Prime MFs Clawing Back Two Years After Reform’s “Big Sort”

Two years after the SEC’s Money Fund Reforms triggered a $1.1 trillion shift out of Prime money market funds and into Govt MMFs, Prime assets continue to extend a slow and steady recovery. While assets dipped in the latest month (Sept.), Prime MMFs are up $170 billion, or 30.3%, since hitting their low of $562 billion on 10/31/16. (See the chart below with the SEC’s MMF asset series. We show this because our totals have been inflated by the addition of funds over this period.)

Year-to-date through Aug. 31, the SEC shows Prime MMF assets up $66 billion, or 10.0%, to $733 billion, and up $91 billion, or 14.2%, over 12 months. Govt MMF assets are down $49 billion, or -490 billion, in terms of assets … the largest domicile by quite some margin in Europe, followed by France and Luxembourg. There has been significant growth … in the past 5 years, with 77% growth [over this period]. So it is a very strong and growing industry in Ireland.”

(Continued on page 2)

Highlights from European MFS: Irish Funds’ Rooney

Crate Data hosted its 6th annual European Money Fund Symposium two weeks ago in London, and European Money Market Reforms took center stage. Below, we highlight from one of the keynotes, “Irish & European Fund Issues” which featured Pat Rooney, Senior Regulatory Affairs Manager at Irish Funds. He presented a number of statistics on money funds domiciled in Ireland, the largest segment of the European money fund industry, and gave an Irish take on the new regulations and the fate of the RDM, reverse distribution mechanism.

Rooney says, “Firstly, the MMF industry in Ireland is one of very significant scale…. We’re talking about €490 billion in terms of assets … the largest domicile by quite some margin in Europe, followed by France and Luxembourg. There has been significant growth … in the past 5 years, with 77% growth [over this period]. So it is a very strong and growing industry in Ireland.”

(Continued on page 3)

China, Ireland Still Dominate Global Money Fund Ranks

The Investment Company Institute’s “Worldwide Regulated Open-Fund Assets and Flows, Second Quarter 2018” shows that money fund assets globally fell by $135.6 billion, or -2.2%, in Q2’18, led by big drops in Chinese and French money funds. Money funds in the U.S. and India rose substantially. MMF assets worldwide have increased by $632.8 billion, or 11.9%, the past 12 months. We review the latest Worldwide Money Market Fund totals, below.

(Continued on page 6)
(Prime MFs Clawing Back from p.1)

2.1%, YTD and up just $62 billion, or 2.8% over 12 months.

ICI’s “Money Market Fund Assets” report shows MMF assets dipping in the latest week, but they hit their highest levels since April 2010 the week before. Overall assets are now up $34 billion, or 1.2%, YTD, and they’ve increased by $131 billion, or 4.8%, over 52 weeks. Prime assets, though, had risen for 10 weeks in a row, and they’ve increased by $74.7 billion (16.3%) YTD and $91.7 billion (20.7%) over the past 52 weeks.

Note that ICI shows the Prime (both Retail and Inst) MMF total as $532.4 billion, Crane Data shows it as $715.5 billion, and the SEC shows it as $733 billion. (Crane Data has been adding funds that report Form N-MFP to the SEC to move its collections closer to the SEC’s number, which includes internal, private and “unlisted” MMFs.)

A Bloomberg opinion piece, “Prime Time Returns for U.S. Money-Market Funds,” said recently, “More than $1 trillion of outflows in just 12 months would roil just about any segment of the global financial markets. For prime funds, a corner of the U.S. money market industry that had only $1.4 trillion of assets to begin with, it looked like a fatal blow. Yet almost two years after reaching their low point, prime funds, which buy certificates of deposit and company IOUs, are staging a surprising resurgence. They’ve attracted inflows for 10 consecutive weeks, the longest stretch since early 2009, according to Investment Company Institute data through Sept. 12. At $534 billion, the industry remains a fraction of what it was.... Yet the steady stream of cash suggests a path forward.”

