TRUST
INVESTMENT PERSPECTIVES

July 2016

A Publication of TRUST COMPANY OF OKLAHOMA

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The Money Market Reform

The Securities Exchange Commission (SEC) has issued new rules for prime (non-government) money market funds; both taxable and tax-exempt. These changes were implemented in response to events that occurred during the 2007 – 2009 financial crisis. In 2008, one prime money market fund lost a small amount of value for their investors, while the remaining funds held their value despite significant redemptions from many funds.

New Rules

Per the new rules, as of October 14, 2016 a prime money market fund will have the right to take two actions during a period of market stress:

(1) Not allow redemptions for up to 10 days (also known as a "gate")
(2) Impose a redemption fee of up to 2% (also known as a "fee")

We believe money market funds will be reluctant to take either action since either action would be considered extreme. Historically, sponsors of money market funds have occasionally covered small losses so their business would not be impacted.

Allowing a fund to impose a ten-day gate is not a significant change. Most prime money market funds already have the right to impose a seven day gate. The 2% redemption fee, on the other hand, is a new rule.

In addition to the new rules concerning gates and fees, some money market funds will continue to be valued at $1 every day and while others will now have floating values. Per the new rules, there will be two types of prime money market funds: "retail" and "institutional".

Retail funds will continue to have a constant daily net asset value (NAV) price (i.e., $1.00) at all times similar to how they have always operated. Institutional prime money market funds will now have a floating NAV, meaning their price may fluctuate daily. The SEC made this distinction since institutional investors are more likely to withdraw funds from money market funds during times of market stress.

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How Do The New Rules Affect Your Investments?

Fortunately, the majority of our client accounts will be considered retail including agency accounts, 401k accounts, IRA accounts and irrevocable trusts where at least one of the trustees is a "natural person". Endowments, foundations, corporate accounts and irrevocable trusts that have a sole corporate trustee (TCO) will be considered an institutional investor.

While most market observers don't expect the NAV of institutional prime funds to vary much on a daily basis, we think it's prudent to monitor these funds to assess whether they are appropriate for our clients. As a result, unless a client directs us otherwise, we will not invest institutional accounts in a floating NAV fund.

To avoid using a floating NAV fund, we will invest institutional accounts in a Government or Treasury money market fund that has a constant NAV price. Additionally, Government and Treasury money market funds won't have the ability to impose a redemption fee or gate at any time.

We feel it's important to let our customers know of the upcoming money market rule changes. While we think it's unlikely a prime money market fund will impose a redemption fee or gate, it's now possible. We are comfortable investing retail accounts in prime money market funds.

However, if you would like to invest in a Government or Treasury money market fund to avoid the risk of a redemption fee or a gate being imposed, please let us know. Government and Treasury funds are currently paying a yield of .10% to .20% less than prime money market funds.