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May 30, 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:

Enclosed is a copy of comments that Fidelity Investments ("Fidelity") [1] submitted to the International Organization of Securities Commissions ("IOSCO") on its consultation report on Money Market Fund Systemic Risk Analysis and Reform Options (the "Report").[2]

The Report sought comment on a variety of possible reforms to money market funds, much like the President's Working Group Report on Money Market Fund Reform, but on a global level. As we have outlined in the attached letter, U.S. money market mutual funds currently are subject to a comprehensive regulatory framework and to oversight by the Commission. We believe that the Commission's robust regulation and oversight of money funds has been very successful and the Commission's 2010 amendments to its rules governing money funds have made them even more liquid, transparent and stable than ever before.

We believe that some minimum international standard must exist for consistent treatment and management of money market funds under a global regulatory framework. However, we realize that money market fund regulation has developed in different markets based on differences in relative size and maturity of national economies. It is important for regulators to recognize these differences within their jurisdictions, which may necessitate varying regulation. Accordingly, our recommendation to IOSCO, the Financial Stability Board, and other regulators globally is to consider certain key features and principles that offer the greatest protections to

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[1] Fidelity is one of the world's largest providers of financial services, with assets under administration of $3.7 trillion, including managed assets of $1.6 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.

[2] *Money Market Fund Systemic Risk Analysis and Reform Options*, CR07/12, Technical Committee of IOSCO (Apr. 27, 2012), *available at* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD379.pdf.

investors while enabling money market funds to play an important role in the capital markets. These practices include constraints on the liquidity, maturity, diversification, and credit quality of money market funds, as well as transparency and clear governance requirements, all of which have proven effective in increasing the resilience of money market mutual funds in the U.S.

In addition, we encourage regulators to expand their focus beyond money market funds to examine investment products that remain unregulated and non-transparent in the money markets. We recommend that international regulators concentrate on introducing regulation to the various pools, structured vehicles, and other funds that offer cash investment without the strict rules under which money market funds operate.

We urge the Commission to give full consideration to these materials as it evaluates whether any additional regulation for money market mutual funds is appropriate.

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

Attachment: IOSCO Letter

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May 28, 2012

International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
28006 Madrid
Spain

Submitted via e-mail to: MoneyMarket@iosco.org

Re: Comments on IOSCO Consultation Report on Money Market Fund Systemic Risk Analysis and Reform Options

Fidelity Investments ("Fidelity")[1] appreciates the opportunity to provide comments to the International Organization of Securities Commissions ("IOSCO") on its consultation report on Money Market Fund Systemic Risk Analysis and Reform Options (the "Report").[2] Fidelity is the largest money market mutual fund ("MMF") provider in the United States, with more than US$415 billion in MMF assets under management. Funds we manage represent more than 16% of MMF assets in the United States (as of March 31, 2012) and more than 9% of MMF assets worldwide (as of December 31, 2011). More than nine million customers, who include retirees, parents saving for college and active investors, use Fidelity's MMFs as a core brokerage account or cash investment vehicle. Continued viability of MMFs is important to investors, issuers and financial markets, and it is important to us.

MMFs are subject to extensive oversight and regulation in the United States under the Investment Company Act of 1940, together with the rules promulgated thereunder. These comprehensive regulations and rules encompass portfolio construction, investor protections, extensive disclosure requirements, and broad financial reporting and recordkeeping requirements. In addition, mutual fund investors are afforded protections under state law and other federal statutes, such as the Investment Advisers Act of 1940, the Securities Act of 1933 and the Securities Exchange Act of 1934.

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[1] Fidelity was founded in 1946 in the United States and is one of the world's largest providers of financial services, with assets under administration of US$3.7 trillion, including managed assets of US$1.6 trillion. Fidelity provides 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 financial intermediary firms. FIL Limited ("FIL"), doing business as "Fidelity Worldwide Investment," is a separate company established in 1969, with offices in London and other European cities, Asia, and Australia. FIL is not a subsidiary of Fidelity nor is it controlled by Fidelity.

[2] *Money Market Fund Systemic Risk Analysis and Reform Options*, CR07/12, Technical Committee of IOSCO (Apr. 27, 2012), *available at* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD379.pdf.

As the largest advisor of MMFs in the United States, we are writing to provide our view regarding the best approach to MMF regulation worldwide. We believe that certain key features and principles offer the greatest protections to investors while enabling MMFs to play an important role in the capital markets. These practices include constraints on the liquidity, maturity, diversification, and credit quality, as well as transparency of a MMF's portfolio and clear governance arrangements for MMFs, all of which have proven effective in increasing the resilience of MMFs. We urge IOSCO, the Financial Stability Board, and other regulators globally to think about MMF regulation with these key concepts in mind:

- *Liquidity Requirements*:
  - Minimum of 10% of portfolio assets available in overnight cash (daily liquid assets).
  - Minimum of 30% of portfolio assets available within one week (weekly liquid assets).
  - Maximum of 5% of portfolio assets may be invested in illiquid securities (securities that cannot be sold or disposed of within seven days).

- *Maturity Restrictions*:
  - Maximum weighted average maturity of 60 days.
  - Maximum weighted average life of 120 days.
  - Maximum maturity per instrument of 397 days.

