



30 January 2014

An Open Letter to Members of the European Parliament

Re: Regulation of European Domiciled Money Market Mutual Funds

Dear Members of Parliament,

We are writing to share important information with respect to the current debate in Parliament regarding European domiciled money market mutual fund (MMF) regulation. As you know, MMFs are an important tool for corporations and institutions to effectively manage their daily cash flows. They also provide critical short-term credit to borrowers in the financial markets.

Treasury Strategies is a leading consulting firm in treasury and cash management for corporations and financial institutions. We regularly survey our clients about their financial practices and concerns. With this letter, we submit the results of our survey "European Money Market Mutual Fund Survey on Regulation – February 2013". The findings are consistent over time with other surveys we have conducted in Europe and other regions of the world.

Our survey findings raise a serious concern that we bring to your attention:

If proposed regulations restricting the operation of constant net asset value MMFs (CNAV) are enacted, corporate treasurers will greatly reduce their investments in these funds and transfer their cash into already swollen deposits at commercial banks. This will lead to increased concentration and risk in the banking sector while also depriving investors of an important liquidity management tool.

The MMF industry in Europe is a significant one, and includes both CNAV funds and variable net asset value (VNAV) funds that fluctuate in value each day. Together these account for 25% of total corporate cash investments in Europe. For a variety of reasons, 61% of corporate treasurers in our survey invest company cash in CNAV funds only, while 30% use a combination of VNAV and CNAV funds. Proposed regulations will diminish the viability of the CNAV funds¹. Key highlights appear on page 3 of the report. In short:

- If CNAV funds were impaired by the proposed regulations, 69% of investors who invest only in CNAV funds would reduce or discontinue using MMFs. These investors represent 91% of the portfolio value reported in the survey.
- 72% of CNAV investors would substitute European bank deposits as an alternative to some of their investment in MMFs.
- 39% of CNAV investors would substitute bank deposits in other jurisdictions as an alternative to some of their investment in MMFs.

¹ Minor MMF definitional differences across European jurisdictions are not material to the survey findings.

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The survey results further support the conclusions that MMFs have become a significant cash management tool for European institutions, that CNAV MMFs represent a large portion of MMF holdings by European institutions, and that changing European MMF regulations to require VNAV would significantly reduce investment in European MMFs.

We are pleased to share this information as you debate these proposed regulations. We encourage you to carefully consider the ramifications of impairing CNAV MMF usefulness, and thus further increasing banking sector concentration.

The survey results are attached to this letter as Appendix A. Please let us know if you would like additional information.

Respectfully submitted,

Sincerely,



Tony Carfang
Partner



Cathy Gregg
Partner

Attachments:

Appendix A – Treasury Strategies: European Money Market Mutual Fund Survey: Summary of Results & Analysis



European Money Market Mutual Fund Survey on Regulation:

Summary Results & Analysis



Treasury
Strategies.

The Power of Experience®



Executive Summary



Treasury Strategies, the leading consulting firm in the area of treasury, payments, and liquidity management, is pleased to present the results of a recent survey we conducted to assess the potential impacts of changes to calculating the net asset value (NAV) of Money Market Mutual Funds (MMFs) within Europe.

We surveyed unique corporate, government, and institutional investors in November of 2012. The respondents are sophisticated investors (corporate treasury executives) with nearly 60% representing organizations that have annual revenues exceeding €1 billion.

Our survey results indicate that any attempt to eliminate the constant net asset value (CNAV) methodology for pricing MMFs in Europe would generate a negative reaction among investors. A large segment of respondents surveyed indicated that if enacted, they would either decrease or discontinue their use of money market funds. Analyses by industry and by company size show that this sentiment is pervasive. There were no material differences by respondent sector.

In order to test whether the behavior and attitudes varied depending upon the region in which a company was domiciled, we compiled the results in two parts. Part I is comprised of all companies participating in the survey, irrespective of the the country of domicile. Part II is comprised of only those companies domiciled in Europe.





Executive Summary



Part I - All Companies

About the Survey

- 266 unique institutions were sampled
- 49% of respondents managed investments in Europe
- Of the respondents that managed European funds 50% use MMFs
- Of those respondents using MMFs
 - 61% use CNAV funds only
 - 9% use VNAV funds only
 - 30% use a combination of CNAV and VNAV funds

Findings

- MMFs represent 25% of the value of European investments
- IF CNAV funds were disallowed 69% of CNAV-only investors would reduce or discontinue using MMFs
 - This potential reduction/discontinuance of MMF usage represents 91% of the value of CNAV investor portfolios
- 72% of CNAV investors would use European bank deposits as an alternative investment in place of MMFs
- 56% of CNAV investors would use other short-term investment vehicles in place of MMFs
- 50% of CNAV investors would move their MMF investments to CNAV funds in other jurisdictions
- 39% of CNAV investors would use bank deposits in other jurisdictions as an alternative investment in place of MMFs





Executive Summary



Part II - European Domiciled Companies ONLY

About the Survey

- 150 unique institutions were sampled
- 58% of respondents managed investments in Europe
- Of the respondents that managed European funds 39% use MMFs
- Of those respondents using MMFs
 - 63% use CNAV funds only
 - 12% use VNAV funds only
 - 25% use a combination of CNAV and VNAV funds

Findings

- MMFs represent 31% of the value of European investments
- IF CNAV funds were disallowed 54% of CNAV-only investors would reduce or discontinue using MMFs
 - This potential reduction/discontinuance of MMF usage represents 79% of the value of CNAV investor portfolios
- 57% of CNAV investors would use European bank deposits as an alternative investment in place of MMFs
- 57% of CNAV investors would use other short-term investment vehicles in place of MMFs
- 29% of CNAV investors would use bank deposits in other jurisdictions as an alternative investment in place of MMFs
- 14% of CNAV investors would move their MMF investments to CNAV funds in other jurisdictions





Executive Summary



Conclusions

On the basis of our survey results, we conclude that organizations that manage European-domiciled cash and short-term investments:

- View money market funds as an essential cash management tool,
- Would seek out investment alternatives should the constant net asset value methodology for MMFs be eliminated.

We further conclude that corporate treasurers will respond negatively to restrictions to valuation methodologies for MMFs. A large group of MMFs would either scale back their use of money funds or discontinue use of them altogether. Additionally the overwhelmingly majority of investors that exclusively use CNAV MMFs would seek alternative investment products to replace MMFs.

Finally, we conclude that the findings among both European domiciled companies and non-European domiciled companies were directionally very similar.

On the basis of our research, should any proposal to limit the use of CNAV funds in Europe be adopted, MMF investors will speak loudly with one voice, and simply seek investment alternatives.





Part I

All Survey Participants



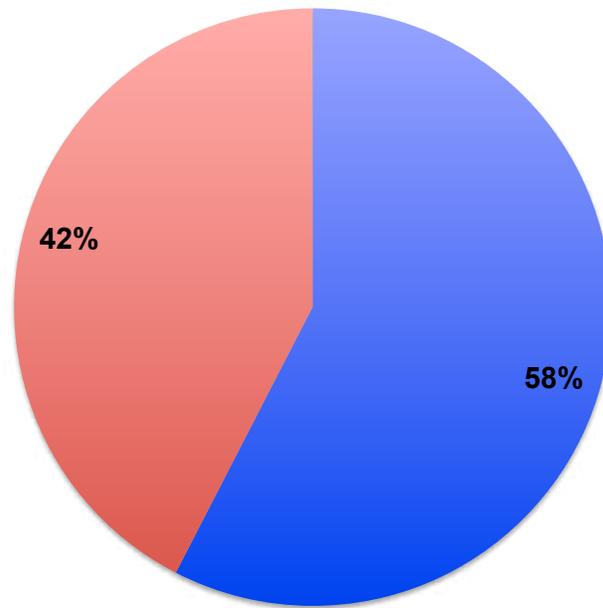


Overview: Participant Demographics



Key demographic distributions from our survey are shown below, and on the following pages:

Respondents by Revenue Size



■ Over €1B ■ Under €1B

Respondent by organizational titles include:

- Chief Executive Officer
- Chief Financial Officer
- Treasurer
- Assistant Treasurer
- Treasury Manager
- Director of Finance

58% of respondents have annual revenues that exceed €1billion.



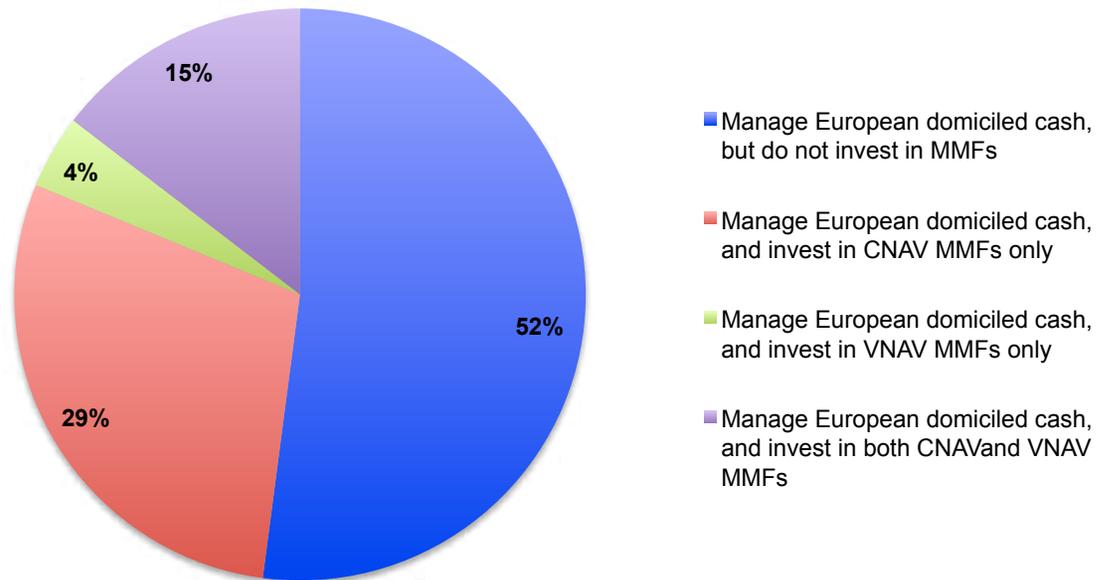


Overview: Participant Demographics



48% of respondents that manage European domiciled cash and short-term investment portfolios use some form of MMFs as an investment vehicle.

