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March 1, 2012

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Re: File No. 4-619; Release No. IC-29497 President's Working Group Report on Money Market Fund Reform

Dear Ms. Murphy:

Fidelity Investments ("Fidelity") [1] would like to take the opportunity to provide the Commission with data and commentary regarding the effectiveness of the Commission's 2010 amendments to Rule 2a-7 on money market mutual funds.

Currently, money market mutual funds are subject to a comprehensive regulatory framework and to oversight by the Commission. This existing structure includes the recent enhancements to Rule 2a-7, which were designed to strengthen further money market mutual funds. Fidelity has been working with regulators, including Commission staff, to evaluate the need for additional money market reforms. To inform our viewpoint, we have gathered data that illustrate the impact that the 2010 amendments have had on money market mutual funds, particularly during the turbulent market conditions of the past year.

The materials we submit today demonstrate that the amended version of Rule 2a-7 reduced risk in money market funds by imposing more stringent constraints on portfolio liquidity, maturity, and quality, and through new requirements relating to disclosure, operations, and oversight. In the wake of these SEC actions in 2010, money market funds now hold investment portfolios with lower risk and greater transparency, characteristics that reduce the incentive of shareholders to redeem. Contrary to recent comments by some that mutual funds are living on borrowed time, we strongly believe that additional regulation of money market funds is neither necessary nor desirable.

To the extent that regulators continue to explore additional reforms, it is critical that any new regulations be carefully considered prior to implementation to ensure that they are

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[1] Fidelity is one of the world's largest providers of financial services, with assets under administration of nearly $3.4 trillion, including managed assets of over $1.5 trillion. Fidelity is a leading provider of investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and many other financial products and services to more than 20 million individuals and institutions, as well as through 5,000 intermediary firms.

consistent with creating a stronger, more resilient product that serves the needs of short-term investors and borrowers, without imposing harmful, unintended consequences on financial markets or on the U.S. economy. In particular, we continue to believe that proposals such as floating the NAV, imposing onerous capital requirements or adding burdensome redemption restrictions will ultimately destroy the money market fund industry. In addition to the obvious impact on money market fund shareholders and sponsors, the demise of money market funds would remove important short-term financing capacity from the markets, inevitably resulting in less credit extension that would impact businesses large and small. Moreover, without money market funds as an investment option, we anticipate even more concentration of cash in banks, which would put even greater strain on an already overextended federal guarantee system.

We urge the Commission to give full consideration to these materials, and we appreciate the opportunity to provide further information on the President's Working Group Report on Money Market Fund Reform. Fidelity would be pleased to provide any further information or respond to any questions that the staff may have.

Sincerely,

Scott C Goebel

cc: The Honorable Mary L. Schapiro, Chairman
The Honorable Elisse B. Walter, Commissioner
The Honorable Luis A. Aguilar, Commissioner
The Honorable Troy A. Paredes, Commissioner
The Honorable Daniel M. Gallagher, Commissioner

Eileen Rominger, Director, Division of Investment Management
Robert E. Plaze, Deputy Director, Division of Investment Management

A Look at Regulatory Reform for Money Market Mutual Funds:

Studying the Impact of the 2010 Changes

March 1, 2012

Overview

In 2010, the Securities and Exchange Commission (SEC) adopted a comprehensive set of amendments to Rule 2a-7, the rule that governs money market mutual funds (MMFs). Responding to the upheaval in financial markets in 2008, the SEC designed its 2010 reforms specifically to make MMFs more resilient to major market disruptions and to reduce their susceptibility to large and sudden shareholder redemptions.

To achieve its goals, the SEC instituted a broad and diversified set of risk-mitigating reforms. Certain elements of the 2010 regulation serve to reduce risk directly by setting specific limits on portfolio construction. These changes have made MMFs less sensitive to both market and shareholder activity by establishing minimum levels of liquidity, reducing average portfolio maturity, and improving overall credit quality.

Other elements of the new regulation look beyond pure portfolio structure, seeking to lower the risk of contagion during a crisis. These changes include requiring MMFs to provide frequent and timely public disclosure of holdings, as well as furnishing each MMF board of directors with new powers (such as suspending redemptions in a fund) and new means of oversight (such as periodic review of portfolio stress test results).

