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VIA ELECTRONIC DELIVERY

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

Re: Investment Company Act Release No. 30551 (File No. S7-03-13) Money Market Fund Reform; Amendments to Form PF

Dear Ms. Murphy,

We appreciate the opportunity to respond to the request by the U.S. Securities and Exchange Commission ("SEC" or "Commission") for comments regarding the above-referenced release (the "Proposing Release"). The Proposing Release proposes amendments to Rule 2a-7 under the Investment Company Act of 1940, as amended (the "1940 Act"), and certain other rules that govern the operations and disclosure requirements of money market mutual funds ("money funds").[1] The Proposing Release proposes two key alternatives (which could be enacted in a final rule separately or in combination) – (i) requiring "institutional" money funds (other than government money funds) to operate with a floating net asset value ("NAV"), rounded to the fourth decimal place ("Alternative 1") or (ii) requiring money funds (other than government money funds) to impose liquidity fees during times of stress and allowing money funds to suspend redemptions during such times ("Alternative 2" and together with Alternative 1, the "Alternatives"). The Proposing Release also proposes changes to disclosure, diversification and stress testing requirements for money funds, and proposes to amend Form PF to impose disclosure requirements on investment advisers to private liquidity funds.

Dechert LLP is an international law firm with a wide-ranging financial services practice that serves clients in the United States and abroad. In the United States, we represent a substantial number of U.S. mutual fund complexes, fund boards, fund independent directors, fund advisers, and service providers to funds. Our clients include several of the largest money fund complexes and/or their sponsors. In developing these comments, we have drawn on our extensive experience in the financial services industry generally and with money fund regulation specifically. Although we have discussed certain matters addressed in the Proposing Release with some of our clients, the comments that follow reflect only the views of a group of attorneys

[1] *See* Money Market Fund Reform; Amendments to Form PF, Investment Company Act Release No. 30551 (June 5, 2013).

in our financial services practice, and do not necessarily reflect the views of our clients, other members of our financial services group or the firm generally.

We applaud the Commission for the obvious care and thoughtfulness that went into the preparation of the comprehensive Proposing Release. Although we strongly support the Commission's goal of improving and strengthening the regulation of money funds, we offer these comments to address certain areas where we believe the Commission either should provide more guidance to industry participants or should modify or reconsider its approach.

I. MUNICIPAL MONEY FUNDS

The Commission requested comment on whether money funds that invest primarily in municipal securities ("municipal money funds") should be exempted from the floating NAV requirement of Alternative 1 and on the accuracy of the premise that municipal funds would be able to qualify for the retail exemption. We understand that, for many municipal money funds, a $1 million daily redemption limit would be unworkable. In addition, given the lack of evidence of potential systemic harm from municipal money funds, as well as the fact that those funds did not experience problematic redemption levels during the 2008 financial crisis, we urge the Commission to provide a separate exemption from the floating NAV requirement for municipal money funds.

The Commission posits in the Proposing Release that the tax advantages of municipal money funds are generally available only to individuals and, therefore, such funds should be able to qualify for the retail money fund exemption. However, many municipal money fund investors are high net worth individuals who often require the ability to redeem more than $1 million daily and the imposition of a $1 million redemption limit on those funds could present serious issues for those investors.

Furthermore, municipal money funds have not been susceptible to the type of heavy redemptions that the Commission is seeking to limit. This was demonstrated during the 2008 financial crisis, during which municipal money funds did not experience unusually high redemption levels.[2] Accordingly, municipal money funds have not been shown to present the type of systemic risk to which Alternative 1 is directed.

Given the difficulty that many municipal money funds would experience in trying to qualify as retail funds under the proposal and also the absence of any credible evidence that municipal funds present any serious systemic risk, we urge the Commission to provide a separate exemption from the floating NAV requirement proposed in Alternative 1 for municipal money funds.

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[2] *See, e.g.,* Comment Letter of Fidelity Investments, at 6 (2013) (citing industry data regarding redemption flows among different types of money funds), *available at* http://www.sec.gov/comments/s7-03-13/s70313-97.pdf.

