Ira Apfel:	00:00	AFP Conversations is sponsored by State Street Global Advisors with over 350 billion dollars in money market funds and short term fixed income strategies State Street Global Advisors can help corporate treasurers and Treasury staff find the right investments for their needs.
Ira Apfel:	00:16	Learn more as SSGA.com/cash. That's SSGA.com/cash.
Ira Apfel:	00:30	Welcome to AFP conversations. The only podcast for corporate treasury and finance professionals and I'm your host Ira Apfel. You know 2017 is quickly drawing to a close and it's been a very interesting year for the economy and how it affects treasury and finance issues like the debt ceiling the Fed outlook money markets and tax reform are all still looming. So what does all this mean for treasury and finance professionals and how should they make sense of it all. And where is the economy headed. To get answers to these questions I'm going to talk today to Todd Bean and Will Goldthwait. Both of these gentlemen are with State Street Global Advisors. Todd is a senior portfolio manager with State Street Global Advisors. He's part of the firm's U.S. cash management group which he joined back in 2014 pardon me, 2004. Will is a portfolio strategist with SSGA he's presented at numerous industry meetings about the state of the markets and how treasures should position their portfolios at SSGA.
Ira Apfel:	01:40	Will is also responsible for the communication of cash and fixed income strategy, investment strategy and performance to clients constituents and prospects. Todd and Will thanks for being on the podcast. So I guess let's just jump right in here. Todd can you give us an update on the debt ceiling what are we stand there yeah.
Todd Bean:	01:58	Thanks Ira. Thanks everyone for listening. Well the debt ceiling is like that gift that just keeps on giving for the money markets. I mean we've been dealing with this and every other year basis now since 2011 and it just won’t seem to go away. But as everyone probably knows by now, Congress and President Trump recently approved a hurricane relief bill that included a short term suspension of the debt limit to December 8th. I thought it was pretty interesting how those politics went down as the president crossed over to the party lines and negotiated the deal directly to Democratic leaders instead of working with the Republicans who had preferred a longer term extension of the of the limit. But regardless the deal got done. And if you look at the language that they used it's basically the same that they've used for the past suspension so it will allow the Treasury

to use their extraordinary measures or as the treasury secretary calls them his magic super Treasury powers.

Todd Bean:	02:49	Once we get to that December 8th date. So the good news for investors is that there are no longer any near-term concerns about a possible default or a delayed payment this year. The bad news is that we're probably going to have to relive this all over again at some point in the first half of next year precisely when that new D-Day could be up for a lot of debate. A lot of the analysts out there have it falling sometime and either late February or early March at this point. But there are certainly a lot of factors that could influence that. You know things like tax policy changes or additional spending bills things like that can clearly affect the Treasury's cash balances and the borrower needs we have even seen some analysts out there that speculated they could potentially make it all the way into to tax receipt season.
Todd Bean:	03:31	And if that's the case then it could potentially push that date all the way back into the summer time. So at this point it's just far too early to tell them kind of precision. So portfolio manager position will just continue to wait and see and monitor the situation as we go. I would say one thing that we do know and one thing that's probably one of the biggest direct impacts on our markets is on T-bills supply. Had they gotten a long term deal done analysts were estimating that we could have seen upwards of 300 to 400 billion in additional Treasury supply by the end of the first quarter of next year. Unfortunately now with the shorter suspension analysts expectations are coming closer to just 150 billion in additional year term bill supply.
Todd Bean:	04:13	It's also expected that the supply will be a little bit volatile along the way. So under the terms of the suspension the Treasury has to get their cash balance back down to its prior level when the bill was passed by that December 8th date. So this could cause supply to drop either in late November or early December and then hopefully we'll see it ramp back up those last few weeks of the year. And I guess maybe just one last quick thought on the topic, there were some rumblings not long after the deal was announced that President Trump maybe working with the Democratic leaders to eliminate the debt limit altogether.
Todd Bean:	04:43	So it's possible that we see some legislation introduced in the coming weeks or months for maybe a longer term solution to the problem. But you know either way this is one problem, you know money markets would love to see go away after years of having to deal with these supply disruptions and spending a lot of time talking about potentially Treasury defaults. So we'll see.