The piece adds, “With mom-and-pop investors leading the way, the explanation for the resurgence in prime funds looks more like a simple dash for cash.... Prime funds offer higher yields than those that strictly invest in T-bills and other short-term U.S. debt.... Prime funds used to have a dollar-a-share fixed price, which gave the impression that they were just as stable as bank accounts. Now, their value can float.... The JPMorgan Prime Money Market Fund over the past year has traded in a range of $0.9999 to $1.0003. The Fidelity Prime Money Market Portfolio (Continued on page 5)
He continues, “The number of funds stands at 115 today; that is down slightly from 122 in 2012. So while assets have been growing, there has been a slight amount of consolidation in the industry. This is an industry of scale…. We have quite a few big players with very big funds, so there is a lot of concentration. But there is still broad diversity, too. We count 48 MMF managers... from 11 countries.”

Rooney explains, “Predominantly the managers in funds of scale are coming from the U.S., the U.K. and Germany. This industry [MMF] accounts for 20% of our [overall fund] assets. So it is an industry that is vital to Irish Funds and one that we have fought vigorously to defend throughout the MMF reform, which hasn’t been easy, in order to ensure that this is a sector that can continue to thrive.”

He also comments, “Looking now at the profile of the types of funds that are in Ireland, they are predominantly, overwhelmingly short-term and they are predominantly CNAV, as I’m sure you’re aware. In terms of the currencies offered, the currencies are Euro, GBP, and USD. The Euro is currently standing around €70 billion, or around 14%. USD and GBP are neck in neck at around 43% each.”

Rooney continues, “In terms of the issuers, they are predominantly banks, followed by government. So I think that speaks to a significant LVNAV offering and significant government fund offering, as well. The investor base is heavily concentrated in Europe ... and there’s quite a few multinationals.... Of course, the U.K. is a big portion of the investor base.... We do have a significant investor base outside Europe, as well.”

He adds, “All of these statistics point to the global scale and international nature of the money market funds sector in Ireland. I think it is very important for us to maintain that international, outward-looking perspective in the ongoing EU dialogue.”

Rooney states, “Looking at money market fund regulation implementation in Ireland, ‘What has the public sector been doing?’ We have the European Union Money Market Funds Regulations, which apply MMFR in Ireland. MMFR does of course have direct effect as an EU regulation.... The [Irish] Central Bank [has been designated] as the competent authority in respect to MMFR.”

He says, “The central bank has also issued application forms in respect to MMFR, and they follow the usual kind of checklist format ... dealing with the constitutional document, the prospectus and various confirmations, referring back to the regulations in terms of compliance and statements that must be included in those documents. You also need to file your depositary agreement with the application forms. The central bank filing deadline for 1 September for applications for those existing MMFs that need to transition by 21 January 2019 in order to ensure an orderly managed transition. Obviously that filing deadline has gone and managers will need to file their appli-

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(Continued from page 1)

BlackRock New York Money Fund ... were each designated a ‘Retail Money Market Fund’. It is our view that money market funds benefit from scale, as funds of scale may achieve better buying power and provide benefits of increased diversification for shareholders. [T]he Funds’ Board ... approved the redesignation of these Funds as Institutional Money Market Funds ... to allow for additional distribution opportunities and client types. We anticipate this change will become effective on or around Monday, October 15, 2018.”

- **SEC Money Fund Statistics**: Prime Assets Break $735B; Yields Up Again. The Securities & Exchange Commission’s latest “Money Market Fund Statistics” summary shows that total money fund assets rose by $29.9 billion in August to $3.144 trillion. Prime MMFs jumped $31.2 billion to $732.6 billion, while Govt & Treasury funds dipped $1.8 billion to $2.276 trillion.

Tax Exempt funds rose $0.6 billion to $135.1 billion. Gross yields rose for all Prime, Government, and Tax Exempt Funds in the latest month. Prime funds represented 23.3% of total assets at the end of August, their highest level since 9/30/16. They’ve increased by $90.8 billion, or 14.2%, over the past 12 months. Yields on Taxable MMFs moved higher again in August, their 11th month in a row of increases. The Weighted Average Gross 7-Day Yield (Continued on page 4)
cations. It is a very structured process and one that is well underway.”