KEY TAKEAWAYS

- **The SEC adopted strong MMF reforms in 2010.** The amended version of Rule 2a-7 reduced risk in MMFs by imposing more stringent constraints on portfolio liquidity, maturity, and quality, and by imposing new requirements on disclosure, operations, and oversight.
- **The reforms have made MMFs less susceptible to runs.** MMFs now hold investment portfolios with lower risk and greater transparency, serving to reduce the incentive of shareholders to redeem. They also hold higher levels of liquidity, enabling them to handle large, unexpected redemptions in the rare instances when they do occur. Moreover, MMF boards now have the power to suspend redemptions in a fund, thereby facilitating orderly liquidation. All of these changes reduce the likelihood that MMFs will be forced to sell securities in times of market stress, which in turn reduces the risk of contagion.
- **The reforms achieved a proper balance between costs and benefits.** The new, more stringent constraints imposed on the MMF industry have come with costs, notably the reduced yield received by MMF investors and the expense of new operational and reporting infrastructure incurred by MMF sponsors. However, the risk-reducing benefits produced by the new regulation appear to outweigh these costs.
- **The reforms enabled MMFs to navigate 2011 market volatility successfully.** While much remains to be learned about the effects of the new regulation, a significant market test of the regulation occurred in summer 2011. During this period of extreme market volatility, MMFs were able to satisfy large redemptions, without suffering significant negative impacts to their net asset values (NAVs).
- **Any further regulation of MMFs should be undertaken with great caution.** Additional reforms should be carefully considered prior to implementation to ensure that they are consistent with creating a stronger, more resilient product that serves the needs of short-term investors and borrowers, without imposing harmful, unintended consequences on financial markets or on the U.S. economy.

The amended version of Rule 2a-7 has strengthened the overall MMF product. Not only has it successfully reduced risk in MMFs, it has preserved the fundamental features of MMFs that enable them to facilitate efficient allocation of capital in our financial system, features including a stable $1 share price, on-demand liquidity, and a return that reflects prevailing short-term market rates. Of course, these reforms have not been without costs, notably the reduced yield received by MMF investors and the expense of new operational and reporting infrastructure incurred by MMF sponsors, but the overall benefits appear to outweigh these costs.

Despite the recency and apparent early success of the 2010 reforms, some regulators have suggested that additional, more stringent reform is needed for the MMF industry. The debate over the need for additional reform was escalated in October 2010 with the release of a widely anticipated report from the President's Working Group on Financial Markets (PWG). In this report, the PWG acknowledged that the 2010 changes to Rule 2a-7 help to reduce risk and to ensure that episodes of contagion remain rare, but it concluded that, notwithstanding the recent changes, MMFs could become a source of systemic risk because of their susceptibility to sudden shareholder redemptions. It devoted much of its report to evaluating policy options aimed at further reducing perceived risks posed by MMFs.

Importantly, however, the PWG cautioned policymakers against the temptation to try to perfect the MMF product, stating that "preventing any individual MMF from ever breaking the buck is not a practical policy objective."[1] Pointing to the significance of MMFs in the U.S. financial system, it called for carefully considered, balanced regulation, and it warned of certain unintended consequences that may result from enacting additional regulation that is too severe.

With its 2010 changes to Rule 2a-7, the SEC has introduced balanced regulation that deserves more examination over a longer period of time. Fidelity believes that the impact of these changes should be explored and understood more thoroughly, and that all costs and benefits should be enumerated and evaluated, before regulators seek to make further structural changes to a well functioning investment vehicle.

A thorough examination of the impact of the 2010 changes is precisely the subject of this paper. In the following pages, we present tangible evidence that the new reforms have made MMFs more resilient. We first describe the major changes in the new regulation and explain why these changes have increased the safety and resiliency of MMFs. We then examine several key industry statistics that demonstrate the impact of the 2010 changes, and we explicitly quantify the impact of the changes on some of our own managed portfolios.

EXHIBIT 1: THE REFORMS OF 2010 REDUCED RISK IN MMFs BY IMPOSING SIGNIFICANT CONSTRAINTS ON PORTFOLIO LIQUIDITY, MATURITY, AND QUALITY.

