American Public Power Association
Council of Development Finance Agencies
Council of Infrastructure Financing Authorities
Government Finance Officers Association
International City/County Management Association
International Municipal Lawyers Association
National Association of Counties
National Association of Health and Educational Facilities Finance Authorities
National Association of Local Housing Financing Agencies
National Association of State Auditors, Comptrollers and Treasurers
National Association of State Treasurers
National Council of State Housing Agencies
National League of Cities
U.S. Conference of Mayors

March 8, 2012

The Honorable Mary L. Schapiro
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: SEC Activities related to Money Market Mutual Funds

Dear Chairman Schapiro:

The organizations listed above representing state and local governments would like to bring to your attention the vital role money market mutual funds (MMMFs) play for our members. As we have stated in previous comments to the Securities and Exchange Commission, notably to proposed changes to SEC Rule 2a-7 in 2010, we support initiatives that would strengthen money market funds and ensure investors are investing in high-quality securities. However, we are alarmed by recent reports that the SEC may alter the nature of these products and eliminate or impede state and local governments' ability to invest in these securities. As issuers of municipal securities, we also are concerned that such changes would dampen investor demand for the bonds we offer and therefore increase costs for the state and local governments that need to raise capital for the vital infrastructure and services they provide to their citizens.

The possibility of changing the stable net asset value (NAV) – the hallmark of money market funds – to a floating net asset value greatly concerns us. Such a move would be very harmful to state and local governments and the entire MMMF market. The fixed NAV is the fundamental feature of money market funds. Forcing funds to float their value likely would eliminate the market for these products by forcing many investors, including state and local governments, to divest their MMMF holdings, and discouraging others from using these funds.

As investors, many state and local governments look to MMMFs as an integral part of their cash management practice. In the third quarter of 2011, state and local governments held $86 billion in MMMFs. The Government Finance Officer Association's Best Practice "Using Mutual Funds for Cash Management Purposes" encourages governments to look to money market funds for short-term investments, with appropriate cautions. Many governments have specific policies or statutes that mandate investing in financial products with stable values, and money market funds are the investments used to ensure compliance with these state and local laws and policies. MMMFs are a popular cash management tool because they are highly regulated, have minimal risk, and are easily booked. If the SEC were to adopt a floating NAV for MMMFs, we expect that most if not all of our organizations' members would divest a significant percentage of their investments in MMMFs and would be forced to look at competing products that could be more susceptible to market conditions, more difficult to account for and manage, and may pose market risk. That would contrast sharply with the SEC's goals, particularly since many of those competing products don't provide investors with the same transparency and comprehensive regulatory protections as MMMFs.

In addition to their important investment purpose, MMMFs also are related to the municipal bond market. Money market funds are the largest investor in short-term municipal bonds: with $288 billion in assets, tax-exempt money market funds hold 57% of all outstanding short-term municipal debt. Changing the NAV from fixed to floating would make MMMFs far less attractive to investors, thereby limiting money market funds' ability to purchase municipal securities. Such a decrease in demand would lead to higher debt issuance costs for many state and local governments across the country.

Any effort by the SEC to fundamentally change the DNA of MMMFs would have an extremely disruptive effect on the investing market as well as the municipal bond market. This ultimately could cost state and local governments millions of dollars, as they would have to turn to more costly – and/or more risky – investments as well as face higher costs for issuing debt due to shrinking demand for the market.

We hope that you and other members of the Commission will carefully weigh the negative effects that fundamental changes to MMMFs would have on the various markets. We hope you will also consider the effects of the comprehensive amendments to Rule 2a-7 adopted in January 2010, because the enhanced liquidity and transparency fostered by these changes appear to have helped MMMFs weather recent periods of market turbulence without incident or systemic risk. It is difficult to understand why the SEC, having already completed comprehensive reforms of Rule 2a-7 that enhanced the value of MMMFs to investors and the economy, would now consider additional changes that would have such a disruptive effect for so many, including state and local governments.

If you have any questions about this letter, please contact Susan Gaffney, Director of the Government Finance Officers Association's Federal Liaison Center at 202-393-8468.

Sincerely,

American Public Power Association, Amy Hille
Council of Development Finance Agencies, Toby Rittner
Council of Infrastructure Financing Authorities, Rick Farrell
Government Finance Officers Association, Susan Gaffney
International City/County Management Association, Beth Kellar
International Municipal Lawyers Association, Chuck Thompson
National Association of Counties, Mike Belarmino
National Association of Health and Educational Facilities Finance Authorities, Chuck Samuels
National Association of Local Housing Financing Agencies, John Murphy
National Association of State Auditors, Comptrollers and Treasurers, Cornelia Chebinou
National Association of State Treasurers, Jon Lawniczak
National Council of State Housing Agencies, Garth Rieman
National League of Cities, Lars Etzkorn
U.S. Conference of Mayors, Larry Jones