Ira Apfel:	05:02	Sure, absolutely. And I want to continue now though with the recent news. Can you give us an update on the results of the Fed meeting that they had on September 20th.
Todd Bean:	05:12	Sure sure. So as expected the Fed announced that they would begin implementing their balance sheet reduction plan starting in October.
Todd Bean:	05:19	That plan involves reducing their four plus trillion dollar balance sheet using a set of gradually increasing caps on the amount of treasuries and agencies MBS that are allowed to mature each month. They're going to start at in treasuries and 4 billion agencies next month. I think in general just the fact that this plan was so well telegraphed that the details of this have been out there for several months and the fact that it is really a gradual and predictable approach to reducing the balance sheet is is really why we haven't seen markets react much to the Fed's announcement. Ultimately we don't anticipate these actions to have much of an impact on the money markets here in the short term. And actually I think there are some analysts out there who doubt how much of an effect these actions will have even on longer term yields as well at least here in the near future.
Todd Bean:	05:58	But you know clearly over the longer term as reserves are drained and banks have decisions to make about what to do with their mix of deposits and their LCR and the high quality of the assets they own and all of those things can directly affect rates in our markets. I think another big factor will be if and when any other large buyers of treasuries emerge to replace the Feds buying. If they don't and the banks and dealers end up growing inventories and certainly they feel some balance sheet pressure as a result of that. And then we would expect to see higher rates both in the rebore funding markets as well as the cash markets. At that meeting the Fed also released their updated summary of economic projections or their dot plot show that they were still expecting to hike rates one more time in 2017 and three times in 2018.
Todd Bean:	06:40	So this is unchanged from their June meeting one change they didn't make was to their estimates of long run neutral rates moving down to two and three quarters percent from 3 percent but you know all in the meeting results were viewed as slightly hawkish given that they did leave the door open for a potential December rate hike depending on what they see in the upcoming months data.

Ira Apfel:	07:01	So Will, I'm curious as to what you think about all this. It sounds like you know a December rate hike is on the table, what do you think will go down. You know do you think that they will raise it or they'll hold off. And how should Treasurers react to a hike or a non hike.
Will Goldthwait:	07:25	Yea, it's an interesting situation right. I mean as Todd mentioned the Fed was planning to hike rates in December after their June meeting or the minutes of the June meeting revealed and then they had to come back out this meeting and reiterate that they were planning on doing it because the market had discounted that probability. So you know our chief economist Chris Probyn still has one more Fed hike in December. Unfortunately Janet confirmed this. So we do look like we're going to see rates go higher in December. And you know what the economy is still adding jobs. You know when I looked at the two year number average jobs being added per month are a hundred ninety one thousand jobs so that's a very solid job growth. And the unemployment remains low. The headline unemployment rate now is 4.4 percent, the lowest rate of employment we've seen in the past 30 years
Will Goldthwait:	08:26	is 3.8 percent and that was in the late 90s. And the average over that 30 year period is 6 percent so. So getting at 4.4 is certainly indicating there's there's jobs to be had out there.
Will Goldthwait:	08:39	The other thing to note is the U-6 rate of unemployment which is currently sitting at 8.6 percent you know the lowest number in 2006 was 7.9 percent. So
Will Goldthwait:	08:52	this is a measure of those that are underemployed or partially employed and that's a number we know that the Fed will watch as closely so as that number creeps down we think we'll continue to be moving towards full employment. As for inflation you know really it's interesting when I started in this industry it was always the Friday payroll number that everyone focused on. And
Will Goldthwait:	09:17	it was the jobs data that everyone focused on. Well that's definitely switching over and now inflation seems to be the primary focus.
Will Goldthwait:	09:27	And I think that's both the market and the Fed themselves and the inflation is definitely in a consistent range but it's stubborn and it's moved back towards the Fed's 2 percent target. And some Fed governors have been vocal in their thinking that the dip in inflation is transitory.