- *Portfolio Credit Quality Requirements and Diversification & Concentration Restrictions*:
  - Securities must represent minimal credit risk.
  - Advisor must conduct independent research and not rely on credit rating agencies.
  - Limitation of exposure to any single issuer.

- *Governance Controls*:
  - Vigorous oversight of MMF and fund advisor by fiduciary trustees.
  - Pre-ordained orderly liquidation plan for a fund in distress.
  - Use of amortized cost accounting provided that a fund is managed within strict guidelines.

- *Transparency to Investors, Regulators and Markets*:
  - Frequent disclosure of portfolio holdings and portfolio characteristics with appropriate lag.
  - Regular disclosure of market value NAV with appropriate lag.

- *Periodic Stress Testing*: fund managers must examine and report to the board a MMF's ability to maintain a stable NAV (for CNAV funds) in response to certain events.

We note that the Report seems to presume that MMFs present risks to the financial system and that additional reform is needed. We do not agree with those presumptions, which are asserted, but unsubstantiated, in the Report. Importantly, we believe that all costs and benefits should be enumerated and evaluated before regulators seek to make further structural changes to a well-functioning investment vehicle that serves the needs of short-term investors and borrowers.[3] Additional reforms should be carefully considered prior to implementation to ensure that they are consistent with creating a stronger, more resilient product, without imposing harmful, unintended consequences on financial markets or on the global economy.

QUESTION 1

Do you agree with the proposed definition of money market funds? Does this definition delimit an appropriate scope of funds to be potentially subject to the regulatory reform that the FSB could require to be put in place, with an objective to avoid circumvention and regulatory arbitrage?

The Report defines a MMF as "an investment fund that has the objective to provide investors with preservation of capital and daily liquidity, and that seeks to achieve that objective by investing in a diversified portfolio of high-quality, low duration fixed-income instruments."[4] While the definition highlights some of the key characteristics of a MMF, we recommend that IOSCO and the FSB adopt a more specific definition. We recommend the following definition: "An investment fund that has the objective to provide investors with preservation of capital and daily liquidity; that seeks to achieve that objective by investing in a diversified portfolio of high-quality, low duration fixed-income instruments; and that is subject to at least the following constraints:

- A maximum weighted average maturity of 60 days;
- A maximum weighted average life of 120 days;
- A maximum maturity per instrument of 397 days;
- A minimum of 10% of portfolio assets available in overnight cash (daily liquid assets);
- A minimum of 30% of portfolio assets available within one week (weekly liquid assets)."

With respect to the appropriate scope of funds to be subject to the regulatory reform, the Report indicates that the target products are "investment funds marketed as 'money market funds' as well as collective investment schemes (CIS) which use close terminologies for their marketing (*e.g.*, 'cash' or 'liquid' funds) or which are presented to investors and potential investors as having similar investment objectives,"[5] and that the, "definition is not intended to cover non-MMFs (e.g. short-term bond funds)."[6] We agree with this approach to exclude short-term bond funds and support a definition that only include funds that use "cash" or "money market" in their fund name.

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[3] We note that three of the Commissioners of the U.S. Securities and Exchange Commission recently requested that IOSCO withdraw the Report for further consideration and stated that the Report does not reflect the views and input of a majority of the five-member Commission. The statement from Commissioners Aguilar, Gallagher and Paredes is available at: http://www.sec.gov/news/speech/2012/spch051112laatapdmg.pdf.

[4] Report at 1.

[5] *Id.* at 3.

[6] *Id.*

We think investors will benefit from having a common definition of MMFs that is well understood and clearly regulated. That said, as daily participants in the broader money markets, we remain concerned with the narrow regulatory focus on MMFs. First, the Report does not critically examine the Financial Stability Board's (FSB) assertion that MMFs are part of "shadow banking." In fact, MMFs are the antithesis of shadow banking because portfolio characteristics and holdings are transparent to investors – certainly much more so than actual banks. Second, as the FSB notes, even if MMFs were included in a definition of shadow banking, more than 90% of shadow banking assets are invested outside of MMFs in unregulated pools, funds and other vehicles.[7] In particular, the FSB estimates the size of MMFs globally at US$4.8 trillion while calculating the shadow banking system at more than US$60 trillion, as of 2010.[8] We recognize that the FSB asked IOSCO to "examine regulatory action related to MMFs", but believe that regulators would do much more to reduce the possibility of systemic risk in the money markets in particular (and capital markets more generally) by focusing first on these unregulated areas before trying to force structural changes onto MMFs. Thus, we think more focus should be placed on the FSB's third workstream that "will examine shadow banking entities other than MMFs" as those unregulated vehicles merit more attention.[9]

QUESTION 2

Do you agree with the description of money market funds' susceptibility to runs? What do you see as the main reasons for this susceptibility?

The Report states that "because investors have come to regard MMFs as extremely safe vehicles that meet all withdrawal requests on demand (and that are, in this sense, similar to bank deposits), MMFs have attracted highly risk-averse investors (possibly more so in the case of constant-NAV funds) who are particularly prone to flight when they perceive the possibility of a loss."[10] The Report, however, does not offer any data to support this conclusion. Furthermore, we note that VNAV funds in Europe in fact experienced similar redemption pressures during the financial crisis.[11]

Investors buy and redeem MMF shares for many reasons, ranging from a fund's yield and fees to changes in an investor's personal circumstances and investment strategies. During the financial crisis of 2007-2008, which was a time of unprecedented financial instability that resulted in a run

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[7] Financial Stability Board, *Shadow Banking: Strengthening Oversight and Regulation*, October 27, 2011, available at www.financialstabilityboard.org/publications/r_111027a.pdf.

