

# FINANCING GROWTH



THE IMPACT OF FINANCIAL REGULATION

June 16, 2016

#FinancingGrowth



CENTER FOR CAPITAL MARKETS  
COMPETITIVENESS

## Table Contents

Executive Summary.....	3
State of Corporate Finance .....	3
The Future: What Are Companies Facing .....	4
Introduction .....	6
Methodology.....	7
State of Corporate Finance .....	8
The Future: What Are Companies Facing .....	11
Cash Crunch .....	11
Impact of Financial Regulations on Main Street Companies .....	14
Appendix .....	16

### Learn More from Main Street

Whether it was seed capital to open for the first time or a line of credit to build inventory or a short term loan to keep the lights on, businesses rely on community banks, global financial institutions, insurers, and others. These stories illustrate through real companies the benefits of the nexus between Main Street and financial institutions.

## Executive Summary

More than three-quarters of American companies of all sizes report that the cumulative effect of the Dodd-Frank Wall Street Reform and Consumer Protection Act and other financial regulatory rules adopted over the past six years is making it harder for them to access the financial services they need. This is true among small, midsized, and even large companies and is felt most acutely in a lack of access to services helping them manage day-to-day liquidity.

This matters because the financial needs of businesses are as diverse as the American economy. Companies work to ensure that they have affordable access to a variety of suppliers for the financial products they need. One of the unintended consequences of the regulatory efforts to reduce risk in the financial system is that many service providers have decided to walk away from providing some products and markets.

Without a robust financial services supply chain, our nation cannot finance adequate economic growth. Regulatory efforts to ensure financial stability must be accompanied by equally vigorous, data-driven analysis to make certain that Main Street companies continue to have access to the financial services they need.

The U.S. Chamber of Commerce surveyed more than 300 corporate finance professionals about their core financial services needs and the indirect regulatory impact of all the newly adopted financial regulations. We asked them about the products they use and the types of financial services they rely on. We also asked them if and how they are seeing the impact from financial regulation on businesses and their customers.

## State of Corporate Finance

### *Main Street Companies Have Different Financing Needs*

Companies access and use a variety of different financial products and services on a routine basis, such as<sup>1</sup>:

- ◆ Cash management tools
- ◆ Commercial paper
- ◆ Debt financing
- ◆ Derivatives
- ◆ Equity financing
- ◆ Long-term loans

---

<sup>1</sup> See Appendix for a glossary of key terms used throughout this report.

- ◆ Short-term loans
- ◆ Trade financing

Each of these products and services addresses a specific need faced by Main Street companies. To meet those needs, companies place a high value on the accessibility of products and services to manage their finances.

- ◆ More than half of companies surveyed utilize all eight products and services listed on a routine basis and 85% used 4 or more.
- ◆ 86% said that it is important for financial services providers to offer a wide spectrum of services.
- ◆ 65% want providers to specialize in specific products.

### ***Companies Rely on Financial Institutions of All Sizes***

The survey found that businesses use a combination of financial institutions for critical financing activities, and the mix of financial services and products used is closely tied to the availability and diversity of financing sources.

- ◆ 20% of all small and midsize companies said that they use four or more financial institutions to issue commercial paper, raise corporate debt, or access trade financing.
- ◆ Large businesses use four or more financial institutions in a variety of contexts, particularly when obtaining long-term loans, purchasing derivatives, and issuing corporate debt.
- ◆ 68% (up from 50% in 2013) indicated that it is important for their financial services provider to have a global footprint.

### **The Future: What Are Companies Facing**

Knowing that Main Street companies depend on a vibrant and diverse financial services industry, we wanted to understand how

#### **Takeaways**

##### **State of Corporate Finance**

- Businesses are simultaneously relying on multiple financial services providers for a diverse range of critical services.
- Businesses are increasingly looking for a diverse financial services system to meet the growing complexity of their investments and operational financing needs.

##### **Cash Crunch: Access to Capital Is the Top Financial Concern for U.S. Businesses**

- Managing cash flow and liquidity is the biggest financial concern for companies, and companies believe current and pending regulations will make those operations more challenging.
- One in three companies is taking unanticipated steps in response to regulations and economic changes.
- Companies are concerned about accessing credit, managing day-to-day currency risk, and raising short term capital. All are necessary functions to manage cash flow, liquidity, and fund future expansion and growth.