The Irish Funds manager also comments, “[Here is] an overview of project planning for MMFR implementation and it is actually one we provided to ESMA back in March on the back at a meeting we had with them. (See the chart at right.) In response to their comments that there was no hurry in closing out on RDM … this was just to demonstrate the amount of project planning that goes into a comprehensive, regulatory change such as this, which should be obvious. But I think sometimes the obvious needs to be stated. In terms of what a manager needs to do, there are a lot of moving parts there. You’ve got the scoping and analysis, internal decision making, the board approval aligning to your products…. A shareholder vote as well is required in many cases. And all the while of course you need to communicate with your shareholders and they will have their own internal decision-making processes to go through.”

He explains, “In terms of the key compliance areas … it is wide-ranging. But the good news is managers are able to carry over their existing strategies and existing holdings…. We’re looking at tighter limits, but managers by and large would be operating within those parameters…. I think one of the biggest changes is really the scope … around the product categories themselves, assessing those products and aligning your offerings to those products, deciding which ones suit your investors and business model [such as the LVNAV].”

Rooney also comments, “There is already a lot of transparency in the IM-MFA Code and the CNAV area, and what we’re seeing is the standardization of this…. There will be plenty of regulatory reporting. ESMA has fortunately listened to many of our comments and pared back some… To recap, I think the key changes and areas of focus are: the product categories, valuations, liquidity, and escalating procedures.”

On the RDM, “which is the key outstanding issue,” he tells us, “Unfortunately, there has been a fundamental misunderstanding on what RDM is…. RDM is simply the inverse…. It’s based on a standing instruction to redeem shares.”

Finally, Rooney adds, “Unfortunately, we are dealing with a predisposition against RDM, which is very hard to counter. There is persistent uncertainty…. It remains to be seen if the Commission will respond and how it will respond. We’re not sure…. The backdrop is not good, and we don’t know how this will end…. We are reaching an end-game pretty soon because time is running out.”

(Continued on page 6)
has traded from $1.0002 to $1.0004. Basically, for all intents and purposes, the funds’ share prices haven’t budged.... With prime funds proving their safety and resilience even with variable net asset values, investors may be growing comfortable putting money back in again.”

Retail flows have been driving the recovery. Newsletter Fund Action quotes our Peter Crane, “Retail is back and that certainly explains [recent] Vanguard, Fidelity, [and] Federated [inflows].... It’s clear that retail investors and particularly high net-worth brokerage investors are starting to move money away from lower-yielding sweep accounts and bank deposits into the money market funds.”

The article, “Money funds, passives boost August flows,” adds, “Demand is largely being driven by retail investors that recognize they can once again earn a respectable yield on cash,’ a Vanguard spokesperson explained.”

Bloomberg also writes, “Looming Money-Market Shift Has Big Implications for Risk Assets,” which recaps recent data on money fund yields and Prime assets. They tell us, “The world’s most boring investment is about to get interesting again. When the Federal Reserve makes its forecast interest-rate increase next week, it will take the benchmark above core inflation for the first time since 2008. Money market funds, the bank deposit alternatives that invest mainly in very short-dated securities, are already enjoying their longest streak of inflows since the global financial crisis. Positive real returns on low-risk assets could shape up as a pivotal moment in the global investment cycle. A number of gauges are now illustrating their increasing attractiveness. Among them: a 3%-plus yield on 10-year Treasury notes that’s diminishing the relative appeal of equities.... The gap between the yield on 3-month Treasury bills and the S&P 500 Index has climbed to the highest since 2008, showing how short-term money is winning more friends as riskier assets are forced to work harder to lure every dollar in this age of exuberance.”

