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April 6, 2012

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

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

Dear Ms. Murphy:

Charles Schwab Investment Management, Inc. ("CSIM")[1] appreciates the opportunity to provide additional perspective on the ongoing debate over money market mutual fund reform.

CSIM is one of the largest managers of money market fund assets in the United States, with 3.2 million money market fund accounts and $160 billion in assets under management as of December 31, 2011. Approximately 85% of those assets are in sweep funds, with the remainder in purchased funds. Sweep accounts automatically invest idle cash balances while providing investors with convenience, liquidity and yield. The Charles Schwab Corporation also offers other cash options for clients, including bank deposits through Charles Schwab Bank, which currently holds more than $60 billion in deposits. The firm believes clients prefer having the option of choosing from among a variety of options for managing their cash.

CSIM is extremely concerned about reports that the Commission is considering additional proposals to regulate money market funds[2]. Of particular concern is the fact that little analysis appears to have been undertaken to analyze the effectiveness of the 2010 amendments to Rule 2a-7, which significantly enhanced the stability, resiliency and transparency of money market funds. Without an in-depth study of the impact and effectiveness of these recent reforms, we question whether the Commission has a sufficient basis upon which to take further action. We offer in this letter evidence that those reforms have been effective, and urge the Commission to undertake a larger study of the 2010 amendments before proposing additional reforms.

The 2010 Amendments to Rule 2a-7

In 2009, when amendments to Rule 2a-7 of the Investment Company Act of 1940 were first proposed, CSIM expressed its strong support for many aspects of the proposal. Indeed, in our

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[1] Founded in 1989, Charles Schwab Investment Management, Inc., a subsidiary of The Charles Schwab Corporation, is one of the nation's largest asset management companies with $219.3 billion in assets under management as of December 31, 2011. It is among the country's largest money market fund managers and is the third-largest provider of retail index funds[1]. In addition to managing Schwab proprietary funds, CSIM provides oversight for the institutional-style, sub-advised Laudus Fund family. CSIM currently manages 71 mutual funds, 25 of which are actively-managed funds, in addition to four separate account model portfolios, and 15 ETF offerings.

[2] *See*, e.g., "U.S. Sets Money-Market Plan," *The Wall Street Journal*, February 6, 2012.

comment letter of September 4, 2009, we stated that "the Commission has taken a thoughtful and measured approach to modifying Rule 2a-7, seeking to enhance investor protection while retaining the many benefits money market funds provide to retail and institutional investors alike."[3] The Commission approved the Rule 2a-7 amendments on January 27, 2010, and they went into effect on May 5, 2010.

The 2010 amendments were a specific response to the market crisis of 2008, during which a combination of unprecedented market conditions and unusually large redemption requests put pressure on numerous money market funds and contributed to a single fund "breaking the buck" by failing to hold its share price at $1.00 per share. The 2010 reforms addressed numerous issues by enhancing the quality, maturity and liquidity of money market funds, in addition to improving disclosure and oversight. Collectively, the amendments represented the most significant overhaul in money market fund regulation in more than three decades. In a Commission press release announcing the adoption of the rules, Chairman Mary Schapiro said:

> These rules will help reduce risks associated with money market funds, so that investor assets are better protected and money market funds can better withstand market crises. The rules also will create a substantial new disclosure regime so that everyone from investors to the SEC itself can better monitor a money market fund's investments and risk characteristics.[4]

As the Commission considers whether additional reforms are needed, we believe it is critically important that a careful analysis of the 2010 amendments to Rule 2a-7 be completed. The key questions are whether the risks have been reduced to an acceptable level and whether money market funds are better able to withstand market volatility and potential spikes in redemptions. The Commission then must consider whether the benefits of additional regulation are significant enough to outweigh the intended and unintended consequences to the users of money market funds. To assist the Commission with its analysis, we provide data from CSIM funds that we believe demonstrates that the 2010 Rule 2a-7 amendments have been enormously effective in strengthening money market mutual funds. We hope that the Commission finds this information useful as its deliberations continue.

The Impact of the 2010 Amendments

The 2010 amendments to Rule 2a-7 made a number of major changes to the regulatory environment for money market funds, but perhaps none were more significant than the implementation of new liquidity standards. Where there were previously no liquidity requirements at all, the amendments now require that at least 10% of a prime fund's assets be convertible to cash within one day, and at least 30% of any fund's assets be convertible to cash within one week. To determine the real-world impact of these rules, we analyzed the daily and weekly liquidity of one CSIM money market fund at various points in time, ranging from well before the 2008 financial crisis to the present. Figure 1 illustrates the results:

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[3] *See* Letter from Koji Felton, Senior Vice President and Deputy General Counsel, Charles Schwab Investment Management, Inc., to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, September 4, 2009, available at http://www.sec.gov/comments/s7-11-09/s71109-61.pdf.

