SET TO RETIRE, DREYFUS CHIEF CARDONA REFLECTS ON CAREER

Forty years in the business with 35 of them at Dreyfus. That’s what is in J. Charles Cardona’s rearview mirror as he readies himself for the next phase: retirement, effective Dec. 31. Cardona who is president of The Dreyfus Corporation, chief executive officer of BNY Mellon Cash Investment Strategies and director of Dreyfus Cash Management Funds, took time to speak with Money Market Insight™ about his career.

Cardona was asked about the high point and the low point. He replied they are both wrapped into one. “I think I hit both the low point and the high point of my career around the cash business and financial services overall during the financial crisis of 2008.” Cardona explained that it was both “fascinating and terrifying to be in the middle of all that was going on and just managing minute-to-minute. That was the scary part.” Then the high point was when “you could see you were actually going to make it.” At that point he knew that “everything he had spent a lot of time on throughout his career wasn’t going to vanish.” So, he said, “That’s why I combine the answer to include both the high and low point.”

Cardona was then asked to look back on what he considered to be his greatest accomplishment. He said he had to give this question some thought. “I would say our greatest accomplishment was the work we did on behalf of Dreyfus and the money-market-fund industry by trying to add a rational and productive voice to the whole money-market-fund reform debate.” The reason Cardona singled this out is the efforts to successfully push back against “varying degrees of regulators, whether they be the Securities and Exchange Commission, the Financial Stability Oversight Council or the Fed’s view that money-market funds had to be regulated to a far greater extent.” An extent, he added, that included some “proposals that would put us all out of business.” Cardona continued, “So I think our efforts throughout that multiyear period of reform debate and the uncertainty around it is probably one of the things I would point out as being most proud of. We are still standing and stronger than ever.”

The final MMF reforms now in place elicited the following observations from Cardona: “It did go a bit further than it needed to. We argued for institutional prime funds to continue to price at a dollar under amortized-cost pricing. Were that the case, he said the industry would be more receptive to fees and gates. On the other hand, he added. “If you are going to let them float then they should be like any other mutual fund and be a product that’s going to float in price. We ended up with the worst of both worlds because now we are entering an era of floating price combined with the mandate to adopt policies around fees and gates. I think it was a bit of overkill.”

The inclusion of institutional municipal money-market funds under the altered regulatory umbrella was something Cardona said he was “deeply disappointed about.” He said Dreyfus lobbied hard against the idea. “You don’t need to use a stress test as a barometer. Just look back at what occurred in 2008. Muni funds behaved very appropriately.” He did not hold back when he said, “I think now they have taken a product that didn’t need to be overregulated and now it is immensely overregulated to the detriment of the investors and to the detriment of municipal issuers who are now going to have a much smaller market to deal with.”

What did he consider is the best thing about money-market fund reform? “The good news is that it brought clarity and ended the uncertainty of where reform was going to wind up so whether you are a big fan, or thought it was overkill as I do, at least we know what we are dealing with.”

Unintended Consequences

Now that reforms have taken effect, Cardona commented on what could be some unintended consequences. For example, he said the term “push for yield” is not one that has been applied to government money-market funds “because it’s difficult to do.” Now that government funds have become the “go-to product,” Cardona said, “I do worry in a different (interest-rate) environment that government funds may not be as safe as investors perceive them to be, particularly around price volatility which could place pressure on the dollar per share. That’s something you just have to watch as the environment changes.” He pointed out that the decision not to apply fees and gates (to government funds) is not intractable. “If you look at our language it clearly says ‘at the present time’ because in a different interest-rate environment you might think about it very differently. You can never say never.”

Cardona expressed concern over the role of central banks. “When I go back to unintended consequences I think about the central-bank policies and all the money that’s being printed around the globe. At some point this will reignite inflation and the banks are going to have to raise rates. Then people will be scrambling in a different environment than they’ve ever lived through before.”

The potential of newly-created opaque products which may qualify for government money-market fund investments was raised, and Cardona agreed that is a possibility. “Yes, it
Treasurers Still Grappling

Corporate treasurers are among the predominant groups that are affected by MMF reform. Cardona commented on how up to speed they were as the Oct. 14 deadline approached, and its implications. “At this point virtually a hundred percent of corporate treasurers now have a clear understanding of the impact of what the reforms are. However, I don’t think they have sorted out how they want to think about managing cash longer term given these changes.

“A lot of corporate treasurers and entities are still grappling with investment guidelines, looking at alternative-product structures, whether it might be separately-managed accounts or ultrashort bond funds or private-placement products. What you see happening is they are taking the course of least resistance and defaulting to government funds – for now. I think longer term they are going to continue to resolve things like their investment guidelines and their thinking about how some of these other products perform. This is an evolving diversification and I look at it as almost a new beginning. I think they all understand the impact. I don’t think they are anywhere near sorting out what’s the best way to manage cash in light of these changes.”

Dreyfus Well-Positioned

Dreyfus is in a “really good position,” said Cardona. “Where Dreyfus benefits is from being part of a larger and very solid organization. You start with BNY Mellon as the parent company. It is very sound financially, has a really strong balance sheet and solid credit ratings and fee-earning businesses. Dreyfus is a proprietary manager but the bank is a custodian not only to Dreyfus money-market funds but (to) many of the largest in the industry. Dreyfus is also part of BNY Mellon Investment Management’s multi-boutique structure that consists of 13 different firms. Each specializes in particular areas of asset management. The only asset class that Dreyfus manages internally is cash with other long-term mutual funds, predominantly run through the other 12 boutiques and a handful of other third-party managers.”

In all, Cardona said Dreyfus is running over “$225 billion in 2a-7 or 2a-7-like assets” and at the same time has oversight of the bank’s cash collateral reinvestment book for credit and risk oversight which is another $140 billion.

Being part of an investment-management franchise that is managing $1.7 trillion is cause for optimism and enthusiasm about growing opportunities, concluded Cardona. And that is a “great combination!” he exclaimed.

—Mary Ellen Tuthill

For more information, please reach out to your BNY Mellon Fixed Income Sales representative or call our Institutional Servicing group at 1-800-346-3621.

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