II. RULE 12D1-1 AND UNREGISTERED MONEY FUNDS

We urge the Commission to consider the effect of the Proposing Release on unregistered money funds that currently conform to the requirements of Rule 12d1-1. These unregistered money funds serve as valuable cash management vehicles for many registered investment companies. Through Rule 12d1-1, the Commission has provided registered investment companies with the ability to invest in unregistered money funds that comply with Rule 2a-7. However, some aspects of the proposed amendments to Rule 2a-7 are ill-suited for these unregistered money funds. Accordingly, we ask that the Commission specify in the final rule that certain provisions of the amended rule are not applicable to unregistered money funds that serve as cash management vehicles for registered investment companies.

Section 12(d)(1)(A) of the 1940 Act limits the amount one investment company may invest in shares of other investment companies. In 2006, the Commission adopted several rules under Section 12(d)(1) to broaden the ability of an investment company to invest in shares of other investment companies, codifying a number of exemptive orders that had previously been issued by the Commission. One such rule – Rule 12d1-1 – allows investment companies to invest in shares of money funds in excess of the limits of Section 12(d)(1). Rule 12d1-1(b)(2) provides that investment companies may invest in an unregistered money fund if the acquiring investment company reasonably believes that the unregistered money fund, among other things, operates in compliance with Rule 2a-7.

Unregistered money funds currently are a valuable tool for an acquiring investment company, because such unregistered money funds are designed to accommodate the daily inflows and outflows of cash of the acquiring investment company. Because these funds are privately offered to institutional investors, they frequently can be operated at a lower cost than registered investment companies, providing an attractive investment for a registered investment company's uninvested cash. In order for a registered investment company to continue to invest in an unregistered money fund beyond the Section 12(d)(1) limits, the unregistered money fund would have to comply with any amendments to Rule 2a-7. The Proposing Release does not appear to anticipate the circumstances of these unregistered money funds, for which compliance with several aspects of the Proposing Release would be difficult, if not impossible.

For example, if Alternative 1 is adopted, an unregistered money fund would be required to either limit redemptions to $1 million per day for a single acquiring investment company or adopt a floating NAV. The imposition of redemption limits would effectively eliminate an unregistered money fund as a cash management tool for all registered investment companies, for which a $1 million daily redemption limit would be unworkable. Therefore, those unregistered money funds that are not government funds would be forced to adopt a floating NAV, which would essentially eliminate the unregistered fund as a cash management tool for an acquiring investment company and would seriously reduce the attractiveness of unregistered money funds.

Alternative 2 is also ill-suited for unregistered money funds, which typically do not have boards of directors. Under Rule 12d1-1, the adviser performs the function of the unregistered fund's board for purposes of compliance with Rule 2a-7. If Alternative 2 is adopted, the adviser would be called upon to make decisions about liquidity fees and gates, which could present a potential conflict of interest in situations when an affiliated investment company advised by the same adviser would be the redeeming shareholder.

In addition to the unworkability of certain aspects of the Alternatives for unregistered money funds, we believe the Alternatives should not be applied to unregistered money funds because these funds do not present the concerns the Alternatives aim to address. Due to the nature of the relationship between these unregistered funds and the investing investment companies, unregistered funds do not present the type of systemic risk that the proposed amendments are designed to reduce. Unregistered money funds are often created solely for investment by the investing investment companies and typically have the same sponsor. Therefore, there is little concern of unforeseeable large-scale redemptions or runs on these funds. Accordingly, we suggest that the Commission provide an exemption from the Alternatives for unregistered money funds that comply with the risk-limiting conditions of Rule 2a-7.

III. ISSUES RELATING TO MONEY FUND REORGANIZATIONS REQUIRED TO COMPLY WITH ALTERNATIVE 1

The Proposing Release states that money funds that have both institutional and retail share classes (or both institutional and retail shareholders in a single class of shares) would need to reorganize into separate money funds – a retail money fund and an institutional money fund – in order to rely on the retail money fund exemption under Alternative 1. The Proposing Release further discusses the costs associated with such a reorganization, including the costs that would be necessary to prepare appropriate organizational documents and costs incurred by the fund's board of directors to approve such documents. However, the Proposing Release does not discuss the potential costs of obtaining shareholder approval to the extent that a money fund's charter documents and/or applicable state law would require shareholder approval to effect a reorganization.

