March 2, 2012

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

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

Dear Ms. Murphy:

We understand the Securities and Exchange Commission is reviewing potential additional money market reform options. DST Systems, Inc. respectfully submits our thoughts for your consideration. Our comments focus on U.S. money market funds and the significant impacts potential redemption restriction reform options will have on systems, operations and shareholder behavior that could cripple if not destroy money market funds as a shareholder convenience.

DST Systems, Inc. – Role in the Mutual Fund Industry

DST Systems, Inc. provides sophisticated information processing solutions and services to support the global asset management, insurance, retirement, brokerage, and healthcare industries.

- DST’s shareholder recordkeeping system is the largest third party recordkeeping system in the U.S. mutual fund industry with 55% of the market of shareholder accounts (Mutual Fund Service Guide - January 2011). The shareholder recordkeeping systems and services support open and closed-end mutual funds, Real Estate Investment Trusts (“REITs”), and various forms of tax advantaged savings vehicles. Included in tax-advantaged accounts are Individual Retirement Accounts (“IRAs”), and Educational Savings Plan Accounts, which encompass both Coverdell and Section 529 college savings plan accounts.

- Most of the Company’s clients who utilize the shareholder recordkeeping platform are “open-end” mutual fund companies. The proprietary system application for shareholder recordkeeping is TA2000. TA2000 handles virtually all shareholder related activities including purchases, redemptions, exchanges and transfers of shares; maintaining shareowner identification and share ownership records; reconciling cash and share activity; calculating and disbursing commissions to brokers and other distributors; processing dividends; reporting sales; and providing information for printing of shareowner trade confirmations, statements and tax forms. The system processes multiple classes of equity, fixed income and money market funds.
• DST has 394 client fund sponsors, spanning 26,817 CUSIPS and 85.1 million shareholder positions direct on the books of funds (an omnibus account would be represented by only one account in this statistic).

• Per Crane Data as of January 31, 2012, three of the top five money market fund managers in the industry are our clients, with their shareholder recordkeeping and operations performed based on our software platform.

• With over 43 years of leadership in the mutual fund shareholder recordkeeping industry, through our client relationships we have gained invaluable insight and expertise in the mechanics of fund operations and systems. We provide service features for mutual fund shareholders for all segments of investors and their mode of transaction preferences. Working with so many different fund families we have the privilege of exposure to a wide array of fund product types, distribution channels and investor behavior. We work closely with our mutual fund customers to find model compliance solutions and best practices.

It is from this role in the mutual fund industry and perspective that we feel compelled to provide this comment letter highlighting the negative impacts we believe would result if additional money market fund reform were to include redemption restrictions.

Shareholder Behaviors in Money Market Funds

Money market funds have become an important instrument for shareholders in managing investment strategy.

• Shareholders can quickly respond to market risks and opportunities exchanging funds from or to a money market fund. Service platforms, including mutual fund transfer agency as well as brokerage and other record keeper systems, readily facilitate this kind of convenience in an automated, one stop shop for the investor. As investors identify an investment opportunity, they can simply call the record keeper or provide instructions over the internet to execute the exchange. Likewise, investors have the capability to respond instantly by exchanging out of an equity mutual fund position into a money market fund.

• Basic investment philosophies such as dollar cost averaging are facilitated by money market funds. As an example, an investor may roll over their retirement proceeds into a self-directed IRA with a mutual fund family or brokerage account. In a common approach to dollar cost averaging, shareholders roll over the lump sum into a money market fund and then systematically exchange into equity and bond mutual funds over time.

• Institutional investors are able to leverage various service platforms to maximize the efficient use of funds benefiting their collective clients. Balances are routinely swept in and out of funds to keep balances working for shareholders.
• Retail investors frequently take advantage of a check writing service feature available in money market funds. With this shareholder convenience, an investor is provided with a checkbook from which checks can be written against their money market account balance. There were over 1.9 million check writing drafts cleared through our transfer agency systems alone in 2011. Debit card usage is another feature available with some money market funds.

• Shareholders frequently move funds back and forth via wire or ACH funds between their money market mutual account and bank accounts, as a means for investors to connect their banking relationship to their investment portfolio.

• Investors saving for college frequently invest in Section 529 college savings plan accounts, which typically includes a money market fund as an investment option. Liquidity in these accounts is essential as students enter college to cover tuition, books, and other college expenses.

Within mutual fund family offerings, a money market fund is typically part of a larger lineup that includes equity, bond, and other funds. Unlike other funds, however, investors expect to purchase and redeem shares of money market funds at a stable NAV. The immediate access to these funds is essential for all segments of investors seeking a stable and fully liquid cash management option systematically connected to other investment options.