##### **Regulatory Impact**

- Nearly four in every five businesses say that financial industry regulation has directly affected their financing activities.
- This is no longer just a corporate issue, as businesses are increasingly being forced to pass the impact of financial regulations on to customers and employees.
- Increased bank capital charges are viewed as the primary source of increased costs.
- One-third of companies expect the regulatory effect to worsen in the next three years.

the implementation of financial services regulation is impacting how companies operate and serve their customers. What we heard was a particularly strong and growing concern for the ability of businesses to access credit and to manage cash flow and liquidity due to existing and pending regulations. Moreover, many businesses are taking unanticipated steps to address increased costs or a lack of access to financial services at the expense of customers or expansion.

- ◆ 43% of the companies surveyed said that maintaining cash flow and liquidity are their chief concern.
- ◆ 50% said that increased bank capital charges have increased their costs and challenges.
- ◆ 79% have seen their business affected by changes in the financial services markets.
- ◆ 29% have increased prices for customers and consumers as a result of changes to the financial services market (double the level seen in 2013).
- ◆ 76% believe that the regulations on the financial services sector will not help their company's outlook over the next two to three years.

As a result, in an era where economic growth has been stagnant, we find that existing and additional regulation of the financial services industry must strike a better balance between its impact on business and economic growth.

## Introduction

America is stuck in the worst economic recovery since the Great Depression, with little forward momentum. To mount a turnaround, the country will depend on businesses—large and small—to create jobs and drive new economic growth.

Companies across the country understand and appreciate this responsibility and believe that they could be doing better. But the facts are hard to ignore: Profits are down; there are fewer entrepreneurs starting small businesses; raising capital and accessing credit is more expensive; and capital expenditures are hitting all-time lows. For companies to overcome these hurdles and get the economy back on track, they need a diverse and robust financial system. They need access to reasonably priced capital, cash management solutions, and tools to manage day-to-day business risk.

For example:

- ◆ Agricultural companies need access to competitively priced derivatives to hedge swings in commodity prices.
- ◆ Multinational corporations use derivatives to hedge fluctuations in currencies and interest rates.
- ◆ Company expansions necessary to support growth are financed by short- and long-term debt serviced by banks.
- ◆ Emerging companies rely on investment banks with a global footprint to underwrite public offerings and provide counsel on the timing and type of capital to issue.

Companies that experience cash fluctuations due to inventory production or lag time between production and sales depend on cash management tools to ensure that they have the liquidity to pay suppliers and employees.

We talked directly to corporate treasurers, CFOs, founders, and CEOs.

Collectively, these are the corporate employees who are accountable for making sure that their companies have the resources and funds necessary to manage and safeguard corporate finances—the fuel to sustain and grow any company.

The overall message we heard is that companies have many different financing needs and rely on financial institutions of all sizes. Further, the financial regulatory environment is getting worse and hampering their ability to acquire the financial resources they need.

### Sams Carpet Cleaning and Repairs

“Several years ago we were looking to refinance our 17,850-square-foot building in order to save money that we could use to expand our customer base. By working closely with our bank and a Missouri State program, we were able to secure a loan that allowed us to lower our interest rate and generate more cash flow. This freed up additional funds to invest in technology, training, and expansion. For a small business like ours, the cost savings and extra capital came at a great time and allowed us to invest in updating our local business.”

Jeff and Susan Sams, Owners



While this report provides insight into how businesses of all sizes use the financial system and how financial services regulation impacts that system, many questions remain. Specifically:

- ◆ Can our financial system succeed in meeting the demands of Main Street companies?
- ◆ Will changes in the regulation of financial institutions continue to limit credit availability or put a strain on market liquidity?

It is already clear, however, that current financial regulations are making it hard for companies to lift the American economy. In fact, 76% of survey respondents believe that the regulations on the financial services sector will not help their companies' outlook over the next three years.

The Chamber is committed to advancing an agenda that promotes well-functioning and strong capital markets so that American businesses have the tools and resources necessary to drive economic growth.