The article adds, “The Sept. 25-26 Fed meeting will feature a quarterly update to the central bank’s dot-plot projections for growth, inflation and the policy rate, offering a fresh outlook on the prospect for further tightening into 2019.... [It] bodes for yet further inflows to cash.”
denominated basis, ... bond fund assets decreased by 2.9 percent to $10.25 trillion in the second quarter ..., while money market fund assets decreased by 2.3% globally to $5.96 trillion.”

It adds, “At the end of the second quarter of 2018 ... money market fund assets represented 12% of the worldwide total... Money market funds worldwide experienced an inflow of $36 billion in the second quarter of 2018 after registering an inflow of $14 billion in the first quarter of 2018.”

According to Crane Data’s analysis of ICI’s “Worldwide” fund data, the U.S. maintained its position as the largest money fund market in Q2’18 with $2.821 trillion, or 47.3% of all global MMF assets. U.S. MMF assets increased by $27.6 billion (1.0%) in Q2’18 and increased by $187.1B (7.1%) in the 12 months through June 30, 2018. China remained in second place among countries overall, though assets declined sharply in the latest quarter. China saw assets decrease $73.9 billion (-6.0%) in Q2 to $1.165 trillion (19.5% of worldwide assets). But over the 12 months through June 30, 2018, Chinese MMF assets have risen by $412.3 billion, or 54.8%.

Ireland remained third among these country rankings, ending Q2 with $568.9 billion (9.5% of worldwide assets). Dublin-based MMFs were down $21.8B for the quarter, or -3.7%, but up $29.8B, or 5.5%, over the last 12 months. France remained in fourth place with $405.6 billion (6.8% of worldwide assets). Assets here decreased $39.7 billion, or -8.9%, in Q2, but were up $5.7 billion, or 1.4%, over one year. Luxembourg was in fifth place with $357.2B, or 6.0% of the total, down $20.0 billion in Q2 (-5.3%) and down $13.4B (-3.6%) over 12 months.

Japan remained in sixth place with $107.1 billion (1.8%); assets there dropped $1.0 billion (-0.9%) in Q2 and $4.8 billion (-4.3%) over 12 months. Korea, the 7th ranked country, saw MMF assets fall $5.2 billion, or -5.2%, in Q2 to $95.1 billion (1.6% of the world’s total MMF assets); they fell $1.9 billion (-1.9%) for the year. Brazil remained in 8th place, as assets decreased $6.8 billion, or -8.4%, to $74.7 billion (1.3% of total assets) in Q2. They have decreased 8.4%, to $74.7 billion (1.3% of total assets) in Q2. They have decreased

Agencies. CP remained fourth ahead of CDs, Other/Time Deposits and VRDNs. (Watch for our next Portfolio Holdings update next Wednesday.)

Moody’s Robert on French MMFs. At our European MFS, Moody’s Vanessa Robert commented, “In France, the money market fund sector is about €350 billion ... the second largest after Ireland.... In France, it is all about liquid products. People love to invest in money market funds just like they like to drink wine.... French money market funds are mostly sold to French investors and even more to French insurance companies.... In

ESMA Seeks Feedback on European MF Stress Testing

A statement entitled, “ESMA consults on stress testing rules for money market funds,” tells us, “The European Securities and Markets Authority (ESMA) has opened a public consultation on how European money market funds (MMFs) should conduct their internal stress testing.... The Money Market Funds Regulation (MMFR) requires managers of MMFs to conduct regular stress tests as part of their risk management and regulatory disclosure. Funds must put in place sound stress testing processes, including identifying stress events, or future changes in economic conditions, and assess the impacts these different scenarios may have on (the net-asset-value and/or liquidity of) the MMF.”

They explain, “ESMA, to capture coherently MMFs’ risks, has developed draft guidelines for their stress testing. The consultation paper is the first step in developing detailed specifications for these stress tests by proposing common parameters and scenarios which take into account the following hypothetical risk factors: liquidity changes of the assets held in the portfolio of the MMF; credit risk, including credit events and rating events; changes in interest and exchange rates; redemptions; spread changes of indexes to which interest rates of portfolio securities are tied; and macroeconomic shocks.”