Portfolio Attribute	Former Rule 2a-7	Current Rule 2a-7
Daily liquidity (taxable funds)	None	10%
Weekly liquidity (all funds)	None	30%
Weighted average maturity (WAM)	90 days	60 days
Weighted average life (WAL)	None	120 days
Illiquid securities	10%	5%
Second tier securities	5% 1% per issuer 397-day limit	3% 0.5% per issuer 45-day limit

Source: Securities and Exchange Commission

- The 2010 money market reforms included broad requirements relating to MMF disclosure, operation, and oversight, as well as several new restrictions relating specifically to portfolio structure. Exhibit 1 highlights the major portfolio-related changes, which are aimed primarily at governing MMF liquidity, maturity, and quality.

- Prior to 2010, Rule 2a-7 did not contain any requirements on MMF liquidity. The 2010 amendments introduced the concepts of "daily liquid" and "weekly liquid" instruments as those that can be readily converted to cash (either through maturity, sale, or exercise of a demand feature) within one day or one week. Rule 2a-7 now sets minimum levels of daily and weekly liquidity at 10% and 30% of fund assets, respectively, enabling MMFs to manage large and sudden shareholder redemptions.

- The new liquidity rules also include a general requirement that MMFs "hold securities that are sufficiently liquid to meet reasonably foreseeable shareholder redemptions." This additional requirement obligates MMFs with especially volatile patterns of shareholder activity to hold liquidity in excess of the 10% and 30% minimum levels, if appropriate.

- Enhanced risk-limiting constraints regarding maturity and credit quality and new rules controlling portfolio weighted average life (a measure of exposure to credit spread widening) reduce investment risks in MMFs and make them safer and more resilient.

- Each change highlighted in Exhibit 1 represents a significant constraint on MMF portfolio construction now imposed by Rule 2a-7. However, all of these changes are consistent with the more conservative mindset that has been adopted by MMF advisors in the aftermath of the 2008 financial crisis. The extraordinary events of September 2008 recalibrated perceptions about the degree of potential risks that must be managed in MMFs. It also served as a useful reminder to MMF shareholders that investing in MMFs carries risk, and that these investments are not guaranteed or insured against losses.

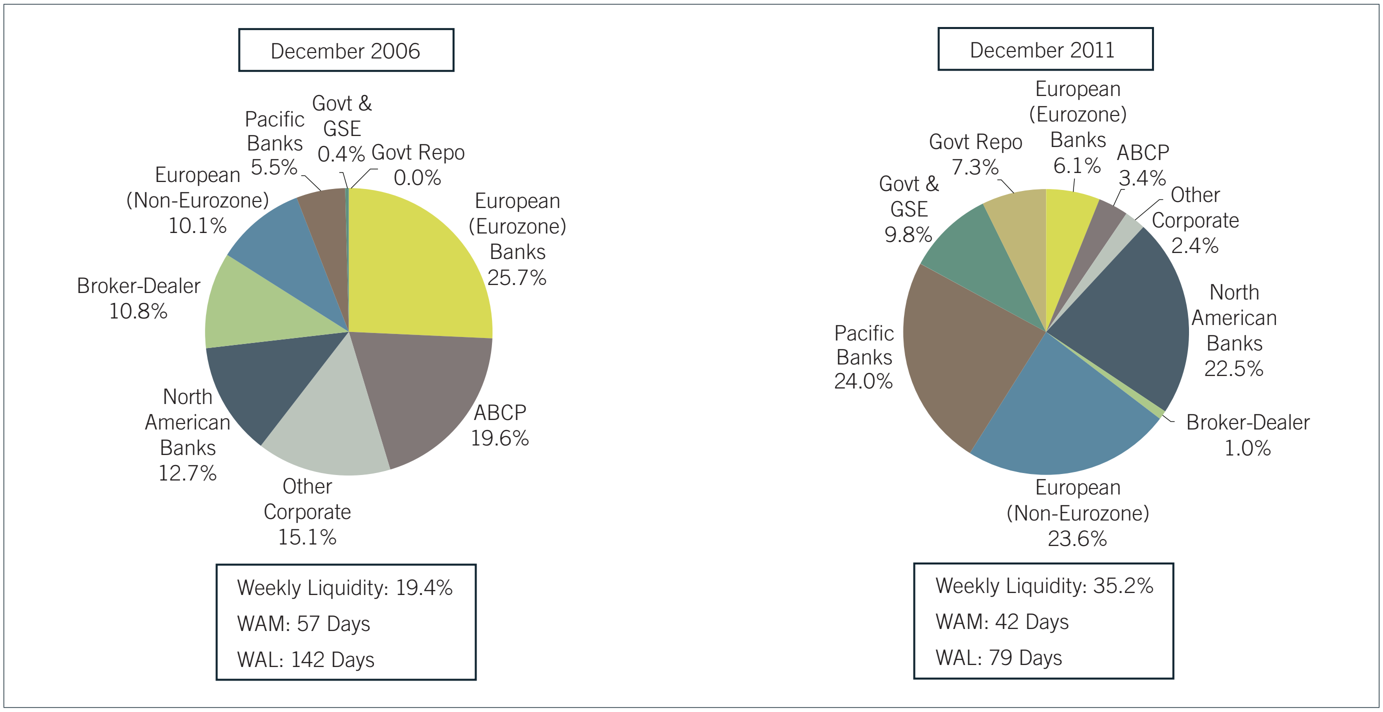
EXHIBIT 2: THE REFORMS OF 2010 REDUCED RISK IN MMFs BY IMPOSING NEW REQUIREMENTS ON DISCLOSURE, OPERATIONS, AND OVERSIGHT.