## Methodology

The U.S. Chamber's Center for Capital Markets Competitiveness (CCMC), working with Brunswick Insight, surveyed more than 300 corporate treasurers, controllers, CFOs, and CEOs from a wide range of companies with gross revenues from under \$100,000 to more than \$100 million. The online survey, which built upon CCMC's survey work in 2013, was conducted from April 21, 2016, to May 8, 2016. Questions covered topics such as economic outlook, regulatory challenges, cash operations, relationships with financial institutions, and what types of institutions companies use for different financial functions, among other topics.

### FACES DaySpa

"My husband and I opened FACES DaySpa more than two decades ago and have watched it grow into a successful business. A couple years ago we wanted to expand by opening a new FACES Lash Studio. We prefer to own our facilities, rather than renting, so we needed to secure a mortgage from our bank for the property, as well as a loan to upfit the new space. We put together a business plan for FACES Lash Studio and negotiated a purchase price for the real estate. Over the years, FACES has built a close, supportive relationship with our bank which has watched our business grow and is familiar with the success of FACES Day Spa. As a result, we were able to secure both the mortgage and loan on agreeable terms that let us get the Lash Studio off the ground. Now the new business is thriving and has generated enough cash that it allowed us to pay off the upfit loan already. None of this would have been possible if it wasn't for our bank, which continues to be a valuable and reliable partner for our small business."

Patricia Owen, President

## State of Corporate Finance

### *Companies Have Different Financing Needs and Rely on Financial Institutions of All Sizes*

From the large multinational manufacturer that uses over-the-counter derivatives to hedge gas prices to the small town florist that uses a short-term loan from the local bank, companies of all sizes rely on the financial services industry to drive growth. Businesses access and use various financial products and services and rely on multiple banks and other financial institutions to mitigate day-to-day business risk, raise capital, issue debt, and manage liquidity.

Since 2013, companies are using more and more varied financial services to provide the tools and services necessary to operate and grow their businesses in an increasingly competitive global market. Unfortunately, the cost and complexity of obtaining these services in the United States has risen due to the regulatory environment.

#### Key Findings

- ◆ More than half of companies surveyed utilize all eight products and services listed on a routine basis and 85% used 4 or more.
- ◆ 20% of small and midsize companies said that they use four or more financial institutions to issue commercial paper, raise corporate debt, or access trade financing.
- ◆ Large businesses also used four or more financial institutions in a variety of contexts, particularly when obtaining long-term loans, purchasing derivatives, and issuing corporate debt.
- ◆ 86% indicated that it is important for financial services providers to offer a wide spectrum of services.
- ◆ 68% (up from 50% in 2013) indicated that it is important for their financial services provider to have a global footprint.
- ◆ 65% want providers to specialize in specific products.

#### Great Plains Energy | Kansas City Power & Light Company

“The electric power industry is one of the most capital intensive business sectors in the United States with 2015 capital expenditures totaling over \$100 billion alone. Easy access to the money market and capital markets is essential for Kansas City Power & Light Company and other utility companies to continue to invest in the electric grid to ensure all Americans enjoy safe and reliable power for years to come. We use working capital obtained under or supported by lines of credit provided by financial institutions to conduct daily operations then repay those funds with money raised through debt and equity offerings to permanently finance investments like needed generation facilities and transmission lines. Without the help of Wall Street and banks our business would be impossible. Unfortunately, banking and securities regulation advanced under Dodd-Frank, Basel III, and Money Market Fund reforms have all combined to limit access to capital, restrict legitimate risk management tools, and increase borrowing costs that will serve to limit future capital formation and increase the cost of electricity for everyone.”

*James Gilligan, Assistant Treasurer*

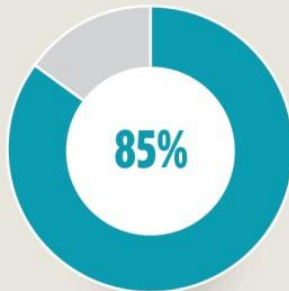


## Services Used

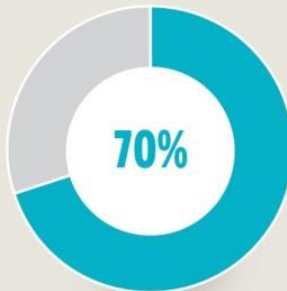
### Use of bank services



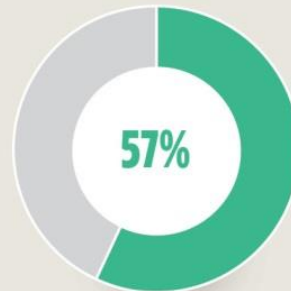
Percentage of respondents that use each service.



