Statement of the U.S. Chamber of Commerce

ON: "SEC Proposal on Money Market Funds"

TO: U.S. House of Representatives Financial Services Subcommittee on Capital Markets and Government Sponsored Enterprises

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The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. The Chamber is dedicated to promoting, protecting, and defending America's free enterprise system.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on issues are developed by Chamber members serving on committees, subcommittees, councils, and task forces. Nearly 1,900 businesspeople participate in this process.

Good morning Chairman Garrett, Ranking Member Maloney, and Members of the Subcommittee. Thank you for the opportunity to discuss the potential impact of the Securities and Exchange Commission's (SEC) proposal regarding money market mutual funds (MMMFs) on the business community.

My name is James Gilligan, and I am the Assistant Treasurer of Great Plains Energy Incorporated. Great Plains Energy is the holding company of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company. These utilities operate under the brand name KCP&L. Our electric utilities serve over 830,000 customers in 47 counties in Missouri and Kansas with a combined diverse generation platform of more than 6,600 MW of capacity. I am also a former member of the Board of Directors for the Association for Financial Professionals (AFP) and currently serve as the Chairman of its Government Relations Committee. AFP's membership includes more than 16,000 financial professionals employed by over 5,000 companies and organizations. I am here testifying on behalf of the U.S. Chamber of Commerce and the thousands of corporate treasury officials and financial professionals who are tasked with managing their companies' cash flows and ensuring that they have the working capital and liquidity necessary to efficiently support their operations.

<u>Key Points</u>

There are several important points I wish to stress to the Subcommittee.

- At the outset, we must be mindful that with respect to money market mutual funds, the SEC is not operating in a vacuum. MMMFs have existed for over four decades. These funds are used by businesses throughout the United States to meet their cash management and short-term funding needs. They are an integral part of a tightly interwoven system for low-cost, short-term business financing of unrivalled liquidity and efficiency. This system has served the American economy well, and provides a competitive advantage for American businesses in global markets.

- The Chamber and the corporate treasury community believes that the major rule changes to MMMFs regulations that were implemented in January 2010 were well conceived and strengthened the product to withstand significant market stress. As the SEC considers moving forward with additional regulation, it is incumbent on the Commission to take a balanced and data-driven approach to further strengthen MMMFs while preserving the critical role they serve for U.S. businesses, state and local governments, non-profit organizations, and for the economy as a whole.

- The SEC's proposed alternative to mandate a floating net asset value (NAV) for institutional prime money market mutual funds would fundamentally alter the product, eliminating the key benefits companies derive from investing in these funds—stability and liquidity. If the floating NAV alternative is implemented, money market mutual funds would no longer remain a viable investment option to many treasurers and financial professionals. Consequently, with fewer investors and less capital to invest, money market mutual funds would no longer remain a significant purchaser of corporate commercial paper. The reduced demand would drive up borrowing costs significantly by forcing companies to fund their day-to-day operations with less efficient and more costly alternatives. It is important to note that the rulemaking in question is discretionary and not mandated by law like the Dodd-Frank Wall Street Reform and Consumer Protection Act, but it will require fundamental changes to existing business operations across the country.

- The Chamber believes the SEC has not substantiated that a floating NAV is the appropriate solution to the problem the Commission is seeking to solve. Even in its proposal, the SEC acknowledges a floating NAV will not necessarily reduce the risk of widespread redemptions during times of market stress. Given the uncertainty as to whether this proposal will protect against a "run" on money funds, we believe it is wholly inappropriate to implement the proposal since it will undermine the value of money market mutual funds while driving up costs drastically, harming corporate growth and job creation.

- The Chamber supports greater transparency with respect to the holdings of MMMFs The daily disclosure of a "shadow NAV" that many mutual fund companies currently report provide investors with the benefits of a floating NAV—real time information regarding the estimated value of fund holdings—without jeopardizing the viability and utility of MMMFs.