Will Goldthwait:	09:47	And then the move towards 2 percent will resume.
Will Goldthwait:	09:52	But one would think given that the low levels of unemployment that wage inflation should surface so we should start to see that push towards 2 percent. We will see, but in the short term I don't think the decline in inflation measures will be enough to keep the Fed on hole.
Will Goldthwait:	10:08	In 2018 I would agree with the Fed's thoughts and I do think they will be raising three times in 2018.
Will Goldthwait:	10:18	But it's been easy to be wrong in calling Fed hikes even as the Fed is unfortunately aware of. So we'll keep a close eye on the data and update you as things develop.
Ira Apfel:	10:30	Todd I want to switch back to you for a second here. How will the possibility of a Fed hike affect your year end strategy. And are you positioning the portfolios any differently from a quarter ago?
Todd Bean:	10:43	That it's a great question. I think you're trying to balance the potential rate hikes from the Fed in December. You know at the same time is trying to get your funds invested over the turn you know is tricky but it certainly isn't new to short in investors. This is the third year in a row now that we've had to deal with that exact scenario in recent weeks like Will said you know the market has been pretty skeptical that that they'll be able to get that last hike in which makes this year a little bit trickier versus the last couple of years the last few years the market was pretty convinced that they were going. And so the rates were more pricing in the move. But I think in general you know whether you think they're going in December or not you have to respect the risks that they could go.
Todd Bean:	11:20	And as such you have to position your portfolios defensively in case they do the they do move you know in general that means keeping your weighted average maturity low, keeping your liquidity high and the Bank of Canada just gave everyone a nice reminder at their September meeting that central banks can surprise the market with a hike even though it's not necessarily being priced in.
Todd Bean:	11:39	You know in the meantime I think investors will continue to get their funds invest into the new year before issuers shut down issuance for the holidays certainly and I expect you know early January paper to continue to have a strong bid as it typically does throughout the fourth quarter.

Todd Bean:	11:54	In regard to the portfolio strategy I wouldn't say that we've made any major tactical changes recently from prior quarters. This year I think in general kind of throughout this rising rate environment we've employed a short fixed rate long floating rate strategy which defensively positions the funds for rate hikes.
Todd Bean:	12:11	You know like I said it kind of generally accomplishes those goals of keeping your weighted average maturity low and your liquidity high so that your funds can you know very quickly take advantage of each 25 basis points hike that we get.
Ira Apfel:	12:24	You know as you were talking a question has kind of popped into my mind which is you know from the September 20th meeting and other comments and written comments from the Fed and Janet Yellen what are they worried about with the economy and what keeps them up at night? You know, has them thinking you know this this is something we need to be concerned about for the economy. And you know regardless of rate hikes or not this is the stuff that we are fearful of?
Todd Bean:	13:00	I think there's a couple things they probably keep him up at night. I think you know first and foremost they're really struggling with the inflation numbers. You know they they've struggled to figure out why exactly given the strength in the economy the strength in the labor markets you know why that hasn't moved up you know closer to their target like Will alluded to. I think that's one the most puzzling things for them and as has caused them and the most angst as a committee. I think they also struggle a little bit and this is something that our in-house economist has pointed out quite frequently as they've gone through this tightening cycle is that you know while they've done all this tightening financial conditions remain an extremely easy if you look at the stock markets if you look at the long term bond yields you know it doesn't look like they've actually chopped a lot of wood if you will in terms of tightening financial conditions so I think you know that that probably worries them some too and probably you know keeps the hawks on the committee you know wanting to lean more towards you know keeping the path here towards further hikes.
Ira Apfel:	13:52	And what about markets in general how has liquidity been there?
Todd Bean:	13:56	It's been really good. Know that the money markets have functioned really broadly this year. Kind of in our new post money market reform world.

