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March 8, 2012

The Honorable Luis A. Aguilar
Commissioner
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

VIA ELECTRONIC AND
REGULAR MAIL

Subject: Regulation of Money Market Funds

Dear Commissioner Aguilar:

On behalf of the Coalition of Mutual Fund Investors ("CMFI"),¹ I want to express support for your statement in Tuesday's Wall Street Journal about the need to address transparency problems in money market investment vehicles before regulators consider imposing additional structural reforms.²

In my view, there is no debate that the rules finalized by the Securities and Exchange Commission ("SEC") in 2010 have significantly improved the regulatory framework for money market funds.³ Among other provisions, the SEC's new daily, weekly, and general liquidity requirements are all steps in the right direction, especially given that the most significant problem facing money market funds is the risk that they can't redeem shares at a fixed net asset value in a severe credit market crisis.

CMFI remains concerned, however, that the SEC's general liquidity requirement—in which funds are required to hold securities that are sufficiently liquid to meet reasonably foreseeable shareholder redemptions—cannot be implemented properly as a result of non-transparent omnibus accounts (and other investment vehicles using "street name" accounting).

The use of omnibus accounts makes it next to impossible for money market funds to evaluate, on an ongoing basis, the redemption needs of its underlying shareholders, without full transparency into the identity and transactions of those shareholders. In its

¹ The Coalition of Mutual Fund Investors ("CMFI") is an Internet-based shareholder advocacy organization established to represent the interests of individual mutual fund investors (www.investorscoalition.com).

² Andrew Ackerman and Kirsten Grind, "Money-Fund Plan Hits Resistance," The Wall Street Journal, March 6, 2012 ("Before fundamentally altering money funds, wouldn't you want full transparency into all of the vehicles, regulated and unregulated, that are used for short-term cash management?" (quoting SEC Commissioner Luis Aguilar)).

³ See Money Market Fund Reform, SEC Release No. 29132, 75 Fed. Reg. 10,060 (Mar. 4, 2010) (hereinafter "SEC Final Rule").

2010 final rule, the SEC recognized this problem and imposed a general liquidity requirement as a means to address it.

Unfortunately, the reality of omnibus and “street name” accounting is that money market funds are only going to be guessing as to the redemption needs of their underlying shareholders until and unless there is full transparency down to the beneficial owner level.

In explaining its final rule on money market funds, the SEC acknowledged the challenges presented by omnibus accounting:

As some commenters noted, identification of these risks may be more challenging when share ownership is less transparent because the shares are held in omnibus accounts. Funds may seek access to information about the investors who hold their interests through omnibus accounts in addition to considering information about the omnibus accounts, including their aggregate historical redemption patterns and the account recordholder’s ability to redeem the entire account.⁴

Regrettably, the SEC did not give money market funds any regulatory tools to perform this “know your shareholder” function in a meaningful way. Instead, the SEC stated in a footnote that funds could obtain information about investors in omnibus accounts through contractual arrangements between funds and their financial intermediaries.⁵

In CMFI’s view, the SEC’s “know your shareholder” process should be standardized and implemented uniformly across all money market fund distribution channels. An effective way to accomplish this objective is to consider extending SEC Rule 22c-2 to money market funds.

As you will recall, Rule 22c-2 was promulgated in response to the market timing problems in the mutual fund industry.⁶ The Rule requires financial intermediaries to provide funds with shareholder-level identity and transaction information, when requested by the funds.⁷ The intent of the Rule is to provide funds with a tool to deter market timers and to ensure that financial intermediaries are properly implementing fund policies and procedures regarding excessive short-term trading activities by certain shareholders.

⁴ SEC Final Rule at 10,075.

⁵ Id. at footnote 201.

⁶ See Mutual Fund Redemption Fees, SEC Release No. IC-27504, 71 Fed. Reg. 58,257 (Oct. 3, 2006); Mutual Fund Redemption Fees, SEC Release No. IC-27255, 71 Fed. Reg. 11,351 (Mar. 7, 2006); and Mutual Fund Redemption Fees, SEC Release No. IC-26782, 70 Fed. Reg. 13,328 (Mar. 18, 2005).

⁷ 17 C.F.R. § 270.22c-2(a)(2)(i) and 22c-2(c)(5).

Rule 22c-2 currently exempts money market funds from its requirements.⁸ At least one commenter to the SEC's money market fund rulemaking advocated that the Rule be extended to money market funds, so that funds could evaluate more precisely the redemption needs of shareholders in omnibus accounts:

Since the composition of a money market fund's shareholder base is an essential component in determining the level of liquidity required to comply with Section 22(e), we propose that the Commission extend Rule 22c-2 to apply to money market funds with respect to sharing shareholder information. We believe that this requirement would permit funds to periodically examine the nature of their shareholder base, even where most of the fund is held through omnibus accounts.⁹

Other fund companies also have advocated for more transparency within omnibus accounts, to help money market funds with their implementation of the SEC's general liquidity requirement.¹⁰

CMFI believes that the SEC should consider extending Rule 22c-2 to money market funds, to give funds a transparency tool into omnibus accounts. The current "know your shareholder" programs within the fund industry are only able to evaluate aggregated trade data that does not include individual shareholder identity or transaction information. Without this shareholder-level information, a fund can only speculate about potential redemption demands, instead of conducting a much more precise evaluation of expected liquidity demands by reviewing actual shareholder information.