MMF Usage by Managers of European Domiciled Funds



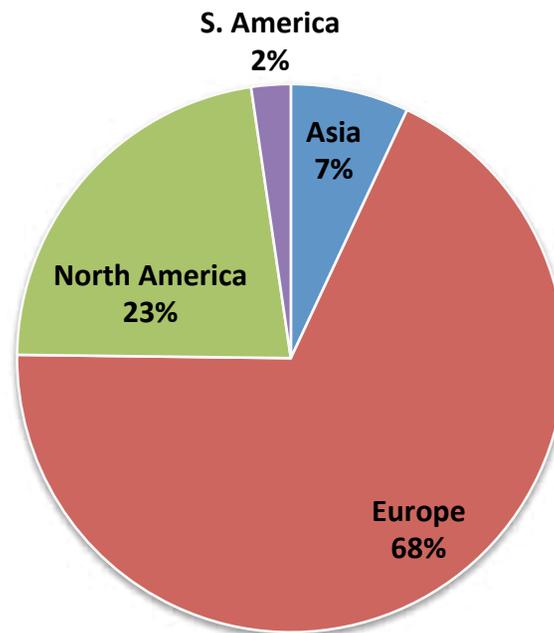


Managers of European Domiciled Investments



Distribution of European investment managers by region is shown below.

Respondents That Manage European Investments (By Region)

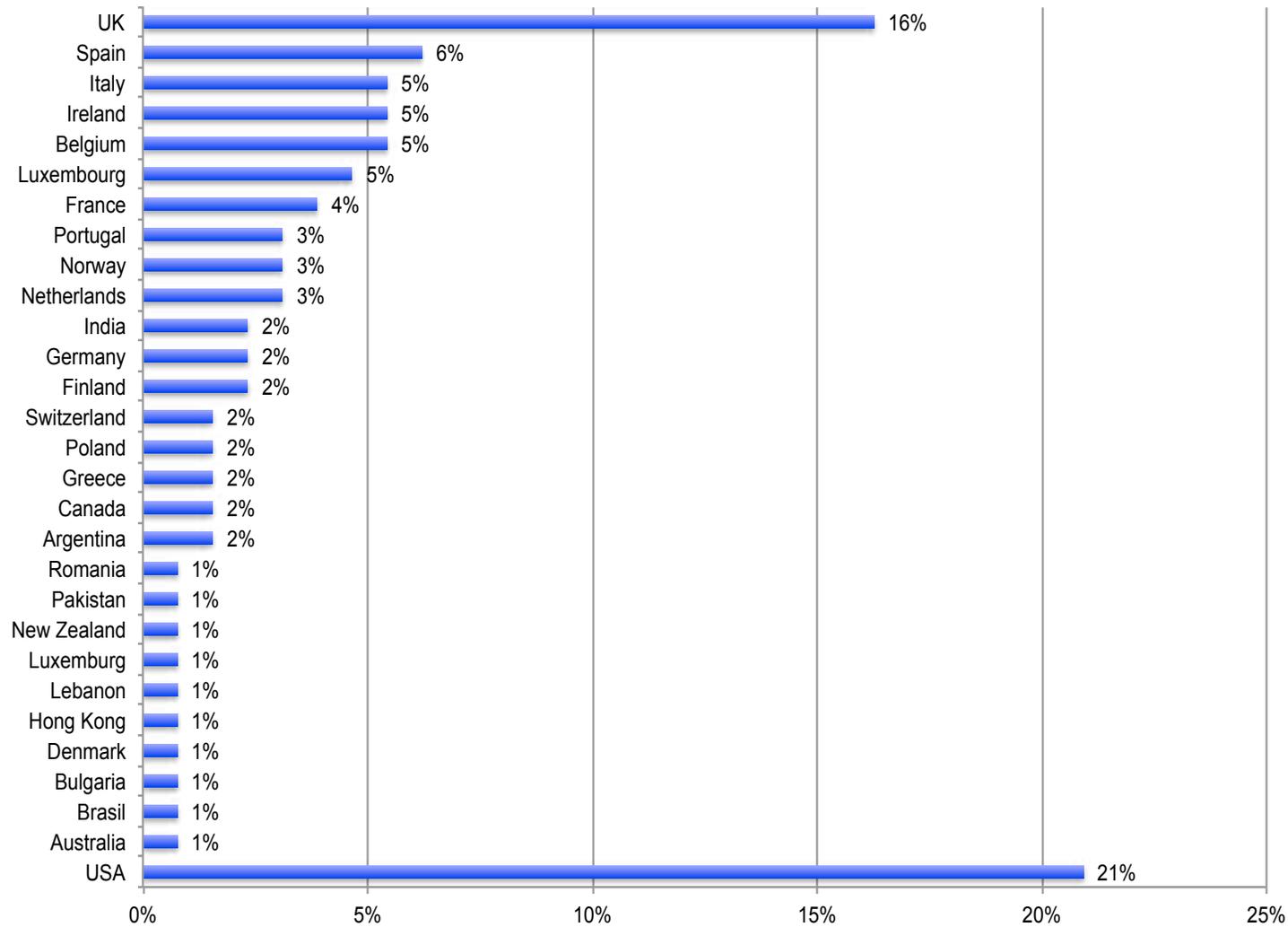




Managers of European Domiciled Investments



Respondents That Manage European Investments (By Country)

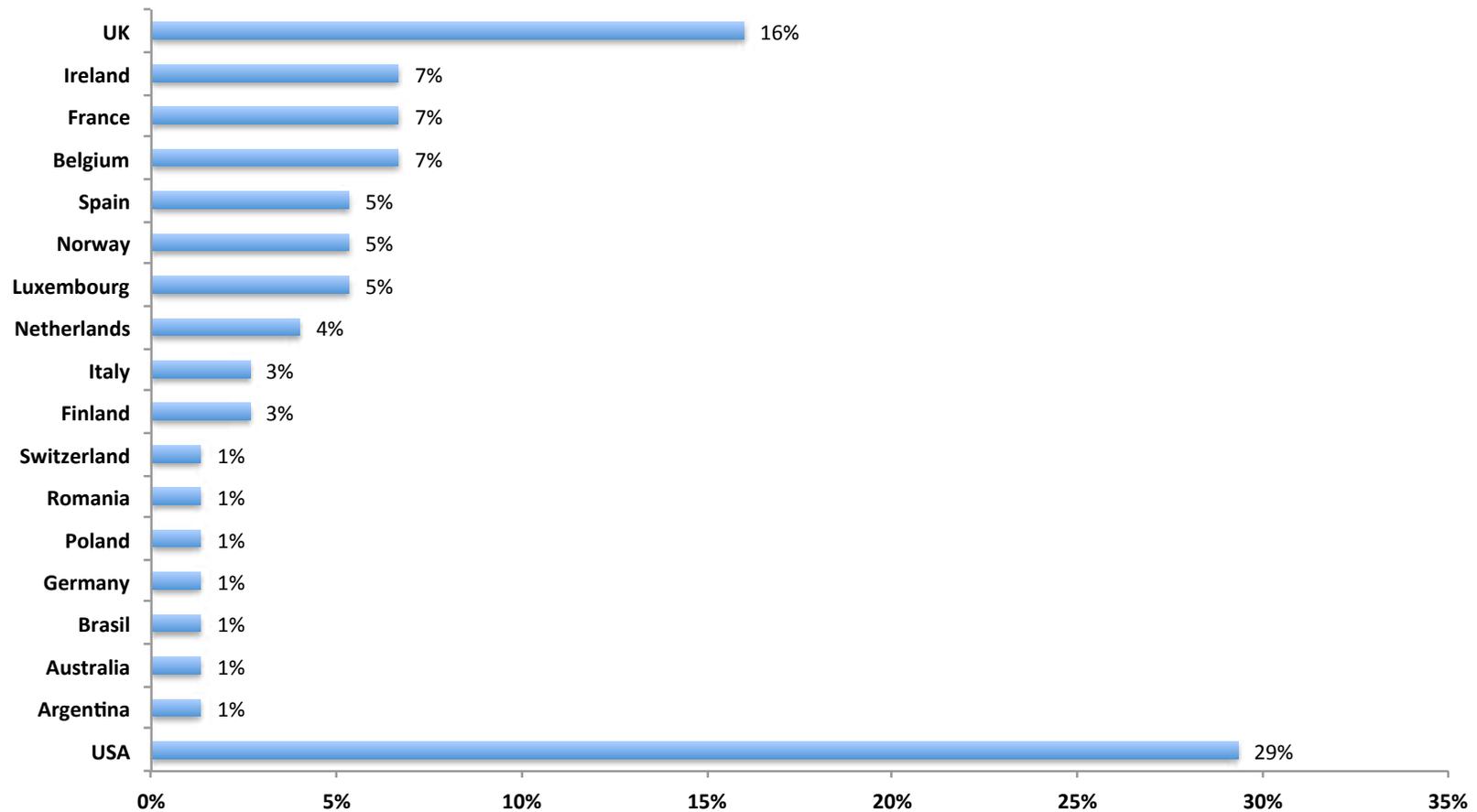




Select Demographics: Country Companies with Annual Revenue Over €1bn



Respondents That Manage European Investments (By Country) (Companies with Annual Revenue Over €1bn)