Redemption Restrictions

Ideas for additional money market reform being considered by regulators include redemption restrictions, as a means to address potential ‘first mover’ advantages. Concepts being considered include restrictions at the transaction level or the account balance level. New reform that may require redemption restrictions would have extraordinary systems and operational impacts to a wide range of parties comprising money market fund operations in the U.S. The current operating environment of mutual fund transfer agents, broker dealers, banks, financial planners, registered investment advisors, and retirement plan record keepers would all have material impacts with restrictions at either the redemption transaction level or the account balance level.

Percentage of a Redemption Transaction Approach

One area of reform being considered involves holding back a percentage of a redemption requested by a shareholder in reserve. Using a 3% requirement as an example, if an investor requested a redemption for $10,000, only $9,700 may be provided to the investor immediately, with the additional $300 held back for 30 days.

• The systems and operational implications of this reform are pervasive and would be expensive for questionable benefit, and would likely be destructive to the money market fund product. It would require systems and operational changes for all parties involved in the money market mutual funds product delivery cycle. Systems built around fully honoring redemption requests
immediately, with redemption requests expressed in dollars, would need to program an additional tracking mechanism to account for the held back funds until they are disbursed.

- **Transaction volume** is a fundamental cost driver in a mutual fund transfer agency. If a portion of each redemption request were required to be held back, the volume of all transactions necessary to process a redemption request would be doubled. There would be additional work involved in the transfer agency to validate the party who should receive the held back restricted portion of the redemption disbursed later and the method of payment.

- The unit level of work in reconciling cash out of a transfer agency operating DDA account and shareholder recordkeeping system would be split and doubled, adding complexity to daily cash reconciliation protocols of transfer agents and other record keepers. The level of redemption check volume, ACH activity items, wire charges, and other fees based activity would be doubled for money market redemption requests.

- **Institutional investors business needs** are addressed by keeping cash invested every available moment. To achieve this goal, systems are aligned to move funds between institutions on a daily basis. In some cases an entire downstream platform of end investors are represented by a single omnibus account on the records of the transfer agent. There are many scenarios driving the size and velocity of institutional trades, all of which are typically honed for efficiency in reducing shareholder expenses necessary to conduct business. If each of the redemption requests in this environment were to carry a redemption restriction, funds in reserve could accumulate at a rapid pace in the same account, potentially rendering a significant percentage of the account balance inaccessible. Liquidity for this business model is critical, and the redemptions held back erode and potentially erase this key value proposition of money market products.

- **A high volume automated trading facility leveraged by funds, brokers, and other record keepers is available through the industry utility, Depository Trust and Clearing Corporation (DTCC).** This highly efficient system automates purchase, redemption, exchange and other typical mutual fund transaction activity between brokers and mutual fund transfer agents (seventy one percent of all DTCC’s NSCC Fund/SERV mutual fund activity passes through our platform). The current net settlement process with the DTCC rolls up and consolidates activity from all sources for a given day into one net number, with redemptions considered as being wholly funded. All of the mutual fund transfer agents, broker dealers, banks, trusts, retirement plan providers and other record keeper users who trade in money market funds across this utility to facilitate investor transactions likely do not presently have systems in place to facilitate redemption restrictions.

- **Transactions that close out an account balance would also be problematic with a portion of the redemption held back.** As money market funds accrue interest daily, the amount held back would continue to accrue additional daily dividend amounts. These amounts could then require additional trailing transactions to deplete the account balance all the way down to zero.
• Omnibus activity, and potential multiple layers of omnibus accounts (super omnibus accounts, etc.), present additional challenges for redemption restrictions. As with other regulatory issues, transparency into omnibus account activity is not always readily available. It would not be apparent if the end shareholder record keeper properly held back a portion of the redemption request in the rolled up net trade presented to the omnibus account on the books of the fund. Complexities and opportunities for mistakes would be injected into the process with the held back amount being duplicated, or not applied if there is any confusion over which party is holding back the restricted portion of the redemption request.

• Checks written against mutual fund accounts would be problematic if faced with redemption restrictions. Checks written for a $100 would result in a redemption of $103.09 from a shareholder’s money market fund account, honoring the check and holding back 3%. Gross up computation routines and reconciliation functions would need to be developed in transaction processing systems. Similarities to bank checking accounts with the convenience of connecting to an investor’s investment portfolio would be lost. The complexities introduced to all parties would render the feature unpopular with shareholders while at the same time increasing expenses to the fund and its shareholders.

**Percentage of an Account Balance Approach**

This approach entails the establishment of a minimum balance requirement for money market customer accounts. Discussions appear to center around a 3% minimum balance requirement based on a look back of the shareholder’s average account balance the past 30 days. The minimum account balance would be recalculated and reset monthly. Many of the same systems and operational impacts identified with a transaction approach apply to the account approach as well.

• As with a transaction based approach, a minimum account balance approach would similarly require pervasive and expensive systems and operational changes for a wide variety of parties that deliver money market mutual funds to investors. Additional tracking systems for calculating and reporting minimum balances would require significant programming.

