

February 1, 2011

The Honorable Gary Gensler
Chairman
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, D.C. 20581

Re: RIN No. 3038-AD28: Protection of Collateral of Counterparties to
Uncleared Swaps; Treatment of Securities in a Portfolio Margining
Account in a Commodity Broker Bankruptcy.

RIN No. 3038-AD99: Protection of Cleared Swaps Customers Before and
After Commodity Broker Bankruptcies.

Dear Chairman Gensler:

On behalf of our client, Federated Investors, Inc., and its subsidiaries (“Federated”), we would like to submit this supplement to our previously filed comments on the use of shares of money market mutual funds (“money funds”) as a means for investing swaps collateral and to hold consumer cash, in connection with the above-referenced rulemakings. The Commodity Futures Trading Commission (the “CFTC” or the “Commission”) faces a choice on whether to continue to allow use of money fund shares for this purpose or, instead, to limit the use of money funds and channel the bulk of those swap collateral and futures customer cash balances into U.S. government securities, bank deposits and municipal bonds.

We understand that the Commission is interested in receiving information on the potential effect on consumers and others outside the futures and investment industries on the continued use of money market funds for this purpose. Consumer groups, state and local governments, and businesses have weighed in on this question in connection with recent Securities and Exchange Commission (“SEC”) requests for comment on the regulation of money funds. Those groups have spoken out strongly in favor of money funds, both as a safe and efficient place to keep cash and as an important source of short-term funding that creates jobs and allows local governments and businesses to provide services.

Enclosed is a copy of a letter submitted to the SEC by Fund Democracy and the Consumer Federation of America in connection with recent changes to regulations applicable to Money Funds. This letter notes that Money Funds “historically have been a paragon of stability” and that “[w]hile thousands of banks have failed over the past three decades, the record of [Money Funds] has been virtually unblemished.”

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Also enclosed are copies of certain letters that were submitted to the SEC in response to the recent *Report on Money Market Fund Reform* by the President's Working Group on Financial Markets. These comments, which are only a portion of the total, were submitted by a variety of state and local government entities and business associations. As you can see from the letters, money funds are important cash management tools for municipal and local entities. Indeed, under the Government Finance Officer Association's (GFOA's) Best Practices "governments are encouraged to look to money market funds for short-term investments . . ." ¹ Money Funds are also a significant source of short-term financing of state and local governments, purchasing about 65% of all short-term public debt. ² Commenters such as the National League of Cities noted that regulations that inhibit investment in money funds "would dampen investor demand for the securities we offer and deprive state and local governments of much-needed capital." ³ Letters from business associations describe the importance of money funds to provide short-term financing to small and large businesses for such things as inventory, receivables, and payroll. These letters also express similar concerns on restrictions that may result in investor money flowing out of money funds. ⁴ For example, the New Jersey Chamber of Commerce has noted that "[r]egulations that shrink the pool of money market mutual fund

¹ Letter filed by the National League of Cities and the following associations of state and local entities: the American Public Power Association; the Council of Development Finance Agencies; the Council of Infrastructure Financing Authorities; the Government Finance Officers Association; the International City/County Managers Association; the International Municipal Lawyers Association; the National Association of Counties; the National Association of Local Housing Financing Agencies; the National Association of State Auditors, Comptrollers and Treasurers; the National Association of State Treasurers and the U.S. Conference of Mayors ("State and Local Entities Letter"). See also *GFOA Best Practice: Using Mutual Funds for Cash Management Purposes* (2003, and 2006) (TIM) (copy attached and available at: <http://www.gfoa.org/downloads/cashmutualfundsfinal.pdf>) (noting that the GFOA "has endorsed the use of money market mutual funds by public cash managers through the GFOA's model investment legislation for state and local governments. Portfolio safety, liquidity, diversification, and professional management are desirable features of these investment vehicles.")

² See State and Local Entities Letter; Letter from the Treasurer of the State of New Hampshire.

³ State and Local Entities Letter. See also letters from the Port of Houston Authority; Cincinnati/Northern Kentucky International Airport; Treasurer of the State of New Hampshire.

⁴ Letters from the Business Council of New York State; Dallas Regional Chamber; Associated Industries of Florida; New Jersey Chamber of Commerce. See also letter from the following businesses and associations: Agilent Technologies, Inc.; Air Products & Chemicals, Inc.; Association for Financial Professionals; The Boeing Company; Cadence Design Systems; CVS Caremark Corporation; Devon Energy; Dominion Resources, Inc.; Eastman Chemical Company; Eli Lilly & Company; Financial Executives International's Committee on Corporate Treasury; FMC Corporation; Institutional Cash Distributors; Kentucky Chamber of Commerce; Kraft Foods Global, Inc.; National Association of Corporate Treasurers; New Hampshire Business and Industry Association; Nissan North America; Pacific Gas and Electric Company; Safeway Inc.; Weatherford International; U.S. Chamber of Commerce.

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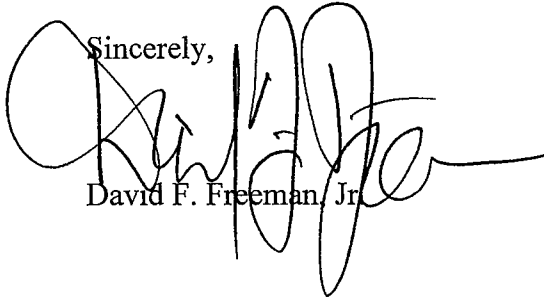
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capital available to businesses will negatively impact their ability to meet their cash requirements, causing large disruptions in the nation's economy.”⁵

In short, the view from consumers, local governments and small businesses outside the investment and futures industries is that money funds safely and efficiently channel retail and other investor money back into the economy to create and maintain jobs and essential services, while protecting investor money from substantial risks. If the rulemakings currently being contemplated by the Commission were to discourage or limit the continued use of money funds as swaps collateral and to hold customer cash balances and, instead, were to re-channel that money primarily to finance long-term federal government debt and bank deposits, it would disrupt the reinvestment of billions of dollars through money funds back into our communities.

Thank you for allowing us the opportunity to provide our comments. Please do not hesitate to contact me at (202) 942-5745 if you have any questions.

Sincerely,



David F. Freeman, Jr.

cc: Hon. Michael Dunn
Hon. Jill E. Summers
Hon. Bart Chilton
Hon. Scott D. O'Malia

Mr. David A. Stawick
Secretary

⁵ Letter from the New Jersey Chamber of Commerce.

Fund Democracy
Consumer Federation of America

September 8, 2009

FILED ELECTRONICALLY

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

RE: File No. S7-11-09

Dear Ms. Murphy:

We are writing on behalf of Fund Democracy and the Consumer Federation of America to comment on the SEC's proposals regarding money market fund ("MMF") regulation. In summary, we strongly support the bulk of the SEC's proposals to protect MMF investors and enhance the stability of MMFs. New public disclosure requirements should provide additional market discipline for MMFs, and confidential filings with the Commission will enable the SEC staff to keep a closer eye on developing trends in individual funds and across the industry. The SEC's proposed daily and weekly cash requirements should improve the actual and perceived safety of MMFs.

We are concerned, however, that certain of the SEC's proposals lack sufficient empirical support. For example, the Commission proposes to ban second-tier securities, but it has not provided any evidence of the relationship between MMF failures or runs and the holding of such securities. It is easy to forget, in the wake of recent high profile failure of the Reserve Fund and the ensuing run on MMF assets, that MMFs historically have been a paragon of stability. While thousands of banks have failed over the last three decades, the record of MMFs has been virtually unblemished. Reform of MMF regulation is needed, but only to the extent that identifiable benefits outweigh the costs.

In some respects, we believe that the Commission should take additional steps to protect MMF shareholders. Our principal recommendations are as follows:

- The Commission should evaluate the potential benefits of mandatory private liquidity insurance, especially in view of the Obama administration's position that the SEC's current proposals are not sufficient to address run risk and its specific request that the President's

Working Group evaluate private liquidity insurance as a potential ameliorative.