Use 4+ services



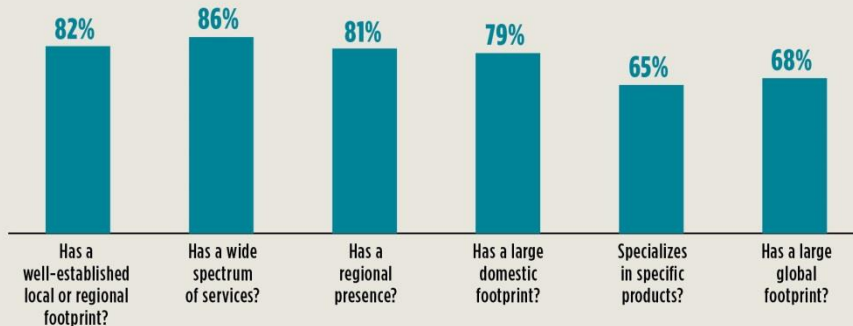
Use 6+ services



Use all services

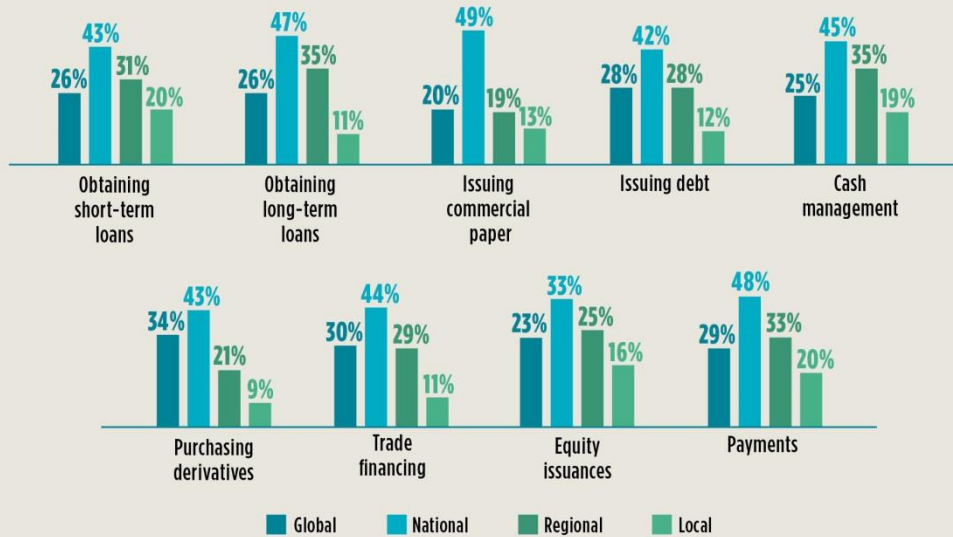
## Importance of Bank Attributes

How important is it for your company to have a bank that:



Respondents who indicated attributes as "important"

