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U.S. CHAMBER OF COMMERCE

Statement of the U.S. Chamber of Commerce

ON: "Money Market Reform"

TO: U.S. Senate Committee on Banking, Housing, and Urban Affairs

DATE: June 21, 2012

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.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross-section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business – manufacturing, retailing, services, construction, wholesaling, and finance – is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 115 American Chambers of Commerce abroad, an increasing number of members are engaged 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 national issues are developed by a cross-section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

Good morning Chairman Johnson, Ranking Member Shelby, and Members of the Committee. Thank you for the opportunity to discuss the potential impact that additional changes to money market mutual fund regulation contemplated by the Securities and Exchange Commission (SEC) would have on the business community.

My name is Brad Fox, and I am the Vice President and Treasurer of Safeway Inc. Safeway Inc. is one of the largest food and drug retailers in North America with 1,678 stores and $44 Billion in annual revenue at year end 2011. We employ approximately 178,000 people in a geographic footprint that includes the western and southwestern regions of the U.S., the Chicago area and the mid-Atlantic region, with stores locally here in the District of Columbia, Baltimore, and Northern Virginia areas. I am also a Chairman Emeritus of the National Association of Corporate Treasurers (NACT). I am here testifying on behalf of the U.S. Chamber of Commerce and the hundreds of corporate treasurers who are tasked with managing their companies' cash flows and ensuring that they have the working capital necessary to efficiently support their operations. I have been active in an advocacy role on money market fund regulatory change since the fall of 2009, representing the interests of Safeway and the membership of the NACT.

Key Points

There are several important points that I wish to stress to the Committee:

- Money market mutual funds play a critical role in meeting the short-term investment needs of companies across the country. According to May 2012 data from Investment Company Institute, corporate treasurers with cash balances and other institutional investors continue to have confidence in these funds, investing up to $900 billion or approximately 65% of the assets in prime money market funds because they provide liquidity, flexibility, transparency, investment diversity, and built-in credit analysis. There are no comparable investment alternatives available in the marketplace today.

- Money market funds also represent a significant source of affordable, short-term financing for many Main Street companies. Approximately 40% of all corporate commercial paper in the market place is purchased by these funds.

- Treasurers are extremely concerned that the changes to money market mutual fund regulation would fundamentally alter the product so that it no longer remains a viable investment option. The significance of such a change cannot be overstated. Should it happen, money market mutual funds would no longer

remain a viable buyer of corporate commercial paper, which would drive up borrowing costs significantly and force companies to fund their day to day operations in a less efficient manner.

- Some corporate treasuers are already making plans to withdraw funds from money market accounts to ensure full access to their funds and avoid the proposed redemption holdback. Also, floating net asset values for money market funds would result in a significant accounting burden for companies across America investing in this product. Most treasury workstations built for managing corporate cash do not have accounting systems to track net asset values (NAVs) on each transfer into and out of money market funds. Putting the systems issue aside, many treasurers would refrain from returning to money market funds to avoid the significant time and effort required to record the gains and losses on each investment and the potential impact on quarterly earnings results. The NACT believes that the SEC must carefully consider whether any additional regulations are required, as the 2010 reforms seem to be working even under the stress of the European sovereign debt crisis. Additional regulations can make the capital markets inefficient and drive up costs harming corporate growth and job creation.

Why Money Market Mutual Funds are Important

Money market mutual funds play a critical role in the U.S. economy because they work well to serve the investment and short-term funding needs of businesses across America. Corporate treasurers rely on money market mutual funds to efficiently and affordably manage cash. Cash balances for companies fluctuate on a daily, weekly, monthly or other periodic basis, and depending on the nature of the business, some companies' cash levels can swing widely - from hundreds of dollars to hundreds of millions of dollars. A corporate treasurer's job is to ensure that there is sufficient liquidity to meet working capital needs, and money market mutual funds are the most liquid, flexible and efficient way to do that on the investment side. They are also an important source of short term funding.

Money Market Mutual Funds as an Investment

There are many reasons why money market funds are an attractive investment choice in the business community. For companies with cash surpluses, money market mutual funds offer a stable $1.00 price per share that allows for ease of accounting for frequent investments and redemptions. They also offer market rates of return for cash that typically get no interest earnings sitting in a commercial bank account. Moreover, investments in money market mutual funds can be made and redeemed on

a daily basis without fees or penalty, providing the liquidity needed to manage working capital needs.

These funds also offer a diversified and expertly managed short-term investment vehicle. This allows companies to invest in one fund while diversifying exposure to a number of underlying 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, but rather the mutual fund itself.

It is important to note that corporate treasurers understand the risk of investing in money market mutual funds. We are professional stewards of our companies' cash and we take our responsibility seriously. As a large food retailer, we have significant cash inflows and outflows on a daily basis that need to be managed efficiently and effectively. In the few instances when we have cash to invest, money market mutual funds are attractive to us since they are subject to a high degree of transparency, which means that we can easily ascertain what investments are in each money market mutual fund and the degree of risk associated with each fund.