- The Commission should require the disclosure of a liquidity color bar that would depict an MMF's relative holdings of daily and weekly cash and illiquid holdings to provide investors with an easily understandable measure of MMF risk.
- The Commission should adopt reforms that would protect against abuses occurring during the liquidation of a failed MMF, including prohibiting funds from withholding assets to cover indemnification claims in violation of shareholders' redemption rights and statutory indemnification restrictions.
- The Commission should clarify that employees of privately held fund managers such as the manager of the Reserve Fund, are entitled to the same whistleblower protections under the Sarbanes-Oxley Act of 2002 as employees of publicly held fund managers.
- The Commission should require advance notification of fee waiver terminations in order to reduce the instability caused by outflows to funds with higher net yields.

Finally, we believe that there is no reasonable basis for requiring that large redemptions be paid in kind or that MMFs be prohibited from using the amortized cost method of valuing their portfolios. Money market funds already have the ability to pay redemptions in kind as necessary to protect shareholders. As a result, the SEC's in-kind redemption proposal would only have the effect of removing MMFs' discretion to pay large redemptions in cash.

Requiring that MMFs allow their net asset values ("NAVs") to float is fundamentally inconsistent with the basis of MMFs' utility. As the Commission is aware, retail MMF shareholders use MMFs as cash management vehicles that are more akin to bank deposits than investment securities. Requiring floating NAVs would transform MMFs into nothing more than short-term bond funds and potentially destroy their usefulness for millions of retail investors.

Money Market Fund Portfolio Disclosure

We applaud the SEC's proposal to require monthly public disclosure of MMF portfolio holdings and the filing of additional detailed portfolio information with the Commission. In January 2008, we filed a rulemaking petition with the Commission requesting that these requirements be imposed on MMFs in order "to minimize the likelihood of a loss of confidence in money market funds resulting from one or more funds breaking a dollar."¹ While it is unfortunate that the

¹ See Letter from Fund Democracy, Consumer Federation of America, Consumer Action, AFL-

Commission did not act on our petition prior to the collapse of the Reserve Fund and the subsequent run on the industry, we are gratified that this proposal has been included in the package of reforms on which the Commission has requested comment.

Public Portfolio Disclosure

We agree that monthly public disclosure of portfolio information will allow the markets to make more informed decisions about the comparative risk profiles of different MMFs. The comparative yields of MMFs have assumed far too prominent a place in the marketplace. It needs to be tempered with more and more prominent disclosure of information that will enable investors to evaluate the full risk-reward characteristics of MMFs.

The Commission requests comment on its concern that public portfolio disclosure would increase redemptions and “introduce greater instability.” We believe that this concern is misplaced. On the contrary, greater transparency should provide a strong incentive for funds to avoid the excessively risky practices that lead to instability and encourage redemptions.

Limiting MMF portfolio disclosure based on the potential effect on redemptions would move MMF regulation in the wrong direction. Banking regulation has long suffered from a culture of secrecy where undisclosed asset deterioration is allowed to fester behind the scenes until it brings down the bank (or is “fixed” by permitting banks to use false asset values in their financial statements). The better approach to risk management is the kind of continuous price transparency that will prevent the development of large gaps between the carrying value and market value of fund assets. The gap between the carrying and market value of mortgage-backed securities has been one of the leading causes of the current financial crisis.

The best preventative for MMF portfolio illiquidity is a disclosure system that facilitates the current correction of price/value discrepancies and prevents the relentless, self-perpetuating accretion of asset inflation that leads to precipitous market corrections. It would not be surprising to see a significant shift of MMF assets away from relatively risky MMFs whose superior short-term performance

CIO, Financial Planning Association, and National Association of Personal Financial Advisors to SEC (January 16, 2008) *available at* <http://www.funddemocracy.com/MMF%20Rulemaking%20Petition.pdf>. In 2000, we had previously petitioned the Commission to require public monthly portfolio disclosure for all mutual funds, after which the Commission adopted the current quarterly portfolio disclosure rule. *See* letters from Fund Democracy and Consumer Federation of America to SEC (June 28 & Aug. 9, 2000) *available at* <http://www.funddemocracy.com/Holdings%20Petition.pdf> and <http://www.funddemocracy.com/Consumer%20Petition.pdf>.

currently receives much greater and more transparent emphasis than their relative risk level.

We agree with the Commission that it does not necessarily follow from a full-transparency model that portfolio disclosure must be *current* as opposed to *frequent*. Small lags between the date of the data and the disclosure date are consistent with the monitoring of MMF risk. What matters most is the frequency of disclosure and the potential for gaming during the period between disclosure dates.

In this respect, we are concerned that monthly disclosure will not provide sufficient information to the markets to monitor MMF risk. There is empirical evidence that MMFs already engage in portfolio pumping at month-ends in order to manage the appearance of their risk-level.² To provide a truly representative picture of an MMF's risk, portfolio disclosure must be at short enough intervals to prevent the hiding of strategic behavior between disclosure dates. We encourage the Commission to monitor variance in MMF portfolios between the disclosure dates to ensure that monthly disclosure is adequate and to continue to develop systems that ultimately would allow for daily disclosure when information collection and dissemination costs become negligible.

We also applaud the proposal to require that portfolio information be provided in XML or some other standardized format. In June 2000, we petitioned the Commission to "require funds to post their portfolio holdings on a free Internet site in XML or other easily manipulated language, and attach to each holding the security's ticker symbol, cusip number, and security industry code."³ We strongly support the SEC's recent movement in this direction with respect to electronic filings generally and in this proposal in particular. Over the longer term, the Commission should move toward a system in which fund portfolios and prices can be electronically filed with the Commission on an ongoing basis as technology continues to reduce the cost of data collection, transmission, and analysis.

MMF Risk Color Bar

We agree with the Commission that the required disclosure may create an advantage for sophisticated investors, because they will be able to respond more quickly than retail investors to changes in an MMF's perceived risk-reward profile. We believe that the playing field could be leveled by providing similar disclosure in a user-friendly format for retail investors. The disclosure should provide a single graphic reflection of the relative liquidity risk presented by a

² See David Musto, *Investment Decisions Depend on Portfolio Disclosures* (Aug. 21, 1997).

³ See *supra* note 1.

fund. Such a liquidity chart has the potential to do more to moderate MMF risk than all of the SEC's other proposals combined.

The format that we propose is a simple color bar that shows the liquidity risk for an MMF's assets. The top portion of the bar would be blue to the extent that the fund's assets were invested in daily liquid assets as defined in the SEC's new daily cash standard. Immediately below, the blue would transition slightly to reddish-blue to represent the fund's investments in SEC-defined weekly liquid assets. This blue-to-red transition would continue to the bottom portion, which would be fire-red to reflect the amount of the fund's assets that were invested in illiquid securities (which we believe should continue to be allowed, as discussed below).

Regarding the SEC's concern that portfolio disclosure may exacerbate the institutional hot money problem, we believe that this concern militates for more transparency, not less. Instability is more likely to be caused by the uncertainty that accompanies a lack of knowledge about MMFs' risk profile than by knowledge of an MMF's true risk characteristics. The recent decline in the stock markets did not lead to a run on stock funds partly because the decline was consistent with the general understanding of the volatility of stocks. To the extent that MMFs engender risk of loss, the full disclosure of this risk in the most accessible, understandable format would provide the best means of subjecting MMF risk to market discipline and minimizing instability.

Disclosure to Commission

We strongly support the SEC's proposal to require that additional information be filed with the Commission on a temporarily confidential basis. It is critical that the Commission be able to gauge the stability of the MMF industry on an ongoing basis. As we stated in our January 2008 rulemaking petition, "[o]ngoing monitoring of money market fund portfolios would provide the data necessary to detect and prevent large scale liquidity and pricing problems long before they have systemic effects."

We believe strongly that the values at which MMFs are carrying portfolio securities is the most important piece of information for monitoring potential liquidity problems. Provided that the information is filed in a standardized electronic format, this information would enable the Commission to monitor the credibility of carrying prices, deter the use of inflated prices, and minimize the risk of sudden corrections. This information would have enabled the Commission, for example, to monitor the values at which different MMFs were carrying the Lehman debt that played a role in the collapse of the Reserve Fund.

As the Commission notes, we had requested that it consider requiring disclosure of additional information, "such as the fund's client concentration levels, the percentage of the issue held by the fund, or last trade price and trade volume for

each security.” We defer to the SEC’s judgment as to the particular mix of information that should be filed, taking into account both the cost of filing and importance of each data point in creating a helpful picture of developments in the industry.

