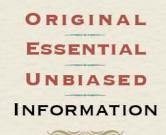
# AFP® Association for Financial Professionals® Annual Conference

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## A Postmodern Paradigm for Corporate Cash Management

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# The Liquidity Market: A Money Fund Manager's Perspective

Deborah Cunningham
Executive Vice President
Federated Investors



### **Looking Back**

- 2007 Market focus on liquidity
- 2008 Market focus on credit
- 2009 Market focus on low yields
- 2010 Reversal of quantitative easing



# **Quantitative Easing: Are We Done Yet?**

- Discount rate raised from 0.50% to 0.75% on 2/19/10
- Completion of Fed purchase programs
- FRBNY Reverse Repo with Primary Dealers
- FRBNY Reverse Repo with Non-Traditional Counterparts – i.e., Money Market Funds



### New World, New Oversight

- FRBNY Tri-Party Repo Working Group
- Liquidity Exchange Bank
- Rule 2a-7 reviewed and reworked



Portfolio Quality	New or existing	Can money market funds implement immediately?
Second Tier ≤ 3%	Enhancement of existing requirement	Yes
Designated NRSROs	New	Yes  Board approval required



Portfolio Maturity	New or existing	Can money market funds implement immediately?
WAM Max 60 Days	Enhancement of existing requirement	Yes
WAL Max 120 Days	New	Yes



Portfolio Liquidity	New or existing	Can money market funds implement immediately?
Illiquid Securities ≤ 5%	Enhancement of existing requirement	Yes
Minimum Daily Liquidity 10%	New (taxable funds)	Yes
Minimum Weekly Liquidity 30%	New	Yes
Know Your Client Procedures	New	Yes



Stress Testing	New or existing	Can money market funds implement immediately?
Stress:	New	Yes
<ul><li>Interest rates</li></ul>		
<ul><li>Cash flow</li></ul>		Board reporting
<ul><li>Downgrade or default</li><li>Spreads</li></ul>		required



Improve Operations	New or existing	Can money market funds implement immediately?
Fund Liquidation: Board permitted suspension of redemptions if liquidating	Revision of existing authority	No
Ability to process transactions at price other than \$1	New	Yes
Exemption for Affiliate Purchases – SEC notice, not permitted	Enhancement of existing practices	Yes



# Adoption of New 2a-7 Rules: What To Expect When

- 5/5/10 Overall rule effective date
- 5/28/10 Compliance required for quality, individual security maturity, liquidity and repo changes
- 6/30/10 Compliance required for weighted average maturity and weighted average life changes
- 10/7/10 Compliance required for monthly portfolio Web site disclosures
- 12/7/10 Compliance required for monthly reporting to SEC of mark-tomarket NAV and other portfolio details (to be published by the SEC on a 60-day lag)
- 12/31/10 Compliance required for NRSRO disclosure
- 10/31/11 Compliance required for processing transactions at other than \$1 NAV



### **Looking Ahead**

- Further steepening of the yield curve anticipated
- Rates have bottomed
- Money market fund yields lag
- Reversal of quantitative easing continues
- Actual fed tightening begins
- Economic slow-growth allowing for slow and steady rate increases



Money Funds in Corporate Cash Management:

Do they – can they – work together?



#### **Tales from the Front Lines:**

Nancy L. Edwards, CTP

Treasurer

Metropolitan Washington Airports Authority

Kathleen Clune Assistant Treasurer and AVP Pacific Life Insurance Company



#### A Look Back

- Prior to the fall of 2008
  - Is my fund rated?
  - Government and Treasury funds
  - "All fund managers are professionals"
  - Some funds better than others?



### My Awakening

- Fall 2008 through 2009
  - Reserve Fund "broke the buck"
  - Am I earning any interest? (and how I found out)
  - Attended the Crane Money Fund Symposium
    - Fund Managers are professionals
    - Money Funds are a BIG deal



### New World, More Due Diligence

- Match investment policy
  - Verify by reviewing fund holdings
- Verify ratings on funds
- Closer look at yields
- Review fund managers not all are created equal



# Our Outlook Today...and Down the Road

- Increased awareness of the relationships between security issuers, fund managers, fund purchasers
- Theme at Crane Symposium 2010
  - Funds' supply problems
- Watching discussion on floating NAV



#### **Past Practice**

- Selected funds based on relationships
- Used rated prime funds only
- Daily investments based on rate of return
- No caps on level of investment



### Reality Strikes Back (and Hard)

- Watched a hybrid institutional liquidity fund collapse
- Queried by senior management and board of directors on stability of vehicles
- Conference calls with all investment managers
- Cash became King!



#### **Current Issues We Face**

- Diversification in and out of funds
- Importance of fund as an investment vehicle
- Floating NAV My opposition
- Liquidity is King!



### **Moving Forward**

- More independent research
- Quality reviews
- Due diligence at portfolio level of funds
- Cap in funds
- Smaller stable of investable funds

