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New Rules Make It Harder for Companies to Manage Their Cash

SEC's changes make it possible for some money funds to lose value, limit redemptions, undermining their appeal

Spirit Airlines' treasurer has moved some of its money out of money-market funds and is considering his options for deploying the more than $1 billion of cash and investments on the budget carrier's balance sheet. *PHOTO: LARRY MACDOUGAL/ASSOCIATED PRESS*

By **VIPAL MONGA**

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Simon Gore has had a relatively simple job over the past several years. As treasurer of budget carrier Spirit Airlines Inc., he has taken tens of millions of dollars of company cash and parked it in money-market funds.

With interest rates near historical lows, ensuring scant returns, it didn't matter much if the money sat in a money-market fund or a bank account. Mr. Gore just aimed to protect Spirit's principal and guarantee that the company could access its cash in an emergency.

His job isn't that simple anymore.

New rules on money-market funds, which are set to kick in on Friday, have made life more difficult for corporate treasurers and chief financial officers. They face a sometimes unfamiliar array of investment options as they seek both to preserve and earn some return on their collective trillions.

The rules, which the Securities and Exchange Commission adopted in 2014, make prime money-market funds, which typically invest in short-term corporate and municipal debt, less attractive for corporate cash managers. The regulations require the funds to allow their net asset values to fluctuate, instead of effectively fixing them at $1 a share, as in the past.

A floating net asset value raises the possibility that corporate investments in the funds could lose value, threatening a company's principal. The rules also allow the funds to suspend redemptions temporarily in a crisis, meaning a company could lose access to its money.

In anticipation of the new regulations, investors have been pulling money out of prime money-market funds at a rapid clip. Assets under management at those funds totaled $473.24 billion as of Oct. 5, according to the Investment Company Institute, a fund-industry trade group. That's down more than 60% from $1.25 trillion at the start of the year.

Mr. Gore said he has moved money out of some funds and is considering his options for depositing the more than $1 billion of cash and investments on Spirit's balance sheet.

Mr. Gore had previously put almost all of Spirit's cash in prime money-market funds. Now, he has shifted most of it to money funds that invest in debt issued by the federal government or agencies such as Fannie Mae and Freddie Mac, which aren't affected by the new rules.

He said the prospect of a floating net asset value caused him to think twice about prime funds. Besides facing the risk of losing money under the new rules, companies would have to record changes in the value of their cash, creating accounting headaches.

Companies, pension funds and insurers have traditionally used prime funds as a place to park cash they need for routine purposes, such as paying bills. The funds provided slightly better returns than a bank account with little risk.

"Historically corporate treasurers are tasked with investing in a way that they will preserve their principal," said Jerry Klein, head of the corporate cash management group at Hightower Treasury Partners, an investment-management firm. "That's one of their biggest concerns."

The SEC rules aim to prevent the sort of chaos that hit the money market after Lehman Brothers Holdings Inc.'s 2008 bankruptcy, which helped spark the financial crisis. The goal is to give investors a way to monitor a fund's health by tracking its fluctuating net asset value, and to contain the fallout that could be caused by many investors cashing out at once, the SEC wrote in the final rules.

Ahead of the new rules, cash has flowed briskly into money funds that invest in government securities. Assets under management at these government money funds increased to $2.05 trillion as of last Thursday, up 67% from $1.23 trillion on Jan. 6.

Christina Kopec, head of retail-product strategy for global fixed income at Goldman Sachs Asset Management, said the large move into government funds may be temporary, as corporate treasurers wait for things to settle down after the new rules take effect.

MGM Resorts International, the Las Vegas-based hotel and casino operator, had previously put its cash into prime funds and bank accounts, said Mike Carlotti, its treasurer. The company, which had roughly $2.5 billion of cash at the end of June, has shifted out of the prime funds into government funds.

"There's no compelling reason to be in the prime funds," he said. The yields on prime funds, while traditionally higher than government funds, are not big enough to justify staying in prime funds, given the hassles that the new rules introduced, he added.

Average yields on government money funds are at 0.18%, according to Crane Data LLC, which specializes in money funds. Prime money funds, by contrast returned on average 0.29%, while corporate bank deposits can earn anywhere from 0.15% to 0.30% at large U.S. banks, according to Mr. Klein, of Hightower Treasury Partners.

The low returns on cash could cause treasurers to seek alternative investment strategies to the funds and deposits once the dust settles and they become more comfortable with the new landscape, said Goldman's Ms. Kopec.

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