[4] *See* SEC Press Release, "SEC Approves Money Market Fund Reforms to Better Protect Investors," (2010-14), January 27, 2010, available at http://www.sec.gov/news/press/2010/2010-14.htm.

Figure 1

DATE	AVG. DAILY LIQUIDITY	AVG. WEEKLY LIQUIDITY
May 2007	3.62%	7.69%
January 2008	13.78%	18.65%
October 2008	17.00%	36.57%
July 2010	17.18%	32.26%
September 2011	15.28%	34.05%
February 2012	15.93%	41.18%

Figure 1 shows that prior to 2008, a very low percentage of the fund was liquid within either one day or one week. By the time of the crisis in September 2008, the fund had rapidly increased both its daily and weekly liquidity to address actual and anticipated redemption requests. This move allowed the fund to weather the 2008 crisis with relatively little stress. The bottom three dates all reflect the environment post-2010 reforms. As can be seen, the fund has kept both the percentage of its assets that are liquid in one day and in one week well above what is required by the amendments. Between May 2007 and February 2012, the average daily liquidity of this fund increased 340%, while the average weekly liquidity increased 435%.

Another key aspect of the 2010 amendments was to reduce the requirement that the weighted average maturity (WAM) of a fund's portfolio be less than 90 days to less than 60 days. In Figure 2, we illustrate the actual WAM of the same Schwab fund as depicted in Figure 1.

Figure 2

DATE	AVG. WAM
May 2007	58 days
January 2008	53 days
October 2008	48 days
July 2010	36 days
September 2011	38 days
February 2012	34 days

Again, the clear message of Figure 2 is that the weighted average maturity of the portfolio has been significantly reduced, by 41%, and that, since the 2010 reforms were implemented, the fund has maintained a WAM well below the 60 day maximum required by the amendments.

Together these changes have made the funds significantly more resilient to volatile market conditions by requiring portfolio managers to respond proactively to changing market conditions. We believe this combination of strong regulatory oversight and prudent portfolio management enhances investor confidence and ensures that the fund could weather even the most extreme market circumstances – including circumstances that go well beyond the crisis of September 2008. To test this assertion, we examined a representative retail CSIM prime fund to determine the day and week that had the highest level of redemption requests during the 2008 financial crisis. In the days and weeks immediately following the bankruptcy of Lehman Brothers and the Reserve Primary Fund's breaking of the buck, the highest daily redemption CSIM received on this fund was 6.2%, and the highest weekly redemption was 13.0%. **The liquidity requirements implemented by the 2010 Rule 2a-7 reforms would allow CSIM funds to handle redemption requests nearly twice as large as the largest single day of redemptions**