Todd Bean:	14:03	I think fund managers and shareholders both have welcomed the rate hikes we have seen this year and are enjoying the higher yields are getting on their cash holdings liquidity has been good spreads are reasonably tight and I'd say we've seen you know very well functioning secondary markets for both government and credit paper on the credit front. You
Todd Bean:	14:21	know we've seen spreads widen in just a little bit from their When market reform tights you know even spend a couple of basis points floating rate notes with maturities between six months and a year have been really popular trades. Given the rising rate environment I'd say the majority of the fixed rate trades we have seen in recent months have been kind of in that one of four months. Part of the curve and you know but given some of the doubts about the Fed getting that December hike in we have seen some investors stretching some more six month fixed rate trades on the rate side of things. You know since the debt limit deal got done I'd say, you know the t-bill curve is flattened out quite a bit. The curves no longer inverted at all and you are on the curve and going forward both the rates and the shape of that curve will be largely dependent on the supply story that we.
Todd Bean:	15:02	We touched on in the very beginning of the podcast and on the agency front you know the federal home loan banking system is just huge. It continues to kind of dominate that space. Currently they make up over 84 percent of the discount notes outstanding and they are by far the most frequent issuer of floating rate notes as well. So
Todd Bean:	15:18	when you look at that market overall since the end of 2015 just got votes standings are down by almost 200 billion. So generically when you look at those spreads versus treasuries you know that spreads pretty tight. Lastly for government funds the Feds you know reverse rebuild facility remains an important source of supply as well you know year to date the daily balance there is averaged around $160B a day so that says a lot I think about the supply and demand imbalance that still exists even a year after money market reform was implemented. And you know hopefully once we get the debt limit issue resolved we will see that huge ramp up and Treasury bill supply that I mentioned earlier. And you know maybe that will shift some of those assets out of that facility and back into the marketplace.
Ira Apfel:	16:02	Well that brings up a topic that we're all watching closely here which is our assets shifting back into prime money market funds and should Treasurers even care about that.

Will Goldthwait:	16:13	Yea, that's an interesting one - prime funds continue to grow their AUM from the low in November of 2016. We've seen Prime fund assets grow by 70 billion. This has been both encouraging and frustrating- frustrating because I thought based on client conversations that I had and have had that more money would have moved back into prime funds by now.
Will Goldthwait:	16:40	But it's also encouraging because you know the flows back in prime funds have been steady and consistent on a week over week basis indicating the clients are moving back with purpose and appreciation of the value of prime strategies. And we see that when we look at the breakdown so the majority of the gains in prime fund asset have come from institutional clients so you know those of you listening on this call.
Will Goldthwait:	17:08	Retail prime assets have risen by just 10 billion over the last 11 months. But institutional prime assets have risen by about 60 billion. So that's been encouraging. And this is quoting ICI data.
Will Goldthwait:	17:23	So I know that there's some other sources of data that have more or less from any AUM standpoint but it's been.
Will Goldthwait:	17:31	But the gains have been have been good. So we're encouraged also by the yield difference between prime fund strategies and government strategies. You know lots of folks are calling that that yield spread the differential between yields would widen.
Will Goldthwait:	17:47	You know maybe out to 50 or 75 basis points we saw that on average as wide as 36 basis points. But it is not compressed as much as was originally anticipated. So the average spread right now between a government fund and prime fund stands a 27 basis points. And so this continues to support the thesis the prime funds provide good relative value it should also be noted that overall liquidity.
Will Goldthwait:	18:19	And that weekly liquidity number that we know is a key focus for investors remains elevated and well above the required amount. So the average liquidity in prime funds is right around 44 percent. And this has been this number has been over 40 percent for the past two years on average. So very reassuring to investors that portfolio managers you know are keenly aware of that liquidity number and want to keep them well above the 30 percent required. I think lastly it should be noted that the variable net asset value or the price of the funds has not varied that much.

Will Goldthwait:	19:02	Recently we looked at the prices of 28 institutional prime funds and we looked at those prime funds prices over the past year. So on average we observed that the funds price will move once every 18 days. And when it does move it usually moves by a basis point or one hundredth of a penny over the last year. The funds price has moved on average of 15 times during that year. So that's on the average of the 28 funds we looked at. And the most we saw a fund's price change was by five basis points or five 100s of a penny and that was up.
Will Goldthwait:	19:47	So it went from par up to one point 000 5. And then there were several funds the price did not change at all.
Will Goldthwait:	19:57	So I'm not sure what my expectation was on price moves but the data certainly shows that the moves have been small and not very often.
Will Goldthwait:	20:05	And I think this should allay some concerns over this particular aspect of the rules governing prime funds.
Ira Apfel:	20:13	Yeah. And I wanted to ask you you know there's a lot of consternation when the money market reform rules came down a lot of teeth gnashing on the part of corporate treasurers and it sounds like and correct me if I'm wrong but it sounds like they've been able to digest these new rules and they've just they've just adapted and are you know thinking in investing strategically would you agree with that.
Will Goldthwait:	20:37	Yeah you know it's interesting.
Will Goldthwait:	20:40	I think the fact that the industry had two years to prepare you know from the announcement in 2014 until the deadline in 2016 I think it was really interesting to watch the liquidity build in prime funds really starting in the spring of 2016. And then watching that trillion dollars of assets transition really without any issues at all.
Will Goldthwait:	21:06	You know and watch really portfolio managers adjust and watch flows move out of prime funds and into government funds without any sort of issues. It was really encouraging. And so then when we look at where we are in the New World and look lookout how portfolio managers have to have adjusted to the new rules. You know that's also encouraging. And I think it should continue to give investors a good feeling about private funds knowing that portfolio managers are ever vigilant around the new rules and new risk controls and maintaining a very solid stable investment for their clients.