Moreover, the Proposing Release does not discuss the application of Section 18 of the 1940 Act and Rule 18f-3 thereunder to these types of reorganizations. We respectfully note that the SEC Staff has provided its views with respect to similar issues.[3] The Staff noted that, "[n]othing in Rule 18f-3 permits a fund with multiple classes of shares to separate a class from the other classes and merge that class into another fund." The Staff also stated that a provision under a fund's charter documents that permits the fund board to designate a share class of the fund as a separate series conflicts with Section 18 of the 1940 Act, and "that a fund's designation of any or all

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3 *See* Investment Management Staff Issues of Interest, Rule 18f-3 under the Investment Company Act — Removal of a Class (last updated September 2, 2010), *available at* http://www.sec.gov/divisions/investment/issues-of-interest.shtml#rule18f-3.

classes as separate series pursuant to [such a provision] creates differences in the rights and obligations of the classes not permitted by Rule 18f-3, thus making the rule unavailable to the fund."

We therefore urge the Commission to provide guidance with respect to the mechanics of reorganizing a money fund that has both institutional and retail share classes (or both institutional and retail shareholders in a single class of shares) into separate money funds and, if necessary, provide exemptive relief from Section 18 of the 1940 Act to allow these types of reorganizations. We also suggest that the Commission seek guidance from the Internal Revenue Service ("IRS") regarding the tax consequences of these types of reorganizations.[4]

IV. MONEY FUNDS THAT SERVE AS INVESTMENT OPTIONS FOR VARIABLE CONTRACTS

The Proposing Release proposes to amend Rule 2a-7 to provide that variable annuity or variable life insurance contracts ("variable contracts") offered by a registered separate account funding variable insurance contracts or the sponsoring insurance company of such account may: (i) under Alternative 1, limit redemptions on contract holders; or (ii) under Alternative 2, apply a liquidity fee or gate to contract owners who allocate all or a portion of their contract value to a subaccount of the separate account that is either a money fund or that invests all of its assets in shares of a money fund. The Proposing Release does not, however, discuss the implications of the Alternatives for separate accounts or sponsoring insurance companies.

Variable contracts are contractual obligations that are binding between a sponsoring insurance company and the contract holders. Variable contracts are heavily regulated, operating under both state insurance law and the federal securities laws. Under the "two-tier" structure of variable contracts, although separate account contract holders have a beneficial interest in the underlying funds, the insurance company is the legal shareholder of the underlying funds.[5] In this sense, a variable contract structure is distinct from the structure of an omnibus account maintained by a broker-dealer. In an omnibus account structure, the individual investor is the legal owner of the shares of a money fund held through the account. If money funds assess fees or impose limitations directly on fund shareholders, those fees and limitations would apply to an investor holding shares through an omnibus account. However, those fees and limitations would apply to a variable contract owner only if: (i) the fees and limitations align with the terms of the variable contract itself; or (ii) the insurance company is able to "pass-through" those fees and limitations imposed by an underlying fund to the variable contract owner without alteration.

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[4] We note that, in the past, the IRS has refused to rule that a "spinoff" by a mutual fund of share classes into separate funds is a tax-free reorganization.

[5] *See* Carl B. Wilkerson, Comment Letter from American Council of Life Insurers, at 4 (2004), *available at* http://www.sec.gov/rules/proposed/s71104/acli051004.pdf.

With respect to whether the fees and limitations discussed above align with the terms of variable contracts, no variable contract would contain provisions that adhere to the terms of the proposed amendments in the Proposing Release, including liquidity fees or limitations on redemptions or transfers of $1 million or more per day. Moreover, variable contracts would not contain provisions that permit these fees or types of limitations to be set at the discretion of the insurance company. Furthermore, it is impractical or impossible to amend all outstanding variable contracts to add such fees or limitations.