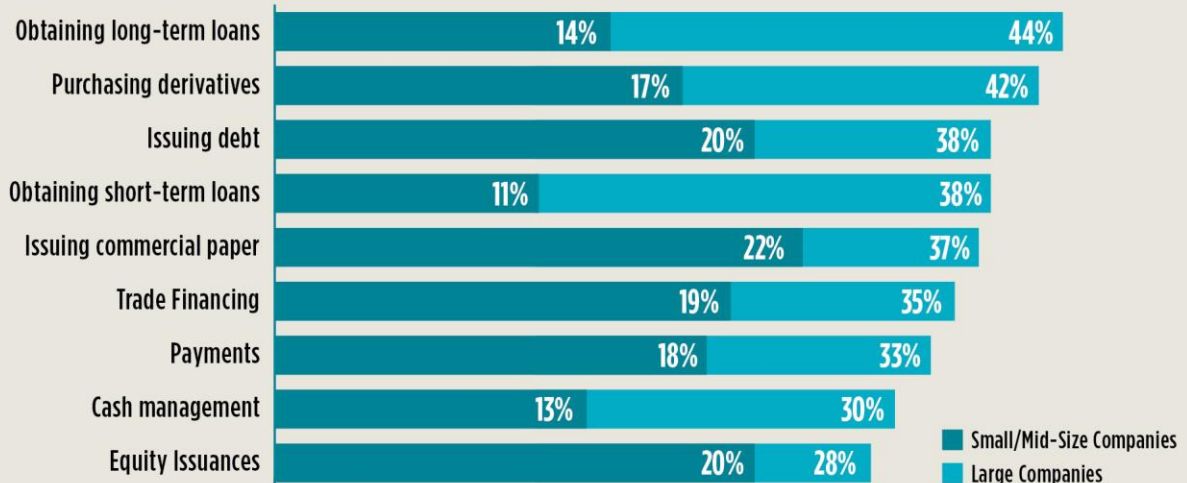
## Use of Different Bank Types



Please indicate the type of Financial Institution your company uses mostly for that service.

## Number of Institutions Used

Percentage of respondents that use 4 or more financial institutions for each activity



## The Future: What Are Companies Facing

### Cash Crunch

***With a reliance on constrained financial services partners, cash flow and credit access pose the greatest finance challenge to U.S. businesses***

Companies often fail or face turmoil because of cash management problems. For example, supplier invoices can come due before revenues or growth in sales needs to be supported by added investment. Managing cash and liquidity are top concerns of Main Street businesses and, in the last five years, regulations and economic changes have forced one in three companies to take new or unexpected steps to manage their cash. This challenge is especially acute for America's smallest businesses.

### Key Findings

- ◆ 43% of respondents said that maintaining cash flow and liquidity are their chief concerns.
- ◆ Companies are most concerned about accessing credit, managing day-to-day currency risk, and raising short term capital. All are necessary functions to manage cash flow and liquidity.
- ◆ Regulations and economic changes have forced one in every three companies to take new or unexpected steps to manage their cash.
- ◆ 50% said that increased bank capital charges have increased their costs and challenges.

#### Quality Support, Inc.

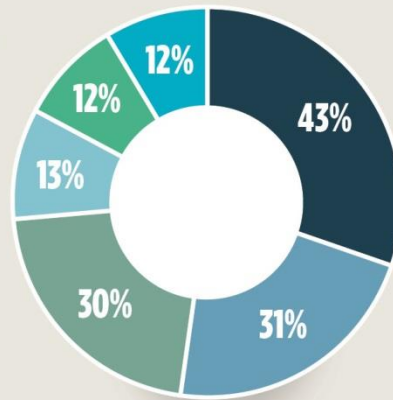
"In 1989, after 21 years in the Marine Corps, I started Quality Support, Inc., with only \$600, a small loan from my Dad...and a dream. I did not even own a suit back then. I worked day and night for a number of years and finally saw progress in the form of more and more contracts. Our big break came when we were offered a very high level contract in the United Kingdom. It was our credit card company that gave us a much needed line of credit that allowed us to take on this important contract in London and make it all work. The contract put my company on the map and on a path to sustainable growth. Without this financing, I'm not sure where we would be today. I cannot thank our credit provider enough for what they did to support our small business in those early days. After 26 years in business, Quality Support continues to operate successfully, in a very competitive and challenging environment."

Wayne Gatewood, Jr., Founder and CEO

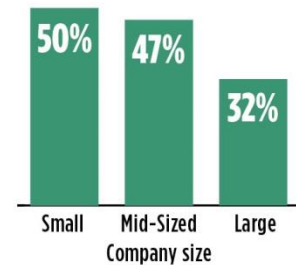
## Top Macro Concerns

Over the next 12 months, which of the following issues do you foresee as the **biggest financial concerns** for your business?