Ira Apfel:	21:47	We'll be back with more AFP conversations right after this.
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Ira Apfel:	22:54	Welcome back to AFP conversations I would like to turn now to the topic of corporate tax reform and I want to steer clear to be sure of any kind of political discussion or any kind of political you know gamesmanship of you know who's winning who's losing or anything like that. But I think we need to be honest in that corporate tax reform is a big deal for treasurers and CFOs it's something that they're pushing for and that they ideally would really like you know there's roughly two trillion dollars trapped overseas. So what's your sense of the momentum around this effort and do you think something can pass by the end of the year. I know that Treasury secretary Mnuchin is pushing hard for it and it seems to be a you know something that is definitely on the president's radar. Do you think something can actually get done? And also what do you think Treasurers would do or should do if nothing does pass if the corporate tax rate that we have now stays and reform dies.
Will Goldthwait:	23:54	Yeah. I mean this is a tricky one. Certainly interesting certainly getting a ton of attention.
Will Goldthwait:	24:01	I think my base case at the beginning of the year.
Will Goldthwait:	24:04	So in January of 17 was that the Trump bump or so it was called the spike in bond yields that we saw post-election and into the beginning of the year and the optimism around political unity in Washington D.C. with the White House the Senate and the house being Republican controlled would would be short lived. And sadly this has played out. I think there are a few things to mention. First the recent bipartisan agreement on the debt ceiling and DACA are good but these are small steps that have

		not really created any real policy compromises. Second Congress has 40 days in session for the remainder of the year. That's that's not a lot of time and they've got a lot to work on. They've got the health care they've got the budget resolution that got fiscal 2018 appropriations DACA and the debt ceiling ultimately that they're going to be trying to work on. So
Will Goldthwait:	25:04	sadly I think time is the enemy here. Given the complexity of what they're working on and a president whose approval ratings have certainly improved recently but they're not really up where. Up at the level where he has the ability to arbitrate some of the party disagreements so I'm I don't think tax reform is going to happen in 2017 but the first half of 2018 is a reasonable timeframe and we could see some policy adoption in that timeframe. So what I would be looking for is a corporate tax rate that goes from 35 to 25. And
Will Goldthwait:	25:50	that seems to be a workable number. This would be paid for by repatriation and haircuts on interest rate deductions that we'll go into that more in a minute. And of course the dynamic scoring. So when we look at that the first year deficits would be projected to rise by a modest half a percent of GDP but that's similar to the year one scores of the Bush tax cuts in the beginning part of the last decade. So
Will Goldthwait:	26:22	but I do think there's risk to the downside I think currently the White House is calling hard for a 15 percent corporate tax rate and I think even the Big Six as they are now being called Cohen, Mnuchin, Ryan, Brady, McConnell and Hatch.
Will Goldthwait:	26:40	See this is unlikely. See this this number 15 percent is unlikely given given the budget level.
Will Goldthwait:	26:48	So I think most most people saw 15 percent as an opening offer and then being able to negotiate from there. So I think it will be important for the White House to move off that 15 percent number sooner as the later they hold onto it. It just becomes more difficult to walk back and get to a number that people can agree on. I think on the individual side it appears that both sides will be able to come together on on brackets and rates. But it's really all about agreeing to the pay for as rates. So
Will Goldthwait:	27:25	the Republican Party's been very vocal on this wanting to be budget neutral. And so the pay fors like state and local deductions mortgage interest charitable deductions will be difficult difficult to negotiate.