Portfolio Liquidity Requirements

We strongly agree with the Commission’s focus on the liquidity of MMF portfolios. The September 2008 run on MMFs provided a glimpse of the actual levels of redemptions that could occur during a crisis and empirical support for the SEC’s proposals in this respect. The SEC’s proposed daily and weekly cash requirements will greatly enhance the actual and perceived liquidity and robustness of MMFs. As discussed below, however, we believe that the Commission’s omission of any discussion of mandatory private insurance leaves an important option unaddressed and seriously undermines its ability to claim that it has considered all reasonable alternatives.

Mandatory Private Liquidity Insurance

In June 2008, the Obama administration released *Financial Regulatory Reform: A New Foundation* (“Financial Reform Blueprint”), which set forth a broad range of proposals for improving the regulation of financial markets and services. With respect to money market funds, the Financial Reform Blueprint recommended that the Commission:

move forward with its plans to strengthen the regulatory framework around MMFs to reduce the credit and liquidity risk profile of individual MMFs and to make the MMF industry as a whole less susceptible to runs.

The Report states that the kind of safety enhancements proposed by the Commission “should not, by themselves, be expected to prevent a run on MMFs of the scale experienced in September 2008.” The Blueprint also tasked the President’s Working Group on Financial Markets with:

assessing whether more fundamental changes are necessary to further reduce the MMF industry’s susceptibility to runs, such as eliminating the ability of a MMF to use a stable net asset value or *requiring MMFs to obtain access to reliable emergency liquidity facilities from private sources.*

(emphasis added). The Commission has addressed only one of these options, the floating NAV, which, as discussed below, would eliminate the MMF run problem by eliminating MMFs.

We have been unable to find in the SEC’s proposal a single reference to, much

less any discussion of, the possibility of requiring MMF sponsors to obtain private insurance or other liquidity guarantees from outside parties.

Even without the prompting of the Financial Reform Blueprint, it would be incumbent upon the Commission to consider an exogenous solution to MMF safety concerns. Federal deposit insurance has long demonstrated the efficacy of government insurance in preventing run-causing panics. The success of the Treasury's temporary insurance program demonstrated the potential benefits of similar insurance in the MMF market. Insuring MMFs arguably would be less risky than insuring bank deposits, because the types of holdings to which MMFs are already limited present less risk than the assets that support insured bank deposits.⁴

While creating a federal insurance regime is obviously outside of the SEC's purview, mandating private insurance coverage or liquidity facilities is not. The ultimate cause of any MMF run is a failure of market confidence. The prospect of some form of outside liquidity that exists independent of the risk characteristics of a particular MMF could not help but to reduce the likelihood of an MMF run. Such insurance or liquidity facilities presumably would be priced to reflect an MMF's risk level, which would provide an additional market-based restraint on excessive risk-taking to supplement the government mandates reflected in rule 2a-7. Some MMFs have, on their own initiative, obtained private portfolio insurance. We strongly encourage the Commission to consider a private insurance mandate before reaching a final decision on MMF regulatory reform.

Illiquid Securities

The SEC historically has taken the position MMFs should not invest more than 10% of their portfolios in illiquid securities. As a general matter, however, the holding of illiquid securities representing 10% or even 20% of a MMF's portfolio would have no practical bearing on its ability to handle heavy redemptions. The first securities sold to honor redemptions would be the MMF's most liquid holdings; its illiquid holdings would be the last to go. Liquidity is a top-down, not bottom-up issue. It is extremely unlikely that an MMF would ever be in a position where it had to sell its last 20% of assets because redemptions that were on their way to consuming the first 80% of an MMF's assets would surely have caused the MMF to fail before any illiquid assets had to be sold. We question whether there is any plausible redemption scenario in which an MMF would find itself unable to honor redemptions at the point it found it necessary to liquidate its illiquid holdings.

The Commission proposes to prohibit the holding of illiquid securities by MMFs. We believe, however, that the weakness in the SEC's historical position has not

⁴ See generally Mercer Bullard, *Federally-Insured Money Market Funds and Narrow Banks: The Path of Least Insurance* (Mar. 2, 2009) available at SSRN: <http://ssrn.com/abstract=1351987>.

been that it permits investments in illiquid securities or the amount of the percentage limit, but the fact that the percentage limit is not fixed. The 10% limit applies only when a fund purchases additional securities. An MMF's illiquid holdings could substantially exceed 10% following a period of net redemptions or increase in the value of the holdings. There has been at least one recent instance in which a stock fund's illiquid holdings increased in value sufficiently to cause concerns.⁵

The appropriate protective measure regarding the risk posed by illiquid securities is not to prohibit illiquid securities but to revise (and codify) the current restriction to apply on an ongoing basis. It is unlikely that a 10% illiquid securities position poses a real, independent risk to an MMF's liquidity as long as it stays at 10% -- or even 15% or 20%. We therefore recommend that the Commission impose a fixed limit on the percentage of an MMF's portfolio that can be invested in illiquid securities that, if exceeded, would necessitate the immediate restoration of the limit through sales of illiquid securities or additional investments in the fund.

Daily and Weekly Cash Requirements

We strongly support the SEC's daily- and weekly-liquid assets proposals. These proposals would greatly enhance MMFs' actual and perceived ability to honor redemptions in periods of stress. We disagree, however, with the SEC's proposal to apply the limit only at the time of new investments by a fund. If an MMF begins to experience a run, its daily and weekly cash will decline, yet the SEC's proposal would not specifically require that the fund take any steps to restore the daily/weekly cash minimums. Falling below the minimums only has an effect when the MMF has new money to be invested, which it would then have to invest in daily or weekly cash until the minimums were restored. It is at the early stages of an unexpected increase that an MMF needs to begin focusing on its liquidity capacity.

We believe that daily and weekly liquidity minimums should be set at levels below which an MMF should never fall. In light of this more rigid standard, we recommend that grace periods be allowed during which an MMF would be permitted to restore the minimums (and required to notify the SEC staff of the problem). It would be counterproductive if a fixed liquidity minimum forced an MMF into a fire sale mode in order to meet the liquidity minimums that are intended to avoid fire sales. The grace period therefore should be long enough to sell noncash holdings at their carrying values, which would be seven days for non-illiquid securities.

⁵ See Russ Kinnel, *Morningstar Commentary* (2009) (discussing Firsthand Technology Fund).

There must be an objective cutoff point, however, at which an MMF that is unable to maintain an adequate cash position will be in noncompliance and required to take more extreme measures in coordination with SEC staff. We note that the staff's role in such discussions should be to assist the fund in reestablishing its cash position without spooking the market. The Commission should consider carefully how to handle disclosure issues in balancing the need for full disclosure and the need to avoid a panicked run for the exits.

Finally, we believe assets other than cash or U.S. obligations should not be eligible daily cash. As the current crisis has demonstrated, there is a world of difference between assets backed by infinite liquidity (cash itself and U.S. government commitments) and those backed by private contractual commitments. Private contractual commitments, no matter how short their duration, will not hold up in a financial crisis. The recent failure of the auction-rate securities auctions – normally conducted on a weekly basis – casts doubt even on the reliability of one-day repurchase agreement obligations.⁶ We have recently seen financial firms fail almost overnight. The purpose of the daily liquid assets minimum should be to establish a pool of assets of unquestioned liquidity that can be sold at a moment's notice.

General Liquidity Requirement

We agree with the SEC's proposed general liquidity requirement that MMFs hold daily and weekly cash "sufficient to meet reasonably foreseeable shareholder redemptions in light of the fund's obligations under section 22(e) of the Act and any commitments the fund has made to shareholders." We recommend, however, that the requirement be stated in terms of a requirement for a set of procedures that are reasonably designed to ensure that the MMF will be able to honor redemptions. The general difficulty with an objective mandate to make such a subjective determination as "foreseeable shareholder redemptions" is that compliance is very difficult to implement and evaluate. It will be possible to comply with the requirement but have been wrong in estimating shareholder redemptions. In contrast, a requirement such as the 5% daily cash requirement is relatively objective. Either the fund has complied or it has not. The better way to implement an enforceable standard, both for SEC inspectors and compliance professionals, would be to impose a requirement that reasonable procedures be established or the board make a good faith finding, in which case the test will clearly be one of the reasonableness of the process used rather than one of the specific determination made.

⁶ The Commission discusses the risk of counterparty default in its discussion of repurchase agreements at page 75 – 76 of its proposing release.