[8] *Id*. at 8-9.

[9] *Id*. at 4-5.

[10] Report at 6.

[11] *See* Stephen Jank and Michael Wedow, *Sturm und Drang in Money Market Funds: When Money Market Funds Cease to Be Narrow*, Deutsche Bundesbank Discussion Paper, Series 2: Banking and Financial Studies, No. 20/2008, [hereinafter Jank and Wedow] *available at*, http://www.bundesbank.de/download/bankenaufsicht/dkp/200820dkp_b_.pdf.

on the commercial paper market, MMFs actually served as a safe haven for investors. In fact, MMF assets increased by nearly US$1.0 trillion during this period, demonstrating investor confidence in MMFs.[12] Moreover, redemptions out of MMFs in 2008 were not so much a run as a rapid reallocation of MMF holdings from non-government "prime" MMFs to government MMFs. As a result, prime MMFs had to sell much of the commercial paper they held to meet redemptions, which created pressure on banks and the bank commercial paper market.

In 2010, the U.S. Securities and Exchange Commission ("SEC") adopted amendments to Rule 2a-7, the rule governing U.S. MMFs, that we believe have made MMFs less susceptible to runs. U.S. 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, U.S. MMF boards now have the power to suspend redemptions in a fund, thereby facilitating orderly liquidation. All of these changes reduce the likelihood that U.S. MMFs will be forced to sell securities in times of market stress, which in turn reduces the risk of contagion.

While much remains to be learned about the effects of the SEC's new regulation, a significant market test of the regulation occurred in the summer of 2011. During this period of extreme market volatility caused by the debt crisis in Europe, the U.S. debt ceiling showdown and the downgrade of the U.S., MMFs were able to satisfy large redemptions, without suffering negative impacts to NAVs.

Two key changes from the 2010 changes help U.S. MMFs successfully navigate those turbulent times. First, the funds have massive liquidity positions due to the daily and weekly liquidity requirements. Second, because of the frequent disclosure of portfolio holdings, investors had transparency into every security held by each U.S. MMF.

QUESTION 3

Do you agree with the description of the role of money market funds in short-term money markets? To what extent this role may create risks for short-term funding markets and their participants? Are there changes to be taken into account since the 2007-2008 experience? What are the interdependencies between banks and MMFs and the risks that are associated?

As the Report states, U.S. MMFs are important providers of short-term funding to financial institutions, non-profit organizations, businesses and governments. Issuers of short-term debt instruments include governments and their agencies, corporations, hospitals, colleges, banks, and U.S. state and local municipalities. Investors in U.S. MMFs include corporations, municipalities, pension plans, trust funds, hospitals, universities, and individuals. Investors are attracted to U.S. MMFs because the funds provide a stable, constant NAV and daily access to funds, while also offering a competitive yield versus bank deposits and direct investments.

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[12] ICI Statistical Data.

U.S. officials recognized this fact in the Report of the President's Working Group of Money Market Fund Reform Options ("PWG Report"), stating that "MMFs are the dominant providers of some types of credit, such as commercial paper and short-term municipal debt, so a significant contraction of MMFs might cause particular difficulties for borrowers who rely on these instruments for financing."[13]

The Report also discusses U.S. MMFs' exposure to European banks both before and after the Eurozone sovereign debt crisis in the summer of 2011, noting a 33% decrease in the funds' exposure.[14] The Report goes on to conclude that "[t]he withdrawal of this U.S. MMF funding over a relatively short time period had several important implications for the sourcing of dollar-denominated funding of European banks and their dollar-denominated operations. Tensions on EUR/USD cross-currency basis swaps over the summer of 2011 also led central banks to announce dollar liquidity measures..."[15] We disagree with the suggestion that the exposure MMFs had to European banks ultimately led central banks to modify their practices. First, banks have acknowledged their exposure to European debt (though without providing specific holdings information) and, like MMFs, reduced their exposures to avoid risk. Second, the reason the Report was able to provide such precise information on MMFs' exposure is because U.S. MMFs must comply with portfolio holdings disclosure requirements, which make this information publicly available. Banks, however, do not have the same disclosure requirements and, consequently, we do not know how much they owned. Third, the Report draws its conclusion without providing any proof or data to demonstrate it. We urge the regulators to refrain from making policy decisions surrounding MMFs without reliable empirical data or evidence. We strongly encourage securities regulators from all IOSCO jurisdictions to undertake an empirical analysis of MMFs structures in their region. The Report's focus on the most transparent type of MMF, the U.S. MMF, will likely lead to inefficient and ineffective regulatory responses.

QUESTION 5

Do you agree with the description of MMF benefits? Are there other benefits of MMFs for investors than those outlined in this presentation? What are the alternatives to MMFs for investors? How has investor demand for MMFs recently evolved? What would lead investors to move away from MMFs to other financial products?

We fully agree with the Report's description of MMF benefits and the funds' importance for investors. As the Report notes, "MMFs are especially important for large institutional cash pools which have 'outsourced' all or a portion of their cash management operations to MMFs as a way

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[13] Report of the PRESIDENT'S WORKING GROUP ON FINANCIAL MARKETS, MONEY MARKET FUND REFORM OPTIONS (Oct. 2010) at 21, *available at* http://www.treasury.gov/press-center/press-releases/Documents/10.21%20PWG%20Report%20Final.pdf.

