MEMORANDUM

To: File No. 4-619

From: Jennifer B. McHugh
Senior Advisor to the Chairman

Date: April 24, 2012

Re: Telephone Discussion with Representatives of Treasury Strategies

On April 23, 2012, Senior Advisor to the Chairman Jennifer B. McHugh participated in a telephone discussion with the following representatives of Treasury Strategies:

- Tony Carfang, Partner
- Cathy Gregg, Partner
- Jacob Nygren, Manager

The discussion focused on the attached set of materials.

Level-Setting the MMF Debate

Presented To

April 4, 2012

Treasury
Strategie

The Power of Experi

Understanding a Financial Run

Types of Financial Runs

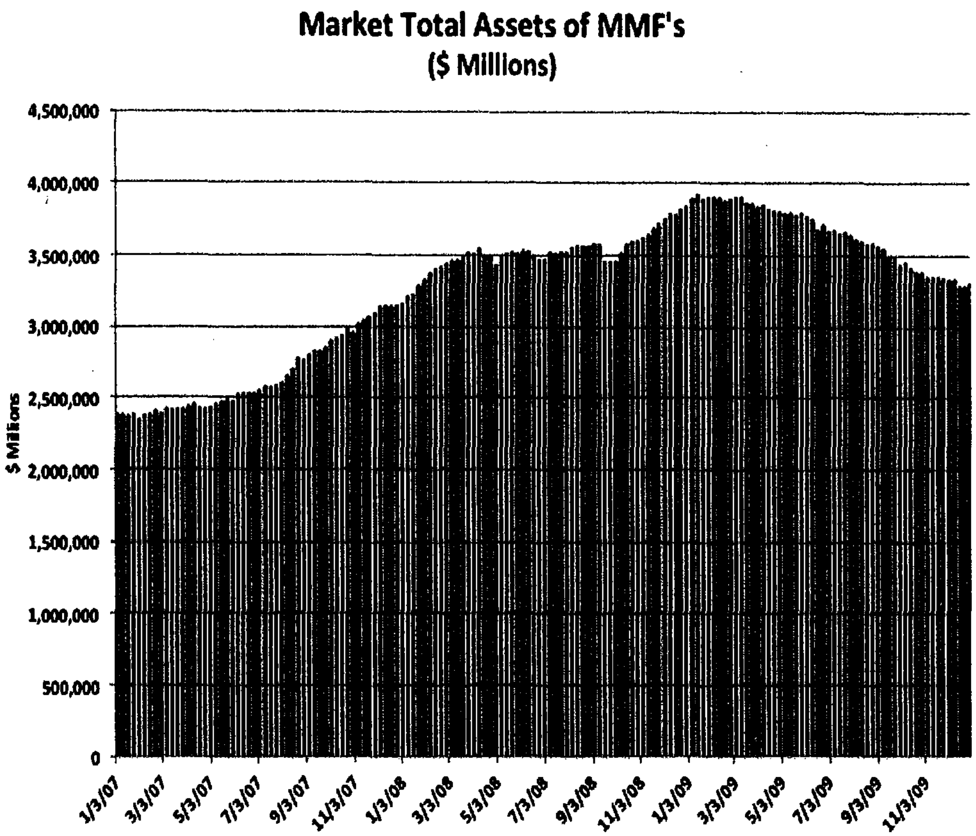
Type	Proximate Cause
Credit-Driven	Credit loss
Liquidity-Driven	Market seizing
Speculative	Uncertainty/misinformation

Understanding a Financial Run

Timing of a Run

Timing	Characteristics
Firestorm	• Panic environment • Short duration
Prolonged	• Extended duration • Investors cease to rollover or reinvest upon maturity • Crescendo • Precipitating event can easily trigger firestorm run

