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

E-Mail rich@fsround.org
Hwww.fsround.org

RICHARD M. WHITING
EXECUTIVE DIRECTOR
AND GENERAL COUNSEL

June 30, 2011

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

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

Dear Ms. Murphy:

The Financial Services Roundtable appreciates the opportunity to submit these additional 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 Reform (PWG Report).

Money market funds (MMFs) are part of the very core of our financial system. They are an important investment option for millions of retail investors, including retirees and parents saving for college, as well as institutional investors, including corporate and state and local treasurers. They play a critical role in the greater economy by providing important short-term funding for the federal, state and local governments, not-for-profits, corporations and financial institutions. They invest in high-quality, low-risk, short-term highly liquid securities. They hold more than one-third of the commercial paper that businesses use to finance payrolls and other expenditures; more than half of the short-term debt that finances state and local government projects in communities across the nation; and one out of every eight dollars in short-term paper issued by the Treasury.

We are concerned that some of the proposals raised in the PWG Report – most notably the suggestion that money market funds should be required to have floating net asset values (NAV) – would have a destabilizing effect on the product and the overall economy. The stable $1.00 NAV is a critical and distinctive feature of MMFs. Though MMFs are investment products that carry risk of loss, MMF managers seek to provide investors with ready access to their principal and a competitive rate of return. It should be the goal of the Commission to preserve and strengthen MMFs.

We recognize that MMFs faced stress during the financial crisis. During the crisis, the federal government stepped in temporarily to support MMFs through the U.S. Treasury Department's Temporary Guarantee Program. However, it is important to note that the guarantee program was never utilized, was fully paid for through fees paid by the funds, and actually produced income for the U.S. Treasury.

Moreover, since the events of 2008, significant changes have been made to the regulatory landscape governing MMFs. On January 27, 2010, the Commission approved changes to Rule 2a-7 that have imposed higher credit quality requirements, liquidity requirements, shortened portfolio maturity limits, enhanced disclosure of portfolio holdings and addressed issues that arise when MMFs experience market challenges.

The Rule 2a-7 changes have led to significant increases in transparency and liquidity and reduced susceptibility to market risks.

The Commission's amendments to Rule 2a-7 have significantly enhanced transparency within the fund industry. These steps include requiring monthly disclosures of portfolio holdings and requiring MMFs to undergo periodic stress tests to examine the fund's ability to maintain a stable net asset value per share in the event of specified hypothetical events. These periodic stress tests will allow MMF boards to assess the ability of the MMF to withstand the events that are reasonably likely to occur in the following year. Additionally, these changes require funds to provide information regarding each portfolio security to the Commission on a monthly basis, which is made available to the public 60 days after the end of the month to which the information pertains and to post their uncertified portfolio holdings on their website on a monthly basis.

Furthermore, under the changes, MMFs are prohibited from purchasing illiquid securities if, following such purchase, more than 5% of the MMF's total assets would be comprised of illiquid securities and are required to have a minimum percentage of their assets invested in daily and weekly liquid assets. The new daily and weekly liquidity requirements ensure that MMFs have sufficient liquidity for near-term and longer market events. These new liquidity requirements represent $840 billion in seven-day liquidity.[1] While the Federal Guarantee Program was established for loss support rather than liquidity, in comparison, the Program made approximately $50 billion available to the industry after the crisis in 2008.

The Commission also shortened the maximum dollar-weighted average maturity of the portfolio held by MMFs. Under the Rule amendments, the maximum dollar- weighted average maturity of a fund's portfolio was moved to 60 days from 90 days, significantly decreasing interest rate risk in MMFs. The SEC also created a new maximum dollar-weighted average life to maturity requirement of 120 days or less, limiting the extent to which funds may invest in long-term adjustable-rate securities, further reducing risk in MMFs.

Any additional reforms should not threaten the viability of the product.

The amendments made to Rule 2a-7 as well as other changes underway through the Dodd-Frank Act and Basel III serve to strengthen financial markets in general and, in turn, have significantly increased the resiliency of the MMF industry. Nonetheless, some have suggested that more should be done. It is imperative that any additional reforms do not threaten the viability of the MMF industry. As we have noted, MMFs serve as a significant funding source for the federal government, state and local governments, non-profits, corporations and financial institutions. Any additional support mechanisms should be developed by the private-sector and should not rely on government support.

We strongly oppose moving to a floating NAV.

Some have suggested that MMFs should move from a stable $1.00 NAV to a floating NAV. We strongly oppose a floating NAV. Moving to a floating NAV would have negative implications for investors, the U.S. government, domestic and foreign banks, corporations, state and local governments,

---

[1] See Burcu Duygan-Bump *et al.*, *How Effective Were the Federal Reserve Emergency Liquidity Facilities? Evidence from the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility*, Federal Reserve Bank of Boston.

universities and non-profits which rely on MMFs as an important source of funding. Forcing MMFs to move to a floating NAV would limit the number of available investment product options for investors. Additionally, many institutional investors are in fact prohibited from investing in a floating NAV fund. For instance, many corporations have policies that allow them to invest only in stable NAV products. This likely decrease in demand for MMFs would significantly decrease the availability of funding in a time where government and corporations already face severe budgetary constraints.

The industry should be responsible for developing and implementing additional ideas to strengthen further MMFs.

The industry has been hard at work exploring a variety of additional ideas to further strengthen MMFs. Several of these ideas were discussed at the Commission's Roundtable on Money Market Funds and Systemic Risk on May 10. Among the options presented were new capital requirements or the maintenance of a buffer reserve to provide enhanced resiliency and shareholder protections for MMFs. These types of options merit further exploration, particularly because they do not involve any type of government intervention or put taxpayers at risk. Such options, by complementing the recent Rule 2a-7 amendments, would make MMFs' stable NAVs even more resilient to stress.

We strongly urge the Commission to continue its dialogue with the industry to explore options which would preserve the viability of MMFs, provide further protection for investors, and would not put the taxpayer at risk.

Sincerely,

Richard M. Whiting

Richard M. Whiting
Executive Director & General Counsel

cc: Representative Scott Garrett
Representative Maxine Waters
Representative Spencer Bachus
Representative Barney Frank