As for the pass-through approach, one case supported the ability of an insurance company to pass through fund-level redemption fees that were implemented to deter market timing.[6] However, there is uncertainty as to whether the holding in *Miller* would be upheld by other courts or recognized by state insurance authorities. Therefore, insurance companies, money funds and money fund sponsors would be subject to the risk that redemption limits or fees would not be honored as a pure pass-through from the underlying money fund, and all of these parties would be subject to the risk that the limits or fees would not be honored. As a result, there can be no assurance that an underlying money fund and insurer could pass-through the redemption limit for retail money funds under Alternative 1 or the liquidity fees and redemption gates imposed/permitted by Alternative 2. Furthermore, a limit on the amount that can redeemed by a retail money fund under Alternative 1 or the imposition of a redemption gate under Alternative 2 clashes directly with mandatory provisions under state insurance law that variable contracts be capable of being surrendered at any time.[7] The redemption gate under Alternative 2 would be discretionary on the part of the money fund board, so it likely would not enjoy the preemption over the state non-forfeiture provisions since it would not be mandated under a federal rule.

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[6] *See* Miller v. Nationwide Life Ins. Co., 391 F.3d 698 (5th Cir. 2004) ("*Miller*").

[7] Both the variable annuity and the variable life model regulations contain provisions that mimic Section 22(e) of the 1940 Act, but do not otherwise allow restrictions on the surrender right. *See, e.g.,* National Association of Insurance Commissioners, Variable Annuity Model Regulation, Section 7.C(2) (Oct. 2007) and Variable Life Model Regulation, Section 4.D(14) (Jan. 1996). In particular, the Variable Life Insurance Model Regulation states:

> Every variable life insurance policy filed for approval in this state shall contain at least the following:
> …
> (14) A provision that payment of variable death benefits in excess of any minimum death benefits, cash values, policy loans or partial withdrawals (except when used to pay premiums) or partial surrenders may be deferred:
> …
> (b) Otherwise, for any period during which the New York Stock Exchange is closed for trading (except for normal holiday closing) or when the Securities and Exchange Commission has determined that a state of emergency exists which may make such payment impractical….

The experience of 2008 is instructive on this issue. Variable contracts experienced remarkably little redemption or transfer activity during the financial crisis.[8] Rather, investors apparently recognized and were comfortable with the long-term nature of their variable contracts. Given that the experience of 2008 shows the lack of systemic risk posed by variable contracts and their contract owners, if the Commission moves forward with Alternative 1, we suggest that the Commission allow money funds that serve as investment options for variable contracts to qualify for the retail exemption without imposing any limitation on redemptions by the variable contracts or their underlying contract holders.

As noted above, Alternative 2 also presents issues for money funds that serve as investment options for the variable contracts. In particular, the liquidity fees and redemption gates raise issues similar to those that were raised in relation to Rule 22c-2 under the 1940 Act.[9] If fees are imposed upon surrender or transfer of cash value allocated to an underlying money fund, there is the potential that the contract holder may be able to succeed in a cause of action alleging breach of contract against the issuing insurance company.[10] In the Rule 22c-2 adopting release, the Commission cited *Miller* for the proposition that Rule 22c-2 would not present an insuperable conflict with state insurance laws when a redemption fee under Rule 22c-2 was imposed on transactions by contract holders of existing variable contracts because the redemption fee would be imposed by the *fund* rather than pursuant to a contract issued by the insurance company. We are concerned about the reliance on *Miller* without broader legal support from the Commission. If Alternative 2 is adopted, we believe that the Commission should be satisfied that insurance companies, money funds and money fund sponsors are not subject to undue risk if relying upon a pass-through theory for a liquidity fee.[11]

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[8] *See* Maria Woods, *Study: Variable Annuity Holders Hold Tight in Recession*, www.LifeHealthPRO.com, *available at* www.lifehealthpro.com/2012/03/09/study-variable-annuity-holders-hold-tight-in-reces (accessed Sept. 17, 2013) (citing study by Ruark Consulting LLC) ("annual 'shock lapse' rates (surrender rates that occur after the surrender charge period of a policy expires) ranged from 25 percent and 30 percent in the years leading up the recession (2007 to early 2008). When the economy tumbled in late 2008 and early 2009, those shock lapse rates dropped to between 10 percent and 15 percent.").

