# Bond Case Briefs

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## House Panel Backs Bill to Scrap Floating Prices for Money Funds.

- Post-crisis rule raised municipal borrowing costs, critics say
- Key industry group opposes change, says markets have adjusted

The House Financial Services Committee has advanced a bill that would eliminate some of the strictures placed on the $2.8 trillion money market mutual fund industry in the wake of the financial crisis.

The legislation, which was opposed by Fidelity Investments, Vanguard Group., BlackRock Inc. and other major asset managers, would repeal a 2014 requirement that the riskiest funds allow their share prices to float, rather than maintain a stable $1 value. The panel's action clears the way for a House vote on the measure.

Representative Keith Rothfus, a Pennsylvania Republican who sponsored the legislation, said it aims to fix a "misguided Securities and Exchange Commission rule" that has disrupted markets and also caused municipal borrowing costs to rise. He said more than 60 lawmakers, both Democrats and Republicans, were co-sponsors of the bill.

While the prospects for passage in the Senate are dim, the 34-21 committee vote is a victory for Federated Investors Inc., which has a large money fund business and has been fighting the SEC regulation for years. The Pittsburgh-based firm joined with state treasurers, pension funds and other businesses to form the Coalition for Investor Choice to lobby for the bill.

**Interest Rates**

Other fund companies disputed the group's contention that the SEC rule was responsible for increased borrowing costs for cities and towns. In a paper distributed on Capitol Hill, Vanguard attributed the rise to the Federal Reserve's decision to boost interest rates.

"The coincidental timing of these increases and of money market reform has led to misidentification of the true causation of higher municipal yields," Vanguard wrote.

Mutual fund firms and their trade association, the Investment Company Institute, had mostly opposed the SEC's move to require the floating share price, but they told lawmakers changing the rule would be expensive and potentially troubling to the markets.

"The new regulatory regime involved substantial and costly operational changes implemented on a very aggressive timetable, but money market funds and the money markets have adjusted," ICI President Paul Schott Stevens wrote in a Jan. 12 letter to committee members. "The consensus of our member leadership is that reopening these reforms is not appropriate or desirable."

**Clayton Warning**

SEC Chairman Jay Clayton, in a letter last year to Representative Carolyn Maloney, also urged caution, noting that the agency's rule had only been fully put in place in October 2016. "I am concerned that making major changes at this time could be disruptive to the short-term funding markets," Clayton wrote.

The SEC's reforms came in response to a September 2008 run on the Reserve Primary Fund after its share price dropped below $1, causing investors to withdraw money at other funds and helping freeze credit markets. The Treasury Department was ultimately forced to stem the panic by temporarily guaranteeing shareholders against losses.

Among the lawmakers voting against the legislation were Representatives Bill Huizenga, the Michigan Republican who leads the Financial Services capital markets subcommittee, and New York's Maloney, the panel's top Democrat.

"I oppose this bill because I think it rolls back one of the most important post-crisis reforms we made," Maloney said.

**Bloomberg Markets**

By Robert Schmidt

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