Rule Change	Description
Website holdings disclosure	Monthly posting of portfolio holdings by no later than fifth business day of each month (to be maintained on website for six months)
Detailed fund position information to SEC and public	Monthly delivery of detailed security and portfolio information (Form N-MFP) to SEC, including market NAV, by no later than fifth business day of each month (available to public with 60-day delay)
Stress testing	Board must set intervals for and receive results of periodic stress testing that measures fund's ability to maintain a stable NAV based upon certain hypothetical events, including: • Change in short-term interest rates • Increase in shareholder redemptions • Downgrade or default of portfolio securities • Spread widening or narrowing
Suspension of redemptions	Board may suspend redemptions if it determines that deviation between amortized cost per share and market based NAV may result in material dilution or other unfair result to shareholders and after irrevocable decision to liquidate fund (SEC notification required)
Processing of transactions	All money market funds (or fund transfer agents) must be able to process purchases and redemptions at prices other than $1.00 per share
General liquidity / know your customer	General liquidity requirement that funds adopt policies and procedures to identify investors whose redemption requests may pose liquidity risks and to hold sufficiently liquid securities to meet foreseeable shareholder redemptions

Source: Securities and Exchange Commission and Fidelity

- Exhibit 2 highlights major elements of the 2010 reforms that look beyond pure portfolio structure. These changes are aimed at reducing risk in MMFs by improving their transparency, strengthening their operations, and enhancing board and SEC oversight.
- Comprehensive, frequent, and easily accessible MMF disclosure enables shareholders, regulators, and market participants to be better informed about fund holdings, reducing the risk of contagion.
- Frequent, periodic stress testing enables board members to better understand fund risks, and thus more effectively fulfill their fiduciary duties to shareholders.
- New authority given to MMF boards to suspend redemptions in a crisis reduces the need to sell securities into a poorly functioning market.
- Better understanding of shareholder concentration and historical redemption profiles facilitates liquidity management.