[9] *See* Mutual Fund Redemption Fees, Investment Company Act Release No. 26783 (2005). *See also* Comment Letter from American Council of Life Insurers (2004), Carl B. Wilkerson, *available at http://www.sec.go v/rules/proposed/s71104/acli051004.pdf*; Comment Letter from Pacific Life (2004), *available at* http://www.sec.gov/rules/proposed/s71104/pacificlife051004.pdf.

[10] *See Miller*.

[11] In addition, we note that proposed Rule 2a-7(c)(2)(iv) under Alternative 2 would allow a separate account to apply a liquidity fee or redemption gate. We believe that this provision warrants further analysis. The Commission should consider whether this provision inadvertently converts a liquidity fee or redemption gate into a feature of the variable contract itself, which could undermine application of the pass-through theory since the insurer could no longer claim that these features are imposed by

V. MONEY FUNDS AS CASH EQUIVALENTS/CASH ITEMS

The Proposing Release acknowledges a concern that a money fund with a floating NAV may not be considered to be a "cash equivalent" for accounting purposes.[12] The Commission stated, however, that it believes that generally floating NAV money funds will still qualify as cash equivalents. Notwithstanding this statement, however, we are concerned that this may not be the case given the possible variation in value that could result from the imposition of a floating NAV, and the resulting possibility that money funds could be re-categorized as "investments" rather than "cash equivalents" for accounting purposes. In the event that the Commission decides to adopt Alternative 1, the Commission or the FASB should issue guidance establishing that a floating NAV money fund would be classified as a cash equivalent.

In addition, the Commission should make it clear that a money fund that has a floating NAV would continue to be considered a "cash item" for purposes of the definition of "investment company" in Section 3(a)(1)(C) of the 1940 Act, which excludes cash items from an issuer's total assets in measuring whether the issuer has more than 40% of its total assets in "investment securities" as defined in Section 3(a)(2). The Commission Staff has long accepted the view that money fund shares should be considered to be "cash items."[13] Failure to continue this treatment would result in money fund shares being considered to be "investment securities." If the total value of money fund shares and other investment securities held by an issuer exceeds 40% of the issuer's total assets (exclusive of government securities or cash items), the issuer could be deemed an "investment company" and required to register under the 1940 Act. The possibility of such a result could cause many operating companies to forego investing their cash in shares of money funds. In light of the foregoing, we urge the Commission to make it clear that all money funds, including money funds that have a floating NAV, should be considered to be "cash items" for purposes of applying the 40% test of Section 3(a)(1)(C) of the 1940 Act.

VI. TAX ISSUES

Today, the amortized cost method of valuation and the penny-rounding method of pricing simplifies tax compliance for shareholders because purchases and sales of money fund shares at

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the underlying money fund, and since the variable contract will not, by its terms, allow the liquidity fee or redemption gate. If the Commission retains this provision, the language should be revised to make clear that the liquidity fee or redemption gate is attributable solely to the underlying money fund.

[12] Under Financial Accounting Standards Board ("FASB") codification #305-10-20, a money fund is currently considered a "cash equivalent." ("Cash and cash equivalents are investments with original maturities of three months or less . . . Examples of items commonly considered to be cash equivalents are Treasury Bills, commercial paper, money market funds, and federal funds sold (for an entity with banking operations).")

[13] *See* Wilkie Farr & Gallagher, SEC No-Action Letter (Oct. 23, 2000).

stable share prices generate no gains or losses. Money fund shareholders therefore generally do not need to track the timing and price of these transactions in order to determine whether taxable gains and losses have been realized.

Realized Gains and Losses. The Proposing Release acknowledges that, under Alternative 1, shareholders in a floating NAV money fund would experience gains and losses in connection with purchases and sales of money fund shares, and that taxable shareholders in floating NAV money funds would be required to track the timing and price of these transactions in order to determine the amounts of such gains and losses. Although these gains and losses would typically be small,[14] these shareholders would generally owe taxes on gains and potentially derive benefits from losses. In addition, under the proposed basis point rounding, many – and possibly most – sales could result in small gains and losses.

