THE FINANCIAL SERVICES ROUNDTABLE

Financing America's Economy

1001 PENNSYLVANIA AVE., NW
SUITE 500 SOUTH
WASHINGTON, DC 20004
TEL 202-289-4322
FAX 202-628-2507

RICHARD M. WHITING
EXECUTIVE DIRECTOR AND
GENERAL COUNSEL

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By Electronic Mail (*rule-comments@sec.gov*)

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

Regarding File No. 4-619: President's Working Group Report on Money Market Fund Reform

Dear Ms. Murphy:

The Financial Services Roundtable[1] respectfully submits these comments in response to the Securities and Exchange Commission's (the "Commission") request for comments on the President's Working Group Report on Money Market Fund Reform[2] (the "PWG Report"). A number of the Roundtable's member companies are engaged directly in the operation and management of money market funds. All of the Roundtable's member companies use money market funds in a variety of ways to operate their businesses. The Roundtable strongly endorses the PWG Report's statements that money market funds "provide an economically important service" and that they "are important providers of credit to businesses, financial institutions, and governments."[3] Money market funds are both an important money management tool for individual and institutional investors and a critical – the most critical, perhaps – source of short-term financing for literally thousands of American businesses of all sizes. The Roundtable is pleased to have the opportunity to provide its perspective on this critically important element of our economy.

Nearly $3 trillion is invested in money market funds today. They are one of the most reliable and popular investment vehicles for individual and institutional investors. Even in this time of miniscule yields, investors continue to show confidence in money market funds by investing their hard-earned dollars in these funds over a variety of alternatives. For many individual investors, money market funds are used as an alternative to a traditional checking account, providing competitive yields, check-writing privileges, ATM access, simple tax reporting and other features that make money market funds a basic staple of millions of Americans' financial management.

At the same time, money market funds are highly valued component of the capital management of countless companies. They are often the mechanism for managing payroll, for managing inventory

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[1] The Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for $92.7 trillion in managed assets, $1.2 trillion in revenue, and 2.3 million jobs.

[2] 75 Fed. Reg. 68636 (November 8, 2010)

[3] 75 Fed. Reg. 68641 (November 8, 2010)

and for financing capital expenditures. Moreover, money market funds' reliability, for more than two decades, as buyers of a variety of securities makes them one of the backbones of our economic system. According to data gathered by the Investment Company Institute, money market funds hold nearly half of the outstanding short-term government agency securities, more than one-third of all commercial paper, and one-quarter of all large certificates of deposit. They play a critical role in the financing and cash management strategies of our state and local governments, businesses of all types, pension plans, universities, hospitals and other non-profit organizations.

The PWG Report is a response to a recommendation in the U.S. Department of the Treasury's 2009 paper *Financial Regulatory Reform: A New Foundation*. That report recommended that the President's Working Group on Financial Markets ("PWG") conduct a study of possible money market reforms to mitigate money market funds' susceptibility to runs. In January 2010, while the PWG was working on its report, the Commission adopted a significant set of money market fund reforms that modified Rule 2a-7 under the Investment Company Act.[4] These reforms included increased credit standards, shortened maturity requirements, increased disclosure of fund holdings and the imposition of conditions to limit risk-taking by money market funds, among other steps. The Roundtable believes these rule amendments were the right steps to increase investor confidence in and ensure the ongoing stability of money market funds.

The PWG Report, released in the wake of the new SEC rules for money market funds, outlines seven options for further reform. Importantly, the document does not endorse any of the proposed options and acknowledges repeatedly that all of the options pose significant challenges and risks. Indeed, the document is striking in its balanced discussion of the pros and cons of each of the seven options and its cautionary tone that considerable work will need to be done before any of the options could be implemented.

In the Roundtable's view, this caution is warranted. The PWG Report clearly articulates the goal of the agencies that produced it: "mitigating systemic risk and containing the contagious effect that strains at individual MMFs can have on other MMFs and the broad financial system."[5] We do not disagree that this is an important policy objective. But the PWG Report, in our view, underemphasizes the importance of money market funds to individual investors, to businesses and to the overall economy. No policy recommendation, including all of the recommendations in the PWG Report, can ensure that no money market fund will ever collapse and pose a risk to the financial system. But a policy recommendation that seeks blindly to achieve such an impossible goal could inadvertently undermine one of the most important financial products for individuals and businesses in this country. **Several of the recommendations in the PWG Report have the potential to do tremendous damage to the economy, none more so than the option to move money market funds from a stable net asset value ("NAV") to a floating NAV and the related options to segregate money market funds into a two-tiered (floating NAV vs. stable NAV) system.**

Forcing money market funds to float their NAV would fundamentally alter the nature of the product and inflict chaos on our capital markets. Individual investors would undoubtedly search for alternatives, whether bank deposits or less-regulated options, such as enhanced cash funds or foreign money funds. If the goals of reform are to ensure stability of the system and protect investors, a policy that overtly encourages investors to move their money to less-regulated products,

[4] *Money Market Fund Reform*, SEC Release IC-29132 (February 23, 2010)
[5] 75 Fed. Reg. 68640 (November 8, 2010)

especially when those products involve investing money outside of the US economy, seems counterproductive. Moreover, state and local governments would find a key source of capital has disappeared overnight, since banks (which would presumably absorb the bulk of the money fund outflows) cannot replace the tax-exempt money funds. Finally, a short-term credit crunch is likely, at least initially, as banks would have to raise substantial capital to support the credit needed. Most importantly, we are unaware of any evidence that a floating NAV will deter or prevent runs on money market funds. If a solution fails to respond to the principal concern, we cannot support its adoption.

Although we support the PWG's stated goal of reducing systemic risk, we believe it critical that any further reforms also ensure that the individual investor is not negatively affected and that the short-term financing on which so many American businesses rely is not adversely impacted. At this time, we do not believe any of the seven recommendations put forward in the PWG Report succeed in accomplishing these goals. For example, the proposal to turn money market funds into special purpose banks would fundamentally change the character of the product, which has a track record of providing investors with a competitive alternative to bank products. Moreover, the majority of the proposals would not only fail to reduce systemic risk, but would be so disruptive to individuals and businesses that they seem likely to increase risk to the stability of the financial system. Ultimately, we find we cannot support any of the proposals, and urge the Commission to reject outright the proposal that money market funds convert to a floating NAV.

Finally, we note that at this writing, the amendments to Rule 2a-7 adopted in early 2010 by the Commission have been in effect for less than eight months. Those amendments have been universally hailed as strong steps to increase the stability of money market funds. They should be given time to work. Imposing the types of drastic changes proposed in the PWG Report seems unwarranted at this time, absent evidence that the new rules are insufficient.

The Roundtable's view is that the PWG Report recommendations represent extreme steps that have the potential to destabilize the capital markets, adversely impact individual investors, and disrupt the ability of government, companies and other institutions to manage their finances. We urge the Commission to consider carefully whether there are less drastic alternatives that merit further exploration.

Thank you very much for your consideration and for the opportunity to comment. We would be happy to discuss our views further with Commission staff as appropriate.

Sincerely,

Richard M. Whiting
Executive Director and General Counsel
Financial Services Roundtable