

Reich & Tang Funds

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Submitted Electronically

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

Re: Mutual Fund Distribution Fees; Confirmations – Rel. No. IC -29367, File Number S7-15-10

Dear Ms. Murphy:

We respectfully submit this comment letter with respect to the above-referenced release issued by the Securities and Exchange Commission (the “Commission”) proposing a new rule and rule amendments that would replace Rule 12b-1 under the Investment Company Act of 1940, as amended.¹ Reich & Tang Asset Management, LLC (“Reich & Tang”) is a registered investment adviser that is focused on providing money market fund and other cash management services (primarily private advisory accounts and bank deposit products) predominantly to financial intermediaries. For over 35 years, we have specialized in the investment of short-term liquid assets through a family of registered money market mutual funds and similar portfolios. As of September 30, 2010, Reich & Tang had fund assets under management in excess of \$11.8 billion of which \$10.8 billion was represented by money market funds. Further, these money funds are used by approximately 250 broker/dealers as sweep vehicles for their retail customers. Reich & Tang is a direct subsidiary of Natixis Global Asset Management, L.P.

Reich & Tang applauds the Commission’s thorough efforts to enhance investor transparency and foster greater competition for the benefit of fund shareholders. While we support these efforts, we do have serious concerns about how certain of the rule proposals set forth in the Release (the “Rule Proposals”) will impact money market funds and, particularly, their ability to be used in cash sweep arrangements. We believe that if certain of the Rule Proposals are adopted in their current form, money market funds may no longer be viable for use in sweep accounts as the proposed structure and the costs associated with the additional compliance requirements would make doing so prohibitive and impractical. Given the broad use of money market funds in various retail sweep arrangements, such a result would be wholly detrimental to fund shareholders, money market fund managers, financial intermediaries and the

¹ *Mutual Fund Distribution Fees; Confirmations*, SEC Release No. 33-9128; IC-29367 (July 21, 2010), 75 FR 47064 (August 4, 2010) (the “Release”).

brokerage account clients that use money funds as sweep vehicles. We believe that certain aspects of the Rule Proposals should be revised to avoid jeopardizing the critical role money market funds play in the sweep account space.

As you know, money market funds that are linked to a sweep account are used quite differently than those that are selected by individual shareholders for long term investment. In a typical cash sweep arrangement, excess cash balances are automatically “swept” from a depository account into a linked investment account (*e.g.*, a money market fund) on a nightly basis. This arrangement allows investors to efficiently manage both their investments and cash transactions through a single, consolidated account and allows investors to conveniently move money in and out of those accounts to effect other investment transactions. Presently, the systems used by transfer agents to manage the flows of money market fund shares into and out of sweep accounts do not track or age such shares given the transience of such investments as overnight cash management vehicles. Under the Rule Proposals, however, transfer agents would now be required to undertake the herculean task of building new systems to track and age, on a daily basis, all share lots of any money market fund that is used in a sweep arrangement that charges an “ongoing sales charge” (under the Rule Proposals, a current 12b-1 fee in excess of 25 basis points) that is used in a sweep arrangement. This is further complicated by the fund’s daily dividends that would have to be assigned to the share lot from which that dividend was earned. We believe that the complexity of the required tracking may cause many financial institutions to eschew the use of money market funds in sweep arrangements altogether, thereby greatly reducing the current viability and stability of the registered money market fund product. We submit that this result is not in the best interest of money fund shareholders who desire and benefit from these sweep arrangements. Therefore, we urge the Commission to eliminate the requirement that would mandate money market funds to track and age the daily investment of cash balances in sweep accounts where such funds charge a deemed “ongoing sales charge.”

As set forth in the Rule Proposals, a distribution fee in excess of the maximum “marketing and service fee” allowed (*i.e.*, 25 basis points) will now be treated as an “ongoing sales charge” subject to conversion after a certain period of time. We note that many money market funds, including many funds used in sweep arrangements, currently charge “Rule 12b-1” fees in excess of 25 basis points. These fees are typically paid to financial intermediaries to defray the costs associated with shareholder servicing and maintaining an investor’s account (akin to a “platform fee” paid to a fund supermarket). Such fees are not intended to be a substitute for an actual sales charge used to compensate brokers for the sale of fund shares used as long term investments. Under the Proposed Rules, however, any fee in excess of the “marketing and service fee” would now be treated as a sales charge, requiring those shares to be aged and tracked (as discussed above), subject to a lifetime cap, and eventually converted to another share class upon reaching such cap. We believe this proposal, if adopted, would not be in the best interest of investors and would fundamentally harm money market funds, including those used in sweep arrangements, as such funds may not be able to offer certain investor services, on which many shareholders have come to rely, if the cost for such services are in excess of the maximum “marketing and service fee,” and thus are treated as an ongoing sales charge subject to the complexity noted above. In light of how current Rule 12b-1 fees are actually used in the money market fund space, we urge the Commission to eliminate the

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requirement that distribution fees in excess of 25 basis points must be categorized as “ongoing sales charges” subject to conversion.

We believe our recommendation is consistent with the Commission’s position in the Release as it was clearly contemplated that a “marketing and service fee” was to be used for paying certain ongoing costs, such as supermarket platform fees, and not as a substitute for an actual sales charge.² Furthermore, we believe that the requirement to categorize a money market fund distribution fee in excess of 25 basis points as an ongoing sales charge and then require such shares to be aged and tracked for purposes of future conversion is unnecessarily burdensome and pointless, and would only serve to greatly diminish the utility and availability of money market funds as optimal cash management vehicles for investors and financial institutions alike (particularly with respect to their use in sweep arrangements, as already discussed above).

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Reich & Tang appreciates the opportunity to comment on the Commission’s proposal and looks forward to working with the Commission as it continues to examine these issues. In the meantime, if you have any questions with respect to the foregoing, or would like any additional information, please do not hesitate to contact Michael Lydon of Reich & Tang at 212-830-5444.

Very truly yours,



Michael Lydon
President and Chief Executive Officer

cc:

The Honorable Mary L. Schapiro, Chairman
The Honorable Kathleen L. Casey, Commissioner
The Honorable Elisse B. Walter, Commissioner
The Honorable Luis A. Aguilar, Commissioner
The Honorable Troy A. Paredes, Commissioner

Andrew B. Donahue, Director, Division of Investment Management
Robert E. Plaze, Associate Director, Division of Investment Management

² Release at 43 (“Funds may use the proceeds of the marketing and servicing fee to pay for, for example, the ongoing cost of participation on a distribution platform such as a fund supermarket, giving investors a convenient way of buying shares...”). Release at 73 (“marketing and service fees (unlike ongoing sales charges) would not act as economic substitutes for front-end sales charges...”)