- Maintaining cash flow and liquidity
- Managing risks on price fluctuations on exchange rates, interest rates, and commodities
- Dealing with uncertainty over new financial regulations
- Restrictions on diversifying credit from banks and other lenders
- Market liquidity
- Managing risks from international credit markets

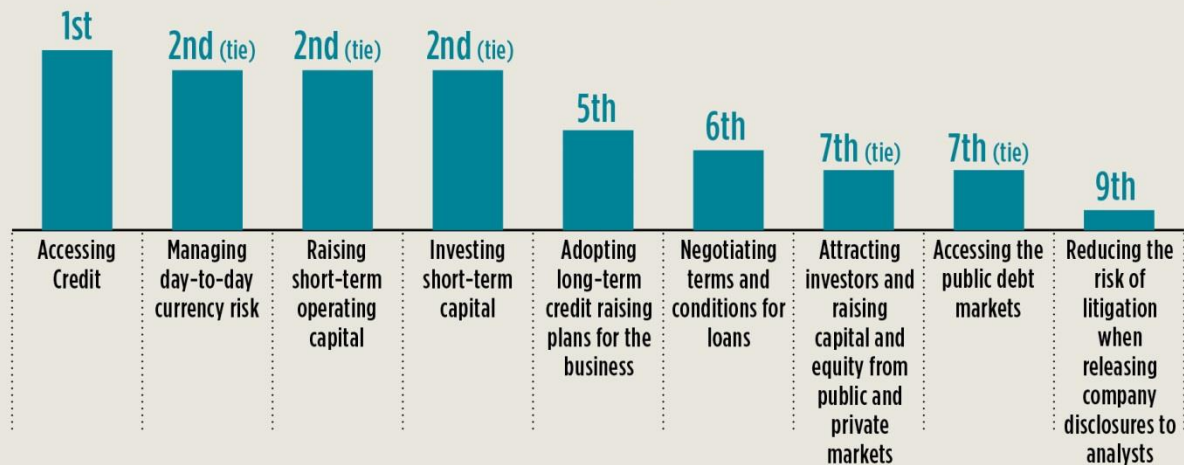


Small businesses, in particular are most concerned about their ability to maintain cash flow and liquidity



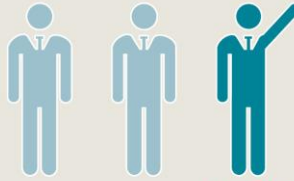
## Operational Concerns

Concern (rank)



## Changes in Cash Management Practices

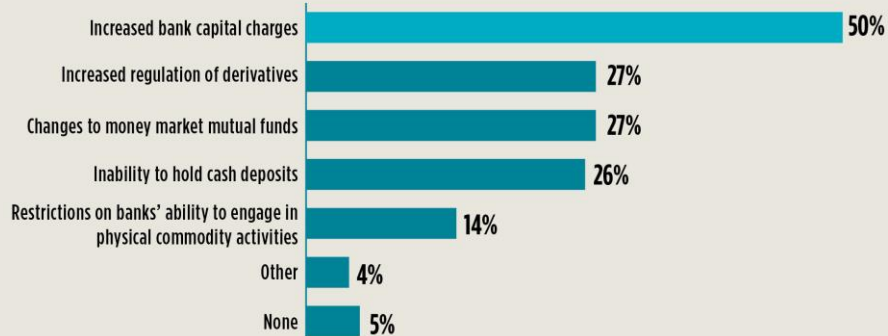
In the past five years, has your company taken any new or unexpected steps to manage cash operations?



Yes - 34%

## Sources of Costs

Thinking about the past 2-3 years, which of the following specific regulatory changes have caused increased costs or other challenges for your company?



## Most Negative Regulations

In recent years, many new financial rules and regulations have been implemented. Would you say that the following regulations have had a positive or negative impact on your company?

Net Impact of regulations on...



The numbers reflect the net of the percentage of businesses who said each regulation had a positive impact minus the percentage of businesses who said the impact of each regulation was a negative on their business. For example, the negative numbers indicate that more businesses felt the impact was negative for the company.