Will Goldthwait:	27:38	And thus we might see some of these tax cuts is temporary.
Will Goldthwait:	27:42	I won't go into all the other components of tax reform like pass through is unprecedented expense and ratification but will mention the corporate interest deduction. I think a full elimination of the business interest deductibility is is likely to prove too radical of a change for the current reform efforts.
Will Goldthwait:	28:02	We do believe that haircuts to the deductions are politically feasible. As I mentioned earlier and so this will be one to watch as it could impact how corporations leverage themselves going forward. And just a side note you know the investment break corporate bond market has issued over a trillion dollars of debt thus far in 2017 and is on pace to issue more debt than in 2016 which would be a new record for that for that debt markets.
Will Goldthwait:	28:31	So lastly I know one that lots of folks are focused on and that is repatriation. It's anticipated that if corporate tax reform is successful it will mean mandatory repatriation. So that means corporations won't be given the option but it will be mandatory. And that's the repatriation of unpermitted foreign earnings. It's estimated there's proximately 3 trillion of these unremitted foreign earnings.
Will Goldthwait:	29:01	But that is most likely an overstatement of liquid assets. It's
Will Goldthwait:	29:05	half of that monies has been reinvested in operations overseas. So
Will Goldthwait:	29:11	of the one and a half trillion that's available to be repatriated.
Will Goldthwait:	29:15	Much of that is already invested in USD assets so I actually read a recent study done by a brokerage firm that analyzed a trillion dollars of those assets that are held by the top 20 firms with these assets.
Will Goldthwait:	29:33	And the study shows that 82 percent of that money is invested in U.S. Treasury and agency debt corporate bonds and cash and cash equivalents like deposits. So it's largely expected that this will have no meaningful impact on the bond market or the liquidity of these assets as it will not be necessary to sell any of these assets if mandatory repatriation is passed. So I wouldn't expect any substantial shifts in allocations. Ultimately it will be up to each corporation to determine what is the best use of these monies.

Will Goldthwait:	30:09	You know in 2004 the last time we saw a voluntary repatriation we know that most of the corporations that brought that money back used it to buy back stock at the corporation. So we'll see. We'll keep a close eye on it.
Ira Apfel:	30:23	You know you both have been in this space for quite some time. And so I'm wondering you know from your perspective how does the US the volatility and the uncertainty that we're experiencing now compare to what you witnessed in the past and what are your treasury clients telling you?
Todd Bean:	30:39	Yea it's interesting I think at the end of last year when we were preparing for 2017 we saw a lot of risk you know potentially disruptive market events kind of queuing up for this year. And we started with politics. You
Todd Bean:	30:50	know we were fresh off of the Brexit decision in the U.K. and and the surprise Trump victory here in the States. And when you looked at 2017 you know there were major political showdowns just all over Europe. You know then there was the risk of a continuing you know Fed tightening cycle and the debt ceiling. And don't forget we were just you know barely into the post money market reform world. So
Todd Bean:	31:09	you know I think if you went back and asked me at the time how volatile 2017 was going to be and I would have said very you know.
Todd Bean:	31:16	But you know what we've seen is almost the opposite you know we've seen markets that have adjusted to all the risks extremely well the markets that have remained really orderly through it all and you know even this summer you know we heard a lot of people using the word complacent to describe you know the market is not really sure that I 100 percent buy into that concept. I just think in general central bankers and issuers that market participants are all just so transparent nowadays. And the market digests new information so quickly that in the end investors have just been able to adapt. You know really quickly and easily to all the changes that have come in. I think it's really interesting that you use the word uncertainty along with volatility in the question because I think uncertainty is one of the biggest reasons why we did have such quiet markets this summer.
Todd Bean:	32:01	I think that uncertainty that exists from Washington in terms of what potential new legislation we're going to see from this Congress and president you know has really led banks and corporates to just kind of sit on their hands for a while now just

waiting to find out what the new rules to play by are going to be. So because of that it led to some of that you know quiet markets which we haven't necessarily had the last few years so I'm inclined front.