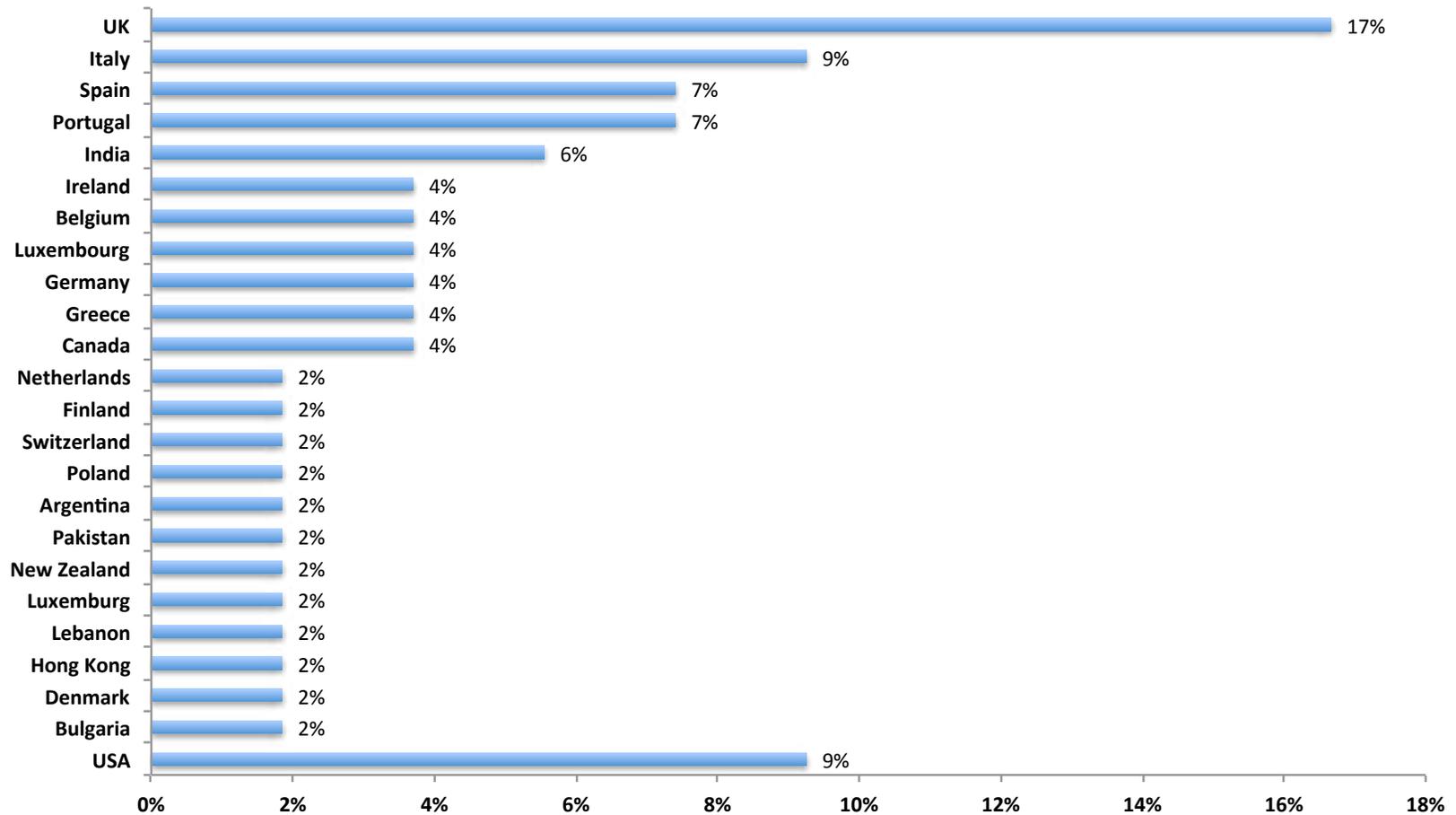




Select Demographics: Country Companies with Annual Revenue Under €1bn



Respondents That Manage European Investments (By Country) (Companies with Annual Revenue Under €1bn)



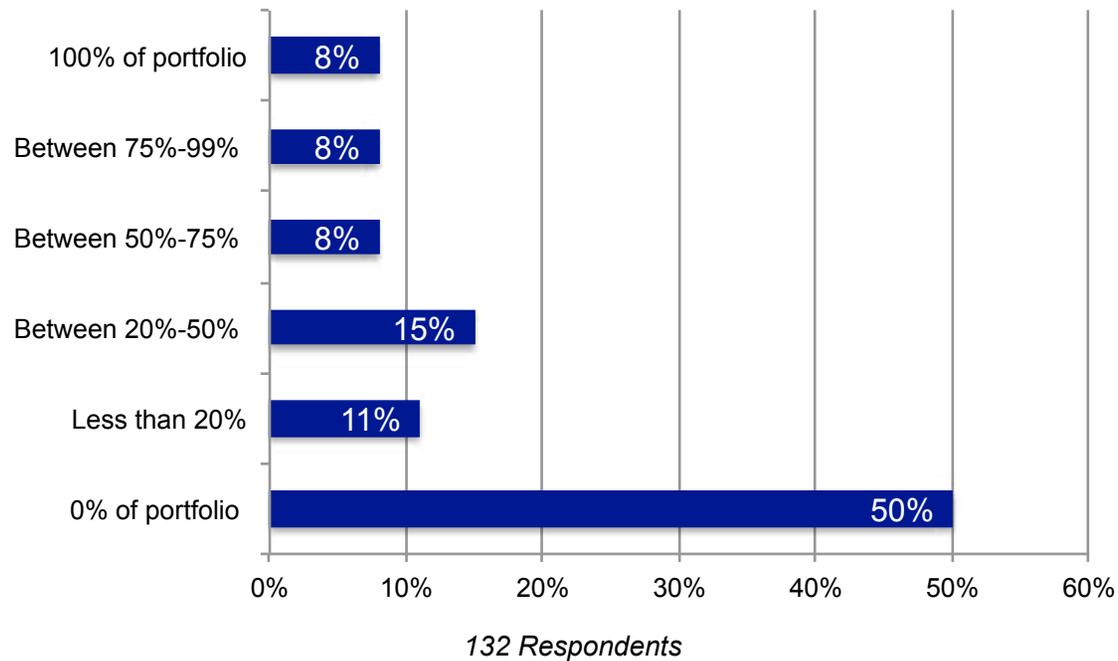


Extent of MMFs Within Short-term Investment Portfolios



Of those respondents managing European domiciled investments, **50%** place all or some percentage of their investments in MMFs.

Use of MMFs within European Short-term Investment Portfolios





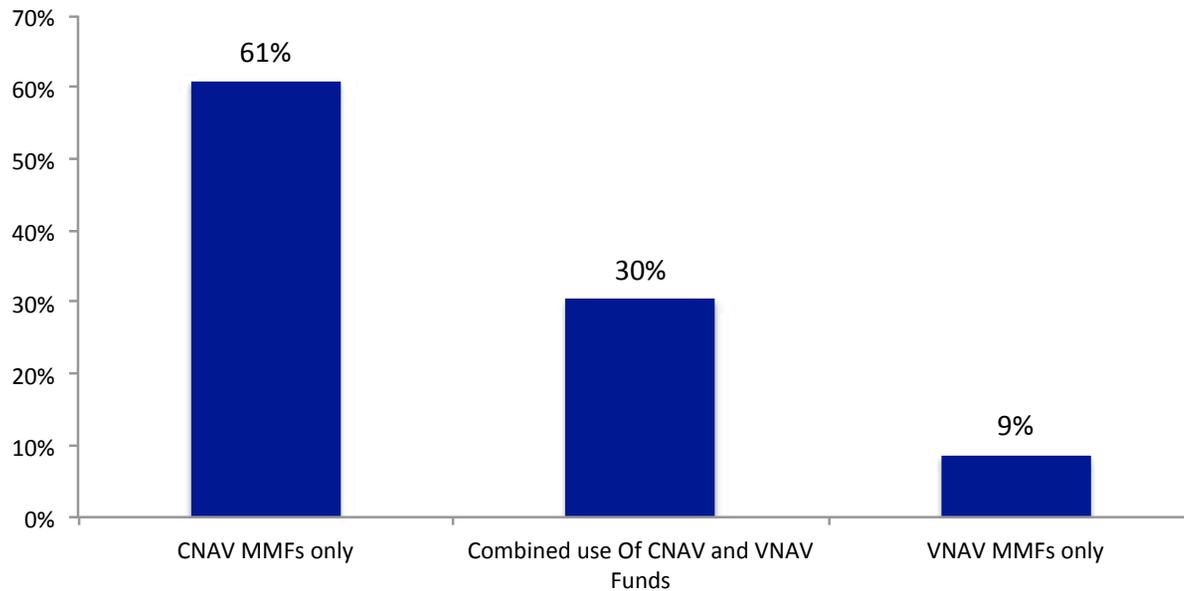
MMF Use by Net Asset Value Methodology



With respect to European MMF investments, our survey results indicate the following:

