THE DREYFUS CORPORATION

December 3, 2010

SUBMITTED VIA
COMMISSION WEB SITE

Mr. David Stawick, Secretary
Commodity Futures Trading Commission
Three Lafayette Center
1151 21st Street
Washington, DC 20541

RE: **Comments Regarding the Commodity Futures Trading Commission's Proposed Amendments to Regulation 1.25 RIN 3038-AC-15 (the "Release")**

Mr. Stawick:

The Dreyfus Corporation ("Dreyfus") appreciates this opportunity to comment on the Commodity Futures Trading Commission's (the "Commission") proposed changes to Commission Regulation 1.25 (Reg. 1.25) governing, in pertinent part, the permissible investment of customer segregated funds ("Client Assets") held by futures commission merchants ("FCMs") and derivatives clearing organizations ("DCOs"). Our comments address the proposed concentration and other limits that would apply to the use of money market funds by FCMs and DCOs for investing Client Assets (the "Proposal").

Dreyfus is registered with the U.S. Securities and Exchange Commission as an investment adviser pursuant to the Investment Advisers Act of 1940. Dreyfus manages approximately $410 billion in assets, of which approximately $236 billion is invested in 51 money market mutual funds structured within the confines of Rule 2a-7 under the Investment Company Act of 1940, as amended. Dreyfus is part of BNY Mellon Asset Management and a subsidiary of The Bank of New York Mellon Corporation, a global financial services provider with over $1.1 trillion in assets under management and over $24 trillion under administration and custody. We understand that a representative from the Liquidity Services Group of our affiliate, The Bank of New York Mellon, also may submit a comment letter on the Proposal.

Summary of Comments.

(1) We do not support concentration limits for money market funds, but if the Commission establishes concentration limits, we suggest at least a 50% asset-based concentration limit for Treasury and Government agency-type money market funds (in any event, equivalent with direct ownership of U.S. Treasuries) and at least a 25% asset-based concentration limit for Prime and Municipal money market funds. We think these percentages are more reasonable on a relative risk basis, compared with the proposed limits for other permitted investments under Reg. 1.25.

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(2) We do not support issuer-based concentration limits for money market funds, as they are unnecessary to enhance the safety of Client Assets.

(3) We would not support limiting permitted money market fund investments simply to U.S. Treasury funds, because we believe that Government, Prime, and Municipal money market funds also are subject to sufficient risk-limiting constraints that merit their availability to FCMs and DCOs.

Our comments are more fully discussed below.

Background and Overview. We note that in 2009 the Commission issued an "Advance Notice of Proposed Rulemaking" to solicit comment, in part, on the scope and character of permitted investments for Client Assets under Reg. 1.25. In response, Dreyfus filed a comment letter dated July 17, 2009 supporting the continued availability of money market funds for investing Client Assets and requested that the Commission defer its rulemaking until the then-proposed amendments to Rule 2a-7 were adopted and implemented. We appreciate that the Proposal reflects the Commission's consideration of the tighter risk-limiting conditions embodied in amended Rule 2a-7 as well as the Commission's ultimate decision not to propose eliminating money market funds as permitted investments under Reg. 1.25.

We believe that money market funds merit their status as a leading choice among FCMs and DCOs seeking ready liquidity and high current yields for the benefit of Client Assets.[1] Under Rule 2a-7, money market funds are subject to strict maturity, credit quality, diversification, and daily and weekly asset liquidity requirements, all of which are designed to increase the resiliency of money market funds to financial stresses. Rule 2a-7 also increases transparency of fund holdings and provides fund boards the authority to take certain actions (that before required prior Commission action) that can preserve a fund's stable net asset value (or otherwise facilitate the fund's orderly liquidation). All of these features reduce a fund's exposure to interest rate, credit, and liquidity risk, within the confines of a high current yield product that has a long history of net asset value stability.

Money market funds also provide convenience, flexibility, and ready liquidity that may not be available on an equivalent basis in a portfolio of individual money market securities. Funds offer the ability to invest different investment amounts easily, exchange balances among different types of funds as investor needs or risk tolerances change, and deliver redemption proceeds on a same-day basis. They also offer ease of recordkeeping and dedicated shareholder service providers. Thus, we believe the structural constraints and operational convenience of money market funds offer substantial advantages to FCMs and DCOs over the acquisition of individual securities that generally are offered by a number of issuers pursuant to various mechanisms, such as at auction.

However, we acknowledge the Commission's concern that a money market fund might "break the buck," but we also believe that "principal risk" is overstated relative to the principal risks associated with the other permitted investments, as reflected in the proposed concentration limits. For example, we understand the Proposal to allow FCMs and DCOs to construct a pool of individual securities outside the constraints of Rule 2a-7; that is, one with individual securities that may have remaining maturities of longer than 397 days and that may have a weighted average maturity ("WAM") and a weighted average life to maturity ("WALM") of longer than 60 and 120 days, respectively. Intuitively, one should recognize the greater interest rate risk associated with such a range of investments relative to a Rule 2a-7 money market fund. Thus, we respectfully suggest that the Proposal understates the "risk" associated with the permitted individual investments, and an allocation of Client Assets across such investments, but overestimates the principal risk to Client Assets in a diversified, Rule 2a-7 constrained, money market fund.

