

# NEW RULES WILL CHANGE THE LIQUIDITY EQUATION NOW IS THE TIME TO PREPARE FOR MONEY MARKET FUND REFORM

A recent survey by the Association for Financial Professionals (AFP) reveals that 96% of respondents invest in money market funds and many said it was the only option available to them for investing excess cash.<sup>1</sup>

That comfortable routine is about to be disrupted. Intended to preserve the benefits of money market funds while increasing transparency and strengthening investor confidence, new regulations effective in October 2016 will require a re-evaluation of your cash management strategy.



“Cash has moved from an apathetic afterthought to a recognized component of portfolio composition, according to Jerome Schneider in *Institutional Investor* magazine (11 April 2016).”

<sup>1</sup> MMF Reforms are Coming: How are You Preparing? By Tyler Haws, CPA, Published: 2015-03-24 (AFP)

## NEW MMF REGULATION CONSIDERATIONS AT A GLANCE

Terms to Know	Definition	Advantages to Your Business	Client Considerations
FNAV (Floating Net Asset Value)	Institutional prime and municipal funds will be required to adjust price per share based on the current market value of the underlying securities in the portfolio, rounded to the 4th decimal place.	<ul style="list-style-type: none"> <li>Improve transparency of value and risks in money market funds.</li> <li>Reduce the chance of unfair investor dilution</li> <li>May deliver higher yields than Treasury and Government funds.</li> </ul>	<ul style="list-style-type: none"> <li>No amortized cost accounting to value securities</li> <li>Potential intraday price volatility due to multiple strike prices per day, up four times per day</li> <li>Potential for conflict with investment policy objectives</li> </ul>
Liquidity Fees	Fees (up to 2%) may be imposed at the discretion of the fund's board of directors, to discourage shareholders from redeeming money market funds when a fund's weekly liquid assets falls below 30%.	A tool that a fund's board of directors can use to directly address potential run	Investors may be subject to heavy redemptions during times of stress.
Redemption Gate	Fund's board of directors can also impose a temporary suspension on redemptions (up to 10 days) when a fund's weekly liquid assets fall below a certain threshold.	Another tool that a fund's board of directors can use to directly address runs	Investors cannot immediately make redemptions during times of stress.

### Other Implications of Reform on FNAV Funds:

- Stricter constraints on credit quality and diversification
- Reduction in maximum Weighted Average Maturity from 90 to 60 days
- Establishment of a new maximum Weighted Average Life of 120 days
- Required monthly SEC reporting, stress testing and disclosure
- Greater likelihood for product innovation to avoid MMF reform changes
- High risk of flight to the safety of Government Funds, which could disrupt supply and demand



### READY TO HELP

At PNC, we combine a wider range of financial resources with a deeper understanding of your business to help you achieve your goals. If you would like to:

- Revisit your investment policy to determine if changes are necessary
- Rethink the way you bucket short-term, mid-term and long-term cash
- Closely watch funds so you are prepared for changes

**Please reach out to your Treasury Management Officer.**

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