<u>Why Money Market Mutual Funds are Important</u>

MMMFs play a critical role in the U.S. economy because they work extremely well to serve the investment and short-term funding needs of businesses across America. MMMFs are a critical component of the technologically advanced, real time cash management systems that businesses use to ensure liquidity efficiently and at a low cost. These efficiencies and savings translate into greater resources for business development and growth.

Corporate treasurers rely on MMMFs to efficiently and affordably manage their company's cash balances, which fluctuate on a daily, weekly, monthly or other periodic basis. Depending on the nature of the business, a company's cash balance can vary significantly—swinging from hundreds of dollars to hundreds of millions of dollars in the red or the black. A corporate treasurer's job is to ensure there is sufficient liquidity to meet working capital needs and money market mutual funds are the most liquid, flexible, affordable, and efficient way to do that both in terms of investing excess cash and obtaining short-term financing.

Money Market Mutual Funds as an Investment

As part of treasurers' efforts to ensure adequate working capital for their organizations, they are also typically responsible for directing the investment of their company's cash and pension assets. To do this, treasurers consider all available investment alternatives with the goals to protect principal, ensure liquidity, and prudently maximize returns. These considerations cause treasurers to gravitate toward money market mutual funds because of the stability and liquidity they provide. For companies with cash surpluses, MMMFs offer a stable $1.00 price per share that facilitates efficient accounting of frequent investments and redemptions. The stable net asset value also allows investors to avoid tax implications. Investments in MMMFs can also be made and redeemed on a daily basis without fees or penalties, which promotes the liquidity and efficiency necessary to meet working capital needs.

These funds also offer a diversified and expertly managed short-term investment vehicle that allows companies to invest in one fund while diversifying exposure to a number of underlying short-term investments. Additionally, investment advisors to money market mutual funds perform the credit analysis of the underlying assets so that treasurers and their staffs don't have to spend time and resources analyzing the credit worthiness of multiple individual investments, and can instead just assess the credit quality of the mutual fund itself.

It is important to know that corporate treasurers and financial professionals understand the risk of investing in money market mutual funds. Moreover, we understand that investments in these funds are not guaranteed by the U.S. Government. We are professional stewards of our companies' cash, and we take our responsibilities seriously. MMMFs are attractive to us because they offer a high degree of transparency that enables us to quickly and accurately gauge the degree of risk associated with each fund.

Money Market Mutual Funds as a Short-Term Financing Source

MMMFs also represent a major source of funding to the corporate commercial paper market in the U.S. As the SEC notes in its proposal, prime MMMFs held 46.4% of outstanding nonfinancial commercial paper as of December 31, 2013. Without robust MMMFs, demand for commercial paper would drop significantly and the commercial paper market would be substantially less liquid. This source of financing is vital to companies across America as commercial paper is an easy, efficient, and affordable way to quickly obtain short-term financing. Commercial paper programs permit businesses to access the debt markets at the time funds are actually needed and for the specific amount required. The resulting efficiencies have enormous implications for how American businesses operate. U.S. businesses operate with approximately $2 trillion in cash reserves. This represents 14% of the U.S. gross domestic product. By contrast, EU companies carry cash reserves of 21% of EU GDP. If U.S. businesses needed to carry EU-level reserves to ensure access to needed operating funds, they would have to carry an additional $1 trillion in reserves. This is money that would no longer be available for business development, expansion and job creation.

For Great Plains Energy, and other companies in capital intensive businesses, the commercial paper market is a cornerstone to financing the maintenance and expansion necessary to meet the needs of our 830,000 customers. In the last three years, GPE has invested approximately $1.7 billion in infrastructure improvements and new generation facilities. We are anticipating spending another $2 billion in the next three years. In 2010 we completed construction of a new power plant that was the largest single construction project in the State of Missouri during its four-year construction period. That project alone created thousands of jobs for skilled laborers in the Kansas City metropolitan area during difficult economic times. The commercial paper market is an important part of the financing mix for the costs associated with these massive projects.