⁸ Id. at 22c-2(b)(1).

⁹ Letter from Phillip S. Gillespie, Executive Vice President and General Counsel, State Street Global Advisers, to Elizabeth Murphy, Secretary, Securities and Exchange Commission, at 9, September 8, 2009, available at <http://www.sec.gov/comments/s7-11-09/s71109-108.pdf>.

¹⁰ See Letter from Paul Audet, Vice Chairman, BlackRock, Inc., to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, at 6, September 4, 2009, available at <http://www.sec.gov/comments/s7-11-09/s71109-60.pdf> ("In addition to the proposed requirements, we would also suggest that the Commission consider requiring an adviser receive some minimum level of transparency for portal and omnibus account positions. ... This data would further assist the adviser and the fund's board in monitoring each fund's client profile and adjusting portfolio liquidity appropriately."); and Letter from George C.W. Gatch, President & CEO, JPMorgan Funds Management, Inc., to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, at 5, September 8, 2009, available at <http://www.sec.gov/comments/s7-11-09/s71109-110.pdf> ("Additionally, we note that the use of certain omnibus accounts and transaction-oriented portals has reduced the ability of funds to analyze cash flows of their ultimate shareholders. We strongly urge the Commission to promote greater transparency with respect to shareholders investing through omnibus accounts and portals to help reduce the uncertainty such shareholders add to a fund's liquidity redemption analysis."). These recommendations were re-affirmed in comment letters sent by BlackRock and JPMorgan Funds Management in response to the President's Working Group Report on Money Market Fund Reform. See SEC File No. 4-619.

This process could work even more effectively if shareholder-level information is exchanged on a daily basis, as opposed to the periodic information-sharing approach currently in use as a result of Rule 22c-2.¹¹ A “same-day” or per order disclosure regiment can occur in a very cost-efficient manner through the NSCC Networking system that is used today to share account-level information between the substantial majority of mutual funds and their financial intermediaries.¹²

Full transparency within intermediary omnibus accounts will permit mutual funds to be able to monitor all investor account activity on a regular, or even real-time, basis, instead of evaluating consolidated data streams with substantial information gaps.

I agree with your statement that the next step in the regulatory process should be to ensure that money market funds have full transparency into all investment vehicles at the shareholder level. This can be accomplished by extending SEC Rule 22c-2 to money market funds as a first step and, then, over time, evaluating whether the fund industry would be better served with a same-day disclosure requirement for shareholder-level information through omnibus and other “street name” accounts.

This type of regulatory approach would permit funds to have a standardized information tool to evaluate the expected redemption needs of a fund’s underlying shareholders. Fund companies could construct analytics and predictive models—based on accurate information—to guide their decisions about fund liquidity requirements. This would dramatically improve the ability of each fund to anticipate its liquidity needs in all types of market conditions.

Please feel free to visit our website at www.investorscoalition.com for more information on omnibus accounts and the full transparency model that CMFI has advocated for many years now. You can also review CMFI’s comment letters on money market fund issues through the links provided below.¹³

¹¹ Even though a mutual fund can request daily shareholder identity and transaction information under Rule 22c-2, the substantial majority of funds use this tool only on a periodic basis.

¹² More information about how to ensure full transparency within omnibus accounts through the use of the NSCC Networking system can be obtained by reviewing CMFI’s research and previous comment letters on this subject, available on the Regulatory Tracker section of the CMFI website (<http://www.investorscoalition.com/regulatory-tracker>).

¹³ See Letter from Niels Holch, Executive Director, Coalition of Mutual Fund Investors, to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, September 10, 2009 (SEC File No. S7-11-09), available at <http://www.investorscoalition.com/sites/default/files/CMFICommentLettertoElizabethMurphy.pdf>; and Letter from Niels Holch, Executive Director, Coalition of Mutual Fund Investors, to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, January 21, 2011 (SEC File No. 4-619), available at http://www.investorscoalition.com/sites/default/files/CMFI_Comment_Letter_re_Money_Market_Fund_Reforms_1-21-2011.pdf.

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Let me know if there is any other way in which CMFI or I can be helpful to you in evaluating how best to improve the regulatory framework for money market funds. If you or your staff need to reach me, my email address is nielsholch@att.net and my direct dial is 202-624-1461.

Sincerely,



Niels Holch
Executive Director
Coalition of Mutual Fund Investors