Empirical Support for Other Proposals

We believe that a number of the SEC's proposals lack sufficient empirical support to justify the cost that they would impose on investors. The Commission should keep in mind that, notwithstanding the events of last fall, MMFs have a remarkable safety record. Where there is direct evidence that enhancing MMF safety would materially reduce risk, we agree that such enhancements should be made. It is always possible to enhance MMF safety for safety's sake, however. The SEC's goal should be to identify safety enhancements the demonstrable benefits of which exceed their potential costs.

In a number of instances, the SEC's proposals reflect this kind of cost-benefit analysis. For example, the proposals relating to structured investment vehicles and other asset-backed securities are based partly on the actual difficulties that the Commission found were experienced by MMFs in connection with investments in these securities. Alternatively, the SEC's forbearance regarding diversification requirements reflects its recognition that "the issuer diversification provisions of [rule 2a-7] generally were not implicated by the market turbulence last fall."

Other proposals lack such empirical analysis, however. For example, the Commission proposes to prohibit investments in second-tier securities, yet it concedes that: (1) it has previously considered implementing such a prohibition but decided against it, (2) "[s]econd tier securities were not directly implicated in the recent strains on money market funds," and (3) the only empirical basis for its proposal is its conclusion that "second tier securities generally present additional risks to a money market fund."⁷ The Commission also concedes that, since 1991, fund holdings of second tier securities had been "reduced . . . to almost zero." The SEC staff found that "in September 2008 . . . second tier securities represented only 0.4 percent of the \$3.6 trillion held by [money market] funds (approximately \$14.6 billion)." The insignificance of these holdings belies the utility of banishing them.

The Commission also proposes to reduce MMFs' maximum average weighted maturity from 90 days to 60 days, on the grounds that shorter maturities reduce risk and increase liquidity, but again no evidence is provided to support its position that shortening maturities will make MMFs sufficiently safer to justify the costs. The Commission notes that funds with shorter maturities had an easier time meeting redemptions in late 2008, but it provides no analysis of this phenomenon. Indeed, the Commission concedes that the actual average weighted maturity of MMFs over the last 20 years has been 58 days and on June 16, 2009 was 53 days, in both cases shorter than the 60-day maturity limit that it has proposed.

⁷ The Commission cites the recent ICI report on MMF reform, but it also provides no empirical basis for reevaluating the actual risk presented by second tier securities.

The SEC's proposals regarding long-term unrated securities and credit reassessments similarly lack an adequate empirical foundation. What was the relationship between investments in these securities and the crisis of fall 2009? For decades, the Commission has permitted MMF managers to bail out MMFs under no-action positions and rule 17a-9. To what did these securities play a role in those bailouts? In conjunction with the analysis of data collected pursuant to the new filing requirements described above, the Commission should direct its staff to monitor the circumstances of no-action relief and proposed filings under rule 17a-9 for the purpose of evaluating the need for additional reforms in the future.

Regulation of Liquidating MMFs

In addition to proposing safety enhancements designed to reduce the risk that a MMF will break a dollar, the Commission has proposed reforms that are "designed to protect investors in a fund that breaks a dollar in the future." We believe that these reforms fall short in significant respects.

Lessons of the Reserve Fund Failure

As the Commission is aware, the liquidation of the Reserve Fund has become a textbook illustration of the inadequate regulation of MMF shareholders' rights in liquidation. To some extent, the SEC's current proposals reflect its recognition of problems that arose in the Reserve Fund liquidation. For example, the liquidation has been slow because the Fund did not have systems to handle redemptions at less than \$1.00/share. The Commission accordingly has proposed to require that MMFs be prepared to process transactions at per share values of less than \$1.00, a proposal which we strongly support.

In significant respects, however, the Commission has failed to address important gaps in regulation relating to MMF liquidations. In May 2009, we asked the Commission to consider certain reforms that would address concerns arising from the Reserve Fund liquidation. The letter asked the Commission to prohibit: (1) funds from withholding shareholder assets to cover claims against the fund where the fund is only a nominal defendant; (2) funds from withholding assets to cover indemnification claims in violation of shareholders' redemption rights and statutory indemnification restrictions, and (3) fund managers from charging excessive fees during the liquidation of a fund. We request that the Commission incorporate these proposals into its current rulemaking.

The illegal conduct occurring in connection with the Reserve Fund's failure is also a reminder of the importance of protecting whistleblowers who report such conduct to regulators. In March 2008, we requested that the Commission clarify that the whistleblower protections of the Sarbanes-Oxley Act of 2002 ("SOXA")

extend to employees of fund managers.⁸ In at least two cases, fund managers have successfully argued that fund shareholders should be stripped of SOXA's whistleblower protections solely because the manager happens to be privately owned, notwithstanding the public status of the mutual fund and the fact that it is the fund's manager that is responsible for the fund's securities law compliance.

The Reserve Fund is managed by a private firm that the Commission has alleged engaged in misconduct in connection with the Fund's collapse. If one of the manager's employees had blown the whistle on their employer, the employee would not have been protected by SOXA's whistleblower provision under incorrectly decided legal precedents. Chairman Schapiro has announced her intention to improve the handling of whistleblower complaints, but there is no indication that the Commission intends to ensure that whistleblower protections apply to employees at firms such as the Reserve Fund's manager. The Commission should take this step to ensure that all mutual fund investors enjoy the same indirect benefits of whistleblower protection that are enjoyed by investors in other publicly held companies.

Free Time-Out

We strongly oppose the SEC's proposal to permit an MMF to freeze shareholder funds for five days following an MMF's failure. Once an MMF has failed, it has failed. It has broken the implied promise that it will be able to maintain a \$1/share NAV. The SEC's proposal also permits it to break the statutory requirement that it meet redemptions promptly. We believe that the concerns raised by the Commission strongly militate against this proposal. The free time-out provision would increase incentives to run for the exits before the fund is closed and virtually guarantee that, once the fund was reopened, a flood of redemptions will follow. The provision provides a potential escape valve that will reduce fund managers' incentives to protect the fund's NAV. The provision provides virtually no benefit to shareholders while serving primarily to protect fund managers' interests.

Voluntary Haircuts

We also oppose the SEC's proposal to permit "voluntary" redemptions at discounted NAVs following the failure of an MMF. This free time-out proposal essentially would allow the fund manager to justify holding fund assets hostage longer than necessary on the ground that if shareholders need their funds they can simply accept a haircut. The haircut may turn out later to have been based on an inaccurate NAV, thereby creating a situation where shareholders would have to balance their right to receive the fair value of their shares against their right to prompt redemption.

⁸ See Letter from Fund Democracy, Consumer Federation of America, Consumer Action, and North American Securities Administrators Association to SEC (March 28, 2008) available at <http://www.funddemocracy.com/whistleblower%20letter%20final.pdf>.

We recognize that the proposal assumes that the haircut reflects a fair, current valuation of fund assets. But if that is the case, why could not the fund simply cash out all shares in amount equal to the known value of the fund? In other words, if an MMF's shares can be fair valued at \$0.97/share, then every shareholder should be able to receive 97% of their account values at that time. We believe that a \$0.97/share valuation that could not be translated into cash is not a sufficiently accurate valuation to justify "redeeming" shares at that price. The potential for abusive conduct is too great, especially where the manager of the failed MMF has been allowed to continue to operate it.

In-Kind Redemptions and Floating NAVs

The Commission has requested comment on requiring MMFs to honor large redemptions in kind and prohibiting the use of the amortized cost method. We strongly oppose these proposals. Both present a threat to the continued viability of MMFs, which have become an important cash management tool for millions of American households.

There is simply no need to require in-kind proceeds for large redemptions; MMFs already have the authority to make redemptions in kind as a means of managing liquidity risk. The combination of a number of other proposals made by the Commission would ensure that funds give even greater consideration to in-kind redemptions as an available tool for managing risk. If anything, an in-kind redemption requirement would limit MMFs' flexibility. It would prohibit MMFs from honoring large redemptions in cash, even when doing so is preferred by the fund and better for shareholders. Money market funds were able to avoid resorting to in-kind redemptions in response to last year's run, which certainly militates for continuing to allow them this flexibility.