GPE also uses the commercial paper market to ensure day-to-day liquidity. We operate two commercial paper programs that have a combined available capacity of just over $1 billion. Commercial paper, as a liquidity tool, provides significant cost savings to GPE in the form of lower interest payments on borrowed funds. Currently, GPE offers interest rates to investors on our commercial paper in the current range of 30 to 70 basis points. If instead, we had to use our revolving credit facility with our banks for overnight borrowings, those borrowings would be priced at the Prime Rate plus a spread, which at current rates is at least 3.30% (or 330 basis points), significantly higher than where we can place overnight commercial paper. In addition, the company would be required to borrow at least $1 million, whereas commercial paper can be sold in increments of $100,000. To request a more comparable, LIBOR-based funding from our bank group would require 3 days prior notice, have a minimum term of 30 days and be for a minimum amount of $5 million and it would still be at a rate about 125 basis points higher than our commercial paper for the same term.

Higher interest rates are not the only costs associated with reliance on revolving credit facilities. Because of the time required to obtain a facility, businesses will need to seek financing in an amount sufficient to cover their greatest possible need for operating cash. As a result, businesses will have to pay for credit facilities that are larger than they will likely need on an ongoing basis. Our banks provide these credit facilities to serve as backup lines for commercial paper issuance. If we need to obtain revolving credit facilities that will be drawn upon in the ordinary course of business, the price of these facilities will likely increase. Most banks prefer not to fund these low-priced credit facilities for investment grade companies. They would rather lend to lower-rated companies that do not have the same access to public markets because they can earn higher returns. This competition for bank lending capacity will only serve to drive up the cost of revolving loan facilities

2010 Changes to Rule 2a-7

The Chamber supported changes made just three years ago to money market mutual fund regulation through Rule 2a-7. These changes greatly strengthened these funds. Importantly, they increased the liquidity requirements for money market mutual funds. Funds are now required to meet a daily liquidity requirement such that 10 percent of the total assets can be liquidated into cash in one day and 30 percent within one week. This large liquidity buffer makes it very unlikely a wave of redemption requests—even at the rate seen in the 2008 financial crisis—would force a fund to sell assets at a loss prior to their maturity.

Despite the fact that the 2010 reforms have only recently been implemented, advocates of further regulation have focused much attention on the need to do more. While the Financial Stability Oversight Council and financial regulators have argued for additional regulation, including the implementation of capital requirements to buffer any losses, their approach focuses on mitigating systemic risk without any analysis of the implications of overlaying a bank-like regulatory structure onto the capital markets. Such action works at cross purposes with the mission of the SEC to promote efficient, competitive capital markets and capital formation. Therefore, **it is incumbent upon the SEC to take a data-driven approach to its rulemaking** to ensure that the rule does not produce more harm to investors, the capital markets and the economy than the benefits it will reap.

While we in concept support further strengthening of money market mutual funds to protect investors, it must be done in a way that preserves the critical roles these funds play in the U.S. economy. As discussed below, we believe that the floating NAV alternative, or any combination that includes a floating NAV, will essentially undermine the ongoing viability of these funds for institutional investors and inflict so much collateral damage on the corporate commercial paper market that it will threaten business expansion and job creation during an already fragile economic recovery period.

Floating Net Asset Value

Under the SEC's proposal, prime funds for institutional investors will be required to move to a floating NAV. The use of amortized cost accounting and "penny rounding" would no longer be allowed. Instead of rounding the NAV to the nearest half penny with a $1.00 price per share, the NAV will be calculated using "basis point rounding"—out to four decimal places to $1.0000. As discussed earlier, one of the primary reasons why corporate treasurers and other financial professionals invest in MMMFs is because of the stable $1.00 price per share.

Loss of Stable Value

The most important attribute that MMMFs offer to corporate treasurers is stability of principal value. In fact, the Association of Financial Professionals recently released a survey of senior finance and treasury officials at a broad range of companies showing that 68% of respondents indicated that the safety of principal is the most important short-term objective of their organization. Without this stability, many complications and costs arise for U.S. companies.