Overview of MMF Total Assets: 2007-2009

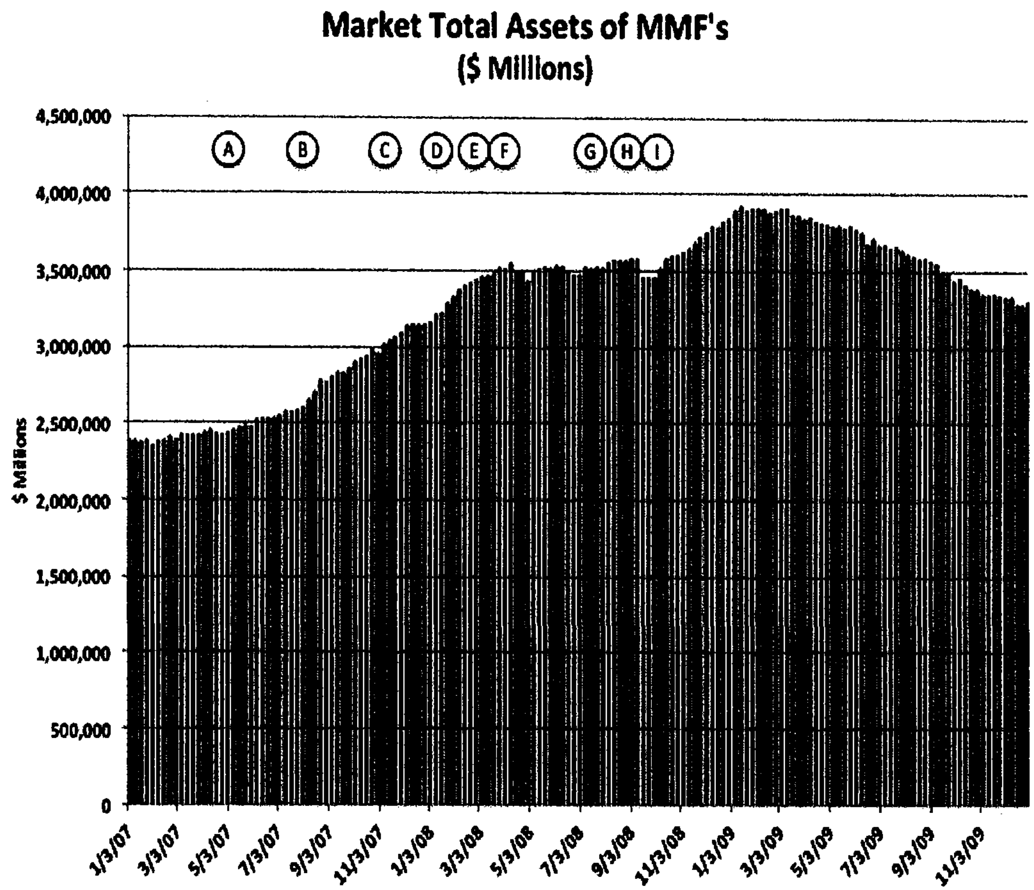


- MMF assets at $2.4 trillion on January 1, 2007
- Peaked at $3.9 trillion on January 14, 2009

Source: Investment Company Institute Historical Data & Treasury Strategies, Inc.

Overview of MMF Total Assets: 2007-2009

Treasury Strategies.



A) Bear Stearns RE fund fails

B) Major ABCP downgrades

C) GE fund moves to floating NAV and enhanced cash funds freeze

D) Countrywide rescued

E) Auction-rate securities freeze

F) Bear Stearns rescued

G) Indy Mac Bank fails

H) Fannie Mae and Freddie Mac fail

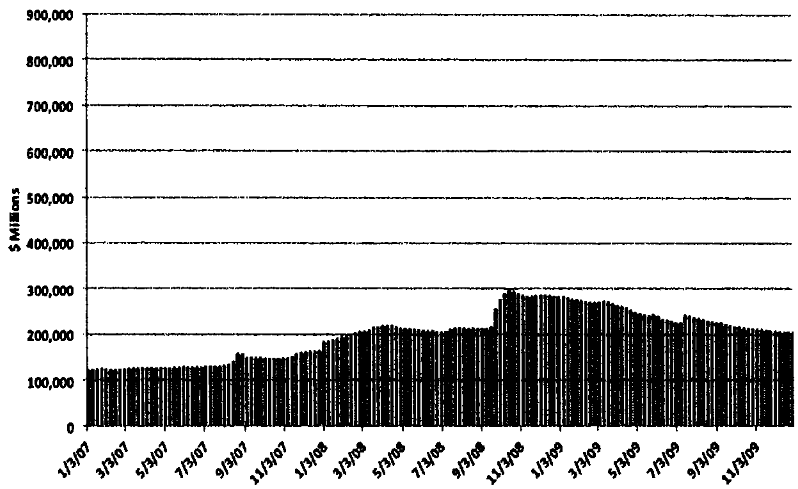
I) Lehman fails, Merrill rescued, Reserve fails, AIG rescued, WaMu $16B run

Source: Investment Company Institute Historical Data & Treasury Strategies, Inc.