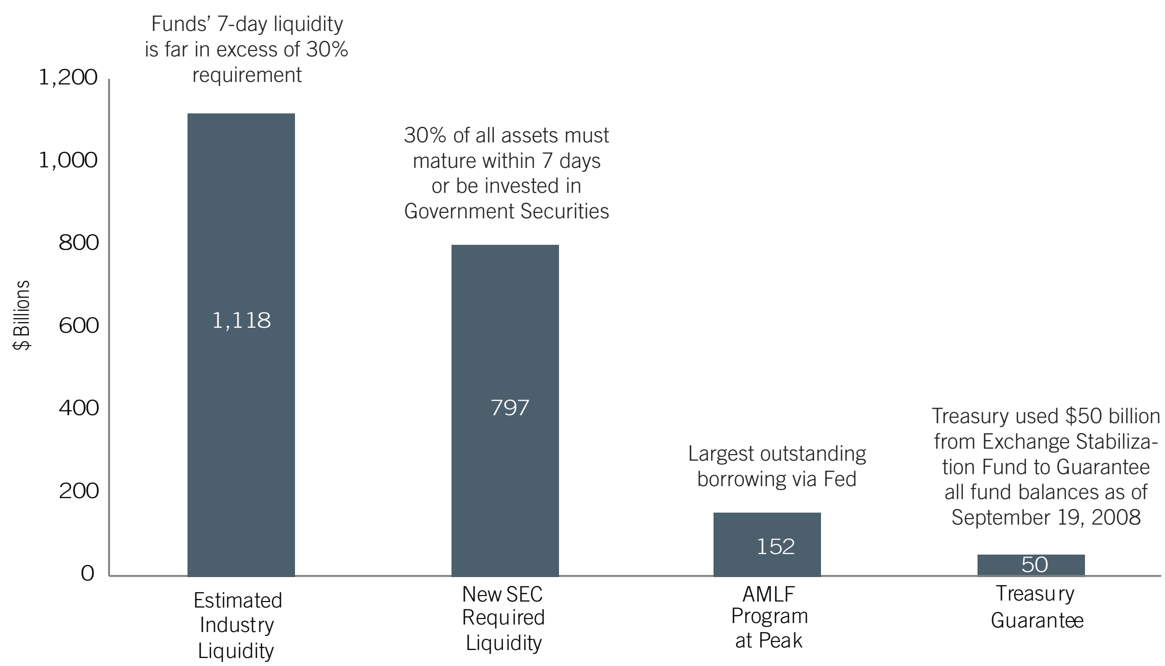
EXHIBIT 3: MMFs HAVE TAKEN DRAMATIC STEPS TO REDUCE RISK IN RESPONSE TO CHANGES IN THE MARKET ENVIRONMENT AND TO THE 2010 AMENDMENTS TO RULE 2a-7.



Source: Fidelity

- Exhibit 3 shows dramatic changes in the structure and attributes of an actual Fidelity prime MMF before the financial crisis and at year-end 2011.
- These changes have made the fund much more resilient to market stress. Many of the changes have been implemented as a direct response to the 2010 reforms. Significant reductions in risk were achieved through an 81% increase in weekly liquidity, a 26% reduction in weighted average maturity, and a 44% reduction in weighted average life.
- Shorter maturities, in addition to reducing interest rate risk and credit risk, provide managers with greater flexibility to change portfolio composition in response to or in anticipation of changing market conditions, thus enabling more timely and effective risk management.
- In addition, the 2010 changes have influenced a rebalancing of sector exposures, which show substantial increases in U.S. government holdings, government repurchase agreements, and other sectors exhibiting stability (e.g., North American and Pacific banks), as well as sharp reductions in sectors characterized by uncertainty and declining credit quality (e.g., broker-dealers and Eurozone banks).

EXHIBIT 4: THE LIQUIDITY CURRENTLY HELD IN MMFs FAR EXCEEDS THE REQUIREMENT IMPOSED BY RULE 2a-7 AND IS MANY TIMES LARGER THAN ALL SOURCES OF GOVERNMENT SUPPORT MADE AVAILABLE DURING THE FINANCIAL CRISIS.