[14] Report at 7.

[15] *Id.*

to manage cash more efficiently and to find investment alternatives to insured bank deposits or direct holdings of securities."[16] We believe that this example demonstrates the importance to investors of having an alternative to bank deposit products to invest cash balances.

Fidelity recently conducted research into the views of retail and institutional U.S. MMF investors.[17] Retail and institutional investors overwhelmingly indicated that they first and foremost invest in U.S. MMFs for safety of principal and liquidity, while yield is a secondary consideration. Retail investors revealed that they use U.S. MMFs as a complement to bank deposit products and not as a replacement for these government-guaranteed vehicles.

In addition, a vast majority of retail and institutional U.S. MMF investors indicated a preference for keeping the stable $1 NAV and any MMF reform measures that would reduce liquidity or require the NAV to float could cause a significant number of retail and institutional investors to shift assets out of U.S. MMFs into banks and other short-term investment vehicles. We anticipate that this would result in even more concentration of cash in banks, which would put even greater strain on an already overextended U.S. federal guarantee system. Beyond bank deposit products, investors would be forced to look at other investment instruments that have greater risk and do not provide the same transparency and comprehensive regulatory protections as MMFs. These alternatives include investing directly in short-term instruments or certificates of deposit. Greater bank deposits would increase the bank concentration risk for the global economy. A rise in direct investments of money market securities would cause short-term investors to have non-professionally managed portfolios that would be less diversified, less regulated and poorly optimized as compared to MMFs. The risk that assets will shift from more regulated jurisdictions, companies and products to those that are less regulated is widely acknowledged. The PWG Report highlights this risk in discussing the unintended consequences and limited effectiveness of partial MMF reforms.[18]

Other options that we believe would lead investors to move away from U.S. MMFs include capital requirements and redemption restrictions, which we discuss in our responses to questions 13 to 15.

QUESTION 6

Do you agree with the proposed framework comparing money market funds and bank deposits? Are there other aspects to consider?

Banks and MMFs are fundamentally different. Each has its own business model, risk profile, risk management approach, and set of key constituents. We have set forth below a list of some of the ways in which banks and U.S. MMFs differ:

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[16] *Id.* at 9.

[17] Fidelity 2011 Survey, *available at* http://www.sec.gov/comments/4-619/4619-116.pdf.

[18] *See, e.g.*, PWG Report at 4, 6, 8, 21, and 33 n.29.

Transparency

- MMFs are extremely transparent investment vehicles that must disclose all of their holdings monthly, including par amount, value, maturity date and coupon rate. Banks are opaque and do not disclose all of their assets or their securities portfolios, do not mark to market all of their assets, and engage in off balance sheet transactions.

Liquidity

- MMFs have daily and weekly liquidity requirements. Until Basel III is fully implemented, banks do not have liquidity requirements.
- No more than 5% of a MMF's assets may be in illiquid securities, while banks own real estate and other very illiquid assets.

Portfolio Composition

- MMFs can buy only very short dated high quality U.S. dollar denominated securities, while banks can buy any quality, even distressed quality, long dated securities in any currency.
- MMFs must have a weighted average maturity of no more than 60 days and a weighted average life of no more than 120 days. Banks are not restricted with respect to the maturity of their securities portfolio or other assets.
- MMFs do not engage in leverage, while banks are consistently highly levered.
- MMFs do not purchase complex swaps and other derivatives, while banks buy and sell credit default swaps, options and synthetic securities and take long and short positions.

Risk and Return

- MMFs pass through market rates to their shareholders, while banks try to earn their cost of capital by investing in complex securities.
- While MMFs are managed to experience no losses, banks expect to incur losses in their loan books.
- MMFs are required to stress test their portfolios regularly, while large banks are uniformly subject to stress tests.

Customer Expectations

- MMFs in the U.S. are not guaranteed by the U.S. government or reliant on the government's safety net, while bank deposits up to US$250,000 are guaranteed by the U.S. Federal Deposit Insurance Corporation.
- Risk and return preferences between MMF shareholders and bank depositors differ. MMF shareholders make a conscious decision to forego deposit insurance in return for the potential to earn the higher, market-based returns that these funds typically provide. Bank depositors make an equally informed decision to generally accept lower,

administered rates in order to benefit from the certainty provided by federal deposit insurance.

Alignment of Interests

- In the MMF business, shareholders and customers are one and the same – a single constituent in a narrowly focused product. This ensures that economic interests of shareholders and the adviser are closely aligned. Conversely, there are multiple constituents in the banking business with varying, and at times opposing, economic interests that can lead to trade-offs and less optimal outcomes for some constituents.
- The MMF business model involves fee-based fiduciary management of client interests in a diversified pool of high quality assets. The banking business model, on the other hand, involves putting bank capital at risk via maturity transformation and credit extension.

QUESTION 8

What is the importance of ratings in the MMF industry? What is the impact of the monitoring function of credit rating agencies for MMFs? What are the potential systemic risks associated with ratings in the MMF industry?