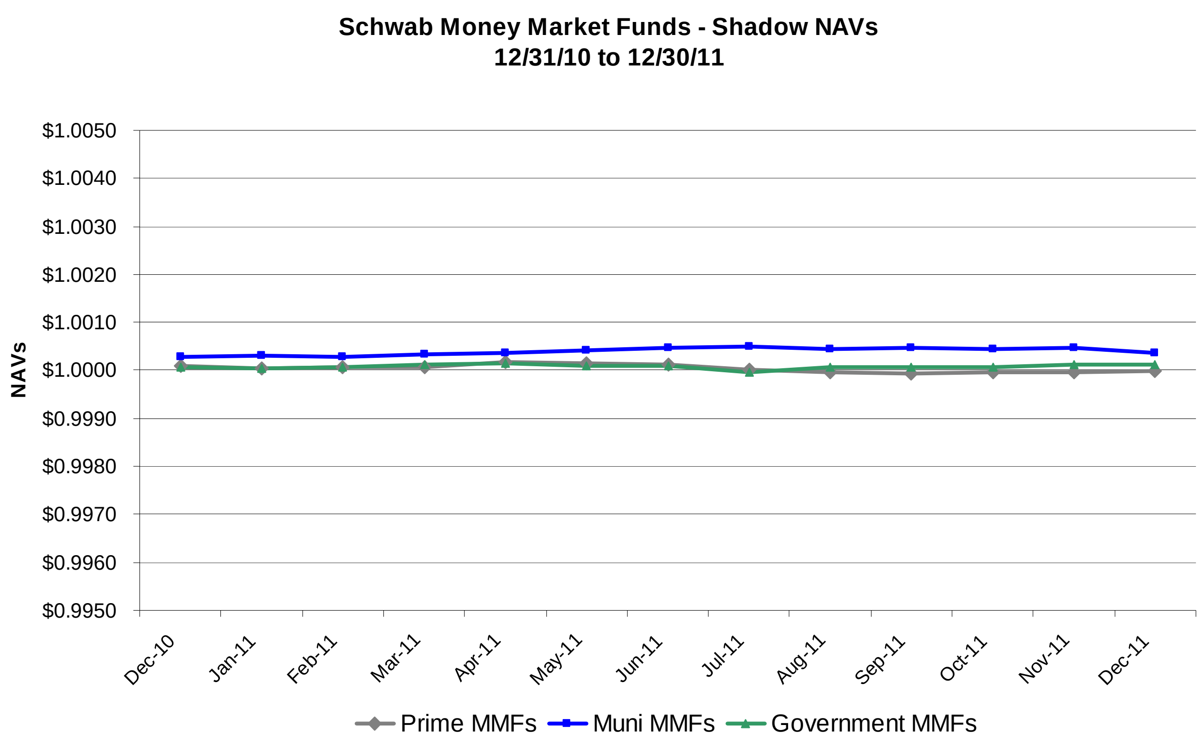
and more than twice as large as the largest single week of redemptions during the most extreme financial crisis since the Great Depression.

Behavior of MMFs and Investors Post-2010 Reforms

To illustrate further the real-world implications of the Commission's 2010 reforms, we examined the net asset values of each CSIM money market fund during the year 2011, as well as the monthly flows in and out of CSIM money market funds during the same period. Last year represented a real test of the 2010 amendments to Rule 2a-7. It was a year of unusual volatility in the markets, with several market events that caused concern to investors, notably the ongoing EuroZone crisis, the uncertainty of the U.S. debt ceiling debate in the summer, and the first-ever downgrade of U.S. debt by Standard & Poor's on August 5, 2011. As a result of these and other market events, there were several periods during 2011 in which redemption requests were higher than normal.

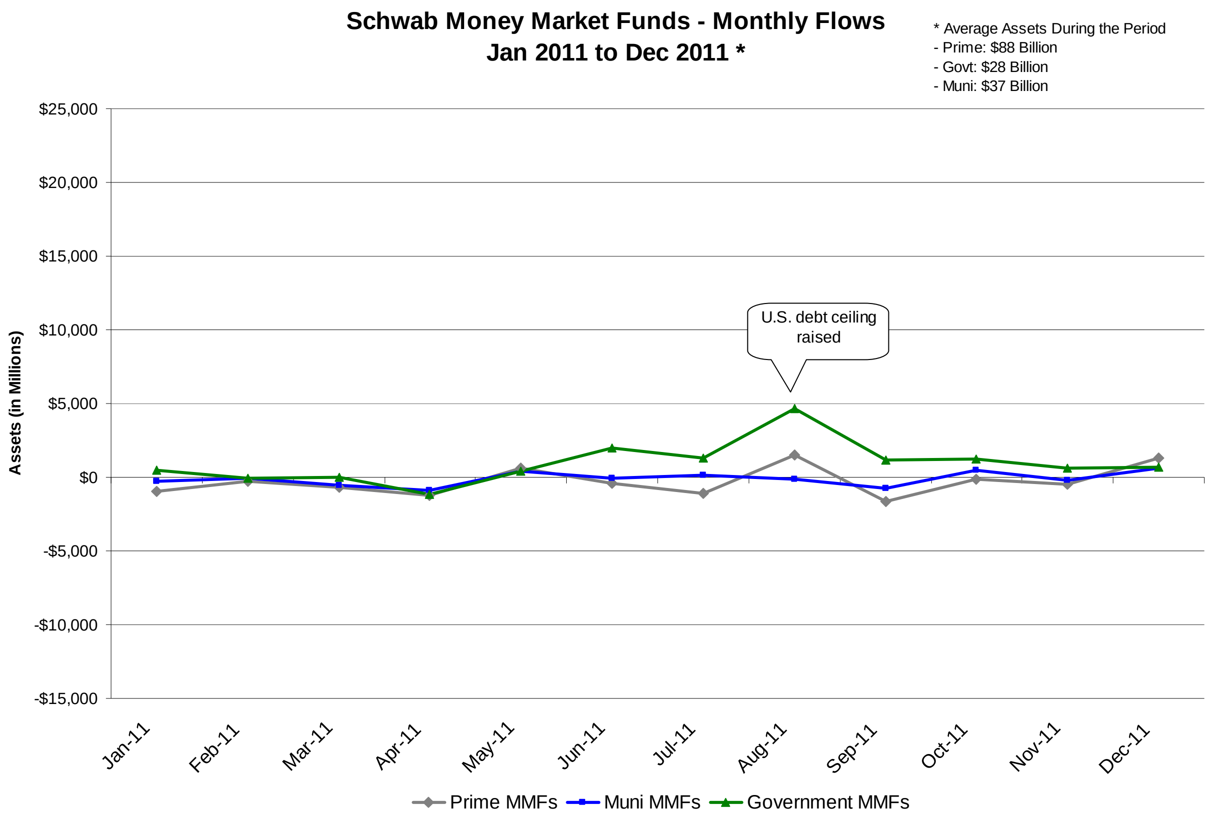
Figure 3 illustrates the average shadow NAV of all CSIM money market funds. As can be seen, the chart shows remarkable price stability, even during periods of enormous volatility. The average shadow NAV for prime funds, for example, reached its peak in April at $1.000185, and its trough in September with a price of $0.999938. The total price fluctuation from high to low, over the course of one of the most volatile market years in history, was less than two and a half hundredths of a penny.