Retail Money Market Funds

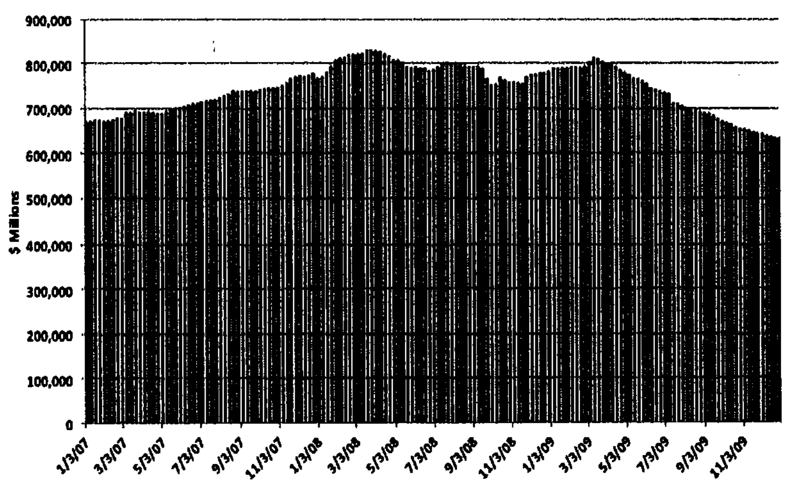
Treasury Strategies.

Retail Gov't MMF's
($ Millions)



- Assets grew steadily as crisis unfolded from June 2007-September 2008
- Run *into* Government MMFs week of September 15, 2008

Retail Prime MMF's
($ Millions)

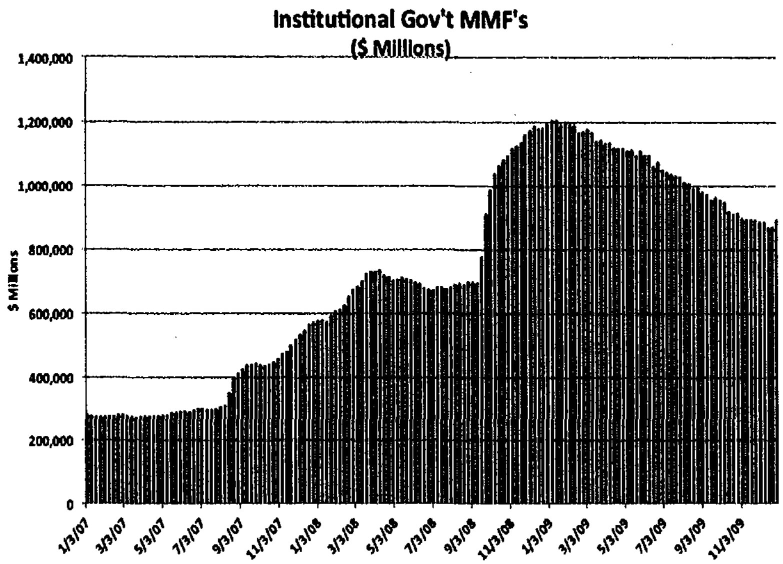


- Assets grew steadily as crisis unfolded from June 2007-September 2008
- Small decline during the week of September 15, 2008

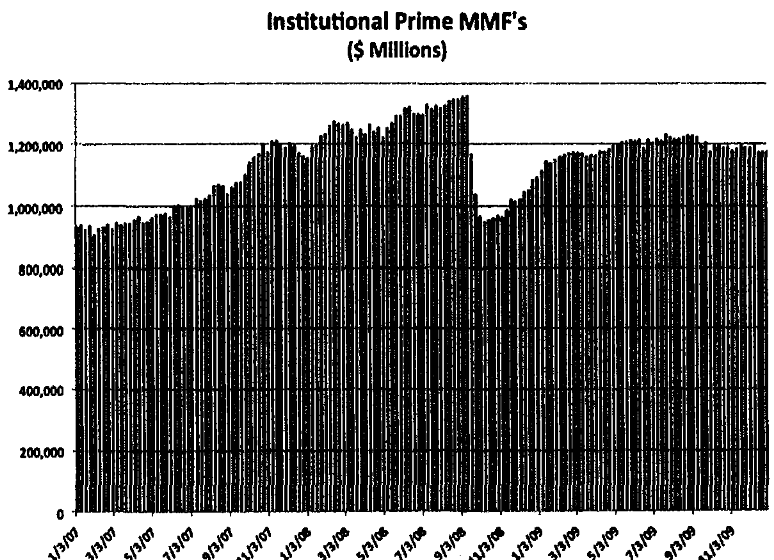
Source: Investment Company Institute Historical Data & Treasury Strategies, Inc.