Loss of Liquidity

Almost equally important to corporate treasurers is the ability to have liquid investments. Because of the proposed elimination of amortized cost accounting, it may be much more difficult to redeem MMMF shares and execute intra-day settlements as funds would have to price the underlying portfolio holdings using market based prices constantly throughout the day. If market prices are not readily available, or it is cost prohibitive, funds may not be able to settle with investors until later in the evening or the following day. In essence, liquidity for companies with investments could be impaired.

Financial Reporting, Tax, and System Issues

The floating NAV presents another significant concern as gains and losses will arise from the redemption of a floating fund. Although the Internal Revenue Service (IRS) earlier this summer proposed relief from wash sales rules related to a floating NAV, companies must still expend resources to track these gains and losses to ensure that these are *de minimis* (for purposes of the IRS wash sale rule) and for financial reporting purposes. Tracking gains and losses from the redemption of money market mutual funds will require additional manpower and modifications to treasury and accounting systems to build in this capability.

Most treasury workstations used for managing corporate cash do not have accounting systems in place to track NAVs on each transfer into and out of MMMFs. Treasury workstations would need to be upgraded to accommodate these changes, and that investment would significantly lag behind the timing of implementing floating NAVs. As a result, corporate treasurers would likely decide to simply withdraw MMMF investments until the systems issue is resolved, unless adequate transition periods are granted. Some companies will decide to withdraw permanently, rather than incur the expenses and inefficiencies associated with investing in floating NAV funds. At the very least, the systems upgrade costs would force a reallocation of capital expenditure away from more economically productive uses like business expansion and job creation. In a report released by the Chamber earlier this year, Treasury Strategies estimated that the upfront cost to move from a stable to a floating NAV would be between $1.8 and $2 billion with new annual operating costs from $2 to $2.5 billion

Even putting the systems issue aside, many treasurers would refrain from returning to MMMFs to avoid having to record the gains and losses on each investment that would flow through quarterly earnings results. Corporate treasurers diversify fund investments, and as such, are typically in multiple MMMFs at any given time. Tracking the capital gains and losses on each fund where investments and redemptions occur frequently is very complex. Treasurers currently do not have the manpower (or resources) to track this, nor do we have the desire to expend limited resources doing so. We would simply find other, less efficient places for our cash. Taken as a whole, the operational challenges associated with investment in floating NAV funds would outweigh the potential return for many treasurers.

Issues with Investment Policies and other Covenants and Agreements

In addition to the operational difficulties a floating NAV would create, the SEC's proposal raises a more fundamental problem arising from the fact that many treasurers are precluded from investing in variable rate instruments. The board of a company has a fiduciary obligation to ensure that the company's available cash is invested in investment vehicles with appropriate liquidity and credit risk. As such, many boards allow investment of cash only in stable value products where there is a low degree of risk of loss as funds intended for liquidity purposes are the lifeblood of any company. If the Commission adopts a floating NAV requirement, many U.S. companies would have to review, assess, and in many cases, revise their companies' investment policies if currently only stable value investments are permitted for cash. The process of rewriting a company's policy is complex because it requires the input of senior executives and ultimately approval by the company's board of directors.

For some companies, rewriting corporate policies in this regard will only be the starting point. Companies may also have debt covenants or other agreements that require cash collateral to be invested in a stable NAV product. Companies would need to spend time and resources to review these agreements, and if found in possible violation, they would then have to renegotiate the contract with the counter party, get them to agree to the change, and then incur legal costs to write and execute a new agreement. Litigation costs could also arise if the parties could not reach a negotiated resolution to the issues associated with the SEC mandating a floating NAV.

Accounting Classification

Uncertainty remains about classification of investments in floating NAV funds for financial reporting purposes. In its proposal the Commission simply states that it believes that an investment in floating NAV money market mutual funds would still qualify as a cash equivalent. While the SEC ultimately has accounting standard setting authority and enforcement authority over financial reporting and disclosure violations of publicly traded companies, it would be helpful for the Commission to issue formal guidance on the matter and direct the Financial Accounting Standards Board to conform the Commission's position to existing accounting standards. Without this formality, independent auditors of many companies may be reluctant to take a similar view, and possibly risk placing companies' balance sheets in a weaker cash position.