The frequency with which shareholders typically purchase money fund shares, in varying amounts and at different NAVs, would make it difficult to determine the cost of shares sold.[15] Moreover, additional complexities would be caused by the application of rules for netting capital gains and losses (including capital gains and losses from other investments) and capital loss carryovers. The Proposing Release concedes that the tax reporting effects of a floating NAV could be "quite burdensome."

Given these tax reporting burdens and other complexities, a taxable shareholder in a floating NAV money fund could be required to incur substantial costs and effort to accurately and efficiently track the timing and price of purchases and sales of money fund shares. These costs and other resources could limit investments in floating NAV money funds.[16]

Wash Sale Rules. The Proposing Release also acknowledged and discussed the difficulties that would result from the application of the "wash sale" rules under Section 1091 of the Internal Revenue Code ("Code") to redemptions of floating NAV money fund shares. However, the IRS recently proposed a new revenue procedure ("MMF Revenue Procedure") regarding the application of the wash sale rules to floating NAV money funds.[17] The MMF Revenue Procedure states that floating NAV money fund shares, despite their ability to fluctuate, would have "relatively stable values," and, therefore, do not give rise to the concerns that the wash sale rules

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14 For example, a redemption of 100,000 shares when there is a one basis point drop in a money fund's NAV after purchase would result in a loss of $10.

15 Shareholders could also choose different methods to identify the cost of the particular shares sold when they were purchased at different times (*e.g.*, first in, first out (FIFO), last in, first out (LIFO), average cost and specific identification).

16 Any attempt by the money funds to track and supply information to shareholders would also involve complexities and additional costs and other burdens.

17 *See* Application of Wash Sale Rules to Money Market Fund Shares, Notice 2013-48 (July 3, 2013).

are designed to address. Accordingly, under the MMF Revenue Procedure, if a shareholder realizes a loss upon the sale of floating NAV money fund shares and the amount of the loss is *de minimis*, the IRS would not treat the loss on the redemption as subject to the wash sale rules. For these purposes, a *de minimis* loss would be a loss realized upon a redemption of a floating NAV money fund share, the amount of which (expressed as a positive number) is not more than one-half of 1% (*i.e.*, 0.5%) of the shareholder's basis in the share.

Although the relief provided by the MMF Revenue Procedure, if adopted, would mitigate the effects of the wash sale rules on redemptions of floating NAV money fund shares, the Proposing Release noted that "money market funds would still incur operational costs to establish systems with the capability of identifying wash sale transactions, assessing whether they meet the *de minimis* criterion, and adjusting shareholder basis as needed when they do not." These issues, including similar issues for taxable shareholders in floating NAV money funds, were neither addressed nor resolved by the MMF Revenue Procedure. We therefore suggest that the Commission consider these issues and costs before adopting Alternative 1 or, alternatively, work with the IRS to ensure that these issues are first resolved in a manner that will minimize the burdens on floating NAV money funds and their shareholders.

VII. CONCERNS WITH LIMITATIONS ON REDEMPTIONS

Both proposed Alternatives may conflict with current money fund organizational documents by requiring that limitations be placed on redemptions. Under Alternative 1, in order to qualify as a retail money fund, a fund would be required to limit daily redemptions to no more than $1 million a day for any shareholder. Under Alternative 2, the Board would have the right to suspend redemptions. Currently, money fund organizational documents may not provide for such limitations. In fact, a money fund's governing documents may contemplate that a shareholder has an absolute right to redeem any or all shares of the fund that he or she holds. The Proposing Release does not address this potential conflict. In the absence of clarity from the Commission, the organizational documents would have to be amended, which would be time consuming and costly, potentially requiring shareholder approval. We suggest that the Commission consider and address these issues and costs before adopting the Alternatives.

VIII. DEFINITION OF "FINANCIAL SUPPORT"

The proposals would require a money fund to report on Form N-CR any instance where the fund receives "financial support" from its sponsor or an affiliate of the sponsor. The proposal would define "financial support" to a money fund to include: (i) any capital contribution; (ii) the purchase of a security from the fund in reliance on Rule 17a-9; (iii) the purchase of any defaulted or devalued security at par; (iv) purchase of fund shares; (v) the execution of a letter of credit or letter of indemnity; (vi) a capital support agreement (whether or not the fund ultimately received support); (vii) performance guarantees; or (viii) any other similar action to increase the value of the fund's portfolio or otherwise support the fund during times of stress. We believe this

definition of "financial support" is over-inclusive and would capture certain actions taken in the ordinary course of business that would not signal any financial distress on the part of the money fund.

