SF bulletin

By Amanda Balbi, Stephen Barlas

GOVERNMENT

SEC Moves Toward Second Try on Money Market Funds

By Stephen Barlas

It looks like the Securities & Exchange Commission (SEC) is going to take another stab at regulating money market funds (MMFs), a possibility corporate financial executives aren't too happy about. SEC staffers met with the Financial Stability Oversight Council (FSOC) on February 28, 2013, to lay out their thoughts on reform. Created by the Dodd-Frank Act, the FSOC has the responsibility of preventing meltdowns of large financial institutions or, more broadly, the U.S. financial system. If the FSOC declares market funds "systemically important," it can regulate them. But the SEC already has the authority to do so and may move forward on that.

Previous efforts toward regulation of MMFs weren't well-received. Former SEC Chairman Mary Schapiro tried and failed to get her fellow commissioners to agree to a money market reform proposal in August 2012. And in late 2012, the FSOC proposed three reform recommendations for public comment: the Floating NAV (net asset value), the NAV Buffer and Minimum Balance at Risk, and the NAV Buffer and Other Measures. Those are more or less what Schapiro proposed in 2012 after making some less radical changes to MMF regulation in 2010.

The business community essentially opposed Schapiro's further-reaching changes in 2012, and it is no more enthusiastic about the FSOC's three options. In a comment letter to the FSOC, Teri List-Stoll, chairman of the Committee on Corporate Treasury at Financial Executives International (FEI), says, "We continue to believe that the SEC's 2010 amendments to Rule 2a-7 have been adequate MMF reforms, and we caution regulators from implementing any changes that would significantly alter the structure of MMFs or undermine their usefulness to U.S. businesses." She asserts that "a floating NAV brings new accounting headaches, as GAAP-applicable investors must consider how to treat floating-NAV MMFs. Company accounting systems are not geared to mark-to-market value on a daily basis and will have to pull out of money market funds if a floating NAV is adopted."

In discussing the second option recommended by the FSOC, the NAV Buffer and Minimum Balance at Risk, List-Stoll says it "would keep the preferred stable NAV instead of moving to a floating NAV. However, we are concerned with the remainder of the proposal, which would implement a NAV buffer of up to 1% and require that 3% of a shareholder's highest account value in excess of $100,000 during the previous 30 days—a minimum balance at risk (MBR)—be made available for redemption on a delayed basis." In regard to the FSOC's third option, List-Stoll believes "the NAV buffer funding options are the same as Alternative Two, and, therefore, the issues previously raised with the NAV buffer remain the same, yet may be slightly exacerbated by incorporating the increased NAV buffer."

James P. Gilligan, assistant treasurer of Great Plains Energy, Inc. and chairman of the Government Relations Committee at the Association for Financial Professionals (AFP), also believes the FSOC changes may play havoc with corporate accounting under Generally Accepted Accounting Principles (GAAP). "Specifically, while MMFs can currently be included as cash and cash equivalents due to their fixed share price and daily liquidity, the proposed rules may prohibit MMFs from being included as cash and cash equivalents and instead require that they be treated as short-term investments," he argues in a comment letter to the FSOC. "Such a change would create complex and burdensome administrative expenses and potentially threaten compliance with debt covenants that mandate certain levels of cash equivalents."

Opposition to SEC Margin Proposal Widens

A large number of business trade associations have come out against the SEC's proposal to require financial end-users of derivatives, such as pension plans and captive corporate financing arms, to post margins when those derivatives aren't centrally cleared. The SEC won't require posting of margins by nonfinancial companies dealing with security-based swap dealers, just like the Commodity Futures Trading Commission (CFTC) proposal that focuses on bank swap dealers. So both agencies treat industrial companies similarly, but they diverge on how they would treat captive financing arms of corporations, interaffiliate transfers, pension funds, and insurance companies, to mention a few of the nonfinancial end-users who would have to post margin under the SEC proposed rule.

