

United States Senate

WASHINGTON, DC 20510

July 15, 2014

The Honorable Jacob J. Lew
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Lew:

I write to highlight with you my concerns about the tax compliance burdens associated with potential regulatory changes that the Securities and Exchange Commission (SEC) has proposed for certain money market mutual funds. Money market mutual funds hold approximately \$2.6 trillion in assets from nearly 60 million investors. Many investors use money market mutual funds as a vital cash management tool, and the funds, in turn, provide an important source of credit to American businesses and municipalities.

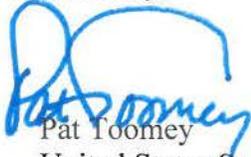
Although not warranted in my view, the SEC has proposed to require institutional money market mutual funds to adopt a floating net asset value (NAV) concept. (Proposed Rule on Money Market Fund Reform; Amendments to Form PF; Release No. S7-03-13 (Release).) As you know, under current tax law, a floating NAV concept for money market mutual funds would impose a significant tax compliance burden, which would fall primarily on the investors in institutional money market mutual fund shares. I am concerned that the tax compliance burden associated with a floating NAV concept is one of the reasons investors will stop using institutional money market mutual funds for cash management. Investors will be forced into less favorable short-term cash management tools. This would also likely disrupt the flow of many billions of dollars of short-term nongovernment financing.

Based on the Release, I understand that the Department of Treasury is considering how to eliminate the tax compliance burden that would result from the SEC's proposed requirement for a floating net asset value (NAV) for certain money market mutual funds. In my view, eliminating the tax compliance burden would require more than merely simplifying the tax return reporting applicable to money market mutual fund shares. To eliminate the added tax compliance burden from a floating NAV, the need to track the small taxable gains and losses resulting from daily redemptions in money market mutual fund shares must be eliminated, which means that the triggering event for gain and loss recognition on redemption of shares in money market mutual funds would need to be changed from current law. Creating a safe harbor for the application of the wash sale rules, as was proposed in Notice 2013-48, while somewhat helpful to investors, does not eliminate the need for investors to calculate and track the small taxable gains and losses that would be incurred on frequent redemption transactions or to determine on a continuing basis whether they would fall within the safe harbor in the Notice.

I urge you to ensure that, if the Department of the Treasury decides to provide additional guidance in connection with the SEC's proposed floating NAV concept, such guidance go beyond merely simplifying tax return reporting. It must completely eliminate the tax compliance burden associated with tracking the small gains and losses that would be produced by the floating NAV concept. Furthermore, the Department of Treasury must conclude that it has the regulatory authority necessary to implement such guidance.

In addition, it is critical that the Department of Treasury issue any guidance relating to the floating NAV concept in proposed form before the SEC finalizes its proposed rule. Money market mutual fund investors must be given an opportunity to review and comment on the proposed solution to the tax compliance burden, and the SEC and Department of Treasury should have the benefit of those comments, before any type of floating NAV concept is adopted.

Sincerely,

A handwritten signature in blue ink that reads "Pat Toomey". The signature is stylized and written in a cursive-like font.

Pat Toomey
United States Senator