Todd Bean:	32:25	I think they've even gone a little bit quiet here in the third quarter as well. You know certainly early in the year there were a ton of conversations and most of them are dominated by discussions of money market reform and the Fed. And when assets to be shifting back into prime any time soon and you know as the summer wore on you know clearly those conversations shifted more towards the debt limit and how realistic it would be that we would have a potential treasury delayed payment or default. But honestly since that resolution you know the clients have gone pretty quiet to. You know maybe it's just setting us all up for a volatile 2018. We'll have to wait and see.
Ira Apfel:	33:00	One last question for me and I'll let you guys go. And this is something that is does not directly impact corporate treasury but it's been in the news. And I think it has an indirect impact on listeners and that is LIBOR. So can you give me a quick update on LIBOR and what Andrew Bailey's announcement in August means for treasury and just the economy.
Todd Bean:	33:24	Sure so. So to those who don't know Andrew Bailey is the head of the U.K.'s financial conduct Authority FCA and the big announcement that they made recently was that they would no longer force banks to make LIBOR submissions after 2021. You know it's really hard to make a case as to why banks would continue to voluntarily submit LIBOR rates much beyond that day from the bank's perspective. There's very limited upside to doing so. But as we've seen in the news there is no potentially huge downside risk as we've seen I think over 9 billion in fines imposed on LIBOR setting banks recently so I think realistically there is a threat that at that time LIBOR could go away. In general the announcement wasn't really surprising to the markets. I think anyone who has been paying attention to that story you know has heard regulators around the globe for a while now making it clear that they'd prefer to move away from a subjective reference rate and move to a new benchmark based on transactional data.
Todd Bean:	34:19	You know but clearly just given the huge amount of outstanding debt that depends on LIBOR you know this has the potential to be you know just enormous you know potentially very disruptive and very costly events for fixed income markets you know. But so now we're just on the clock. You know his

announcement has basically given the market four years here to go to put a firm solution in place here in the U.S. there is a group of the Fed put together called the alternative reference rates committee or the arc. And that's existed for a couple of years now I think and they've been tasked to find an alternative reference rate based on transactions.

Todd Bean:	34:52	The alternative reference rate that they've been zeroing in on for years secured overnight financing greater STOFR which is tied to overnight repo rates. The Fed's going to officially start publishing that rate next year. But at this point you know there's just a lot of work that needs to get done beyond just publishing the rate you know major things like setting up a functioning futures market a functioning swaps market.
Todd Bean:	35:14	So it just feels like we're still a long ways away from having a good replacement in place. Ultimately it just feels like you know there's a lot of work to get done between now and 2021.
Will Goldthwait:	35:25	Yeah.
Will Goldthwait:	35:25	And I would just add you know an interesting development we're seeing in the market on the heels of Andrew's announcement is that we are seeing some corporate bond issuance that floats off of LIBOR being issued with maturity fees that go beyond December of 2021.
Will Goldthwait:	35:45	And that's been very interesting because clearly there's the expectation from those issuers that there will be a clean and orderly resolution to this deadline. And so and just to be clear what Andrew Bailey was saying was that not that LIBOR would go away in December 21 it's just that banks would no longer be required to submit LIBOR rates. So I think there's some thinking out there that banks will continue to submit LIBOR rates. I you know I don't know I tend to agree with Todd. I think the there is a lot of liability in submitting LIBOR rates so it will be interesting to see but ultimately what we do know is in the debt that's issued off of LIBOR where the damage is beyond five years there is language within that debt that will have it either convert to a fixed rate or be able to convert to some other floating rate index after 2021 if for some reason LIBOR does go away. So there is language in there that will alleviate the issue. It's just a matter of what that new index will be.
Ira Apfel:	36:59	My guests today had been Todd Bean and Will Goldthwait they are portfolio managers and advisors with State Street Global Advisors.

Ira Apfel:	37:09	You can learn more by visiting as SSGA.com/ cash that's SSGA.com/cash and you can listen to more AFP conversations at AFPonline.org/conversations. Todd, Will thanks to be on the podcast.
Todd & Will	37:24	Thanks. Thanks Ira.
Ira Apfel:	37:26	Thank you for listening to this episode of AFP Conversations. If you have a moment I'd really appreciate it if you left a rating and a review. It helps other people find the show and as a bonus I'll read your review in the podcast and if you haven't already. Don't forget to subscribe on the podcast platform of your choice. You can also follow me on Twitter @IRAApfel. And if you have questions comments feel free to drop me a line.

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GCB-1456
Exp Date 9/30/2018