<u>Liquidity Fees and Gates</u>

The second alternative contemplated by the SEC is a mandatory 2% liquidity fee if a fund's weekly liquidity level falls below 15%. Additionally, if this liquidity threshold is triggered, the fund's board would have the ability to halt redemptions altogether by lowering a "gate." However, it will be left to the discretion of the board to reduce or eliminate the liquidity fee if it deems it to be in the best interest of the shareholders.

The corporate treasurer community has mixed views regarding this proposed alternative. While the liquidity fee and gate is intended to protect investors, its implementation will come with a steep price. If a company's treasurer invests the company's excess cash in a vehicle where a 2% fee on the cash balance is in fact assessed or where the company cannot gain immediate access to its cash because a redemption gate is lowered, it will send a signal to the company's shareholders that the company is negligent in the management of its cash, or in worse case, impact liquidity to the degree of jeopardizing operations. Nevertheless, many corporate treasurers, including myself, do not take issue with this alternative because the risks it presents are realized only when certain liquidity thresholds, which are well below the levels set by the 2010 changes to Rule 2a-7 described above, are crossed and the gate is the only mechanism that will truly stop a run on the fund. Therefore, we view this alternative as placing even greater emphasis on our responsibilities as a steward of our company's cash to assess the risks of investing in a particular MMMF and to monitor on an ongoing basis the mix of investments and liquidity levels in each such fund to ensure prompt access to cash when needed to meet working capital needs.

<u>Disclosure</u>

The SEC has also proposed additional enhancements of disclosures made to investors regarding the condition and operations of a MMMF. In conjunction with the liquidity fees and gate proposal, the SEC proposes to require funds to disclose daily and weekly liquidity levels. In addition, funds would also have to disclose daily current NAV per share, inflows and outflows, and portfolio holdings. In general, we support additional disclosures that may be helpful for investors to better understand the risks of investing. However, the SEC should be careful not to be so onerous in its disclosure requirements that funds incur significant costs for additional disclosures that will be of little or no use to investors beyond the information that is already available, especially when these investors may ultimately bear the burden of the additional costs associated with new disclosures that may be of little practical value.

<u>Summary/Conclusion</u>

In summary, corporate treasurers are very concerned about a sizable contraction of the 2a-7 MMMF industry that is likely to result from the changes currently contemplated by the SEC. On the investing side, corporations would be forced to withdraw from prime money market funds to ensure full access to their money, avoid the recordkeeping and systems modification burden imposed by floating NAVs, and forgo the investment policy changes some of the SEC's proposals will trigger. Companies will instead invest in less flexible bank investment products, other unregulated funds, or individual securities. In so doing, they would lose the efficiency, liquidity, and risk diversification benefit of the 2a-7 structure and increase individual counterparty risk. On the funding side, a decrease in 2a-7 capacity would lead to higher costs and less liquidity for commercial paper issuers and place greater stress on banks to make up the difference with additional lending. There would be greater uncertainty in the daily activities of treasury departments, and that uncertainty would likely lead to more caution in planning capital investments to grow businesses and create jobs.

Rule 2a-7 money market mutual funds are much more than an investment product. Over the last four decades, MMMFs have become a crucial component in a highly integrated system that provides low cost and efficient short-term financing for American businesses. This system has been the gold standard structure around the world for many years. Structural changes, like floating the NAV, will not make MMMFs any less vulnerable to runs, but they will jeopardize the economic viability and utility of MMMFs. Without MMMFs, borrowing costs for many businesses could increase dramatically. American business could be forced to stockpile cash reserves, rather than putting this cash to use innovating, growing, and creating jobs. With the reforms implemented in 2010 to provide greater liquidity, safety, and transparency, these funds have proven to be very stable and attractive investments during a time of great upheaval in global markets related to the European sovereign debt crisis. Altering the structure and nature of money market mutual funds would take away a vital short-term cash management tool for companies throughout the country.

Thank you.