There are many legitimate business reasons why an adviser or its affiliates might purchase money fund shares, waive fees or bear fund expenses, and such instances should not be captured by the definition of "financial support." For example, a sponsor of a money fund or one of its affiliates may hold money fund shares in an omnibus account on behalf of its customers. Additionally, money fund sponsors and their affiliates regularly purchase money fund shares in the ordinary course of business. We do not believe that such purchases should be deemed to be the provision of "financial support." Moreover, many money fund managers voluntarily waive fees and bear fund expenses for competitive and other business reasons. Under the Proposing Release, such fee waivers and expense reimbursement arrangements could unnecessarily require money funds to disclose such arrangements as "financial support." If the Commission moves forward with the financial support reporting requirement, we strongly suggest that the term "financial support" be more narrowly defined to pick up only those instances of sponsor support that indicate that a fund is (or otherwise would be) having difficulty maintaining a stable price per share or meeting shareholder redemptions. Such a change would avoid inadvertently discouraging sponsors from investing in a fund in the ordinary course of business or from waiving fees or reimbursing fund expenses, and would also ensure that Form N-CR filings are made only in the event that a money fund is experiencing stress of a type that requires sponsor support.

IX. FORM N-MFP

If the Commission moves forward with the proposed amendments to Form N-MFP and the filing requirements for that form, we strongly suggest that the period of time between the end of the month and the due date for the filing be lengthened to allow additional time for the accuracy of the information included in the filing to be verified. The proposals would both increase the amount of information required to be included on Form N-MFP and make the Form N-MFP information publicly available immediately upon filing. Based on our experience, we believe that the current 60-day delay has served to allow money funds to conduct a more thorough review of their Form N-MFP filings to confirm their accuracy and file any amendments to correct data before it is made available to the public. Without the 60-day delay in publication, there would be a greater likelihood of human error, resulting in inaccurate data being included in public information.

In addition to the elimination of the 60-day delay, the Commission proposed structural, reporting and clarifying changes to Form N-MFP. The proposed reporting requirements would include: (i) weekly reporting of NAV; (ii) new information with respect to each portfolio holding; (iii) disclosure about the amount of cash the money fund holds; (iv) the fund's daily and weekly liquid assets; (v) whether a portfolio security is considered a daily or weekly liquid asset; (vi) whether any person paid for or waived all or part of the fund's operating expenses or management fees;

and (vii) the total percentage of shares outstanding held by the 20 largest shareholders of record. Given the amount and type of new information that would be required to be provided, we believe that the five business day period for filing after the month end is too short. We suggest that this period be lengthened to allow money funds additional time to ensure the accuracy of their filings, particularly if the information filed will be publicly available upon filing.

In the Proposing Release, the Commission asked whether money funds should be required to make Form N-MFP filings on a weekly basis. We strongly oppose requiring money funds to make Form N-MFP filings weekly or more frequently than monthly. The preparation of Form N-MFP filings requires a considerable effort each month by money fund sponsors and service providers to collect, format and verify the accuracy of potentially thousands of portfolio positions for multiple funds. Increasing the frequency of these filings would multiply this burden, increasing fund costs for minimal benefit. We also note the potential for human error discussed above would be multiplied if more frequent filings are required.

X. FORM N-CR

In the Proposing Release, the SEC proposed the adoption of Rule 30b1-8, a new rule that would require information regarding certain material events to be reported to the SEC on newly created Form N-CR. Under either Alternative, a money fund would be required to disclose on Form N-CR: (i) any instances of default (other than an immaterial default unrelated to the financial condition of the issuer) or an event of insolvency of a portfolio security that, immediately before the default or event of insolvency, accounts for ½ of 1% of the fund's total assets; (ii) any "financial support" by a sponsor of the fund (as defined above); and (iii) any instance in which the fund's market-based NAV per share falls below $0.9975. The SEC also proposed to require the inclusion of certain other information on Form N-CR if Alternative 2 is adopted, including if weekly liquid assets fall below 15% of total assets or when the money fund has imposed or removed a liquidity fee and/or redemption gate.