Institutional Money Market Funds

Treasury Strategies.



- Major inflow of assets from June 2007-September 2008
- Run *into* Government MMFs during the week of September 15, 2008

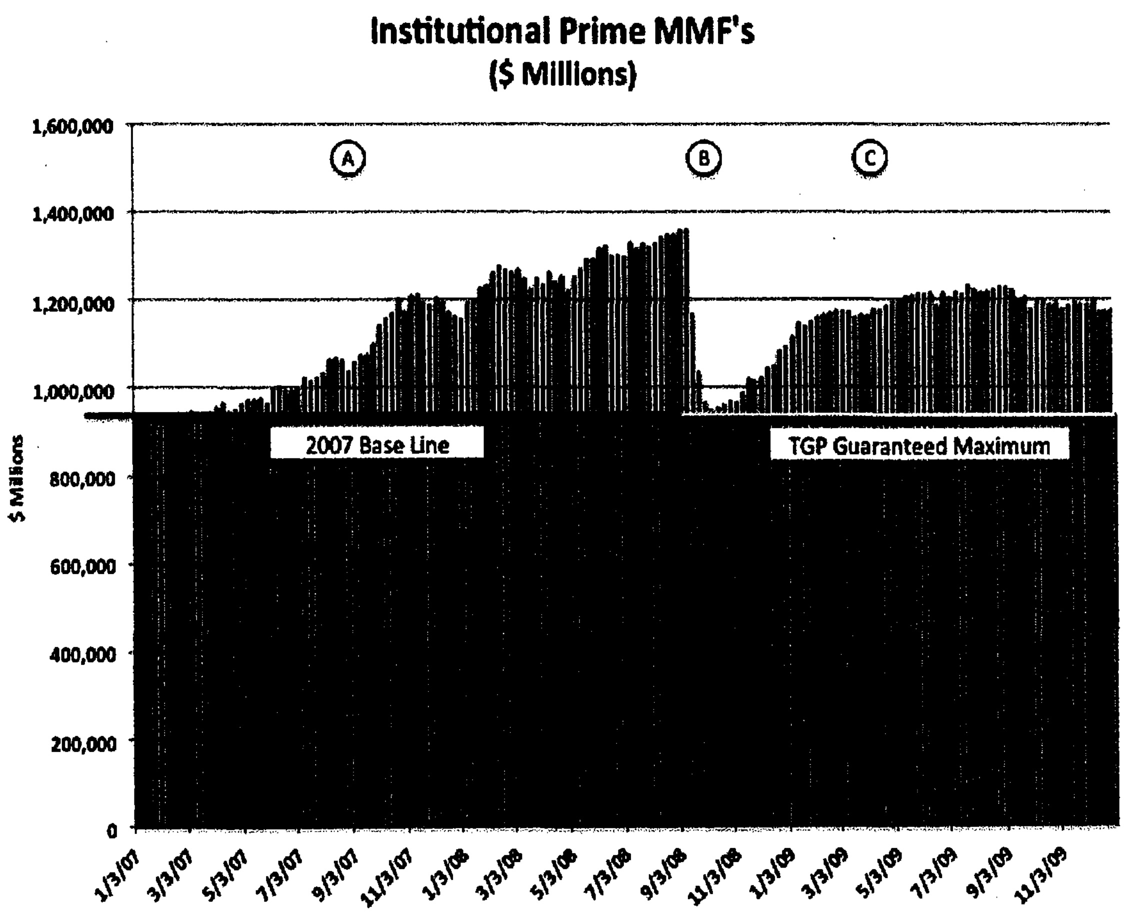


- Major inflow of assets from June 2007-September 2008
- Decline of assets to early-2007 baseline during the week of September 15, 2008
- Growth of non-guaranteed assets beginning October 2008

Source: Investment Company Institute Historical Data & Treasury Strategies, Inc.

Institutional Prime MMFs

Treasury Strategies.



A) Prolonged run from other impaired liquidity asset classes into institutional prime 6/07-9/08

B) Assets revert to original baseline week of September 15, 2008

C) New non-guaranteed inflows from 10/08-7/09

Source: Investment Company Institute Historical Data & Treasury Strategies, Inc.