The use of ratings is a clear, objective standard through which regulators can establish MMF eligibility standards and distinguish between first and second tier securities. Because this objective standard is applied consistently across all MMFs in the United States, it provides protection for investors, predictability for issuers, and general stability for the money market industry.

Fidelity shares the view of various regulators and market participants that MMF boards (or their delegates, as applicable) should not merely rely on credit ratings to establish whether a particular security or issuer represents an appropriate investment for MMFs, and we believe that current U.S. regulations already appropriately prohibit such reliance. The ratings requirement simply encourages a minimum and uniform level of credit quality of securities held by U.S. MMFs across the money market industry. The minimal credit risk requirement provides a strong standard of credit-worthiness that cannot be based on ratings, which helps ensure that ratings do not play an overly significant role in determining which securities may be purchased by a U.S. MMF.

We believe that the objective standard for using credit rating agencies has been an effective means of ensuring that U.S. MMFs continue to be a safe, transparent and predictable vehicle for investors and we support maintaining this standard.

QUESTION 9

Are existing rules adequately addressing risks regarding the management of collateral from money market funds? What are the risk management processes currently in place with regard to repo and securities lending transactions? Do MMFs present unique issues

with regard to their use of repo markets or would general policy recommendations that the FSB may issue regarding repo markets be applicable?

With leadership from the Federal Reserve Bank of New York, a Task Force on Tri-Party Repo Infrastructure Reform was formed in 2009 to explore methods that might reduce potential risk in the tri-party repo (or repurchase agreement) market. That group produced a number of recommendations with the goals of reducing the amount of intraday credit provided by the two clearing banks in the repo market and helping MMFs and other repo buyers better prepare for the possibility of a repo counterparty default. The Task Force has made proposals tied to these recommendations that will result in significant changes to the tri-party repo market.[19]

First, the Task Force recommended, and the banks adopted, a policy that delays the timing of the daily unwind of cash and collateral on the tri-party repo platform. This is effective in assuring that lenders on the platform can identify the collateral backing their loans at any given time and reduces the length of time dealers and clearing banks are exposed to each other.

Second, a process of auto-substitution has been adopted, which allows dealers to substitute collateral from tri-party repo deals without having to unwind the entire transaction. This program assures that any securities moved out of a collateral position are replaced with cash or collateral of equal or greater value than the collateral that the borrower removes.

Third, tri-party repo trades are now subject to a process of three-way confirmation between investors, dealers and clearing banks that ensures that all parties have a clear understanding of the terms of the loan and the underlying collateral.

Fourth, monthly reporting activity in the tri-party repo market is now available online and encompasses the size of the market, collateral breakdowns, dealer concentrations, and margin levels. All of this information provides further transparency into the repo market.

We note that U.S. MMFs are distinct from other lenders in the repo market. U.S. MMFs only enter into repos with counterparties that represent minimal credit risk, regardless of the collateral. Regulations require the funds to evaluate all counterparties and only permit them to enter into transactions with those counterparties that meet high minimal risk standards, which ensures that the funds deal only with the highest quality counterparties.

QUESTION 12

Do you agree with the benefits of imposing a mandatory move from CNAV to VNAV, which would amount to prohibiting the use of amortized cost valuation for any securities held by a MMF? Are the challenges identified in the US context valid in other jurisdictions currently authorizing CNAV funds? How could these challenges be overcome?

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[19] Report, Task Force on Tri-Party Repo Infrastructure, Payments Risk Committee (May 17, 2010), *available at*, http://www.newyorkfed.org/prc/report_100517.pdf, and Final Report, Task Force on Tri-Party Repo Infrastructure, Payments Risk Committee (February 15, 2012), *available at* http://www.ny.frb.org/tripartyrepo/pdf/report_120215.pdf.

We do not support imposing a mandatory move from CNAV to VNAV for MMFs. Such a move would result in prohibiting the use of amortized cost valuation for securities held in MMFs, which would reduce investor choice for investment of cash. Imposing a VNAV on MMFs will create, rather than reduce, systemic risk by increasing concentration of short-term assets in the banking system. We are not aware of empirical evidence to support the belief that in a period of market turmoil, funds with VNAVs would be at lower risk of significant redemptions from shareholders. In fact, during the financial crisis, VNAV funds in Europe experienced redemption pressures similar to CNAV funds.[20] Our research does show that a significant percentage of U.S. MMF shareholders, particularly institutional shareholders, would redeem holdings in these funds if they adopted a VNAV.[21]

Fidelity believes that, as a VNAV is hugely unpopular with the millions of individual and institutional MMF shareholders, mandating a shift to VNAV would result in massive fund outflows. With a VNAV, investors could expect an increase in tax, accounting, and record-keeping requirements. Moving to a VNAV would limit the number of available investment product options, potentially resulting in higher costs and lower returns for investors. This would decrease choices for short-term savers and limit their opportunity for market returns on cash. Moreover, under many U.S. state laws and regulations, municipalities, insurance companies and others are authorized to invest in MMFs only if the funds maintain a CNAV. Sponsors of retirement plans also may be reluctant to include VNAV MMFs as a cash investment option in group retirement plans. Finally, short-term financing for corporations, financial institutions and governments will be more expensive and less available if MMFs are forced to convert to a VNAV. MMFs serve as a reliable source of direct short-term financing for the U.S. Government, domestic and foreign banks, financial and non-financial corporations and municipal issuers (including state and local governments in the U.S. as well as universities and hospitals). The decrease in investor demand for MMFs likely to result from moving to a VNAV would significantly limit the availability of this important source of short-term funding. This will result in higher borrowing costs that will ultimately be passed through to taxpayers and consumers, leading to negative impacts across the U.S. and global economies.