- 61% of respondents only invest in MMFs that calculate net asset value using a constant value methodology (CNAV)
- 30% of respondents invest in both CNAV and VNAV MMFs
- 9% of investors do not invest any percentage of their MMF investments in CNAV funds, thereby exclusively using funds that determine net asset value based upon a variable/floating value methodology (VNAV)

Use of Funds by Type





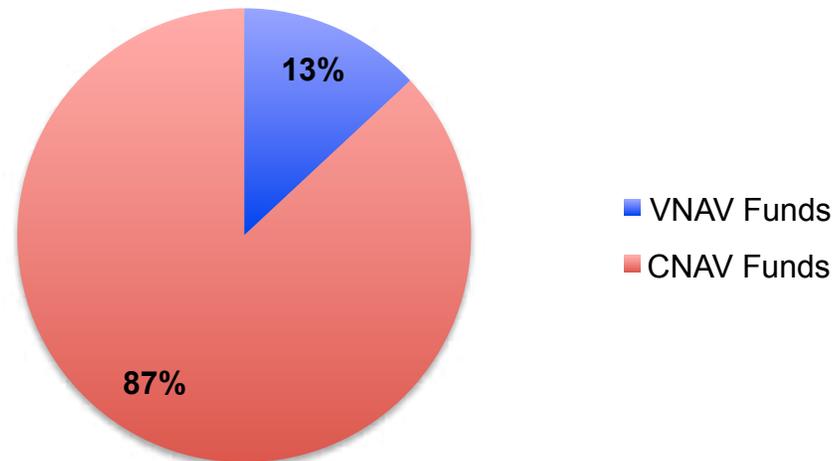
Value of MMFs Within Investment Portfolios



Overall, MMFs represent approximately 25% of European domiciled cash and short-term Investment portfolios.

By value (€) **CNAV funds represent 87% of total MMF investments.**

Breakdown of MMF Investments by Value (Euros)





Floating NAV Proposal



Survey Question

There are discussions to change MMFs regulations in Europe that would restrict the use of a constant net asset value (NAV) methodology to value MMFs. Only MMFs using variable or floating (VNAV) funds would be available. Under typical market conditions, it is anticipated that the share prices using a VNAV methodology would fluctuate within a very narrow range.

Proponents say this will ensure everyone pays and receives a price that automatically reflects any gains or losses and that it reduces the potential for runs on MMFs during adverse situations.

Opponents argue that a floating NAV would impair the use of funds as a liquidity instrument, as well as cause other legal, accounting, tax, and market disruptions.

If the floating NAV methodology were adopted across Europe and CNAV were not permitted in Europe, what action would your organization most likely take?

- A. Increase use of MMFs
- B. Continue using MMFs at current level
- C. Decrease use of MMFs
- D. Stop using MMFs entirely





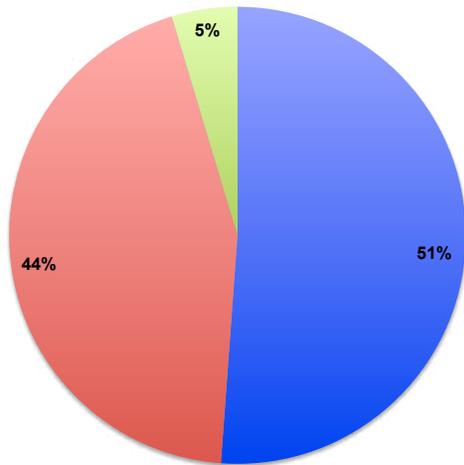
The Impact of Restricting CNAV MMFs on MMF Investors in Europe



If CNAV funds were not permitted in Europe, **44% of current investors in MMFs would reduce or discontinue using MMFs as an investment vehicle.**

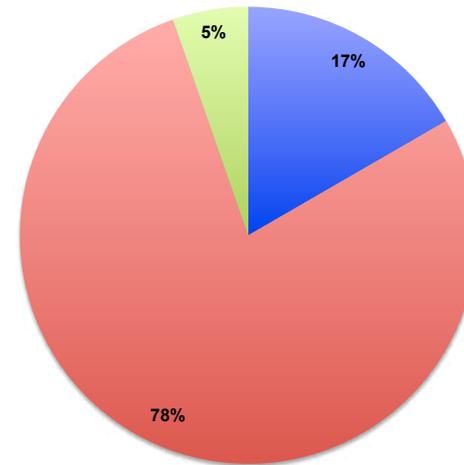
The corresponding percentage reduction in total portfolio value is 78% of total MMF investments.

Changes in MMF Usage Should CNAV Funds Disappear in Europe
(as a % of MMF Investors)



■ Continue using MMFs at current level ■ Decrease or stop using MMFs ■ Increase use of MMFs

Changes in MMF Usage Should CNAV Funds Disappear in Europe
(as a % of Total Value of Investments)



■ Continue using MMFs at Current Level ■ Decrease or Stop using MMFs entirely ■ Increase use of MMFs





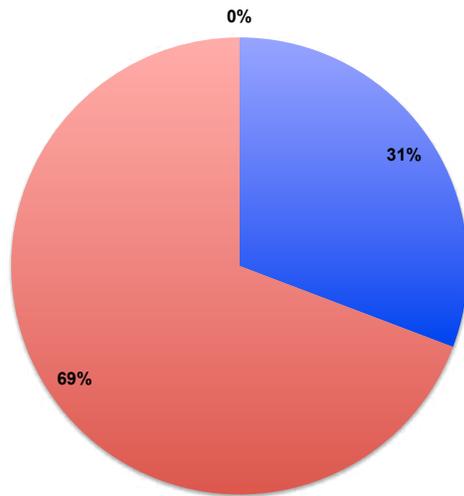
The Impact of Restricting CNAV MMFs on CNAV Investors in Europe



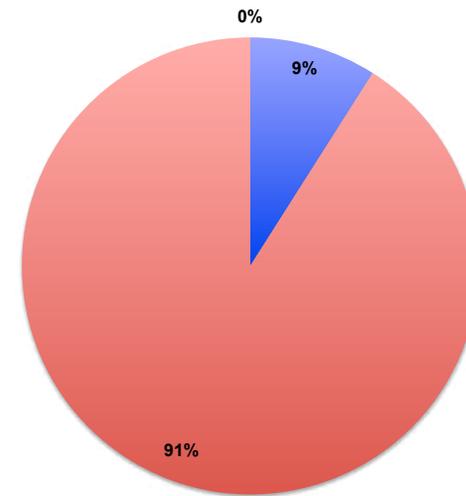
If CNAV funds were not permitted in Europe, **69% of current CNAV-only investors would reduce or discontinue using MMFs as an investment vehicle.**

The corresponding percentage reduction in total portfolio value is 91% of total CNAV investments.

Changes in MMF Usage by CNAV Investors Should CNAV Funds Disappear in Europe (as a % of CNAV-only Investors)



Changes in MMF Usage by CNAV Users Should CNAV Funds Disappear in Europe (as a % of Total Value of CNAV Investments)



■ Continue using MMFs at current level ■ Decrease or stop using MMFs ■ Increase use of MMFs

■ Continue using MMFs at Current Level ■ Decrease or Stop using MMFs entirely ■ Increase use of MMFs

