IMMFA

INSTITUTIONAL MONEY MARKET FUNDS ASSOCIATION

10 January 2011

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

Dear Ms. Murphy

President's Working Group Report on Money Market Fund Reform

The Institutional Money Market Funds Association (IMMFA) are grateful for the opportunity to comment on the reform options presented by the President's Working Group.

IMMFA is the trade association which represents the European triple-A rated money market funds industry. Triple-A money market funds are managed according to rigid and transparent guidelines, in order to offer safety of principal, liquidity and competitive money market returns. Increasingly, these funds are used by institutional investors to manage liquidity and act as important alternatives to cash accounts. Since its inception in 2000, IMMFA's funds in Europe have grown from around $50 billion to over $630 billion (as at December 2010). Further information on the association and triple-A rated funds are available on the IMMFA website, www.immfa.org.

We fully support all attempts to further improve the money market fund industry, and indeed have been working with our members towards this goal. However, we consider that it would be more appropriate to perform a review of the changes which have already been made to the money market fund industry before concluding that further changes must be made. These changes, whether in Europe or the US, have not presently been implemented for a sufficiently long period to assess whether they achieve the desired outcome.

We also consider it imperative that analysis of regulatory changes being instigated elsewhere is conducted as some of these changes will likely have substantive impacts upon the global money market fund industry. The weight of regulatory change is such that changes cannot be made without consideration of other proposals and their impact, whether direct or indirect, upon the subject matter being considered. On this basis, we ask that detailed consideration of the Basel III liquidity framework is conducted before determining whether additional changes are necessary to the money market fund industry. It is our strong opinion that the changes introduced by Basel III combined with the changes already made to the money market fund industry provide a framework for money market funds that is sufficiently robust to not require further wholesale alterations.

We provide some comments on matters that we have considered or where we have insight which can assist in the review process. If you have any questions, please do not hesitate to contact me.

Yours sincerely

Gail Le Coz
Chief Executive, IMMFA

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IMMFA response

President's Working Group Report on Money Market Fund Reform Options

a. Floating Net Asset Values

In Europe, stable net asset value (NAV) and floating NAV money market funds coexist; they have done so for a period of time and many are sold cross-border. Investors are free to determine which type of fund to invest in, with many choices being a result of cultural or historical preferences. Both types of fund have risks associated with them, particularly given that both seek to provide security of capital and same-day liquidity.

IMMFA only represents the interests of those money market funds which provide a stable NAV, facilitated through the use of amortised cost valuation. We feel that this method of asset valuation is appropriate as it closely reflects the nature of the money market fund management which intends to hold all assets to maturity, and does not seek to actively sell assets in the market.

The financial services industry continues to question whether mark-to-market valuation methodologies remain appropriate, particularly when in a stressed situation such a valuation will be based on fire-sale prices and thereby fail to reflect the true worth of any asset which is being held to maturity. It is therefore questionable whether a move to a valuation structure that is based entirely upon mark-to-market valuation is appropriate for a fund which intends to hold all assets under they mature, and thus whether the use of such a methodology would be in the best interests of investors.

In addition to questions surrounding the appropriateness of using a mark-to-market valuation methodology, we do not consider that mandatory conversion to a floating NAV would achieve the objectives of the reform options, i.e. to reduce the susceptibility of money market funds to runs.

The experience of enhanced cash funds provides evidence to highlight that floating NAV funds can also experience runs. As documented in the EFAMA Annual Report 2008-09:

> The first impact of the financial crisis became apparent in August 2007 with the outbreak of the subprime crisis due to the relative importance and success of the so-called enhanced money market funds. In a matter of weeks, €70 bn were redeemed in funds predominantly from institutional investors; around 15-20 suspended redemptions for a short period, 4 of them were definitively closed.

Consequently, we do not consider that mandatory conversion from stable to floating NAV will result in the achievement of the desired outcome.

c. Mandatory Redemptions in Kind

The ability to provide redemptions in kind has been a feature of the European fund industry for some time, and has been adopted by the money market fund industry as an additional mechanism for facilitating redemption requests in illiquid markets. All IMMFA members are required to ensure that the fund's constitutional documents permit redemptions in kind. This requirement was implemented to facilitate orderly withdrawals and provide fund managers with a further tool in their management of the fund. There exists one practical example of providing redemptions in kind, that of the Dublin-based Lehman money market funds in September 2008. The option to redeem in kind was only offered to investors after the fund was suspended, and acted as a precursor to the eventual closure and liquidation of the fund.

Our assessment of this option remains that the provision of redemptions in kind is unlikely to be viewed favourably by investors for so long as a competing fund is available which offers immediate redemptions in cash. The likely consequence of providing redemptions in kind is assumed to be the withdrawal of investment by most investors who remain keen to receive cash proceeds upon redemption requests. The view of the market thereafter would be that the fund in question did not remain a viable source of cash investment (the fund would in effect no longer be providing daily liquidity), bringing any short-term, let alone medium- or long-term, future into severe doubt. Redemptions in kind are in our opinion therefore able only to facilitate an orderly wind-down of the fund, and do not prevent a run on a fund forming, nor mitigate its impact once any such run has commenced.

g. Regulating stable NAV MMFs as special purpose banks

The recently finalised Basel III liquidity framework will require banks to hold liquid assets against the sponsorship or management of any stable NAV money market funds. Any additional regulation of a stable NAV money market fund as a special purpose bank will only result in further capital obligations being imposed without delivering further tangible benefits to consumers, markets or financial stability. On this basis, we are wholly opposed to the proposition that stable NAV money market funds should be regulated as special purpose banks.

As well as the aforementioned Basel III framework, the changes which have to-date been introduced via the amendments to Rule 2a-7 have resulted in money market funds holding higher volumes of liquidity than ever previously, and seen managers become increasingly aware of the need to manage the portfolio construction and duration in order to provide levels of liquidity which correspond to the general circumstances in the market and the appetite of investors at that time. The combination of this liquidity management, the impending Basel III requirements and the ability to liquidate the portfolio when a material deviation between the amortised and mark-to-market valuation occurs provides, in our opinion, a viable solution to reduce the risk of a run and limit any impact should such a run occur. We do not therefore consider it necessary to regulate stable NAV money market funds as special purpose banks as this would not result in additional benefits when compared against the changes which have already been instigated.