Fidelity recommends that further discussions on MMF reform exclude consideration of this option. We recognize that the European market has developed VNAV MMFs that invest in longer-term securities. These funds are more similar to short-term bond funds and are available to investors if such an investment meets their needs. Mandatory conversion of CNAV short-term cash investment funds to a VNAV structure is not a reform option that Fidelity supports.

QUESTION 13

What would be the main effects of establishing a NAV-buffer? What would be the most practical ways to implement such buffers? Should various forms of NAV- buffers be allowed or should regulators favor a single option? What would be a realistic size of the

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[20] *See* Jank and Wedow.

[21] *See* Fidelity 2011 Survey.

NAV-buffer and what would be the impact in terms of costs for running MMFs? In the case of subordinated shares, could the option be seen as creating a securitization position, with associated requirements in terms of retention?

With respect to the various NAV buffer structures under consideration, we have particular concerns with the subordinated share class option. As the Report notes, "fund sponsors may be unable to raise enough capital to purchase the shares, if required, or to make obligatory capital calls, which would impair the proper functioning of the subordinated share mechanism to stem systemic risk."[22] Fund advisors could not pass through the costs of the buffer to shareholders without shareholder approval. The likelihood of shareholders approving a fee increase for this purpose is unlikely and, instead, we believe that shareholders will redeem out of MMFs and invest in alternative products. Consequently, a subordinated share class model may force MMF advisors to exit the business of managing MMFs.

It is highly speculative that any market will develop for such subordinated shares. Even if such market demand existed initially, we believe it is very unlikely that such a market would be deep and liquid in times of market stress. In other words, any market that developed would be quite fragile, and likely to cease functioning when it is most necessary. This approach essentially would redirect a stable stream of income from a MMF that invests in high-quality, low maturity instruments with no leverage to levered investors seeking a significant return on longer-term investments. Such an approach does not seem to contribute to systemic stability.

In addition, the ability to initially issue a subordinated share class will require significant infrastructure and expense, which will create a drag on the fund's yield. Larger fund advisors will have an advantage over smaller advisers because these costs can be more readily absorbed by larger funds. Furthermore, the secondary market, if any develops, will not only favor strong risk managers, but will also favor brand names and larger issues that are perceived to have greater liquidity. Finally, this structure also invites potential conflicts between senior and subordinated shareholders, which is further complicated if the fund advisor invests in the subordinated shares. Fidelity does not support a subordinated share class model.

QUESTION 14

Do you agree with the description of the challenges associated with the establishment of a private insurance? Are there ways to address them?

We agree with the challenges that the Report identifies with respect to establishing private insurance for MMFs. Capacity and cost are the two primary challenges inherent in such a proposal. As the Report states, "[r]isk-based pricing would be instrumental to the viability of the MMF insurance system, but might be difficult to achieve in practice."[23] We believe that the cost of insurance would make MMFs unattractive for investors and unsustainable for MMF advisors.

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[22] Report at 17.

[23] *Id.* at 19.

For these reasons, Fidelity does not support an insurance requirement (either private or government) for MMFs.

QUESTION 15

Do you agree with the description of the challenges and potential second-round effects of a conversion of MMFs into special purpose banks? Are there ways to circumvent those effects?

The Report also raises the possibility of converting MMFs into special purpose banks subject to banking oversight and regulation because of "the functional similarities between MMF shares and bank deposits and the risk of runs on both. As banks, MMFs could have access to government insurance and lender-of-last-resort facilities and would be subject to a well-understood regulatory framework for the mitigation of systemic risk that may include bank-like regulation such as capital reserve requirements and insurance coverage."[24] We believe that transforming MMFs into banks would decrease short-term funding options for governments, corporations and non-profit organizations. Moreover, this option would increase costs and introduce greater risks to the U.S. financial system by creating homogeneity in the financial regulatory scheme and reliance on the bank business model for all short-term cash investments. More than 430 banks have failed in the U.S. alone since the financial crisis in 2008 despite the oversight support suggested under this model and the extraordinary steps taken by the U.S. government to support the banking industry in response to the crisis.[25] As compared to banks, MMFs are an investment product that provides an alternative cash option for investors and a diversified funding source for issuers. As noted in the response to question 6, there are significant differences between banks and MMFs. Fidelity believes that this differentiation benefits the financial system as banks and MMFs both have important, but distinct, roles. As a result, we would not support converting MMFs into special purpose banks.

QUESTION 16

What are the main advantages and drawbacks of two-tier system(s)? Would it be sufficient to address the risks identified? What could be the conditions applicable to CNAV funds? What could be the potential impact on investor demand? Should certain funds be exempted from certain risk limiting conditions due to their holdings?

Fidelity does not support any form of a mandatory VNAV structure for MMFs.

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[24] *Id.* at 20.

[25] Federal Deposit Insurance Corporation, Failed Bank List, *available at* http://www.fdic.gov/bank/individual/failed/banklist.html (last visited May 23, 2012).

QUESTION 17

Do you agree with the suggestion that reserving CNAV funds for only certain investors (i.e. retail or institutional investors) would face practical challenges and would not be sufficient to address the risks identified?