The Week of September 15, 2008

Dates	Change In Inst. Prime Assets ($B)	Market Events
8/28-9/12	-0.9	Fannie & Freddie fail est. $200B
9/15	-60.9*	Merrill Lynch rescued Run on WaMu $16.4B Lehman Brothers fails as Fed guarantees $138B Reserve Primary Fund halts redemptions
9/16	-37.0*	Reserve Primary Fund "officially" breaks the buck with $785M loss on Lehman AIG unexpectedly fails $85B *after the market close*
9/17	-129.9	
9/18	-93.9	
9/19	-24.8	Temporary Guarantee Program implemented
9/22-12/31	+132.4	Cash inflows above the guarantee level

*Including approx. $54 billion from Reserve

Regulatory Landscape

Changes to Rule 2a-7 implemented in 2010:

- More robust fund liquidity measures
- Stronger portfolio quality standards
- Shorter maturity limits
- Increased transparency of portfolio holdings and valuations
- Independent ratings and reporting requirements

Discussion of additional regulation:

- Floating NAV
- Capital
- Holdback

Floating NAV

Treasury Strategies

Treasury Strategies concerns with the floating NAV proposal for MMFs:

- Volatility of capital
- Accounting/tax reporting complexities
- Administrative challenges
- Legal and investment policy constraints
- Operational inconveniences
- Unpredictability for cash forecasting purposes
- Failure of similar floating NAV instruments

Capital Requirement

Treasury Strategies' concerns with the capital requirement proposal for MMFs:

- Reduced transparency for investors
- Confusion leading to more risk averse/panic-prone investors
- Increased moral hazard for fund companies and investors
- Asset management firms and bank advisors exiting the business
- Increased volatility
- Increased costs and decreased yields, especially for retail investors and smaller fund companies
- Increased concentration of assets into the largest banks
- Creation of new AIG-like systemic risks

Redemption Holdback

Treasury Strategies' primary concerns with the redemption holdback proposal for MMFs:

- Will create a "thirty-day look ahead" phenomenon that will trigger a firestorm run at the first sign of financial stress in an instrument in any market
- Will not eliminate a first-mover advantage
- Will result in a vast, if not total, reduction of assets in MMFs, crippling the industry and cutting off a primary source of credit for corporate and municipal borrowers
- Will not treat all shareholders equally

Additional Treasury Strategies concerns:

- Maturity extension without yield increase
- Restricted liquidity for investors
- Disenfranchised fiduciaries
- Movement of funds into unregulated instruments and exacerbation of "too big to fail"
- Operational infeasibility
- Penalties for retail investors
- Ineffective solution in eliminating first-mover advantage
- Problems with omnibus accounts
- Restricted financing for borrowers

Other Major Regulatory Changes

Treasury Strategies.

Other recent regulatory changes impacting corporate and institutional investors:

- Derivatives regulations
- Basel III
- Volcker Rule
- Unlimited FDIC insurance
- Repeal of Reg Q
- Fees on daylight overdrafts
- Interest on reserve balances

Can the market digest all these changes simultaneously?

Seriously…

A *prolonged* run occurred throughout 2007 and first eight months of 2008

- from several impaired liquidity asset classes.
- into prime and government MMFs.

Reserve Primary Fund experienced a contained, credit-driven run as a result of the failure of Lehman Brothers.

The failure of AIG sparked an unexpected *speculative* run

- from all non-government backed liquidity asset classes.
- into government securities and government guaranteed bank accounts.

Within one month, the flow of assets into non-government guaranteed institutional prime funds resumed.

The Way Forward

The 2010 changes to Rule 2a-7 clearly address each type of run.

Type of Financial Run	Proximate Cause	2010 MMF Regulations
Credit-Driven	Credit loss	Tightened credit standards Increased diversification
Liquidity-Driven	Market seizing	Shortened maturity structure Instituted liquidity requirement • 10% next day • 30% weekly
Speculative	Uncertainty/misinformation	Reporting of holdings Reporting of shadow NAV

Therefore, no further changes are necessary.

Contact Us

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Data from Investment Company Institute, Crane Data, iMoneyNet, and Federal Reserve

About Treasury Strategies, Inc.

Who We Are

Treasury Strategies, Inc. is the leading treasury consulting firm working with corporations and financial services providers. Our experience and thought leadership in treasury management, working capital management, liquidity and payments, combined with our comprehensive view of the market, rewards you with a unique perspective, unparalleled insights and actionable solutions.

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Corporations

We help you maximize worldwide treasury performance and navigate regulatory and payment system changes through a focus on best practices, technology, liquidity and controls.

Treasury Technology

We provide guidance through every step of the technology process. Our expert approach will uncover opportunities to optimize the value of your treasury through fully integrated technology solutions.

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