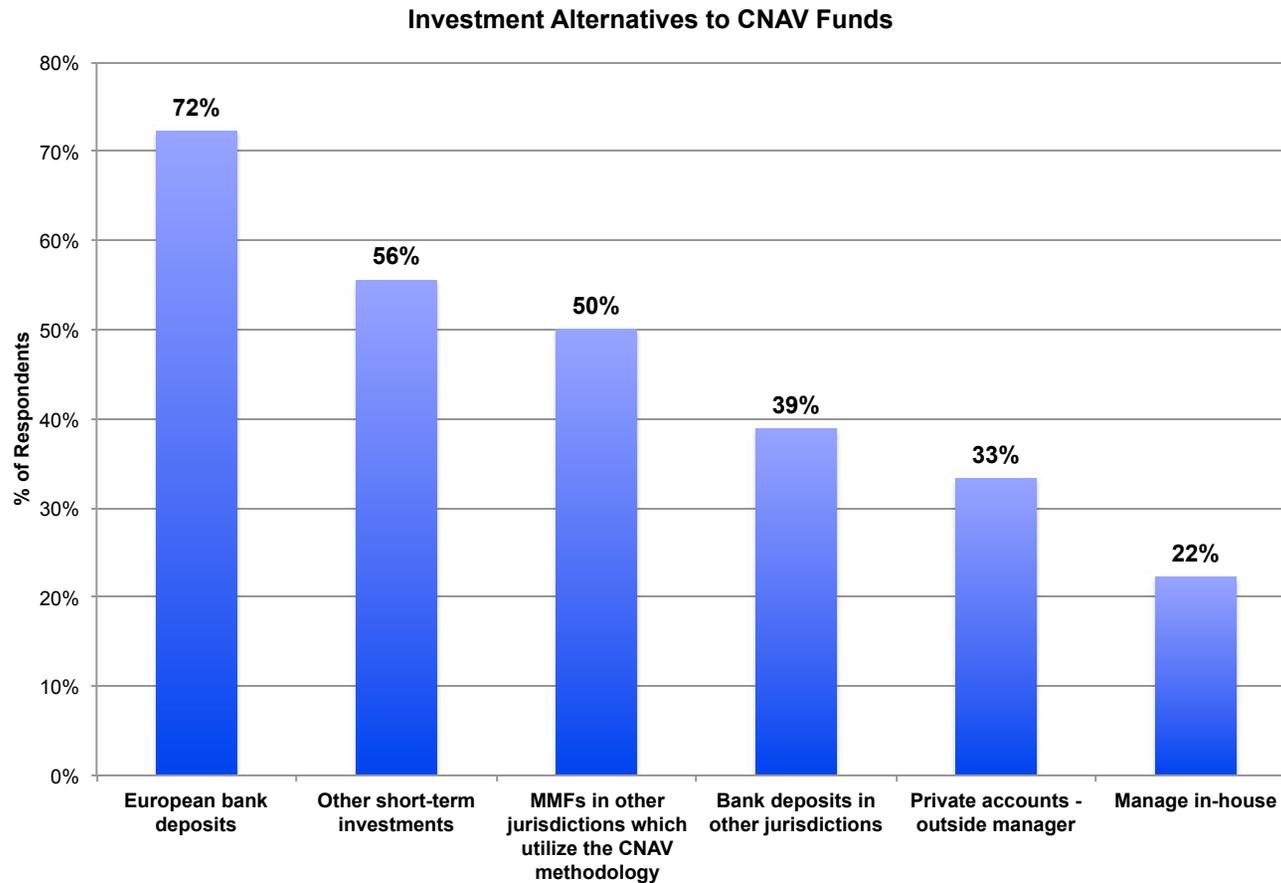




Alternative Investments to CNAV Funds



Should CNAV funds disappear from the European investment landscape, those investors that would either decrease or discontinue the use of MMFs have indicated how they would direct investments to alternative vehicles to replace the use of MMFs.



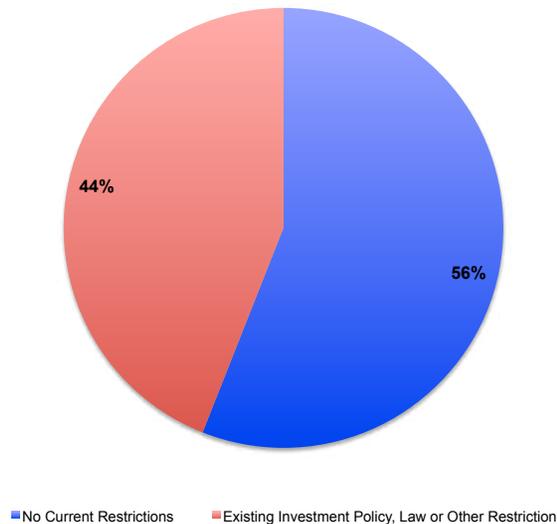


Investment Policy Restrictions

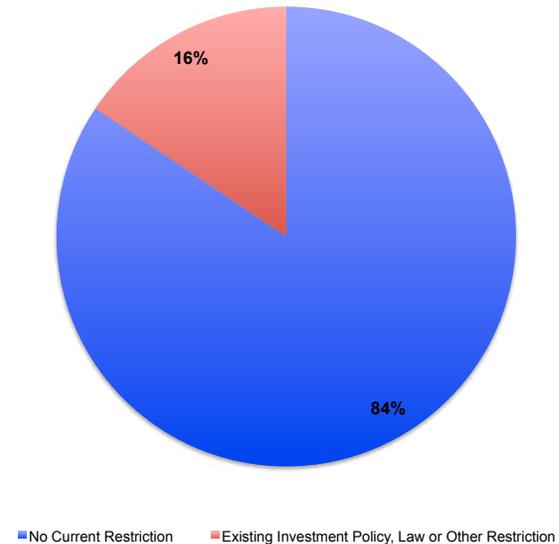


44% of respondents, accounting for 16% of total European domiciled short-term investments, indicated they have an existing investment policy, law, or other restriction that prohibits them from investing short-term cash in a Variable (fluctuating) NAV instrument.

Investment Policy, Law, or Other Restriction for Floating NAV Instruments (as a % of respondents)



Investment Policy, Law or Other Restriction for Floating NAV Instruments (as % of respondent portfolio)





Part II

European Domiciled Companies Only



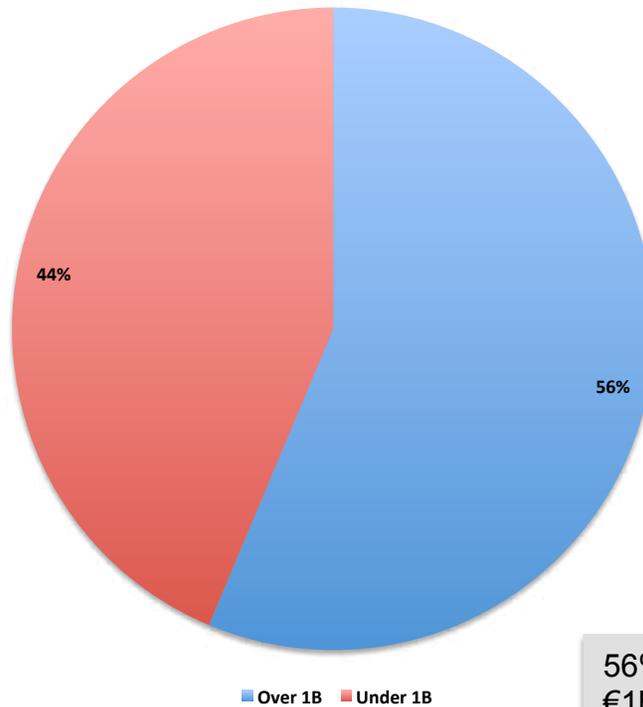


Overview: Participant Demographics



Key demographic distributions from our survey are shown below, and on the following pages:

**Respondents by Revenue Size
(European Respondents)**



Respondent by organizational titles include:

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56% of respondents have annual revenues that exceed €1 billion.



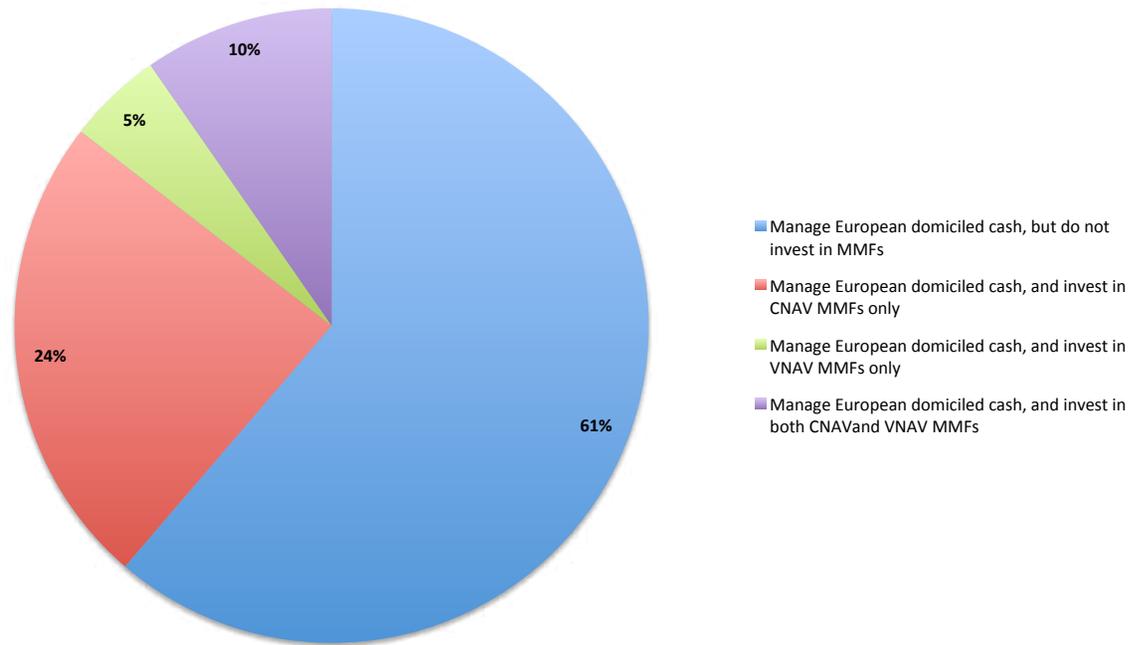


Overview: Participant Demographics



39% of European respondents that manage European domiciled cash and short-term investment portfolios use some form of MMFs as an investment vehicle.