Fidelity does not support any form of a mandatory VNAV structure for MMFs.

QUESTION 18

Regarding the different structural alternatives described in Section 1, what are the benefits and drawbacks of the different options described above? How could they be prioritized? What are the necessary conditions for their implementation?

We do not support the options described in Section 1.

QUESTION 20

Should the use of amortized cost accounting be limited, and, if so, how? Are general restrictions on funds' WAM or WAL preferable? Are there practical impediments (e.g. availability of prices) to imposing stricter requirements on the use of amortized cost accounting than current existing regimes? What would be the potential effects on MMFs' investment allocation and short-term funding markets? What monitoring should be implemented? What conditions are advisable? In particular, please describe the rationale, feasibility and effects of limiting the residual maturity of instruments to [30-60-90-other] days. What materiality threshold could be proposed?

Limiting the use of amortized cost accounting to only a portion of the assets in a MMF would remove the benefits at the portfolio level and be similar to the imposition of a VNAV requirement. Securities regulators from many jurisdictions have become comfortable with the use of amortized cost accounting based on the risk limiting features of MMFs, including the high credit quality of the instruments, short maturity of the portfolio, diversification of the exposures and transparency of the holdings. Applying amortized cost accounting to only a portion of a MMF is not consistent with the approach regulators have taken and Fidelity does not support it.

QUESTION 21

What are the main benefits and drawbacks of imposing global liquidity restrictions? Should there be restrictions regarding (daily/weekly) liquid assets as well as regarding illiquid assets? Are global definitions of (daily, weekly) liquid and illiquid assets practical? Are there other conditions to consider (e.g. regarding the concentration of assets)?

We believe that mandatory liquidity requirements for MMFs are appropriate and a best practice for MMF regulation. As noted in the Report, "[o]ne of the most significant amendments to the U.S. regulation of money market funds adopted in 2010 was the imposition of liquidity requirements . . . These restrictions are understood to have had far reaching implications."[26] Notably, U.S. MMFs endured the volatility of the world markets during the summer of 2011 and handled massive redemption requests during both the Eurozone debt crisis and the U.S. federal debt ceiling impasse without disruptions. We recommend that regulators consider the SEC's reforms and, specifically, urge them to adopt 10% daily and 30% weekly liquid asset minimums. Most U.S. MMFs in fact hold liquidity levels well above the 10% and 30% minimums and we believe that these changes have increased the resilience of MMFs.

QUESTION 22

To what extent are managers able to "know their customers" and anticipate redemptions? Are there practical obstacles for managers to "know their customers" (e.g., in the case of platforms, omnibus accounts) and how could they be addressed? What are the main features of the funds' investor base to take into consideration from a liquidity risk management point of view? Should conditions, e.g., regarding the concentration of the investor base be considered? Would this requirement allow fund managers to better understand and manage the risks to which the fund is exposed?

"Knowing your customer" is a key aspect of liquidity management for MMFs. We support regulation of MMFs that includes an obligation to evaluate customer cash flows at appropriate intervals. As the Report notes, U.S. MMFs must hold securities that are sufficiently liquid to meet reasonably foreseeable redemptions. To satisfy this requirement, MMFs must adopt policies and procedures to identify the risk characteristics of large shareholders and anticipate the likelihood of large redemptions. Depending upon the volatility of cash flows and shareholder redemptions, this may require a fund to maintain greater liquidity than would be required by the daily and weekly minimum liquidity requirements.

Knowing more about a fund's underlying investor base would enable fund managers to anticipate outflows, manage maturity risk more effectively, and maintain sufficient liquidity to satisfy redemptions. However, there are limits to a MMF's ability to know its customers. The challenge, particularly in the U.S., is that many MMF accounts are not maintained directly with the fund's transfer agent. Broker dealers, banks, trust companies, retirement plan administrators and other intermediaries may establish "omnibus accounts" with a fund, in which they aggregate shares held on behalf of their underlying clients or beneficiaries. The allocation of shares and trades in an omnibus account among underlying accountholders is completely opaque to the fund and its advisor. The ability of fund managers to know their customers and anticipate redemptions, would improve significantly if omnibus accounts were required to disclose information about the underlying accountholders

QUESTION 23

Would such a liquidity fee generate a pre-emptive run? If so, when and are there ways that pre-emptive run risk could be reduced? How would shareholders react to the liquidity fee?

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[26] Report at 26.

Would it cause shareholders to transfer their MMF investments to alternative investment products? If so, which types of shareholders are most likely to make such transfers and to which products and will such a shift in investment create new systemic risks or economic, competitive, or efficiency benefits or harm? Would MMF board directors be able to impose a liquidity restriction despite potential unpopularity with investors and competitive disadvantage imposed on the fund? At what level such a liquidity trigger should be set?

Fidelity opposes restrictions on redemptions that impair one of the primary features that attract investors to MMFs – the ability to redeem all shares on a daily basis. We have conducted research surveying both retail and institutional investors on their reactions to the possibility of a liquidity fee on MMFs. Fidelity retail and institutional investors overwhelmingly viewed protecting the principal of, and maintaining ready access to, their investments as the most important characteristics of MMFs. Accordingly, investors reported that they would invest less, or stop investing altogether, in MMFs if there was a possibility of being subjected to a redemption restriction.[27] Given the importance investors place on the liquidity feature of MMFs, it is not surprising that investors reacted so negatively to a potential rule that would restrict access to principal. In addition, it is important to note that the operational challenges and costs of implementing redemption restrictions are extensive and extend beyond the control of MMFs and into the realm of service providers and intermediaries.