We also question whether the Commission has the authority to impose such a broad prohibition against cash redemptions where the Investment Company Act expressly defines a redeemable security as one that entitles the holder to receive in-kind proceeds *or cash*. While the exercise of this authority might be viewed as falling within the SEC's exemptive discretion (rule 2a-7 is an exemptive rule), the Court of Appeals for the D.C. Circuit appears to believe that restricting the terms of exemptive rules – even rules that exist only by SEC fiat – is subject to the same standard of review as any other form of agency rulemaking.⁹

We similarly believe that there is no good reason to require MMFs to allow their NAVs to float by banning the amortized cost method of valuing their portfolios. In short, the amortized cost method has played a central role in the extraordinary growth of MMFs over the last three decades. As discussed above, MMFs historically have been a paragon of safety. There is no evidence of that some

⁹ See *Chamber of Commerce v. SEC*, 443 F.3d 890 (D.C. Cir. 2006).

MMF shareholders are realizing material or net dilutive gains at the expense of others. The SEC's concerns reflect little more than the inherent cross-subsidization that is intrinsic to the structure of every mutual fund.¹⁰ Without anything more than speculative concerns that pricing arbitrage might develop at some point in the future, the Commission does not have a sufficient basis to require floating NAVs.

Advance Notice of Termination of Temporary Fee Waivers

The Commission specifically notes that greater risk is associated with MMFs with "higher gross yields," but it nowhere discusses the higher risk associated with higher net yields that result from temporary fee waivers. We recommend strongly that the Commission consider requiring advance notification of the elimination of fee waivers. Empirical evidence shows that waivers are the most common source of relatively superior investment performance,¹¹ which is likely to be closely correlated with the presence of hot money. When waivers are removed, hot money, like brokered bank deposits, is likely to redeem shares in favor of higher performing funds. This instability is likely to create greater liquidity pressure and increase failure risk.

This risk might be mitigated; for example, MMFs might be required to provide at least one year's notification of the elimination of a fee waiver or one month's notification prior to each 5-basis-point reduction in a fee waiver. These measures would reduce the risk of sudden outflows of hot money and enhance MMF safety. Currently, the timing of waiver terminations is limited only by disclosure commitments. We do not know whether there is any empirical relationship between the timing of waivers and the stability of MMF cash flows, however, and encourage the Commission to request and analyze data on this question. We also encourage the Commission to consider whether its definition of institutional investor would generally include enough hot money to take care of the potential waiver problem under that rubric.

NRSROs

The Commission also has asked for comments on the use of NRSRO ratings in rule 2a-7, noting, correctly, the questionable reliability of these ratings. We

¹⁰ See generally Mercer Bullard, *The Mutual Fund as a Firm: Fund Arbitrage, Frequent Trading and the SEC's Response to the Mutual Fund Scandal*, 42 Houston L. Rev. 1271 (2006) (reprinted in: 48 Corporate Practice Commentator 413 (2006)). At least one commenter has proposed to permit a fund to hold itself out as a money fund and allow its NAV to float. This would be inherently misleading and violate rule 2a-7. We note that the Commission has not asked for comment on this possibility, and that such a proposal accordingly would be subject to notice and comment before the Commission could take any such action.

¹¹ See E. K. Christoffersen, *Fee Waivers in Money Market Mutual Funds*, Wharton School (May 2000).

reiterate our comments of last year that, regardless of the reliability of NRSRO ratings, they can provide a useful floor below which securities held by MMFs may not fall.¹² The Commission quotes the statement by the most prominent critic of NRSRO ratings that “one of the core causes of the sub-prime crisis was dependence on inaccurate and unsupportable credit ratings.” We believe that this criticism is entirely consistent with our position. The problem is not the use of the ratings, but overdependence on the ratings by fund directors and managers. An NRSRO rating does not require investment in a security, it merely permits it. We disagree with the implication that NRSRO ratings must be removed in order to cause fund directors and managers to fulfill their responsibility to oversee the safety of MMF portfolios. Instead, fund managers and directors should be held accountable for conducting adequate due diligence to determine whether particular investments have risk characteristics that are appropriate for the fund.

Conclusion

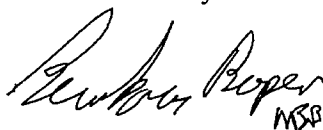
Recent events have resulted in significant upheaval in the financial affairs of millions of Americans and our financial markets. They also have provided insight into potential weaknesses in the current regulation of MMFs. The SEC’s proposals generally find a good balance between needed enhancements to the safety of MMFs and the importance of allowing free markets to determine the most efficient financial vehicles through which investors manage their financial affairs. We commend the Commission on its proposals and look forward to working with the Commission as the proposals are finalized.

Thank you for your consideration of our comments.

Sincerely,



Mercer Bullard
Founder and President
Fund Democracy



Barbara Roper
Director of Investor Protection
Consumer Federation of America

cc by electronic mail:

¹² See Letter from Fund Democracy and Consumer Federation of America to SEC (2008) available at <http://www.funddemocracy.com/mmfnrsrocmtltr9.5.08.pdf>.

Honorable Mary Schapiro, Chairman
Honorable Kathleen Casey, Commissioner
Honorable Elisse Walter, Commissioner
Honorable Luis Aguilar, Commissioner
Honorable Troy Paredes, Commissioner

Andrew Donohue, Director, Division of Investment Management

**American Public Power Association
Council of Development Finance Agencies
Council of Infrastructure Financing Authorities
Government Finance Officers Association
International City/County Managers Association
International Municipal Lawyers Association
National Association of Counties
National Association of Local Housing Financing Agencies
National Association of State Auditors, Comptrollers and Treasurers
National Association of State Treasurers
National League of Cities
U.S. Conference of Mayors**

January 10, 2011

Ms. Elizabeth Murphy
Secretary
Securities and Exchange Commission
100 F St., N.E.
Washington, DC 20549-1090

Re: Request for Comment on the President's Working Group Report on Money
Market Fund Reform (Release No. IC-29497; File No. 4-619)

Dear Ms. Murphy,

The organizations listed above are pleased to comment on the SEC's consideration of the President's Working Group on Financial Markets report, specifically on possible money market reforms, entitled Money Market Fund Reform Options. As we have stated in previous comments to the SEC, notably to proposed changes to SEC Rule 2a-7 in 2009, we support initiatives to strengthen money market funds and ensure that investors are investing in high-quality securities. However, as investors in money market mutual funds (MMMFs), we are concerned about any changes that would alter the nature of these products and eliminate or impede our ability to purchase these securities. In our additional role as issuers of municipal bonds, we are concerned that such changes would dampen investor demand for the securities we offer and deprive state and local governments of much-needed capital.

We are particularly concerned with the issue of whether the SEC should propose or adopt a rule that would change the fixed net asset value (NAV) – the hallmark of money market funds – to a floating net asset value. We believe that such a move would be harmful to state and local governments and the entire MMMF market. The fixed NAV is the fundamental feature of money market funds, and changing its structure likely would eliminate the market for these

products by forcing state and local governments, along with many other institutional investors, to divest their MMMF holdings.

Shrinking the market for MMMFs, in turn, would have severe consequences for state and local finances. MMMFs are the largest investor in short-term municipal bonds, holding 65% of all outstanding short-term bonds equaling nearly \$500 billion.¹ Changing the NAV from fixed to floating would make MMMFs far less attractive to investors, thereby limiting the availability for money market funds to purchase municipal securities. Losing this vital investing power could lead to higher debt issuance costs for many state and local governments across the country. Forcing money market funds to float their NAV could thus deprive state and local governments of much-needed capital.

As investors, many state and local governments look to MMMFs as part of their cash management practice. In the Government Finance Officer Association Best Practice, "Use of Various Types of Mutual Funds by Public Cash Managers," governments are encouraged to look to money market funds for short-term investments, with appropriate cautions. One of the critical reasons for this recommendation is the fixed NAV found in these products. In fact, many governments have specific policies that mandate stable values, and money market funds are to be used for their short-term investments due to the fixed NAV. MMMFs are a popular cash management tool because they are highly regulated, have minimal risk, and are easily booked. If the SEC were to adopt a floating NAV for MMMFs, the organizations listed above expect that many, if not all, of their members would divest a significant percentage of their MMMFs and would have to look at competing products that, in turn, could be more susceptible to market conditions, more difficult to account for and manage, and may pose market risk.