**MMF Usage by Managers of European Domiciled Funds
(European Respondents)**

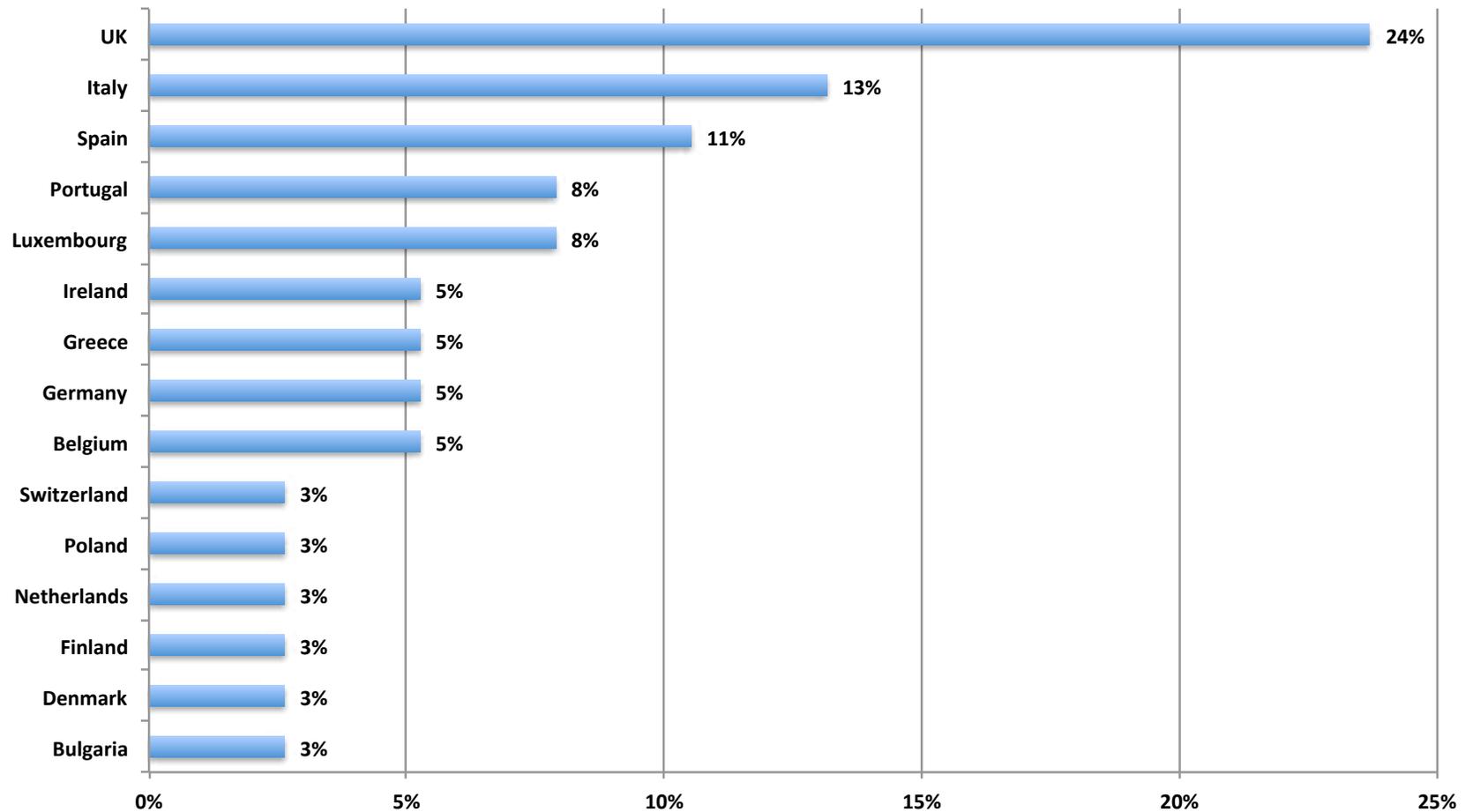




Managers of European Domiciled Investments



European Respondents That Manage European Investments (Companies with Annual Revenue Under €1bn)

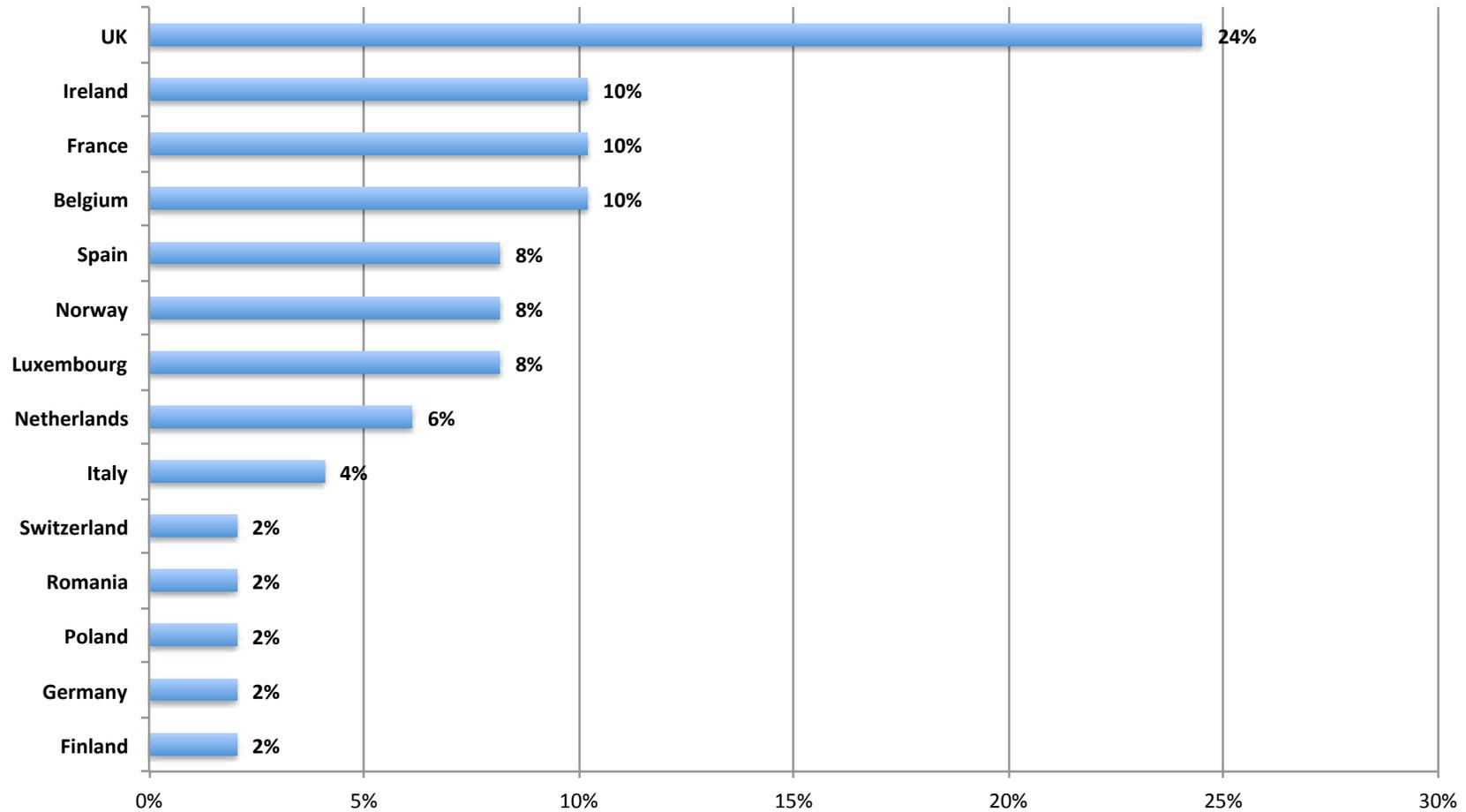




Managers of European Domiciled Investments



European Respondents That Manage European Investments (Companies with Annual Revenue Over €1bn)



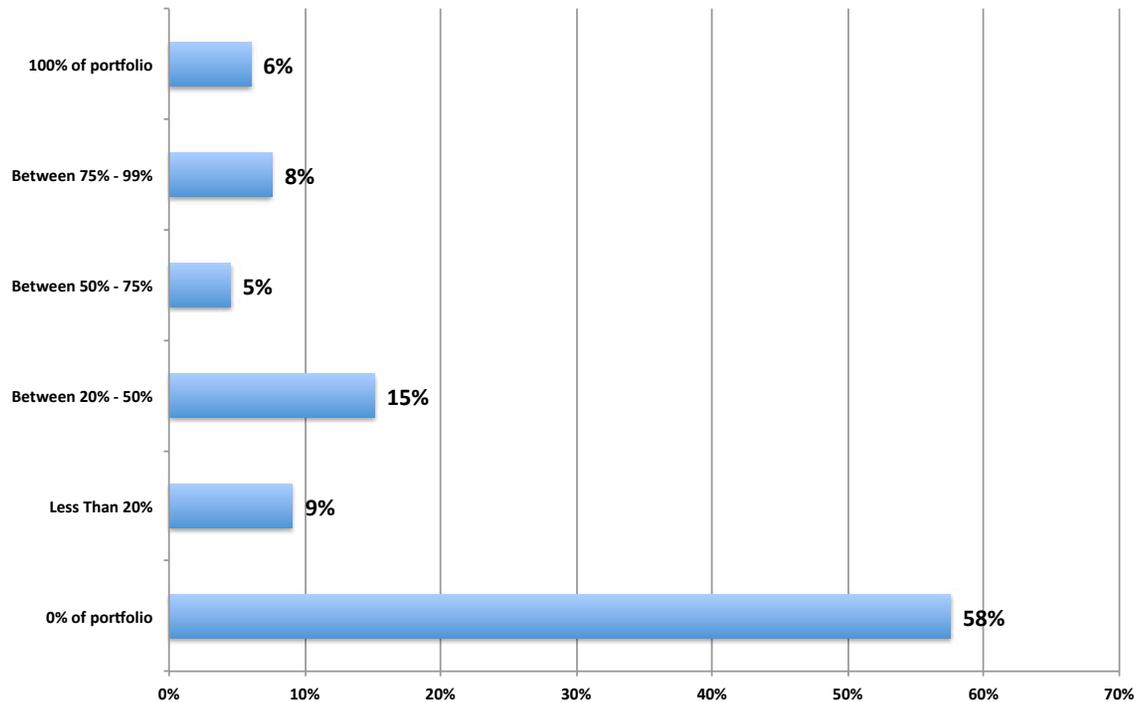


Extent of MMFs Within Short-term Investment Portfolios



Of those European-based respondents managing European domiciled investments, **42% place all or some percentage of their investments in MMFs.**