Further, we note that the failure of a leading money market fund in 2008 occurred during a period of historic turmoil that embroiled all of the nation's banks, brokerages, and investment houses, and which even precipitated "negative yield" Treasury auctions. Even with the breakage, though, we understand that the actual loss incurred was approximately one penny on the dollar, and we would submit that the very limited history of money market funds "breaking the buck" merits more favorable consideration when weighed against the principal risk associated with direct ownership of individual short-term investments than the proposed concentration limits would suggest.

We Believe Concentration Limits are Unnecessary for Money Market Funds. We do not support concentration limits being applied to money market funds, due both to their suitability as a liquidity vehicle and to our general disagreement with the statement in the Release that concentration limits could increase the safety of customer funds by promoting diversification. We are unconvinced that the proposed "diversification" in Reg. 1.25 will increase the safety of Client Assets. To illustrate, we cannot see how an FCM's investment of Client Assets solely in a Treasury-only money market fund is somehow "less safe" that an FCM's allocation of Client Assets across a range of short-term securities that may not even be "Eligible Securities" for investment by a money market fund. Money market portfolios are well-diversified, as required by Rule 2a-7, and even with respect to a "Prime" money market funds, we think that a portfolio of its Rule 2a-7 eligible securities would be more soundly diversified than the portfolio of short-term instruments that the Commission is seeking to prompt FCMs and DCOs into assembling, managing, and monitoring, without the aid of credit research resources and under the enhanced burden of recordkeeping requirements, transaction costs, etc.

If Necessary, Asset-Based Concentration Limits for Money Market Funds should be Significanlty Higher than 10%. Despite our position, we recognize that the recommendations made by a number of commenters in 2009 persuaded the Commission to propose concentration limits for money market fund investments. If the Commission is determined to implementing concentration limits for money market funds, we believe that higher asset-based concentration limits are warranted, in order to provide FCMs and DCOs the flexibility they desire for investing Client Assets while still preserving the goals of stability, diversification, and high current yields.

We respectfully disagree with the Commission's conclusion that the proposed 10% asset-based concentration limit fairly reflects the relative overall risk and liquidity features of money market funds. We believe the proposal marginalizes money market funds' role as a liquidity vehicle and unfairly casts money market funds with a higher relative risk of principal loss upon redemption than is warranted. We also are concerned that the proposed percentage limits appear arbitrary, because the Commission has not provided its methodology for equating the relative risks and liquidity of the various permitted investments and, ultimately, how it determined the proposed percentage limits.[2]

Each permitted investment is subject to one or more risks, to varying degrees, and when comparing relative credit, interest rate, market, and liquidity risks of money market funds and other permitted investments, and assessing principal risk (i.e., the likelihood that the investment would be sold before final maturity at a price lower than its acquisition cost), we cannot agree that 10% reflects a fair representation of money market funds' principal risk relative to the proposed concentration limits for other permitted investments. In this regard, we respectfully ask that the Commission consider the following discussion of risk factors and re-assess its decision to assign a 10% concentration to money market funds relative to 25% and 50% concentrations for other permitted investments, against which money market funds have an array of more favorable risk characteristics.

Government-Guaranteed Securities. Despite the added credit safety associated with U.S. Treasury and GNMA agency (the only full faith and credit agency security) securities, the market value of these securities is not guaranteed. As proposed, FCMs and DCOs could invest in a range of

these securities with both individual and weighted average maturities materially longer than the 60-day maximum weighted average maturity afforded money market funds. Intuitively, this longer maturity portfolio of Treasuries should have higher interest rate risk than a money market fund and higher risk of principal loss if the securities sold prior to maturity. Further, supply and demand factors can create anomalies in the Treasury market that can make it difficult to invest Client Assets effectively, as the recent "negative yield" environments for Treasuries have demonstrated.

Municipal Securities. State general obligation debt is backed by the taxing power of the state, but it is not a full faith and credit guarantee. Municipal securities also are subject to bouts of illiquidity and to interest rate and credit risk, to varying degrees. As in the case of Treasury and Government securities, longer-term, individual municipal securities will have higher interest rate/principal risk than a money market fund. We also believe that investment in these securities requires intensive credit analysis, something mutual fund managers are well-suited to do, but most FCMs and DCOs likely are not. In this case, we particularly cannot see the justification for assigning the same 10% concentration limit to money market funds and to individual municipal securities. These investments do not offer equivalent levels of risk and liquidity, as the Proposal might suggest.