Therefore, in considering the options presented in the President's Working Group on Financial Markets report, we recommend that the SEC and the Financial Stability Oversight Council (FSOC) be cognizant of the potential negative effects on state and local governments of any proposals that would fundamentally alter money market mutual funds, in particular those that would directly or indirectly force these funds to float their NAVs. If the Commission or the FSOC does plan to advance the idea of a floating NAV, we request that they provide a hearing and formal proposal of rules for comment and thorough discussion.

Thank you for the opportunity to comment on the SEC's consideration of the recommendations made in the President's Working Group on Financial Markets report on money market fund reform. If you have any questions about this letter, please contact Susan Gaffney, Director of the Government Finance Officers Association's Federal Liaison Center at 202-393-8468.

¹ Report of the Money Market Working Group, Investment Company Institute, March 2009, pages 18-19.

Sincerely,

American Public Power Association

Council of Development Finance Agencies, Toby Rittner

Council of Infrastructure Financing Authorities, Rick Farrell

Government Finance Officers Association, Susan Gaffney

International City/County Managers Association, Beth Kellar

International Municipal Lawyers Association, Chuck Thompson

National Association of Counties, Mike Belarmino

National Association of Local Housing Financing Agencies, John Murphy

National Association of State Auditors, Comptrollers and Treasurers, Cornelia Chebinou

National Association of State Treasurers, Jim Currie

National League of Cities, Lars Etzkorn

U.S. Conference of Mayors, Larry Jones

Sent via email to: rule-comments@sec.gov

January 6, 2011

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: Request for Comment on the President's Working Group Report on Money Market Fund Reform (Release No. IC-29497; File No. 4-619)

Dear Ms. Murphy:

I am pleased to provide comments on the President's Working Group Report on Money Market Fund Reform. I believe that any mandates forcing money market funds to abandon their traditional, stable net asset value ("NAV") would have a deleterious effect on the U.S. economy and financial markets.

With over 30 years of experience in treasury and finance, including managing billions of dollars in cash, investments and debt for several large public corporations, I would not be comfortable recommending investing corporate cash in money market instruments with a floating NAV that pose a greater risk of loss of principal.

In my current position at the Port of Houston Authority of Harris County, Texas, a political subdivision of the State of Texas, investing in instruments carrying a floating NAV would be very problematic. We, along with many other Texas state agencies and local governments, are subject to the Public Funds Investment Act ("PFIA"), Chapter 2256 of the Texas Government Code. Under the PFIA, we can only invest in a money market mutual fund that "includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share."

A change to floating NAV would not only cause many investors to seek other investment options, including unregulated funds, but there are other negative consequences. As you are aware, many companies issue commercial paper ("CP") to meet short-term funding needs. Since money market mutual funds currently purchase a significant portion of such securities, a reduction in money market investments would harm American businesses due to a corresponding reduction in the availability of short-term credit. The Port of Houston Authority has issued CP in the past, and I am concerned that a shift to floating NAV may impair our ability to raise capital in the CP market in the future and/or increase our costs of short-term financing.

I applaud the SEC's efforts to reduce risk and promote stability, liquidity and efficiency in our financial markets. In that vein, I would urge you to support policies which allow the continued use of the stable NAV for money market mutual funds.

Thank you for your consideration.

Sincerely,

Ramon Yi
Senior Director, Finance
Port of Houston Authority
Houston, Texas



CINCINNATI/NORTHERN KENTUCKY INTERNATIONAL AIRPORT

P.O. BOX 752000 CINCINNATI, OH 45275-2000 (859) 767-3151 FAX (859) 767-3080

January 7, 2011

Ms. Elizabeth M. Murphy
Secretary, Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File # 4-619

Comment Letter to the Securities and Exchange Commission on the President's Working Group Report on Financial Markets

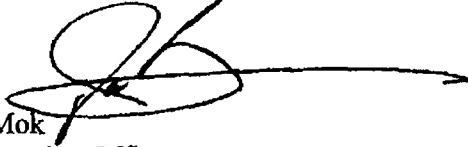
Dear Ms. Murphy:

The Kenton County Airport Board (Board), operators of the Cincinnati/Northern Kentucky International Airport, wishes to go on record as opposing the proposal included in the President's Working Group Report on Financial Markets that money market funds (MMFs) maintain a floating Net Asset Value (NAV) rather than the current stable NAV of \$1 per share.

While the Board supports initiatives to strengthen MMFs and ensure that investors are investing in high-quality securities, as investors in MMFs, we are concerned with any change that would alter the nature of these products and impact our ability to purchase these funds. Additionally, in our role as issuers of municipal bonds, we are concerned that such changes would dampen investor demand for securities we offer and increase the cost of capital for state and local governments.

Sincerely,

KENTON COUNTY AIRPORT BOARD


John C. Mok
Chief Executive Officer
Cincinnati/Northern Kentucky
International Airport

JCM/srh

Catherine A. Provencher
STATE TREASURER



THE STATE OF NEW HAMPSHIRE
STATE TREASURY
25 CAPITOL STREET, ROOM 121
CONCORD, NH 03301
(603) 271-2621
FAX (603) 271-3922
EMAIL: oprovencher@treasury.state.nh.us
TDD Access: Relay NH 1-800-735-2964

January 10, 2011

Ms. Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090


Subject: Comment Letter to the Securities and Exchange Commission on the
President's Working Group on Financial Markets

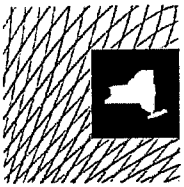
Dear Ms. Murphy:

As you know, money market mutual funds are both an important source of financing and investment option for state agencies and municipalities. In fact, as an industry, money market mutual funds purchase about 65% of all short-term public debt. A number of regulatory and industry changes since 2008 have made the funds safer and more resilient to market disruptions, but regulators continue to evaluate further reforms. Some of these reform ideas are of serious concern to many States, and we believe, should be of concern to you as well.

The New Hampshire State Treasury (NH Treasury) opposes the proposal of the President's Working Group on Financial Markets that money market funds maintain a floating Net Asset Value, rather than a stable \$1 per share as has been the standard. The NH Treasury believes that such a change would not be in the interests of either public-sector investors or debt issuers and could potentially destabilize the market. Furthermore, the NH Treasury believes that a floating NAV could decrease investor demand and transform the current money market funds into short-term bond funds with its inherent risk, volatility and liquidity problems.

Thank you for your attention to this matter.

Sincerely,

Catherine A. Provencher
New Hampshire State Treasurer



**The
Business
Council**

KENNETH ADAMS
President & CEO

January 14, 2011

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

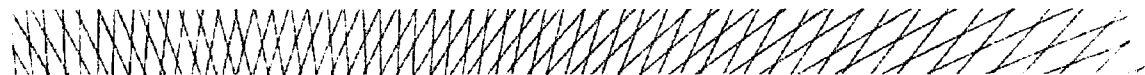
Re: Request for Comment on the President's Working Group Report on Money Market Fund Reform (Release No. IC-29497; File No. 4-619)

Dear Ms. Murphy:

On behalf of The Business Council of New York State, a statewide business trade organization representing over 3,000 members in all sectors of our state's economy, I write to add our voice to those opposing proposals advanced as part of the Report of the President's Working Group on Financial markets on Money Market Fund Reform Options. In particular, we oppose recommendations which would require money market funds to establish a floating Net Asset Value, rather than a stable \$1 per-share value, as has been the industry standard.

It is important to acknowledge the comprehensive changes adopted by the SEC last year with respect to Rule 2a-7 to strengthen the resiliency and stability of money market funds and provide increased transparency of money market funds' investments and operations to investors and regulators. In light of the adoption of those recent regulatory changes and the ongoing regulatory changes being implemented pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, all of which seek to promote financial stability and transparency, we question the need for, and urge caution with respect to, some of the additional reform options in the Report and with respect to which the SEC seeks comments. We are concerned that many of those options would make money market funds an undesirable and unworkable investment option for meeting the needs of current money market fund investors.

Businesses issue commercial paper to meet short-term financing needs such as funding payroll, replenishing inventories, and financing expansion. Since the mid-1980s, money market funds have been major, reliable buyers of those securities and today purchase more than one-third of the commercial paper issued by American businesses. Should regulators eliminate these funds' stable net asset value (NAV) some investors will be forced to walk away due to mandatory investment guidelines that require a stable per share value. Others will take their money elsewhere after the simplicity and convenience of the stable NAV disappears. These harmful consequences will occur whether all funds are required to abandon the stable NAV (Option a. of the PWG Report) or a significant subset

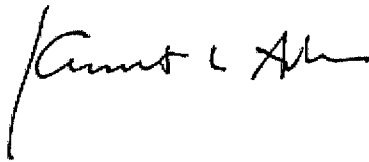


of funds are required to float their value in a "two-tier" system (Options e. and f. of the PWG Report).

