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Money Market Mutual Fund News, Performance & Indexes

# Money Fund Intelligence



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## BNY's Cecere Says MMFs Ready to Transact Non-\$1

On October 31, the last directive contained in the SEC's February 2010 "Money Market Fund Reform" amendments to Rule 2a-7 of the Investment Company Act of 1940 will come into effect. Funds must be in compliance with a "Processing of Transactions" mandate that "require[s] that a fund (or its transfer agent) have the capacity to redeem and sell its securities at a price based on the fund's current net asset value per share, including the capacity to sell and redeem shares at prices that do not correspond to the stable net asset value or price per share." Below, we discuss this issue with BNY Mellon Asset Servicing's Jim Cecere, managing director for global product management for U.S. financial institutions.

*Q: Are money funds prepared for the new SEC mandate to price shares in other than \$1.00?*

**Cecere:** I think generally speaking the answer to that is "yes". In our discussions with clients, we've been not only reviewing the impact from a process perspective and from a needs perspective, but also as it pertains to having to update, prepare, and enhance our systems and our reporting requirements. **Communications protocols are also probably one of the most critical areas in the event that the buck has broken.**

*Q: What was the biggest challenge? Was this like a "mini-Y2K" issue for funds?*

**Cecere:** The "mini Y2K" has probably been between 2008 and now.... When in 2008 the Reserve Fund broke the buck, fund complexes, fund servicers, asset servicers really honed in and had to focus in on very quickly what that impact was and to prepare for that as the market effectively was melting down. Since that point, both fund companies and asset

servicers have spent a lot of time not only understanding the implications of that but also enhancing the systems, operational protocols, etc, in order to prepare for a similar circumstance.

With the new regulations, it became clear those changes would need to be solidified. This was recently brought into the spotlight when the U.S. Government debt was downgraded. There was speculation at that point as to what could potentially happen and one of the 'what if' scenarios was that money market funds could potentially break the buck. Generally speaking, the industry took a hard look at their systems and procedures, and had effectively ramped up for this scenario, along with others, of course. **Today, in terms of preparing for the new regulation coming into effect, I think the industry is generally prepared.** So when you trace events back to 2008, firms have really been preparing for this since that point.

*Q: Is there a decimal point mandate? Do they have to go out to three or four?*

**Cecere:** The regulation reflects a requirement to be able to go out to three decimal points. We actually have the ability to support a NAV up to and beyond three decimal points, which I'd speculate is the case in most firms. So if you parse out the challenges, the first question to answer is "Can we support the trade of a NAV other than a buck?" and the second is, "Can we support a NAV beyond three decimal points?" These represent some of the key challenges that we and other firms have had to address.

*Q: Are there any issues outstanding?*

**Cecere:** No, not that I am aware of. Again, this really isn't a new topic or something that the industry was not expecting. Between the originally announced regulation and the fire drills, I think the industry is



Jim Cecere

generally prepared. In the unlikely event that a fund does break the buck, fund companies not only have to be operationally prepared, but also have to have a solid communication plan in place depending upon the action they choose to take within the construct of the regulations.

There is also some added flexibility. In the event they do not want to allow the NAV to fall below a dollar, they have the option to liquidate, and changes regulations have given guidance on the ability suspend redemptions and to take the necessary steps to liquidate in an orderly fashion. It really is up to the fund company to make that decision and I'm sure that it is something they have been thinking about as it relates to their clients and their business.

*Q: Are there other products that you guys are looking at?*

**Cecere:** Regulatory change is a driver for additional products. The impact of impending changes is probably one of the top issues we regularly discuss with clients across the board. These regulatory changes continue to pressure fund operations to do more, and often with flat to decreasing investment dollars. We actively look to identify product opportunities that provide solutions for our clients.

**A great example is money market stress testing, which we rolled out with Investor Analytics.** We are in the process of rolling that out also in Europe, as similar regulations are driving the need for a similar service. If you look at the spate of regulations – whether it's Dodd-Frank, AIFMD, UCITS IV/V, etc., it is critical that we look at dealing with these impending changes as a strategy. It has, simply put, forced us to think differently. I just wish it was cheaper. ♦