QUESTION 24

How would shareholders react to a minimum balance requirement? Would it cause shareholders to transfer their MMF investments to alternative investment products? If so, which types of shareholders are most likely to make such transfers and to which products and will such a shift in investment create new systemic risks or economic, competitive, or efficiency benefits or harm?

A minimum balance requirement is a form of a redemption restriction. Under this model, investors would have a minimum account balance calculated daily. Our understanding is that the amount of this balance would be some percentage multiplied by the shareholder's average balance over a prior set period. Shareholders seeking to redeem all or some of the minimum account balance would be required to wait a period of time before such a redemption could occur. As described in our response to question 23, Fidelity opposes restrictions on redemptions for MMF investors.

QUESTION 26

What are the benefits and drawbacks of allowing redemptions-in-kind? Are there practical impediments to implementing this option (e.g. some portfolio securities cannot easily be divided)?

Fidelity believes that making redemptions-in-kind mandatory is an unworkable approach and would raise a number of troubling fiduciary responsibility issues for MMF boards and advisors.

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[27] Fidelity 2011 Survey at 5.

As the Report notes, "operationally, some securities are non-transferable in certain jurisdictions, while other assets are sold in large blocks and are indivisible."[28] That statement actually understates the case. First, many MMFs have large positions in repurchase agreements, which are two-party transactions that are inherently non-transferable without consent of the other party. Second, advisers may be able to transfer only the most liquid securities, leaving a less liquid portfolio for shareholders who did not redeem. Moreover, as uneven positions are transferred to redeeming shareholders, the remaining shareholders would be left with odd lot positions that are more difficult and more expensive to trade. When these positions are sold, there is a risk of undesirable, distressed market repricing. The consequences to remaining shareholders call into question whether a fund adviser is meeting its fiduciary duty by transferring out certain securities in kind. Of course, MMFs have the ability to execute redemptions in kind today. Those transactions can be in the best interest of the fund and its shareholders under certain circumstances. Therefore, we do not support mandatory redemptions in kind.

QUESTION 27

What are the benefits and drawbacks of requiring gates in some circumstances? Which situations should trigger gates to be imposed to redeeming investors? Would it be enough to permit gates in some jurisdictions? Would there be a risk of regulatory arbitrage?

As described in our response to question 23, Fidelity opposes restrictions on redemptions for MMF investors.

QUESTION 28

Do you agree with the suggestion that the establishment of a private liquidity facility faces challenges that make the option unworkable or do you see ways to circumvent these challenges?

We agree that the establishment of a private liquidity facility faces challenges that make the option unworkable largely because, as the Report notes, "for a liquidity facility to be effective, its structure and operations would have to be carefully designed to ensure that the facility has sufficient capacity during a crisis and that the facility itself is not vulnerable to runs. Sufficient capacity likely would only be possible through discount window access. We do not support establishing a private liquidity facility.

QUESTION 29

What are the main benefits and drawbacks of the provisions included in current regimes referring to external CRA ratings? Are there alternatives to credit ratings that reasonably can be substituted?

The minimal credit risk standard required for MMFs is an appropriate regulatory approach to limiting risk for MMF investors. As described in our response to question 8, Fidelity believes

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[28] Report at 31.

that the objective standard for using credit rating agencies has been an effective means of ensuring that U.S. MMFs continue to be a safe, transparent and predictable vehicle for investors.

QUESTION 30

What are the benefits of MMF ratings? Should a greater differentiation between MMF ratings be encouraged? To what extent are investors restricted in their investments to 'Triple-A' rated funds? What alternatives could there be (e.g. from other third parties)? What initiatives could be proposed to educate investors about MMF ratings?

Fidelity does not believe that MMFs should be required to carry a rating. Some investors may request that a MMF be rated and a MMF advisor can evaluate that request, but a regulatory requirement is not appropriate.

QUESTION 32

Do differences between jurisdictions require different policy approaches or would a global solution be preferable, notably to ensure a global level playing field?

Fidelity recognizes that differences in relative size and maturity of national economies may necessitate varying regulation. Nonetheless, we believe that some minimum international standard must exist for consistent treatment and management of MMFs under a global regulatory framework. We recommend that regulators consider some of the existing key features and principles that we deem as best practices for MMFs, which we describe in the introduction to our responses. In addition, we encourage the regulators to codify these features and principles by including them directly in the definition of a MMF, as we have proposed in our response to question 1. Finally, we reiterate our encouragement for regulators to expand their focus beyond money market funds to examine investment products that remain unregulated and non-transparent in the money markets. Rather than concentrating effort on removing the essential features of MMFs that have made these fund a successful innovation in the financial markets (seeking stable NAVs and providing ready liquidity), we urge international securities regulators to bring regulation for the first time to the numerous pools, structured vehicles and other funds that offer cash investment without the strict rules under which MMFs operate.

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We appreciate the opportunity to comment on the consultation paper. Fidelity would be pleased to provide any further information or respond to any questions that the IOSCO Staff may have.

Sincerely,

/s/ Scott C. Goebel

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