The statement adds, “In March 2018, ESMA published its 2017 Guidelines on stress testing for MMFs, which will be updated following the consultation so that managers of MMFs have the information needed to fill-in the required fields in the reporting template. The guidelines need to be updated at least every year taking into account the latest market developments. Stakeholders’ views are especially sought on the draft methodology, risk factors, data and the impact calculation. The consultation is open for comments from interested parties until 1 December 2018. ESMA will use the feedback received to finalise its Guidelines in Q1 2019.”
Schwab Shifts Sweeps

Charles Schwab Investment Management filed to liquidate another Prime MMF, Schwab Cash Reserves, as it continues to shift brokerage sweep assets from money market funds to bank deposits. Website ignites, in “Schwab Cutting Sweep Money Fund Options,” writes, “In the latest stage of Schwab’s effort to steer brokerage sweep assets away from money funds, the firm is showing more investors in such products the door. The firm plans to liquidate its $7.7 billion Cash Reserves fund in April.”

They tell us, “Schwab is far from alone in forcefully nudging clients out of sweep money funds and into bank products, which tend to be more lucrative for brokers and are FDIC insured. Merrill Lynch [and] Morgan Stanley [have] taken steps in the past year to limit the customer assets being swept into money funds.”

The ignites piece adds, “Brokerages have been ‘relentlessly’ tweaking the rates they pay on bank sweep accounts for different tiers of clients because they’re trying to strike a delicate balance between making money off of brokerage clients and ‘appeasing people’ who know that rates on cash are no longer negligible, says Pete Crane ... of Crane Data. ‘Brokerage revenue streams are under siege,’ says ... Crane. ‘Sweep accounts are one of the last vestiges that haven’t been dragged into the fee wars’... But Main Street investors may start paying closer attention to this area.”

Crane Data’s latest Brokerage Sweep Intelligence shows that rates among the $1 trillion in FDIC-insured cash held at brokerages moved higher in the latest week, rising to 0.24% (for accounts of $100K), up from 0.11% at the start of the year and 0.07% a year ago. Several brokerages, including Ameriprise, Fidelity, and Schwab, increased rates on sweep tiers in the latest week. Fidelity raised sweep rates to 0.66% (from 0.53%) for accounts at $100K and higher. Schwab bumped up rates to 0.30% for all tiers under $1 million and to 0.60% at $1 million or higher on its Bank Sweep.

(Money Fund News cont. from page 6)

France as you know, it is all about the VNAV … all about “Standard” money market funds (84% of the total).”

Barron’s on Stable Value Funds. The article, “No Stomach for Stock-Market Swings? Consider Stable Value Funds,” tells us, “For risk-averse investors, there seems to be nowhere to hide these days…. But if you have a 401(k), you have an oft-overlooked option. Stable value

(Continued on page 8)
### Brokerage Sweep Rates (9/30/18)

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<th>Brokerage</th>
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<th>Yield</th>
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**Crane Brokerage Sweep** 0.22%  
**Crane Brokerage Cash Index** 0.79%  
Money Fund 1.35%

**Notes:** Sweep rates for $100K balances; taxable options only.  
For more details, see our weekly Brokerage Sweep Intelligence.

### Top Bank Savings Rates (9/30/18)

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<td>Top 10 Bank Savings</td>
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**Notes:** Listings contain only high-profile, national rates.  
News: Fidelity Investments writes in a recent “Viewpoint” entitled, “Seek more from your cash amid higher rates,” “Money markets and CDs may offer more income, and risk, than savings accounts.... If you do have money in cash, you should consider your options.” ♦

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### Calendar


### People

- Steve Kraus is a new Vice President of NA Liquidity Sales for Citi - Treasury & Trade Solutions. ♦

### Money Fund University

Visit https://www.cranesmuniversity.com  
Register now for our next “basic training” event. MFU takes place January 17-18, 2019 in Stamford, Conn. ♦

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