Use of MMFs within European Short-term Investment Portfolios
(European Respondents)





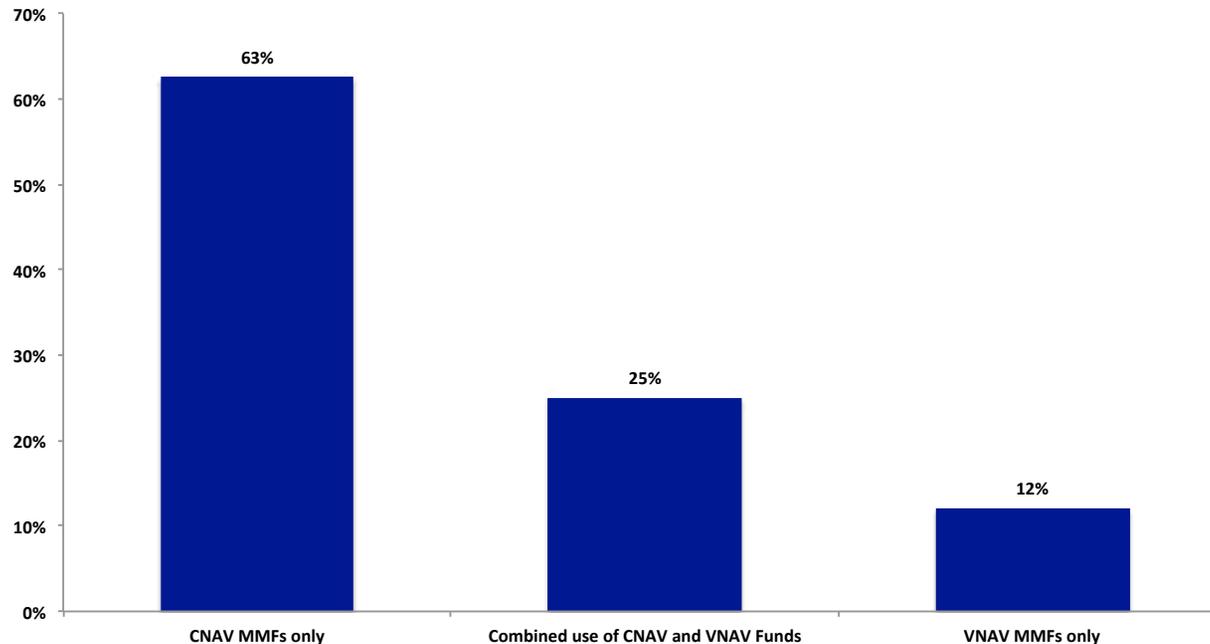
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With respect to European MMF investments, our survey results indicate the following:

- 63% of respondents only invest in MMFs that calculate net asset value using a constant value methodology (CNAV)
- 25% of respondents invest in both CNAV and VNAV MMFs
- 12% of investors do not invest any percentage of their MMF investments in CNAV funds, thereby exclusively using funds that determine net asset value based upon a variable/floating value methodology (VNAV)

**Use of Funds by Type
(European Respondents)**





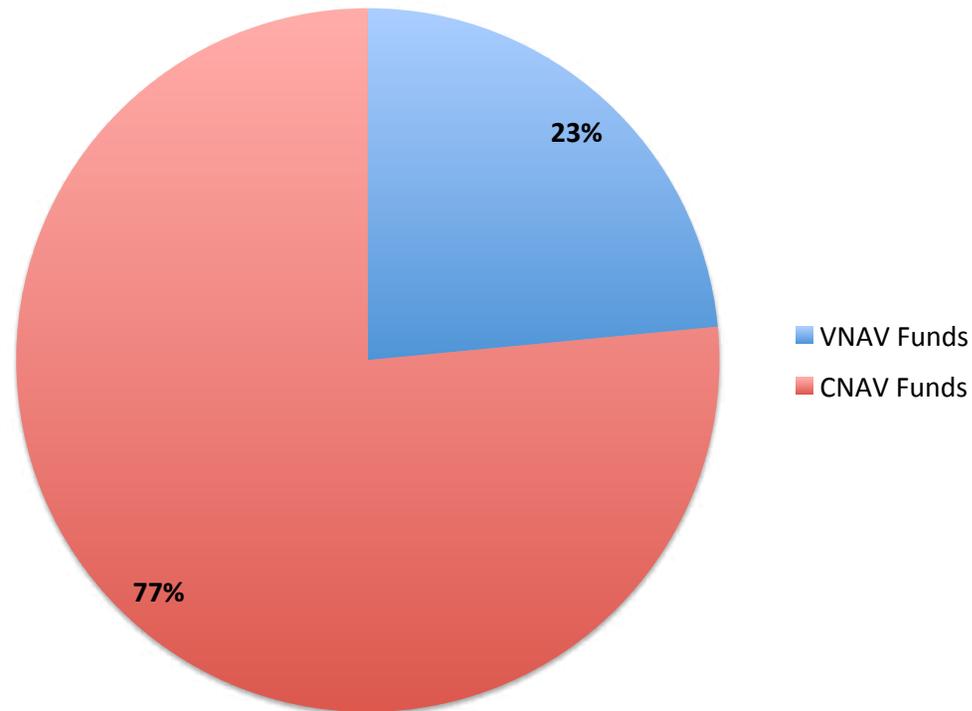
Value of MMFs Within Investment Portfolios



For European-based respondents, MMFs represent approximately 31% of European domiciled cash and short-term Investment portfolios.

By value (€) **CNAV funds represent 77% of total MMF investments.**

Breakdown of MMF Investments by Value (Euros)





Floating NAV Proposal



Survey Question

There are discussions to change MMFs regulations in Europe that would restrict the use of a constant net asset value (NAV) methodology to value MMFs. Only MMFs using variable or floating (VNAV) funds would be available. Under typical market conditions, it is anticipated that the share prices using a VNAV methodology would fluctuate within a very narrow range.

Proponents say this will ensure everyone pays and receives a price that automatically reflects any gains or losses and that it reduces the potential for runs on MMFs during adverse situations.

Opponents argue that a floating NAV would impair the use of funds as a liquidity instrument, as well as cause other legal, accounting, tax, and market disruptions.

If the floating NAV methodology were adopted across Europe and CNAV were not permitted in Europe, what action would your organization most likely take?

- A. Increase use of MMFs
- B. Continue using MMFs at current level
- C. Decrease use of MMFs
- D. Stop using MMFs entirely





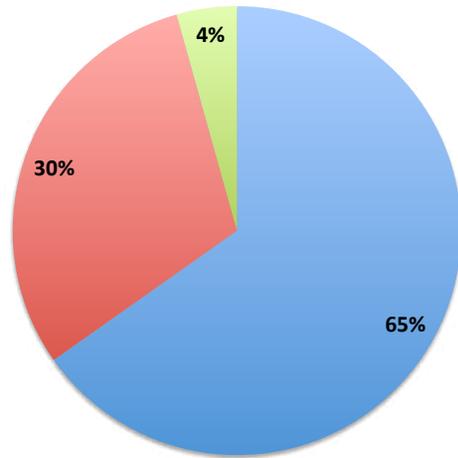
The Impact of Restricting CNAV MMFs on MMF Investors in Europe



If CNAV funds were not permitted in Europe, **30% of current European-based investors in MMFs would reduce or discontinue using MMFs as an investment vehicle.**

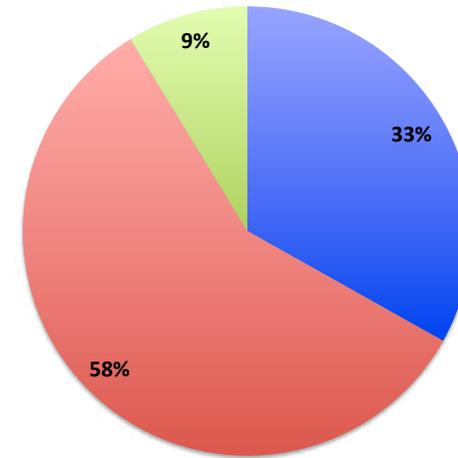
The corresponding percentage reduction in total portfolio value is 58% of total MMF investments.

