[Bond Case Briefs]

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[Local Governments Lobby for Stable NAV Bill; BlackRock $500B in Cash]

As we mentioned in our October 3 Link of the Day, "[Stable NAV Bill Filed in House Again]," efforts are again underway to roll back the last round of money market fund reforms and to return the $1.00 NAV for all money funds. Bills have again been filed in the House and Senate, and the lobbying has begun. A new letter from the Government Finance Officers Association, National Association of Counties, U.S. Conference of Mayors, National League of Cities, International City/County Management Association, National Association of Health and Educational Facilities Finance Authorities, National Council of State Housing Agencies, American Public Power Association and Large Public Power Council, tells us, "The organizations listed above, representing state and local governments, authorities, and other public entities, wish to express their support for S. 733 and H.R. 4492, the bipartisan Consumer Financial Choice and Capital Markets Protection Act, which was recently introduced in the House by Representatives Gwen Moore Moore (D-WI) and Steve Stivers (R-OH), and in the Senate by Senators Pat Toomey (R-PA), Bob Menendez (D-NJ) and Gary Peters (D-MI)."

It states, "Our organizations have long opposed the Securities and Exchange Commission (SEC) modifications to SEC Rule 2a-7 of the Investment Company Act of 1940, which have created an unnecessary disruption to the public funding markets by changing the net-asset-value (NAV) accounting methodology for institutional prime and municipal money market mutual funds (MMMF) from stable to floating. Our members rely on the hallmark stable NAV feature in a variety of ways. First, many governments have specific state or local statutes and policies that require them to invest in financial products with a stable NAV. This is done to ensure that public funds are appropriately safeguarded to best serve the entity."

The letter continues, "Second, MMMFs with a stable NAV are the most commonly used investment by state and local governments. Forcing governments to find alternative investments to prime and municipal MMMFs creates additional risk for public funds by driving them to lower yielding government funds or potentially less suitable products. Such options may not meet liquidity standards required by their governments to meet cash management policies and statutes. H.R. 4492 and S. 733 would restore the ability of state and local governments to use prime and municipal stable NAV funds for their essential and critical investment needs."

It also says, "In addition to the appropriate and historical use of MMMFs as state and local government investments, it is important to note that MMMFs are the largest purchasers of short-term municipal securities. Due to the SEC's floating NAV rule, municipal money market funds have significantly curbed their appetite for these securities, thus decreasing demand and increasing costs to state and local governments that issue this type to fund state and local government operations and finance transportation projects, utilities, affordable housing, public schools and hospitals, and pollution mitigation, among other purposes."

The GFOA, et. al. comment, "In fact, as a result of implementation of the floating NAV rule in October 2016, municipal MMMFs assets fell by nearly 50 percent, thereby shrinking the funding pool available to municipal borrowers. Municipalities fortunate enough to continue selling their debt to tax-exempt funds saw their borrowing costs increase by nearly double the Federal Reserve's rate increases since implementation of the rule. Those short-term costs have increased even more for state and local governments that can no longer sell their debt to MMMFs and must borrow from other investors or replace the debt with bank loans."

Finally, they adds, "State and local governments and other public entities have utilized prime and municipal MMMFs safely and effectively for more than 40 years to both manage liquidity and provide a reliable source of working capital to fund public services and finance continued infrastructure investment and economic development throughout all economic conditions. We ask that you support S. 733 and H.R. 4492 so that state and local governments can continue to have unrestricted access to these safe and highly liquid capital markets tools."

We obtained the letter from the GFOA, and learned about it from the Bond Buyer, who published the piece, "Finance officers renew push for stable net asset value." They wrote, "Finance officers say a change in net asset value requirements put in place by the Securities and Exchange Commission years ago has 'significantly' curbed money market mutual funds' appetite for short-term municipal securities, negatively impacting issuers. In a letter sent to the House Financial Services Committee and the Senate Banking Committee this week, the Government Finance Officers Association renewed its call for money market funds to go back to a fixed net asset value after the SEC flipped the switch to floating NAVs in institutional MMMFs."

In other news, a number of financial firms are releasing their latest Q3 earnings and hosting conference calls. On one of the few to discuss "cash", BlackRock CFO Gary Shedlin says, "In the recent market environment, clients' preference has favored lower risk assets and approximately 85% of our organic growth over the last year has been in fixed income and cash, which have relatively lower fees compared to other asset classes.... BlackRock's cash management platform saw $32 billion of net inflows, a post-financial crisis record and crossed the $500 billion AUM threshold as we continue to leverage scale for clients and deliver innovative digital distribution and risk management solutions through Cachematrix and Aladdin. Cash is a strategic asset class and BlackRock's diverse cash management offering, including prime, ESG, government and munis, position us well to serve our clients' cash needs and continue to grow our market share."

CEO Larry Fink comments, "For the first time since the financial market, the Fed announced that they would add liquidity into the system after a brief spike in short-term repo rates signaled liquidity constraints, or maybe supply issues.... I've spoken in the past about using technology to drive more of BlackRock's revenues. Technology is a priority and a strategic differentiator for BlackRock. In addition to generating direct technology revenues, we're increasingly using technology to enhance our results in our asset management business. For example, we're transforming our cash management business by integrating technology into our business model. We are delivering Cachematrix technology to help clients streamline their operations and quickly and efficiently make more informed decisions."

He continues, "Five years ago, cash management was a $281 billion business. Through technology, organic growth and acquisition, we crossed $500 billion in AUM in July. This represents over a 200 basis point global market share increase from five years ago and is an important milestone as scale is a key value proposition for clients in the asset class. Increasingly, more and more BlackRock holistic client relations are starting through a cash management assignment."

Finally, Fink adds, "We are also seeing clients increasingly adapting shorter duration fixed-income ETFs as a substitute for cash in their portfolios.... Having commission-free for low duration makes ETFs a great alternative to bank deposits, a really good solution [in place of] money market funds.

And so, a commission free in the fixed-income realm, cash and fixed-income, is a real opener for so many more participants."

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