-diversification strategy, and institutional investors particularly value the current yields. I can't see the money-fund industry being unhappy with these two bills or about reopening a discussion on the effects of reform on the municipal-funding market."

Meehan noted, however, that after having worked diligently during the two-year compliance period provided for in the latest MMF rules revamp, the industry may still be reeling from what she called "reform hangover." We should expect support for the legislation from fund providers, she predicted, but she added that "the fate of this bill will probably be determined by folks on the issuer side of the industry who depend on this market to finance short-term debt."

Unfortunately for these new iterations of the bill, the Investment Company Institute believes "there is no need for further activity." After making significant investments of time and resources to comply with the reform regulation, the industry should be focusing on accommodating to the new regulatory landscape, a spokesperson recently explained to *MFR*.

"We certainly understand that many organizations incurred great expense complying with the new regulation," Carfang noted. "That's truly unfortunate, but it's a cost that should not get in the way of furthering the best interests of money-market funds' primary constituents and of the U.S. economy."

"It's uncertain whether the bill will gain the kind of traction it will need in order to work its way through to a successful vote in either chamber," Meehan observed. She stressed that the bill will need support from the money-fund industry and from issuers of muni debt, and particularly "from states and municipalities that are most likely to be shut out of the funding market or forced to pay much higher rates to finance important municipal projects."♦

- Paul Adams

MFR COMMENTARY

Net assets of 855 Taxable MMFs increased $8.66 billion to $2.498 trillion as of May 30. Total Taxable Institutional fund assets rose $12.36 billion. Taxable Retail fund assets fell $3.70 billion.

The iMoneyNet Money Fund Average™/All Taxable 7-Day Yield increased to 0.46 percent from 0.45 percent the previous week. The All Taxable 30-Day Yield moved up to 0.45 percent from 0.44 percent. The WAM shortened by one day to 32 days.

Net assets of 232 Tax-Free and Municipal MMFs were down by $347.4 million, lowering their total to $129.33 billion as of May 29.

The iMoneyNet Money Fund Average™/All Tax-Free 7-Day Yield remained at 0.32 percent. The All Tax-Free 30-Day Yield fell to 0.35 percent from 0.36 percent last week. The Tax-Free WAM was unchanged at 18 days.

A one-week increase of $8.31 billion brought total net assets of 1,087 Taxable and Tax-Free money funds to $2.627 trillion.