The Coalition for Derivatives End-Users, which includes the National Association of Manufacturers (NAM), among others, said in a comment letter, "We remain concerned about the margin requirements that financial end-users will have to meet under the rule as proposed." The Coalition also represents pension plans, captive finance affiliates, mutual life insurance companies, and commercial companies with noncaptive finance arms. "These entities do not pose systemic risk to the financial system and use derivatives predominantly to hedge risks associated with their business[es]," the Coalition said. "In short, they use derivatives the same way nonfinancial end-users do. We thus believe that margin should not be required for all end-users, whether financial or nonfinancial." The comment period ended February 22.

Strong opposing views reached the SEC, too. "We do not support exemptions from margin requirements for non-centrally cleared derivatives as exemptions for certain market participants, whether by formal regulation or informal agreement," said Kurt N. Schacht, managing director of Standards and Financial Market Integrity at the CFA Institute, in a comment letter to the SEC. In response to an e-mail inquiry from me, he added, "If there were in fact a way to demonstrate that the end-user were using the instruments as a bona fide hedge, different, lower margins might apply as in the exchange traded context. But no flat-out exemptions."

BOOKS

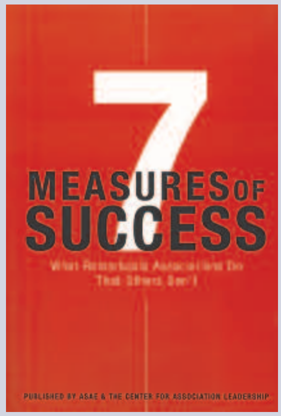
Becoming Remarkable

What differentiates great companies from good ones? What characteristics do the great companies have that make them stand out? The *7 Measures of Success* by ASAE and the Center for Association Leadership helps answer these questions and lays out examples of how to implement seven measures to turn your company into a great one.

The book outlines the results of a study conducted by the Center for Association Leadership and Jim Collins. The study compared 18 good and remarkable associations based on 11 variables—from organizational arrangements to physical setting and location—to determine the factors that contribute most to helping great associations stand out from the competition. Seven measures were identified and grouped under three overarching commitments an organization must honor to be remarkable. They are:

1. Commitment to Purpose
   - A customer service culture,
   - Alignment of products and services with mission,
2. Commitment to Analysis and Feedback
   - Data-driven strategies,
   - Dialogue and engagement,
   - The CEO as a broker of ideas,
3. Commitment to Action
   - Organizational adaptability, and
   - Alliance building.

If applied effectively, these seven measures can deliver benefits to both for-profit and nonprofit companies; any organization that adheres to these commitments and principles will be able to become remarkable. One important finding is that each measure helps develop the next. For instance, the study found that associations can't become remarkable without putting the needs of their members first (the first measure). This, in turn, helps an organization align new products or services with its overall mission (the second measure).



After identifying the measures of success, the project team then compiled a list of 24 statements of conventional wisdom about running a business and compared it to the study findings. For example, the team looked at the way an organization addresses change. Conventional wisdom says that proactive change is better than reactive, but the results show that the type of change doesn't matter as much as the organization's response to change: "Whether they initiate change themselves or react to change, remarkable associations…not only learn from the change but also exhibit the will to take the action it requires of them."

Finally, the results from the study were compared to work done by Collins for his books *Built to Last*, which documented a study that found that "organizations with vision have a much higher likelihood of enduring success," and *Good to Great*, which examined the stock prices of *Fortune* 500 companies to determine which companies went from good to spectacular. Those books served as the foundational material for the study in *7 Measures of Success*. Common themes from all three works include:

- Profit is one means of measuring success, not the only means;
- Focus on the core, and experiment around the fringes;
- Be a legislative leader;
- Get the right people on the bus and the wrong people off; and
- Develop a "stop doing" list.

The book was a very informative yet easy read. There was a great deal of information jam-packed into 125 pages, but it was very well organized. The *7 Measures of Success* won't only help you build strong leadership characteristics—it can also help you determine whether your business is good, great, or remarkable. This book is valuable for any leader looking to transform his or her business into a remarkable success.

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