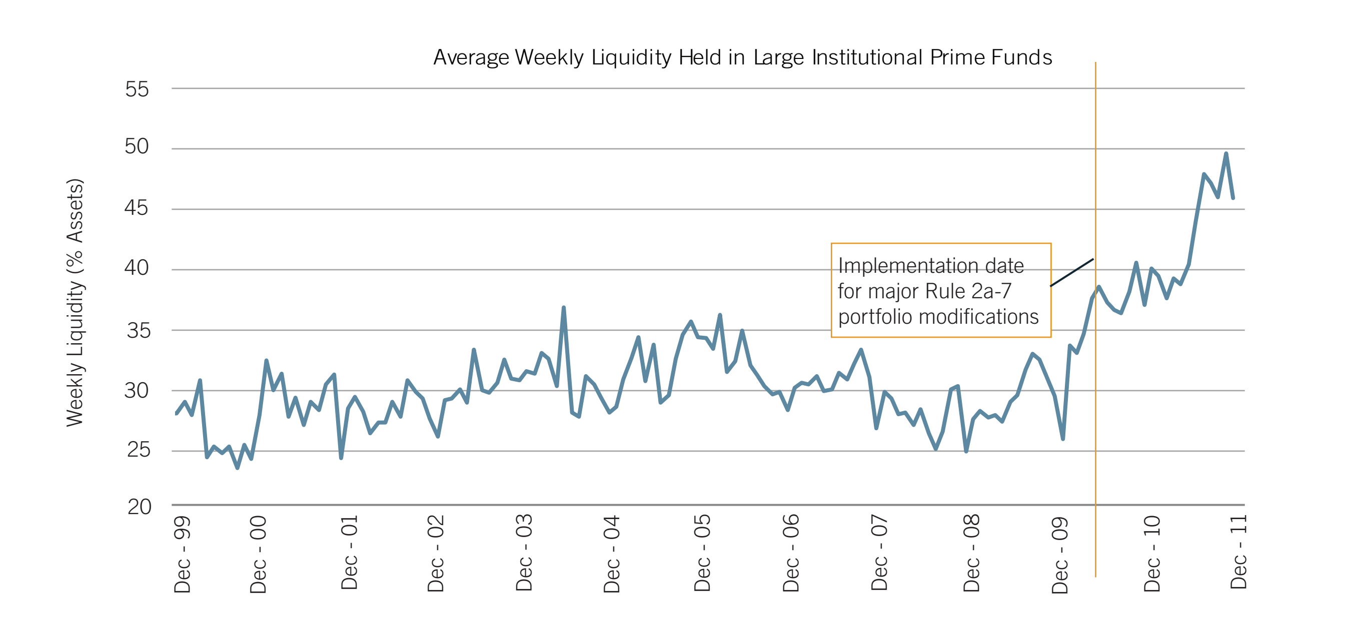
Source: Federal Reserve, U.S. Treasury, Investment Company Institute as of 2/8/12 and Crane Data as of 1/31/12

- Exhibit 4 illustrates the extraordinarily large liquidity cushion currently held across the MMF industry. As articulated in the PWG report, a liquidity cushion is one of the most effective means to handle large and unexpected redemptions in MMFs.

- The amount of liquidity currently held in MMFs is many times larger than the temporary government support provided during the 2008 financial crisis. Moreover, current liquidity far exceeds the amounts redeemed from MMFs during either of the two most recent identifiable episodes of market crisis: (1) $172 billion within an eight-week period from June 2011 to August 2011 in the wake of the European debt crisis and U.S. debt ceiling debate; and (2) $310 billion in the week following the Lehman bankruptcy in September 2008.

- The large liquidity cushions now required by Rule 2a-7 have mitigated risk without imposing exceedingly costly unintended consequences. Shareholders have incurred a cost in the form of lower fund yields, but core MMF investment objectives of safety and liquidity have been furthered.

EXHIBIT 5: AVERAGE LIQUIDITY HELD IN INSTITUTIONAL PRIME MMFs HAS RISEN DRAMATICALLY SINCE THE ADOPTION OF THE 2010 AMENDMENTS TO RULE 2a-7.



Estimated weekly liquidity is the sum of two fund-level metrics provided by iMoneyNet: (1) holdings maturing within 7 days; and (2) holdings issued by the U.S. Treasury. Data set for each month includes largest funds within institutional prime universe that account for 75% of universe assets.

- Exhibit 5 shows that the average liquidity level in institutional prime MMFs is now significantly higher than it has been at any other time over the past decade. During the ten-year period leading up to reform implementation, the average level of weekly liquidity held in institutional prime funds was 30%. This average began to rise sharply near the implementation date, and it has recently been as high as 50%.

- Importantly, the liquidity levels shown on the chart are merely averages for the institutional prime universe. On any given date, there may be significant dispersion in liquidity levels of MMFs around the average. Some MMFs may hold much less liquidity than average, while others may hold much more. Because Rule 2a-7 now imposes a lower bound on MMF liquidity, we expect that the future average liquidity level will remain above this lower bound.

- The massive allocation to liquid instruments shown above makes the funds more resilient to market stress, as it enhances their ability to satisfy unexpected, large shareholder redemptions without the need to sell securities.