In each case, money funds would be required to file a Form N-CR within one business day following the triggering material event. However, with respect to the reporting requirement relating to when a money fund's weekly liquid assets fall below 15% of total assets under Alternative 2, the money fund also would be required to file an amendment to the Form N-CR by the fourth business day following the event in order to provide additional detailed information about the event (*e.g.,* a discussion supporting a money fund board's decision to impose (or not to impose) liquidity fees).

Given the fast-moving nature of the types of events that would trigger a filing with the SEC on Form N-CR, we believe that the SEC should provide money funds with additional time to make the Form N-CR filing. In particular, a money fund may not be able to meet the next business day filing requirement, if the Form N-CR is required to be made by 5:30 PM Eastern time, which is the standard deadline for being treated as being filed on a particular business day. In order to

provide a money fund with adequate time, we believe that the SEC should treat a Form N-CR as filed on a particular business day if it is made before 10:00 PM Eastern time, which is the time when the EDGAR filing system closes for each business day.[18]

In addition, similar to the proposed requirements for reporting when a money fund's weekly liquid assets fall below 15% of total assets under Alternative 2, we believe the SEC should only require money funds to provide an initial filing on the next business day and should permit funds to provide additional detailed information about the particular event that triggered the filing by the fourth business day. Of course, even if our suggestion is adopted by the Commission, the Commission Staff would be able to contact promptly the sponsor of any fund that makes an initial filing to obtain more information about the triggering event.

XI. DIVERSIFICATION

The Commission proposed to enhance the diversification requirements under Rule 2a-7 by: (i) requiring money funds to treat affiliated entities as a single issuer when applying the 5% diversification limit applicable to the securities of any one issuer; (ii) requiring that, subject to an exception, money funds treat the sponsor of a special purpose entity issuing an asset-backed security ("ABS sponsor") as a guarantor for purposes of the 10% diversification limit applicable to guarantors and demand feature providers; and (iii) eliminating the provision that allows 25% of the value of securities held in a money fund's portfolio to be subject to guarantees or demand features from a single institution (the "25% basket"). The Commission has requested comment on whether these enhanced diversification requirements would unnecessarily limit money funds' investment flexibility.

We are concerned that, *in combination*, these diversification enhancements may be overly restrictive and could result in money funds investing in lower quality instruments. By requiring money funds to aggregate affiliates as a single issuer for purposes of the 5% issuer limitation and to consider ABS sponsors as guarantors for purposes of applying the 10% guarantor or demand feature provider limitations, the Commission would be expanding the entities that would be considered an issuer or guarantor/demand feature provider of a security. This may have the effect of reducing a money fund's exposure to the risk of certain entities but also could have the effect of reducing a money fund's ability to invest in high quality securities issued or guaranteed by these entities, particularly with respect to single state municipal money funds. Money funds may then need to invest in a wider range of securities than those in which they currently invest or to invest additional assets in securities of issuers that otherwise would represent more modest positions in the fund's portfolio. Due to the quality restrictions of Rule 2a-7, there is a limited universe of securities in which a money fund may invest. Given this limited universe, it may be

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[18] We note that, under Regulation S-T, certain filings submitted *after* 5:30 PM Eastern time but *before* 10:00 PM Eastern time are deemed to be filed on that day. *See* Rule 13(a)(4) of Regulation S-T (Forms 3, 4 and 5 filed before 10:00 PM Eastern time are deemed to be filed on that day).

difficult for money funds to find other securities of equal quality in which to invest. As the Proposing Release acknowledged, the enhanced diversification requirements present the risk that money funds would invest in securities that are higher risk securities than those in which the funds currently invest. This risk may be increased further by the elimination of the 25% basket.

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We appreciate the opportunity to comment on the Proposing Release. Please feel free to contact Jack W. Murphy at 202.261.3303, Stephen T. Cohen at 202.261.3304 or Brenden P. Carroll at 202.261.3458 with any questions about this submission.

Very truly yours,

/s/ Dechert LLP

Dechert LLP

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