10 Steps Every Treasurer Should Take to Handle New Money Fund Rules

By Tom Hunt, CTP, Director of Treasury Services, AFP Published: 2014-07-25

As I listened to the testimony by the Securities and Exchange commissioners and SEC staff on the money market fund proposals at the agency's meeting yesterday, I started thinking about what these changes would entail, and what treasurers need to think about over the next two years as the fund industry implements the money fund changes that were approved.

Here are my 10 takeaways:

1) Consider changes to your investment policy.
a. To allow for floating NAV for prime funds if need be.
b. To allow for funds that choose to gate or have redemption fees. This rule applies to all prime and government funds and leaves it to the discretion of the fund board if they choose to implement gates and fees government fund redemptions only in a time of crisis.
c. Will your current funds implement fees/gates?
d. At what level would you consider an appropriate number of funds or consider them as a percentage of your assets?

2) Educate and inform your board about what floating NAV funds are.
a. Only prime funds will be subject to a floating NAV.
b. The NAV will be calculated to four decimal places; government funds to three.
c. Consider settlement implications—will they be same day or next day? Check with your funds.

3) Conduct money fund due diligence differently.
a. Who makes up the board of the fund? Are they represented on other boards for other funds? Knowing this will help you determine the likelihood of gates and fees being implemented across different funds you hold if the board members are the same.
b. What is the fund family mix between retail and institutional? Retail funds are not subject to a floating NAV, and the fund family might have less of a focus on the institutional investor.
c. New reporting transparency—funds are required to post daily holdings and the NAV to four decimals—has there been any historical material fluctuation in the value? If so, why and what was the cause?

4) Discuss fund changes with your bank if they are the sponsor of the fund.
Include this in your bank relationship review mix. As deposits will become less desirable through Basel III, more money could flow into money funds. It's worth making sure you get credit for this in your relationship review even for funds.

5) Understand the tax changes coming.
Changes to help the accounting behind a floating NAV will need to be approved by your accounting team, auditors and perhaps the audit committee of the board. The additional reporting changes and "wash-sale" changes will be published by the IRS and Treasury Department shortly.

6) Understand the change to remove the reliance of credit ratings on money funds will be.
How will your fund:
a. Conduct credit research?
b. Calculate holdings and concentrations differently?
c. Aggregate issuers and holdings?

7) Work with your money fund portal provider.
If you are using a money fund portal, when will the changes be implemented and how will reporting help differentiate your fund mix?

8) Watch for potential money fund legislation to be adopted elsewhere.
If you invest in countries outside the United States and don't use bank products for those investments, what are your investment options if those funds change to FNAV and impose gates and fees?

9) What is your exposure to money fund like products?
For example, collective funds, money funds in your 401k, money funds in your pension, and securities lending pool will be subject to new reporting requirements under the proposal to bring more non 2-a7 funds better reporting.

10) Do you issue commercial paper through a dealer?

Work with your dealer to determine best placement for your funding. It's likely that many prime funds will change their credit rating approach and rating tiers.

Much of these changes will occur over the two-year implementation period, and the IRS and Treasury Department released guidance on MMF accounting. Still, it's not too early to start thinking about the ramifications of these changes.

To get more guidance from an actual treasurer on adapting to the new money market fund rules, sign up for this free webinar on Thursday, July 31.

Will the new money market fund rules hurt your short-term investing and liquidity management? Tell us what you think.

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