To those analyzing policy for money market funds at the SEC:

Greetings. My name is David Merkel, and I run Aleph Investments, LLC, a Maryland RIA. I manage stock and bond portfolios for upper middle class people, and for small institutions. I am a Chartered Financial Analyst, and in the past, I was a life actuary, where I developed stable value products for pension plans.

It is much harder to assure a stable share price with longer dated assets, but I was able to do so via a variety of strategies. Doing the same thing for money market funds is simple.

Before I continue, I want to make clear that I have no economic interest in money market funds, aside from being an investor in them. At present, the SEC is proposing a variety of changes to money market funds that practically render them uneconomic. No wonder the companies managing the MM funds oppose that.

But the companies managing the MM funds are unrealistic as well, they don't see any reason for change. I have a proposal that splits the difference, and is trivial to carry out.

My proposal says this: Funds calculate their internal NAV, but do not disclose it to the public. They only disclose it in the rare case where the NAV drops below 0.995, and it would "break the buck."

When a fund "breaks the buck," it announces a credit event. It tells shareholders that they have lost money, and to protect the interests of all shareholders, all shareholders will suffer a small capital loss.

Whatever the fairly calculated NAV is when a capital loss is announced, the new NAV would be 1.0025, and the number of shares reduced to the level that supports that NAV. If the value of the assets has been accurately calculated, and there are withdrawals, the premium to NAV should rise, not fall, for the remaining shareholders.

As an example, imagine a fund makes bad decisions, and the internal NAV calculation reveals an NAV of 0.9825. The fund would announce a credit event, and roughly 2% of all units would be lost, and the new internal NAV would be 1.0025. Those leaving the next day would only strengthen the fund.

Few will like the concept of a credit event in money market funds. That said, the idea would have many salutary effects on money market funds:

- It would eliminate runs on the funds.
- It would get people used to the idea that there is some risk in money market funds, though limited.
- It would eliminate the need for the government to intervene and insure money market funds.

- It would allow some money market funds to take more risk, and offer more return. There would be less need to constrain maturity and credit quality of the investments in the MMFs so tightly.
- The cost would be minimal, most of the time losses would be 1-2%, which would be paid for through interest in less than a year.

My proposal is better because it treats money market funds like ETFs — they are pass-through vehicles, and as such, do not need capital buffers.

And, my proposal is better, because it recognizes that credit events should be rare but acceptable aspects of how money market funds work. Think about it: particularly when short term interest rates are so low, there is no way for interest to cover even the slightest discrepancies versus NAV.

Under my way of doing things, let there be stable net asset values, freedom in investment guidelines, but the possibility of credit events. The present set of restrictions in investing does no one any good, because the problem is not length of maturity or credit quality, but issuer concentration.

But let money market fundholders analyze the tradeoff between yield and risk. Guess what? Short-term bond fund holders have to do the same thing.

But why are we going after money market funds? When they fail, the cost is pennies on the dollar, and it rarely happens. Why not go after banks? They fail far more frequently, with much larger losses. I say let money market funds fail, and do not increase regulations on them. Rather, let them be like ETFs, and let them be constrained by the prudence of the free markets. What? You can have investment without the possibility of loss? Ridiculous.

Regulate the banks tightly, but let money market funds go free, but advertise that losses are more than possible.

I strongly urge that you adopt my proposal. The money market funds will not like it, but they can live with it. The SEC may not like it entirely, but it accomplishes all of goals that you care about. This is a compromise proposal where everyone can win.

Sincerely,

David J. Merkel, CFA, MA