Money Market Mutual Funds as a Financing Source

Money market mutual funds also represent a major source of funding to the corporate commercial paper market in the U.S., purchasing approximately 40% of all outstanding commercial paper. In April 2012, U.S. money market mutual funds held $380 billion in commercial paper, according to iMoneyNet. This source of financing is vital to companies across America as commercial paper is an easy, affordable way to quickly obtain short-term financing. Without money market mutual funds, the commercial paper market would be substantially less liquid, forcing companies to turn to more expensive means of financing. Higher financing costs will create a drag on business expansion and job creation.

For example, Safeway is a business with significant swings in weekly cash flows, so we have found it most efficient to manage our net borrowing position in the commercial paper market. As our working capital needs can change over the course of a week by as much as $200 million, the ability to borrow overnight in the commercial paper market allows us to manage our position very efficiently. On a daily basis, we collect all of our cash, checks and payment card receipts from our stores. We then review and pay all vendor and other operating and capital expenses. The commercial paper position is then adjusted accordingly through incremental borrowing or repayment to balance our daily books and avoid holding excess cash.

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, approximately 2.5% higher than where we can place overnight commercial paper. To request a more comparable, LIBOR-based funding from our bank group would require 3 days advance notice, be for a minimum term of 14 days and still be at a rate about 0.25% higher than our commercial paper for the same term. These borrowing restrictions would inevitably lead to over or under-borrowed positions because they will rely on longer term forecasts, further driving up costs when compared to balancing at the margin using overnight commercial paper. Our banks provide these credit facilities to serve as backup lines for commercial paper issuance. Their preference is to not fund these low-priced credit facilities to investment grade companies, and to save their capital for loans to lower rated companies which do not have the same access to public markets where they can earn higher returns.

2010 Changes to Rule 2a-7

Before discussing possible further changes in the regulation of money market mutual funds, it is important to emphasize that such changes will not occur in a vacuum. Just two years ago, the U.S. Securities and Exchange Commission made enhancements to money market mutual fund regulation through Rule 2a-7. These changes greatly strengthened these funds, but most importantly, increased their liquidity requirements. Funds are now required to meet a daily liquidity requirement such that 10 percent of the assets turn into cash in one day and 30 percent within one week. This large liquidity buffer makes it unlikely that large 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 just been implemented, advocates of further regulation have focused much attention on three significant structural changes to money market funds—redemption restrictions, a floating NAV and a mandatory capital buffer. As discussed below, we believe each of these would have a significant negative impact on the ongoing viability of these funds, and thereby inflict collateral damage on the corporate commercial paper market.

Redemption Restrictions

There are serious concerns about the SEC's potential implementation of redemption holdbacks or other restrictions on the ability to access funds invested in money market mutual funds. Some corporate treasures are already making plans to withdraw funds from money market accounts to have full access to their funds and

avoid the complexities of monitoring simultaneous holdback positions on multiple transfers into and out of money market funds.

The reasons for this should be obvious. If corporate treasurers can't get access to cash investments, they would be forced to seek alternative resources to meet working capital needs. This includes issuing debt or drawing on our credit facilities, incurring additional costs that may be deployed more efficiently elsewhere. Such actions are imprudent and illogical. Let me be clear: a corporate treasurer's number one priority is liquidity, so any kind of redemption holdback or restriction will not work. We would take our money elsewhere.

Floating Net Asset Value

There are similar concerns among the treasurer community with regard to the proposal to establish floating NAVs for money market mutual funds. Most treasury workstations built for managing corporate cash do not have accounting systems in place to track NAVs on each transfer into and out of money market funds. 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 withdraw money market fund investments until the systems issue is solved. On a related note, the systems upgrade costs would force a reallocation of capital expenditure away from more economically productive uses like business expansion and job growth.

Even putting the systems issue aside, many treasurers would refrain from returning to money market funds 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 money market mutual funds at any given time. Tracking the capital gains and losses on each fund where investments and redemptions occur frequently is very complex. Treasurers currently don't 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 places for our cash.

In addition, many treasurers are precluded from investing in variable rate instruments. Taken as a whole, the challenges associated with investment in floating NAV funds would outweigh the potential return for many treasurers.

Capital Buffer

One other proposal that the Securities and Exchange Commission has publicly discussed is the implementation of some type of capital buffer in an attempt to protect against losses. While this should sound appealing to investors, the reality is it doesn't. If the capital buffer is funded by the parent company, due to already thin profit margins, it would drive some fund companies out of business, leaving fewer choices for investors. Additionally, some costs may be passed on to investors. If the capital buffer is built up over time by allocating some of the fund's yield to the buffer, it would take too long to build the necessary buffer to protect against losses. Similarly, the creation of a subordinated class of shares to provide the buffer would require additional returns to be paid to those shareholders, and given the near zero interest rate environment, this could eliminate any remaining returns for investors. Thus, increasing fees or reducing yields is likely to deter many investors, including corporate treasurers, from investing in money market mutual funds.

Summary/Conclusion

In summary, Corporate Treasurers are very concerned about a sizable contraction of the 2a-7 money market mutual fund 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 and avoid the accounting burden imposed by floating NAVs, and instead invest in less flexible bank investment products, other unregulated funds, or individual securities. In so doing, they would lose the 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 have been the gold standard structure around the world for many years. The question must be asked, why make additional changes now? 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. Given this stress test and resulting strong performance by money market mutual funds, we renew our advocacy position questioning whether any further regulation of the money market mutual fund industry by the SEC is

needed. 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.