Change in MMF Usage Should CNAV Funds Disappear in Europe
(as a % of MMF Investors)



■ Continue using MMFs at current level ■ Decrease or stop using MMFs ■ Increase use of MMFs

Changes in MMF Usage Should CNAV Funds Disappear in Europe
(as a % of Total Value of Investments)



■ Continue using MMFs at current level ■ Decrease or stop using MMFs entirely ■ Increase use of MMFs





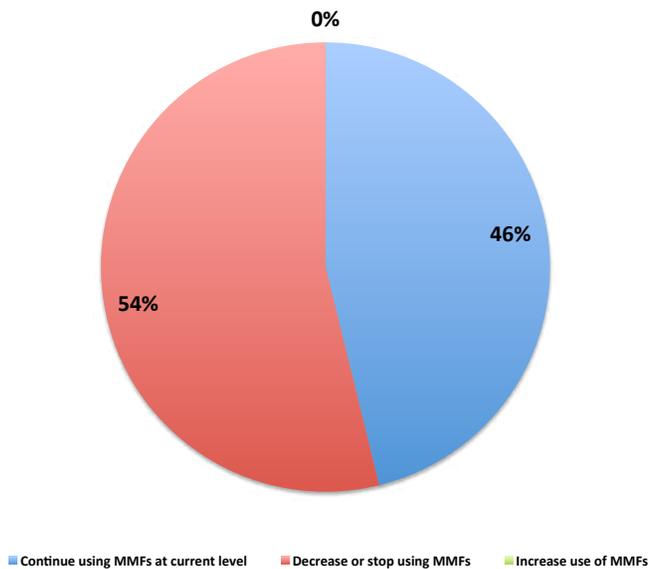
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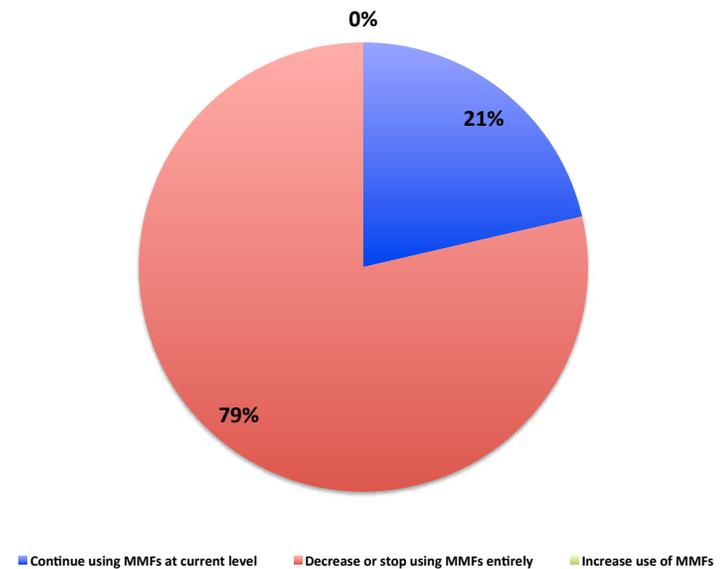
If CNAV funds were not permitted in Europe, **54% of current CNAV-only investors (in Europe) would reduce or discontinue using MMFs as an investment vehicle.**

The corresponding percentage reduction in total portfolio value is 79% of total CNAV investments.

Change in MMF Usage Should CNAV Funds Disappear in Europe
(as a % of CNAV-only Investors)



Changes in MMF Usage by CNAV Users Should CNAV Funds Disappear in Europe
(as a % of Total Value of CNAV Investments)



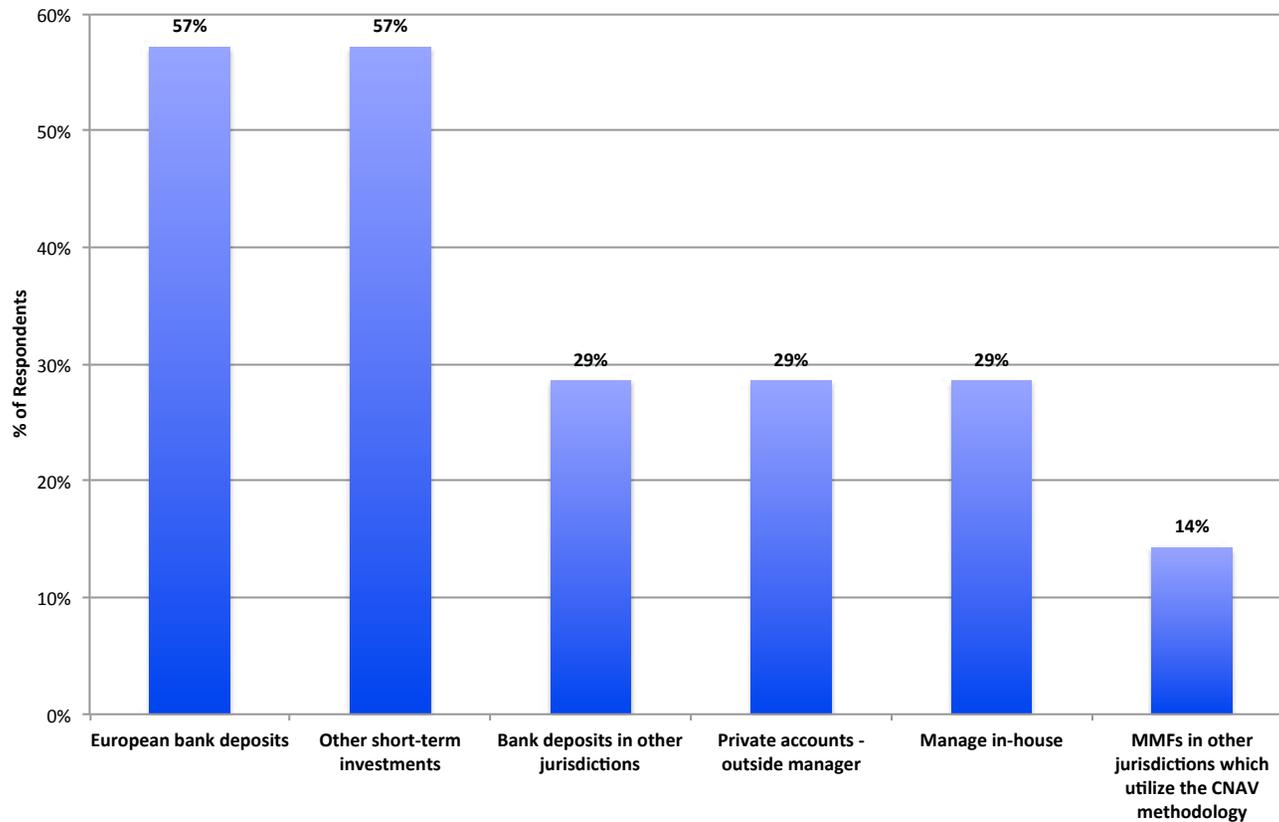


Alternative Investments to CNAV Funds



Should CNAV funds disappear from the European investment landscape, those investors that would either decrease or discontinue the use of MMFs have indicated how they would direct investments to alternative vehicles to replace the use of MMFs.

Investment Alternatives to CNAV Funds



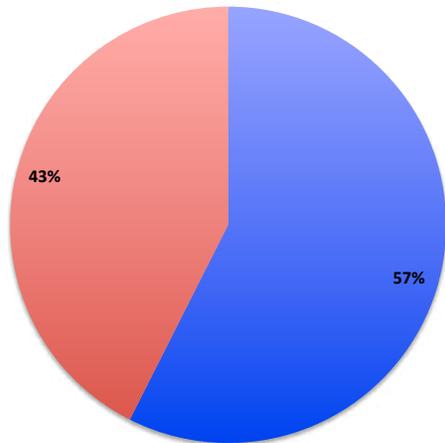


Investment Policy Restrictions



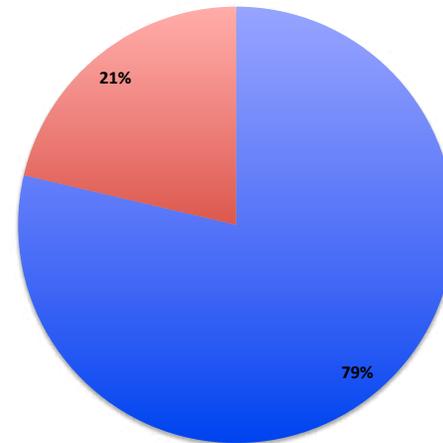
43% of European respondents, accounting for 21% of total European domiciled short-term investments, indicated they have an existing investment policy, law, or other restriction that prohibits them from investing short-term cash in a Variable (fluctuating) NAV instrument.

Investment Policy, Law, or Other Restriction for Floating NAV Instruments (as a % of respondents)



■ No Current Restriction ■ Existing Investment Policy, Law or Other Restriction

Investment Policy, Law or Other Restriction for Floating NAV Instruments (as % of respondent portfolio)



■ No Current Restriction ■ Existing Investment Policy, Law or Other Restriction





About Treasury Strategies, Inc.



Who We Are

Treasury Strategies, Inc. is the leading treasury consulting firm working with corporations and financial services providers. Our experience and thought leadership in treasury management, working capital management, liquidity and payments, combined with our comprehensive view of the market, rewards you with a unique perspective, unparalleled insights and actionable solutions.

What We Do

Corporations

We help you maximize worldwide treasury performance and navigate regulatory and payment system changes through a focus on best practices, technology, liquidity and controls.

Treasury Technology

We provide guidance through every step of the technology process – which includes creating a roadmap, selection, implementation and optimization. Our expert approach will uncover opportunities to optimize the value of your treasury through fully integrated technology solutions.

Financial Services

Our experience, analytic approach and benchmarks provide unique consulting solutions to help you strengthen and grow your business.

Locations

Chicago • London • New York

Accreditations



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