• Cash reconciliation processes would need to be enhanced to incorporate minimum balance requirements, likely at the account, CUSIP, and portfolio level. All of the changes would require programming, training, and additional operational procedures.

• As with transaction based restrictions, institutional investors would be dramatically impacted with a minimum balance requirement. The very nature of sweep accounts would be rendered impossible in money market mutual funds, driving clients with these objectives to other vehicles that are further removed from core investor delivery systems, requiring costly conversions and reduction of service to end investors.
- Automated processing routines in place through the DTCC connecting broker dealers, transfer agents and other record keepers would require edits to incorporate minimum balance restrictions and tracking.

- The omnibus accounting layers that exists in the mutual fund shareholder recordkeeping environment would provide further complexity with a minimum balance requirement. Understanding the duties and responsibilities to assure parties jointly are not duplicating or inaccurately applying the regulatory requirement on the same end investor, and reconciliation with multiple layers of servicing parties involved in these arrangements would entail significant legal, compliance, operational, and systems burdens.

- Check writing or debit card requests to redeem the balance below the minimum amount would require additional programming, operational changes, and increase investor inconvenience.

**Common Issues of Transaction or Account Based Redemption Restrictions**

There are a number of negative implications that are present in either transaction or account balance redemption restrictions.

- Certain aspects of transaction requests to redeem an entire account balance would be problematic with transaction or account based redemption restrictions. The number of transaction requests considered 'not in good order' would spike. Not in good order transactions bear a significant cost in terms of multiplying the number of times the investor must be inconvenienced, or the touch points needed, to successfully complete the transaction request. A minimum balance environment would increase the work and cost involved in providing rejected transaction correspondence. Costs would increase for transfer agents, intermediaries, representatives for the investor and all other parties involved in servicing money market fund shareholders.

- Transaction or account based redemption restrictions would result in a widespread, ongoing additional training and investor education process. The added complexity would increase training of shareholder servicing representatives, transaction processing personnel, cash reconciliation staff, portfolio accounting, audit, legal and compliance. Shareholder telephone servicing call times would increase along with the volume of questions, concerns, and complaints.

- Additional communications disclosures would be required in all forms of media including confirmations, statements, websites, applications and forms, and prospectuses and statements of additional information. All of these requirements will increase costs.

- Cash availability reporting relied on by portfolio managers to make investment decisions would require enhancement to carry and reflect funds encumbered for held back redemptions
restricted. These amounts would change daily and increase the operating cash balances in the fund not invested while adding additional complexity to the reporting process.

- Duties and responsibilities of parties would be exacerbated in an omnibus environment with either form of redemption restrictions. Transparency and reporting regarding which party applied the restrictions, amounts of funds held in reserve, amounts of transactions delayed still representing a future draw on funds, and reconciliation are all challenges that would be faced by systems and operations of funds and their service providers.

Beyond the additional layer of cost involved, key benefits that draw shareholders to money market funds would be removed with either a transaction or an account based redemption restriction. Shareholder liquidity, high velocity and volume capability for institutional investors, flexibility to fully respond to changes in market opportunities, and a straightforward ability to write checks or use debit cards would all be critically hampered. Added complexity for all parties, increases in transaction work volumes, impacts on asset allocation models and dollar cost averaging routines, are additional negatives to this reform option. Cumulatively these reasons could effectively cause a flight of investors to competing products outside of the capability set currently enjoyed in money market funds by IRAs and other retirement plans, 529 accounts, institutional investors, sweep arrangements, and retail investors.

Overall DST Assessment Regarding Redemption Restrictions

Enacting redemption restrictions as additional reform would require expensive changes to the industry and add incredible complexity for customers and providers alike. We believe reform of this nature would drive away a significant percentage of customers and assets from money market funds by taking away key product values to investors such as liquidity, ease of use, and check writing. Faced with additional costs, product complexity, additional regulatory and audit burdens, loss of clients, and particularly in an environment of zero or negative product margins, we believe a number of mutual fund families will decide to no longer offer money market fund products.

The intent of this concept as we understand it is to address the ‘first mover’ advantage illuminated when the Reserve Primary Fund broke a buck. For money market customers who choose to remain in a more complex, less flexible product, we believe large institutional investors and high balance customers will better grasp the implications of the new regulations.

We support legislation that improves the financial systems for our citizens. Through relationships with our customers, we have witnessed fund families and service providers in the industry embrace Rule 2a-7 Money Market Reform legislation. We have worked first hand with our clients, including three of the top five largest money market fund providers, to provide regulatory solutions in our systems and operations to address the 2010 money market reform requirements. In addition to portfolio guidelines that provide better safety, liquidity and transparency for investors, funds and service providers have tested systems and plans developed for the orderly liquidation at a price other than a dollar.
DST is available should the Commission have additional questions. We are also available to meet with the Staff in person upon request. Please contact Nick Horvath at (816) 843-7615 or email nnhorvath@dstsystems.com at your convenience.