There are no immediate substitutes for money market funds in this financing role. Bank lending cannot fill this funding gap unless banks raise substantial new capital. Unregulated private pools might see an opportunity to expand, but encouraging investors to migrate to these vehicles hardly seems consistent with efforts to reduce risk, increase transparency, and ensure greater market stability. Mandating a floating NAV would make short-term financing for American business less efficient and far more costly, ensuring a severe setback for an economy emerging from recession.

We appreciate the opportunity to comment and ask on behalf of our members that you give our views all due consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Kenneth C. Allen". The signature is fluid and cursive, with a large initial "K" and "A".

mm

January 10, 2011

Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
Submitted via Email to: rule-comments@sec.gov

Re: File Number 4-619

A diverse range of industries in the Dallas-Fort Worth region rely on money market mutual funds to support their capital raising and investment needs. American business will lose one of its most important sources of short-term funding if money market funds are forced to abandon their stable per-share value—one of the ideas under consideration by the President's Working Group on Financial Markets and the U.S. Securities and Exchange Commission (SEC). With such a change, the expected flight of investors from these funds will severely impair the ability of companies to raise capital in the U.S. and undermine efforts to strengthen the American economy.

Businesses issue commercial paper to meet short-term financing needs such as funding payroll, replenishing inventories, and financing expansion. Since the mid-1980s, money market funds have been major, reliable buyers of those securities and today purchase over 40 percent of the commercial paper issued by American businesses. Should regulators eliminate these funds' stable net asset value (NAV) some investors will be forced to walk away due to mandatory investment guidelines that require a stable per share value. Others will take their money elsewhere after the simplicity and convenience of the stable NAV disappears. According to one survey of institutional investors, 55 percent of respondents said they would substantially decrease investment in money funds if regulators mandated a floating NAV.¹

There are no immediate substitutes for money market funds in this financing role. Bank lending cannot fill this funding gap unless banks raise substantial new capital. Unregulated private pools might see an opportunity to expand, but encouraging investors to migrate to these vehicles hardly seems consistent with efforts to reduce risk, increase transparency, and ensure greater market stability. Mandating a floating NAV would make short-term financing for American business less efficient and far more costly, ensuring a severe setback for an economy emerging from recession.

We have supported appropriate steps taken by the Department of the Treasury and the SEC to preserve and strengthen this vital source of business financing, but believe this is one proposal that should be rejected outright. We urge your support for policies that promote the use of the stable NAV that has served American investors and businesses so well for decades.

We thank you for your consideration.

A handwritten signature in black ink that reads "Jay C Barksdale". The signature is written in a cursive style with a long horizontal stroke at the end.

Jay Barksdale
Vice President, Public Policy
Dallas Regional Chamber

¹ Report of the Money Market Working Group, Investment Company Institute, March 17, 2009, p. 110, available at http://www.ici.org/pdf/ppr_09_mmwg.pdf.

January 10, 2011

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: Request for Comment on the President's Working Group Report on Money Market Fund Reform (Release No. IC-29497; File No. 4-619)

Dear Ms. Murphy:

The undersigned companies and organizations represent a diverse range of industries that rely on money market mutual funds to support their capital raising and investment needs. American business will lose one of its most important sources of short-term funding if money market funds are forced to abandon their stable per-share value, whether directly or indirectly, under the proposals discussed in the Report of the President's Working Group on Financial Markets on Money Market Fund Reform Options (PWG Report).¹ With such a change, the expected flight of investors from these funds will severely impair the ability of companies to raise capital in the U.S. and undermine efforts to strengthen the American economy.

Businesses issue commercial paper to meet short-term financing needs such as funding payroll, replenishing inventories, and financing expansion. Since the mid-1980s, money market funds have been major, reliable buyers of those securities and today purchase more than one-third of the commercial paper issued by American businesses. Should regulators eliminate these funds' stable net asset value (NAV) some investors will be forced to walk away due to mandatory investment guidelines that require a stable per share value. Others will take their money elsewhere after the simplicity and convenience of the stable NAV disappears. According to one survey of institutional investors, 55 percent of respondents said they would substantially decrease investment in money funds if regulators mandated a floating NAV.² These harmful consequences will occur whether all funds are required to abandon the stable

¹ <http://www.treasury.gov/press/releases/docs/10.21%20PWG%20Report%20Final.pdf>.

² *Report of the Money Market Working Group*, Investment Company Institute, March 17, 2009, p. 110, available at http://www.ici.org/pdf/ppr_09_mmwg.pdf.

Ms. Elizabeth M. Murphy
January 10, 2011
Page 2

NAV (Option a. of the PWG Report) or a significant subset of funds are required to float their value in a “two-tier” system (Options e. and f. of the PWG Report).

There are no immediate substitutes for money market funds in this financing role. Bank lending cannot fill this funding gap unless banks raise substantial new capital. Unregulated private pools might see an opportunity to expand, but encouraging investors to migrate to these vehicles hardly seems consistent with efforts to reduce risk, increase transparency, and ensure greater market stability. Mandating a floating NAV would make short-term financing for American business less efficient and far more costly, ensuring a severe setback for an economy emerging from recession.

We have supported appropriate steps taken by the Securities and Exchange Commission, the Federal Reserve Board, and the Department of the Treasury to preserve and strengthen this vital source of business financing, but believe the idea of requiring all or most funds to float their value should be rejected outright. We urge your support for policies that promote the use of the stable NAV that has served American investors and businesses so well for decades.

We thank you for your consideration and would be happy to discuss this further with you or the appropriate staff.

Sincerely,

Agilent Technologies, Inc.
Air Products & Chemicals, Inc.
Association for Financial Professionals
The Boeing Company
Cadence Design Systems
CVS Caremark Corporation
Devon Energy
Dominion Resources, Inc.
Eastman Chemical Company
Eli Lilly & Company
Financial Executives International's Committee on Corporate Treasury
FMC Corporation

Ms. Elizabeth M. Murphy
January 10, 2011
Page 3

Institutional Cash Distributors
Kentucky Chamber of Commerce
Kraft Foods Global, Inc.
National Association of Corporate Treasurers
New Hampshire Business and Industry Association
Nissan North America Inc.
Pacific Gas and Electric Company
Safeway Inc.
Weatherford International, Ltd.
U.S. Chamber of Commerce

cc: The Honorable Mary Schapiro, Chairman, U.S. Securities and Exchange Commission
The Honorable Kathleen Casey, Commissioner, U.S. Securities and Exchange
Commission
The Honorable Elisse Walter, Commissioner, U.S. Securities and Exchange
Commission
The Honorable Luis Aguilar, Commissioner, U.S. Securities and Exchange
Commission
The Honorable Troy Paredes, Commissioner, U.S. Securities and Exchange
Commission



ASSOCIATED INDUSTRIES OF FLORIDA

The Voice of Florida Business Since 1920

January 10, 2011

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

RE: AIF Comments to the SEC on the President's Working Group on Financial Markets

Dear Secretary Murphy,

On behalf of Associated Industries of Florida (AIF) and its more than 10,000 employer-members across the state of Florida, I am writing you to express our association's concern with the recent recommendations from the President's Working Group on Financial Markets that money market mutual funds (MMMFs) maintain a floating Net Asset Value (NAV), rather than a stable \$1 per share as has been the standard.

As you know, cities, municipalities and businesses across Florida depend on money market mutual funds for their short-term financing needs. Furthermore, MMMFs are a reliable source of direct, short-term financing for the private sector. The Working Group's proposals currently being considered could put the financial viability of these trusted financial instruments at risk. With Florida's economy currently facing its highest levels of unemployment in history (12.5%), any proposals – as well intentioned as they may be – that disrupt a company's ability to raise capital will not be well received by the business community.

The proposals currently being considered could reduce the supply of money and increase financing costs. Reducing the assets in MMMFs would reduce demand for commercial paper and increase interest costs to issuers. At a time when access to capital is a challenge for most business owners, increasing the financing costs of proven financial instruments like MMMFs would further erode any hope for rapid job creation and economic activity.