EXHIBIT 6: NEW REQUIREMENTS IMPOSED BY RULE 2a-7 ON PORTFOLIO MATURITY AND LIQUIDITY HAVE MADE MMF MARKET NAVs LESS SENSITIVE TO UNEXPECTED, SIMULTANEOUS INCREASES IN INTEREST RATES AND SHAREHOLDER REDEMPTIONS.

	Redemptions (% Assets)					
Rate Rise (bp)	0	10	20	30	40	50
0	1.0000	1.0000	1.0000	1.0000	0.9992	0.9980
50	0.9994	0.9993	0.9992	0.9991	0.9981	0.9968
100	0.9988	0.9986	0.9985	0.9982	0.9971	0.9955
150	0.9982	0.9979	0.9977	0.9974	0.9961	0.9943
200	0.9975	0.9973	0.9969	0.9965	0.9951	0.9931

Pre-Reform Period
WAM: 45 Days
Weekly Liquidity: 30% of Assets
Liquidation Cost Under Stress: 0.50% of Face Value

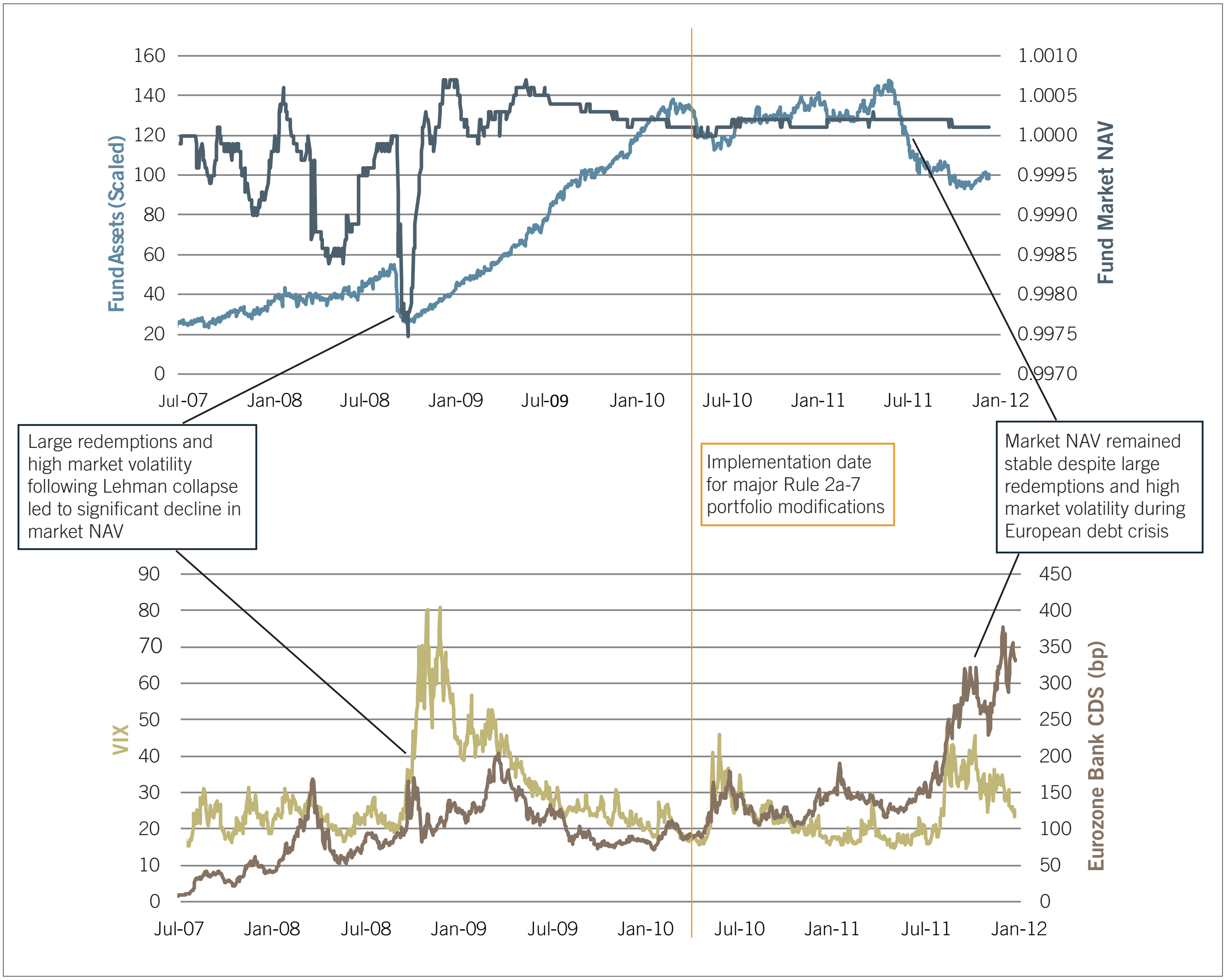
	Redemptions (% Assets)					
Rate Rise (bp)	0	10	20	30	40	50
0	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
50	0.9995	0.9995	0.9994	0.9993	0.9992	0.9990
100	0.9990	0.9989	0.9988	0.9986	0.9984	0.9981
150	0.9986	0.9984	0.9982	0.9979	0.9976	0.9971
200	0.9981	0.9979	0.9976	0.9973	0.9968	0.9962