## Impact of Financial Regulations on Main Street Companies

### *The trickle-down impact of regulatory overreach on customers*

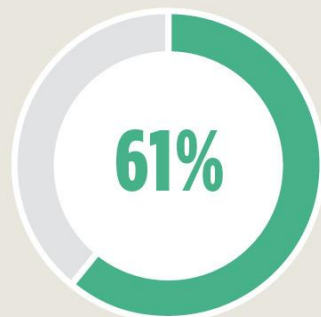
Businesses depend on a healthy, well-regulated financial system to spur economic growth. However, the past decade has been turbulent—from the financial crisis to its legislative response. While many of these reforms have improved the resilience of our financial system, a number of policy responses have gone too far and are negatively influencing Main Street companies and their customers.

### Key Findings

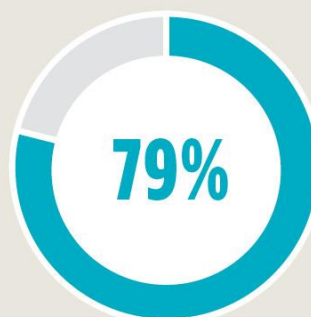
- ◆ 79% of the businesses respondents are affected by changes in the financial services market.
- ◆ 29% have increased prices for customers and consumers as a result of changes to the financial services market (double the level seen in 2013).
- ◆ 39% have absorbed the higher costs.
- ◆ 19% have delayed or cancelled planned investments.
- ◆ 76% believe that the regulations on the financial services sector will not help their companies' outlook over the next two to three years.

## Impact of Financial Services Regulation

% of U.S. businesses affected by changes in financial services market



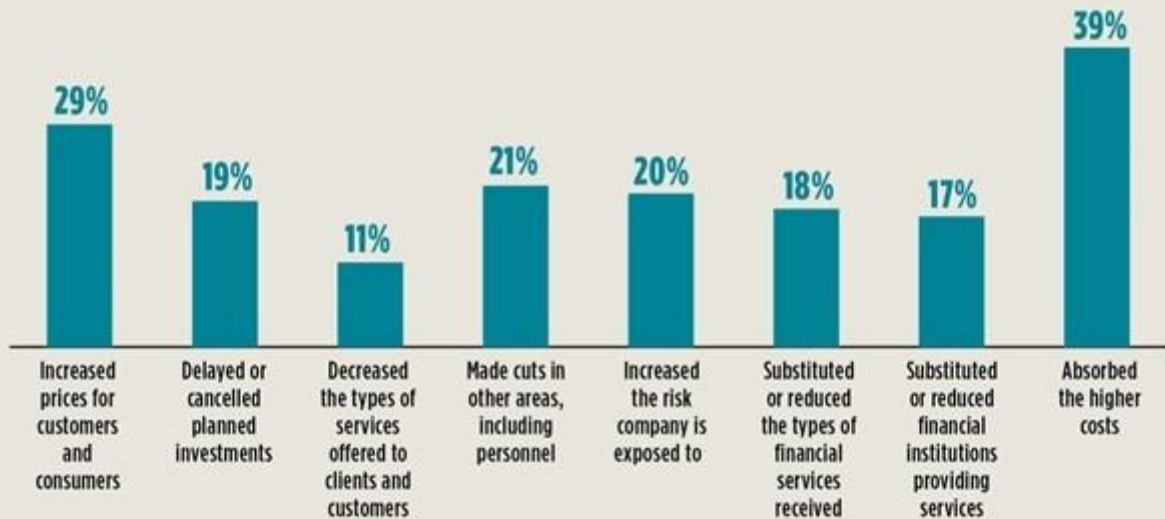
2013



2016



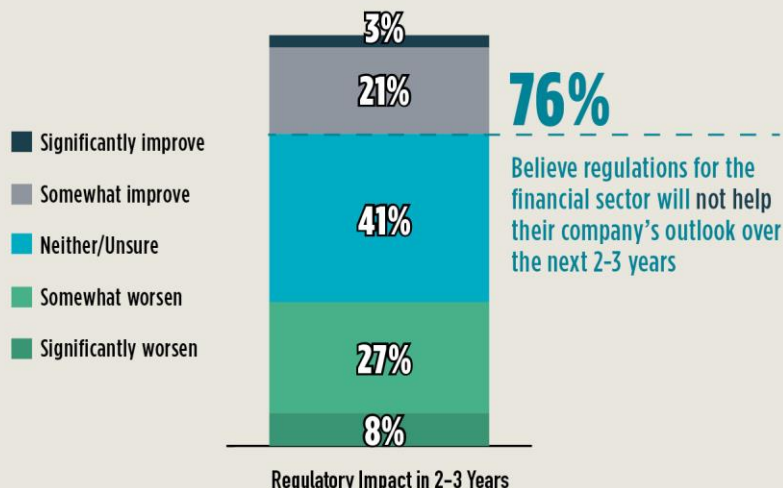
## Impact of Financial Services Regulation



Which of the following actions has your company taken as a result of changes to the financial services market?