In conclusion, as one of Florida's largest business associations we urge that you protect the long-standing tradition of a stable NAV for money market mutual funds. We fear that any departure from this policy would create *more* risk, not less, and could potentially lead to capital being invested in less transparent financial products.

Sincerely,

Barney T. Bishop III
President & Chief Executive Officer



VIA E-MAIL

January 18, 2011

Elizabeth M. Murphy, Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

RE: Request for Comment on the President's Working Group on Financial Markets Report on Money Market Fund Reform Options (Release No. IC-29497; File No 4-619)

Dear Ms. Murphy:

Thank you for the opportunity to comment on the President's Working Group on Financial Markets Report on Money Market Fund Reform Options (PWG Report). The New Jersey Chamber of Commerce is a business advocacy organization that represents its members on a wide range of business issues at the state and federal level. We represent 1,500 member companies of all sizes and industries.

We endorse the U.S. Chamber of Commerce's letter in opposition to the PWG Report option that money market mutual funds float their net asset value. We are concerned that a mandatory floating net asset value, including two-tier approaches, or any other change to the fundamental nature of money market mutual funds, could negatively impact this important source of direct financing and cash management for businesses large and small. Regulations that shrink the pool of money market mutual fund capital available to businesses will negatively impact their ability to meet their cash requirements, causing large disruptions in the nation's economy.

Please see the U.S. Chamber of Commerce's letter attached. Thank you for your consideration.

Sincerely,

Mary Ellen Peppard
Manager, Government Relations

New Jersey Chamber of Commerce, 216 West State Street, Trenton, NJ 08608
(609) 989-7888 • Fax: (609) 989-9696 • www.njchamber.com

+

January 10, 2011

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: Request for Comment on the President's Working Group Report on Money Market Fund Reform (Release No. IC-29497; File No. 4-619)

Dear Ms. Murphy:

The undersigned companies and organizations represent a diverse range of industries that rely on money market mutual funds to support their capital raising and investment needs. American business will lose one of its most important sources of short-term funding if money market funds are forced to abandon their stable per-share value, whether directly or indirectly, under the proposals discussed in the Report of the President's Working Group on Financial Markets on Money Market Fund Reform Options (PWG Report).¹ With such a change, the expected flight of investors from these funds will severely impair the ability of companies to raise capital in the U.S. and undermine efforts to strengthen the American economy.

Businesses issue commercial paper to meet short-term financing needs such as funding payroll, replenishing inventories, and financing expansion. Since the mid-1980s, money market funds have been major, reliable buyers of those securities and today purchase more than one-third of the commercial paper issued by American businesses. Should regulators eliminate these funds' stable net asset value (NAV) some investors will be forced to walk away due to mandatory investment guidelines that require a stable per share value. Others will take their money elsewhere after the simplicity and convenience of the stable NAV disappears. According to one survey of institutional investors, 55 percent of respondents said they would substantially decrease investment in money funds if regulators mandated a floating NAV.² These harmful consequences will occur whether all funds are required to abandon the stable

¹ <http://www.treasury.gov/press/releases/docs/10.21%20PWG%20Report%20Final.pdf>.

² *Report of the Money Market Working Group*, Investment Company Institute, March 17, 2009, p. 110, available at http://www.ici.org/pdf/ppr_09_mmwg.pdf.

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NAV (Option a. of the PWG Report) or a significant subset of funds are required to float their value in a “two-tier” system (Options e. and f. of the PWG Report).

There are no immediate substitutes for money market funds in this financing role. Bank lending cannot fill this funding gap unless banks raise substantial new capital. Unregulated private pools might see an opportunity to expand, but encouraging investors to migrate to these vehicles hardly seems consistent with efforts to reduce risk, increase transparency, and ensure greater market stability. Mandating a floating NAV would make short-term financing for American business less efficient and far more costly, ensuring a severe setback for an economy emerging from recession.

We have supported appropriate steps taken by the Securities and Exchange Commission, the Federal Reserve Board, and the Department of the Treasury to preserve and strengthen this vital source of business financing, but believe the idea of requiring all or most funds to float their value should be rejected outright. We urge your support for policies that promote the use of the stable NAV that has served American investors and businesses so well for decades.

We thank you for your consideration and would be happy to discuss this further with you or the appropriate staff.

Sincerely,

Agilent Technologies, Inc.
Air Products & Chemicals, Inc.
Association for Financial Professionals
The Boeing Company
Cadence Design Systems
CVS Caremark Corporation
Devon Energy
Dominion Resources, Inc.
Eastman Chemical Company
Eli Lilly & Company
Financial Executives International's Committee on Corporate Treasury
FMC Corporation

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Institutional Cash Distributors
Kentucky Chamber of Commerce
Kraft Foods Global, Inc.
National Association of Corporate Treasurers
New Hampshire Business and Industry Association
Nissan North America Inc.
Pacific Gas and Electric Company
Safeway Inc.
Weatherford International, Ltd.
U.S. Chamber of Commerce

cc: The Honorable Mary Schapiro, Chairman, U.S. Securities and Exchange Commission
The Honorable Kathleen Casey, Commissioner, U.S. Securities and Exchange
Commission
The Honorable Elisse Walter, Commissioner, U.S. Securities and Exchange
Commission
The Honorable Luis Aguilar, Commissioner, U.S. Securities and Exchange
Commission
The Honorable Troy Paredes, Commissioner, U.S. Securities and Exchange
Commission



BEST PRACTICE

Using Mutual Funds for Cash Management Purposes (2003, and 2006) (TIM)

Background. State and local government cash managers may benefit from investing public funds through mutual funds. Mutual funds are SEC-regulated investment instruments that pool and jointly invest the funds of multiple investors. Mutual funds are available for both fixed income and equity investments. Short-term liquid mutual funds that maintain a weighted average maturity of 90 days or less and maintain investor shares with a constant one dollar (\$1) Net Asset Value are called money market mutual funds. Other non-money market fixed income mutual funds generally have a longer-term weighted average maturity and have a fluctuating price or Net Asset Value.

The Government Finance Officers Association (GFOA) has endorsed the use of money market mutual funds by public cash managers through the GFOA's model investment legislation for state and local governments. Portfolio safety, liquidity, diversification, and professional management are desirable features of these investment vehicles. The safety of assets, which is the foremost objective of public cash managers, may be impaired by market price risks associated with short-, intermediate-, and long-term bond funds.

Recommendation. The GFOA recommends that state and local governments restrict their use of mutual funds for cash management purposes exclusively to money market mutual funds and short-term bond funds.

Public cash managers should check applicable statutes to determine if the use of money market mutual funds and/or short-term bond funds is permitted within their jurisdictions. Further, GFOA recommends that governments review and understand the fund's prospectus and statement of additional information to determine:

- portfolio composition,
- risk characteristics,
- the duration and weighted average maturity of the mutual fund,
- the reputation and experience of the investment company,
- the performance history relative to appropriate benchmarks,
- total expense ratio,
- philosophy, strategies, and portfolio policies,
- if the fund is rated by a nationally recognized rating agency, and
- whether the fund can meet the compliance requirements of the government's approved investment policy, for example, minimum ratings, maximum sector allocations, or specific criteria such as social investing.

GFOA recommends that governments consider money market mutual funds that are in the federal Treasury, government, or first tier categories and receive the highest ratings available from at least one nationally recognized rating agency. Short-term bond funds should receive the highest credit quality ratings and the lowest risk ratings available. State and local government cash managers should exercise prudence and caution when investing in short-term bond funds. Short-term bond funds (if used) investing in short- and intermediate-term instruments may be appropriate investments in some jurisdictions for funds that are not needed for near-term disbursement. However, mutual funds of an intermediate or long-term duration should be avoided by investors of short-term funds needed for liquidity purposes.

References

- *An Introduction to Investment Advisers for State and Local Governments, Second Edition*, Sofia Anastopoulos, GFOA, 2007.
- *A Public Investor's Guide to Money Market Instruments, Second Edition*, edited by M. Corinne Larson, GFOA, 1994.
- *Investing Public Funds, Second Edition*, Girard Miller with M. Corinne Larson and W. Paul Zorn, GFOA, 1998.
- GFOA Best Practice, "Managing Market Risk in Investment Portfolios," 2007 and 2009.

Approved by the GFOA's Executive Board, October 6, 2006.