Post-Reform Period
WAM: 35 Days
Weekly Liquidity: 50% of Assets
Liquidation Cost Under Stress: 0.50% of Face Value

Source: iMoney Net and Fidelity

- Exhibit 6 compares the NAV sensitivity of a typical institutional prime MMF before and after the implementation of 2010 reforms.
- For each fund structure, the corresponding color-coded grid, or "heat map," displays the set of market NAVs that would result from various hypothetical scenarios in which interest rates rise suddenly and shareholders abruptly redeem a portion of outstanding shares. Each scenario has been simulated using the assumption that the original market NAV is precisely $1.0000.
- Clearly, the lower average maturity and additional liquidity of the post-reform MMF structure make it much less sensitive to volatile market action and shareholder behavior. Despite the severity of many scenarios included in the test set, none of the scenarios caused the post-reform MMF to "break the buck" (i.e., to breach the critical market NAV of $0.9950).
- Note that the most extreme scenario included in the test set simulates an instantaneous rise in interest rates of 200 basis points, as well as a simultaneous shareholder redemption of 50% of outstanding shares. To provide historical context for the severity of this scenario, we note that in the aftermath of the Lehman bankruptcy in 2008, it took four weeks for the three-month LIBOR rate to rise by 200 basis points. Moreover, shareholder redemptions in the week following the bankruptcy totaled approximately 30% of institutional prime MMF assets.

EXHIBIT 7: FOLLOWING THE 2010 CHANGES TO RULE 2a-7, THE MARKET NAV OF A REPRESENTATIVE PRIME MMF HAS REMAINED REMARKABLY STABLE DESPITE PERIODS OF HEAVY REDEMPTIONS AND HIGH MARKET VOLATILITY.



Source: Bloomberg and Fidelity

- Exhibit 7 shows the historical asset level and market NAV of an actual Fidelity prime fund (upper chart) as well as concurrent historical indicators of broad-market volatility (lower chart). The market indicators shown are the S&P 500 volatility index (VIX) and the average credit default swap (CDS) levels for a large set of high-quality Eurozone banks.
- The pre-reform period was characterized by episodes of extreme market volatility. The most severe episode, which occurred in September 2008 with the bankruptcy of Lehman, led to declining valuations on MMF holdings and large scale shareholder redemptions, putting downward pressure on the market NAVs of most MMFs.

- The 2010 reforms reduced the susceptibility of MMFs to runs and increased their resiliency in times of market stress. The market events of 2011 served as the first major test of the robustness of the new regulation.
- In mid-2011, market participants were concerned that the prospect of default by a peripheral Eurozone country could spark financial contagion throughout Europe. These concerns extended to shareholders of many MMFs, who began redeeming shares on a large scale, particularly from funds with substantial exposure to Eurozone banks.
- Redemptions totaled $172 billion over an eight-week period from June 2011 to August 2011. During this period of extreme market volatility, which was further exacerbated by the uncertainty arising from the U.S. debt ceiling debate, MMFs were able to satisfy all redemptions, and they did so without suffering significant negative impacts to their NAVs.

Endnotes

[1]Report of the President's Working Group on Financial Markets, Money Market Fund Reform Options (October 2010), at p. 4, available at http://www.treasury.gov/press-center/press-releases/Documents/10.21%20PWG%20Report%20Final.pdf

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