## Looking Forward

Do you expect the regulations [for the financial services sector] to improve or worsen the outlook for your own company over the next 2-3 years?



## Appendix

### Glossary of Key Terms

**Bank regulatory capital:** The amount of capital that a bank must hold as required by its financial regulators. This is usually expressed as a ratio of required equity versus the assets held by a bank, adjusted for the assets' potential risk. Bank regulatory capital levels are established by international and domestic standard-setters and regulators, such as the Basel Committee on Banking Supervision and the Federal Reserve, respectively.

**Bond:** A debt security that represents a fixed-income claim on the cash flows and assets of a company.

**Cash flow:** The amount of cash and cash-equivalents moving in and out of a business. Businesses need positive cash flow in order to pay short-term obligations, such as everyday expenses, as well as maintain a cash buffer for unanticipated payments.

**Cash management tools:** These tools assist a company with their short-term financial management needs and include a wide variety of products and services, including money market funds and certificates of deposit.

**Commercial bank:** A chartered financial institution that provides a variety of services to businesses, including accepting deposits, making loans, and other payment-related services.

**Commercial paper:** An unsecured short-term debt instrument issued by a company to raise short-term capital and manage near-term liabilities.

**Debt financing:** A form of raising capital that includes issuing bonds and other forms of indebtedness through the public and private markets or borrowing money directly from a lender. Debt financing requires paying interest and principal at specified dates.

**Derivatives:** Financial contracts whose value is driven by the value of another asset or security (known as an "underlying"). Commonly used derivatives include forwards, futures, and swap contracts. For example, swap contracts are used by businesses to manage risk, such as locking in a fixed rate of interest for an overseas payment.

#### Viking Masek

"Our bank has been a key partner in Viking Masek's success over the last 16 years. When the company decided to transition from a sales organization to an integrated manufacturer in 2006, our bank provided the critical financing needed to purchase our facilities and then remained alongside us three years later when our continued growth required a new addition to our building. In addition to financing subsequent expansions, our bank has worked with us to develop a line of credit that has made our growth possible by allowing us to fund increased inventory and accounts receivable as our demand has grown. The close relationship we have built with our bank has been a key ingredient in the success of our business, which now employs more than 50 people."

Robert "RC" Huhn, Chief Financial Officer

# FINANCING GROWTH



#FinancingGrowth

THE IMPACT OF FINANCIAL REGULATION

**Equity financing:** A form of raising capital that allows cash to be contributed to a business in exchange for an ownership interest. Investors participating in equity financing typically have voting rights and share in the percentage of the firm's profits or potential losses.

**Investment banks:** Financial institutions that provide advisory services and help to raise capital for businesses in the public markets, including through underwriting, asset management, sales and trading, and research.

**Liquidity:** This refers to the volume of activity in a market, as well as a general measure of the ease of selling securities, such as bonds and stocks, or converting assets to cash. Market makers, like investment banks, help facilitate the flow of trading and ensure efficient, liquid capital markets.

**Long-term loans:** A loan or other long-term debt obligation that generally lasts more than one year.

**Payment systems:** These financial tools permit settlement of financial transactions by transferring monetary value – such as by wiring payment.

**Risk management tools:** These tools, such as derivatives, assist a company in managing their exposure to a variety of different risks, such as changes in interest rates, commodity prices, or foreign currencies.

**Short-term loans:** A loan or other short-term debt obligation that generally lasts less than one year.

**Trade financing:** A form of domestic or international financing that allows a firm to extend credit to its customer by selling its goods and services and permitting the customer to pay some date after the receipt of goods and services.

**U.S. Chamber of Commerce**  
Center for Capital Market Competitiveness  
1615 H Street, NW  
Washington, DC 20062