Figure 3



In Figure 4, we illustrate the behavior of investors in our money market funds during 2011. The largest one-week redemptions during this period were out of CSIM Prime Funds and represented 1.6% of our total prime fund assets, far below the 33.1% in 7-day liquidity held by the funds. While the markets were volatile during 2011, overall CSIM money fund assets grew by more than $6 billion as individual investors sought refuge from the volatility by investing in money funds.

Figure 4



This data provides evidence that the 2010 reforms have contributed greatly to the strengthening of CSIM money market funds. During 9 of the 12 months in calendar year 2011, CSIM prime money market funds experienced outflows. But all CSIM funds were able to satisfy all redemption requests without significant impact to any of the funds' NAVs. Moreover, the amount of redemption requests was considerably lower than the fund experienced during 2008, a reflection, we believe, of the investor confidence in money funds. During a period of instability in the market, money market funds performed with remarkable stability.

Conclusion

CSIM believes that our recent experience demonstrates that the reforms of Rule 2a-7 in 2010 have accomplished and are accomplishing the goals of making money market funds more transparent, more resilient and more resistant to sudden changes in redemption behavior. Investors are demonstrating confidence in the product, not only by continuing to keep more than $150 billion in money market funds at CSIM, but by not overreacting to market volatility with large redemption requests.

CSIM also believes that some of the additional reforms under consideration at the Commission have the potential to devastate the product, reducing choice for individual investors and limiting options for short-term financing for businesses, municipal issuers and non-profit organizations. Proposals such as requiring money market funds to float their net asset values or imposing a mandatory holdback that would prohibit investors from having immediate access to all of their assets are unworkable for funds and for individual investors. Perhaps more importantly, it remains far from certain that these proposals would provide any additional benefit, beyond the substantial benefits provided by the 2010 reforms, to funds in addressing their ability to withstand redemption pressures in extraordinary markets.

Before considering such proposals, it seems only logical that the Commission undertake a rigorous, industry-wide analysis of how money market funds have behaved since the 2010 reforms were implemented. In fact, we believe doing so is a necessary step before any additional reform is contemplated. We believe that the experience of our funds is representative of the entire industry, but only a broad study can confirm that. We strongly urge the Commission to conduct a broad study of the effectiveness of the 2010 reforms before proposing any additional reforms. Should the Commission's analysis reveal specific areas of weakness or concern, we would be happy to work with the Commission staff on targeted reforms that address specific issues raised in a study.

We thank the Commission for the opportunity to add our perspective to this important debate. We would be pleased to provide additional information or respond to any questions from the Commissioners or the staff.

Sincerely,

Marie Chandoha
Executive Vice President
President, Charles Schwab Investment Management

cc: The Honorable Mary L. Schapiro, Chairman
The Honorable Luis A. Aguilar
The Honorable Daniel M. Gallagher
The Honorable Troy A. Paredes
The Honorable Elisse M. Walter
Eileen Rominger, Director, Division of Investment Management
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