Bank Certificates of Deposit. CDs are FDIC-insured only up to a certain amount, which means FCMs and DCOs must engage a network of banks to accommodate large deposits of Client Assets. This would add administrative burdens, as well as the potential for having to pursue CDs at more poorly capitalized banks or pursuing brokered CDs, which can be subject to early redemption penalties or market risk to the extent they must be redeemed or sold to meet Client Asset liquidity requirements. Also, while we have acknowledged that the resilience of money market funds was tested in 2008, banks were not immune from the financial crisis. While money market funds promptly stabilized, we understand that 25 banks failed in 2008, 140 banks failed in 2009, and another 149 banks have failed year-to-date.

Commercial Paper and Corporate Securities. The permissible use of commercial paper and corporate securities would extend only to securities guaranteed under the Temporary Liquidity Guarantee Program that is in place until June 30, 2012. Once this Program expires, the range of permissible investments will narrow further, which we believe will only drive additional direct investment in short-term securities, but which should merit allocation to money market funds as well.

Different Types of Money Market Funds. We have stated that we do not support concentration limits with respect to money market funds, but if the Commission implements them, we think it is imperative that the Commission recognize, at minimum, that a money market fund that invests in U.S. Treasury or U.S. Government Agency securities only (and even those which also invest in repurchase agreements that are "fully collateralized"[3]) should at least be subject to the same asset-based concentration limit that would be applicable to direct ownership of Treasury securities. We see no justification for a 10% concentration limit in such funds (which are subject to a 60-day maximum WAM and 120-day maximum WALM) relative to a 50% concentration in direct ownership of securities that may not even be Rule 2a-7 eligible due to their remaining maturity.

Thus, if asset-based concentration limits must apply, we suggest at least a 50% asset-based concentration limit for Government-type money market funds. We also suggest at least a 25% asset-based concentration limit is warranted for "Prime" money market funds.

Money Market Funds should not be Subject to Issuer-Based Concentration Limits. We believe an issuer-based concentration limit for a family of funds is misplaced in the Proposal and unnecessary for money market fund investments. Such limits, particularly the proposed 2% limit, would unduly restrain FCM's and DCO's access to money market fund providers in whom they have the highest confidence. Moreover, we disagree that any such limitation would further the Commission's objective of increasing safety of Client Assets. Mutual funds are separate

legal entities with separate investment portfolios: the operation and results of one fund do not impact the operation and results of another fund.

Also, money market funds within the same fund family will not necessarily share the same risks, as the Commission seems to presume. We disagree with the Commission's stated rationale that "prudence" requires Reg. 1.25 to promote spreading Client Assets across multiple money market fund providers. We see no benefit, for example, to requiring FCMs to have to potentially invest in a Prime money market fund with one provider and a Government or a Treasury money market fund with another provider, on the basis that such an arrangement is safer than if the FCM invested in each of these types of funds with a single provider. We urge the Commission to reconsider the reasonableness of this proposal on a cost-benefit basis, recognize the unnecessary inconvenience it would create if implemented, and not seek to impose issuer-based concentration limits for money market funds.

The Commission should not Limit Permitted Money Market Fund Investments under Reg. 1.25 to U.S. Treasury Money Market Funds. The Commission specifically requested comment on whether money market fund investments should be limited to U.S. Treasury money market funds or to money market funds that have portfolios consisting only of permitted investments under Reg. 1.25. We believe the comments made in this letter and in our letter in 2009 demonstrate our support for Reg. 1.25 continuing to include all kinds of money market funds that are structured within the confines of Rule 2a-7. We think they are appropriate liquidity vehicles with sufficient risk-limiting constraints and can continue to serve the needs of FCMs and DCOs while allaying the Commission's safety concerns. As to the latter aspect of the comment request, though, we understand that, under such circumstance, "Municipal" money market funds would be "permitted investments" but "Prime" money market funds would not, and we think is an unreasonable result.

Dreyfus thanks the Commission in advance for considering its comments and welcomes the opportunity to discuss these issues at the Commission's convenience. For more information, I can be reached at (212) 922-6680 or by email at cardona.c@dreyfus.com. Alternatively, you can contact John Hammalian, Managing Counsel, at (212) 922-6794 or by email at hammalian.j@dreyfus.com.

Very truly yours,

J. Charles Cardona

J. Charles Cardona
President

[1] We reach this conclusion based on our own experience in servicing FCMs and DCOs liquidity needs for the past ten years as well as from the substance of comment letters submitted in 2009 by certain associations which suggest that money market funds are the second most popular investment choice for Client Assets after direct investment in U.S. Treasuries.

[2] In this regard, we note, coincidentally, that the Release cites a comment letter from 2009 in which the author estimates that FCAs and DCOs invest approximately 10% of their Client Assets in money market funds. Our hope is that the proposed 10% asset-based concentration limit was independently determined to reflect the Commission's view of relative riskiness, and does not merely reflect a means of capping maximum exposure to money market funds with the lease amount of potential impact/resistance.

[3] We believe that "Treasury/Government and Repo" money market funds would merit the same treatment as "Treasury/Government Only" funds under Reg. 1.25, provided fund repurchase agreements with private counterparties are at least 101% collateralized with U.S. Government securities only.