January 10, 2011

VIA E-MAIL RULE-COMMENTS @SEC.GOV

Ms. Elizabeth M. Murphy
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

RE: Securities Industry and Financial Markets Association comments on File No 4-619, Release No. IC-29497 (the "Release")

Dear Ms. Murphy:

The Securities Industry and Financial Markets Association ("SIFMA") respectfully submits these comments on the options for reform of money market funds which are set forth in the Report (the "Report") of the President's Working Group on Financial Markets (the "PWG") dated October 2010. The PWG has requested that the Financial Stability Oversight Council ("FSOC") consider the options discussed in the Report to identify those most likely to materially reduce money market funds' susceptibility to runs. We appreciate the opportunity to provide our views to the Securities and Exchange Commission (the "Commission" or "SEC"), which is assisting FSOC by soliciting comment on the Report in the Release.

SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that strengthen markets and encourage capital availability, job creation and economic growth while building trust and confidence in the financial industry. This letter has been prepared by the Asset Management Group ("AMG") of SIFMA, the voice for the buy side within the securities industry and the broader financial markets. The leadership of the AMG is comprised primarily of Chief Operating Officers and other senior executives at asset management firms, including the largest and most influential market participants in the United States. Collectively, the members of the AMG represent over $20 trillion of assets under management. The clients of AMG member firms include, among others, registered investment companies, state and local government pension funds, universities, 401(k) or similar types of retirement funds and private funds such as hedge funds and private equity funds.

Our comments on the Report focus on three main points.

- We recommend efforts to explore the structuring and development of a private emergency liquidity facility that will be available to money market funds to mitigate the risk of runs on money market funds.

- Regulators should not require money market funds to adopt a market-based (floating) net asset value ("NAV") per share for purposes of share transactions.

- Regulators should not impose bank-like capital requirements on money market funds or their sponsors.

Before further addressing these points, we would like to mention four initial matters. First, we appreciate the PWG's balanced, thoughtful and thorough review of the options for the reform of money market funds in the Report. The Report provides a solid springboard for discussion. Further, the Report wisely eschews the goal of eliminating all risk from money market funds.

Second, we note that regulators, with the support of money market fund industry participants, acted quickly and decisively to enhance the regulatory framework for money market funds following the market turmoil of 2007 to 2008, and we believe these actions have further reduced money market funds' susceptibility to runs. With the support of SIFMA and others, the Commission approved amendments to Rule 2a-7 (the "Rule" or "Rule 2a-7")[1] that increase the resilience of money market funds to economic stresses, reduce the risks of runs on funds, facilitate the orderly liquidation of a money market fund that breaks or is about to break the dollar, and improve the SEC's oversight of money market funds. SIFMA believes that the enhancements to risk-limiting conditions of the Rule and liquidity requirements will make it less likely that a money market fund will break the dollar; the new liquidity requirements will decrease the risk of unexpected redemptions in a fund and lessen the impact of those redemptions; the new authority of the fund Board to suspend redemptions to liquidate the fund will protect shareholders by allowing a more rationalized liquidation process; and the new reporting requirements will enable the Commission to better achieve its oversight mandate. Nevertheless, we recognize that the Commission and other regulators are exploring additional options to build on these significant enhancements to the soundness of money market funds, and we offer our views on the most effective direction for those efforts.

Third, we recommend that regulators and industry participants maintain an open mind to alternatives in addition to the private liquidity facility that we support, including options which may be advanced by others. We expect that our members will (and we have encouraged them to) submit their own comment letters focusing on the private liquidity facility and other options.

Lastly, while our greatest concern is with the dangers of the floating NAV and of bank-like capital requirements as described below, we also are concerned that certain of the other options in the Report may have significant negative consequences. Certain of the options essentially would prohibit money market mutual funds in the form that has been embraced by the investing and issuing communities. By altering crucial characteristics of money market funds,

[1] Rule 2a-7 is the money market mutual fund rule under the Investment Company Act of 1940. 17 C.F. R. 270.2a-7.

these options would cause substantial harm both to shareholders who rely on money market funds as an essential cash management vehicle and to issuers who depend on them as a source of financing. We urge caution in introducing any changes, which may have far-reaching unintended consequences that are detrimental to shareholders and the broader economy.

1. Recommendation: Continue to explore the structuring and development of a private emergency liquidity facility to be available to money market funds to mitigate the risk of runs on money market funds.

The most promising option in the Report is the concept of an industry-supported facility dedicated to providing additional liquidity to money market funds in the event of severe market conditions. It is this option that has animated a consensus among our members. We believe that such a facility could substantially enhance a money market fund's ability to withstand redemptions when it is otherwise unable to sell assets into a liquid market. The facility would enable funds to pool resources, efficiently expanding available liquidity beyond what each fund must hold under the 2010 amendments to Rule 2a-7.

Key issues must be resolved relating to the private liquidity facility -- for example, identification of the types of funds for which participation would be mandatory and determinations regarding how to capitalize the facility and how to price participation. Importantly, however, industry participants have made strides in a group effort towards structuring a private emergency liquidity facility for money market funds that would involve sales of securities from funds to provide liquidity. There are also options under consideration that would allow funds to borrow from a private liquidity facility in times of reduced market liquidity. There are advantages and drawbacks to any approach. We urge the Commission and other regulators to collaborate with the industry to further explore and develop these options, because the need for any further regulation must be considered in light of these developments.

Because a liquidity facility is the most promising option, it is important that time be afforded for the facility to become established at full strength. Industry participants will continue to work expeditiously to structure the facility, but the capitalization of a liquidity facility must be a multi-year process in order to avoid disrupting the business operations of participating entities. For context, consider the timeframe set out by the Basel Committee on Banking Supervision, in its endorsement of capital and liquidity reforms for banks (known as "Basel III"). The Basel III reforms were originally proposed in December 2009, and they provide for the phase-in of increases in capital buffers over a multi-year period ending January 1, 2019, approximately nine years after the package was originally proposed. The central banks and others on the Basel Committee have recognized that building capital takes time. We urge regulators to recognize this fact when considering the timeframe for capitalizing any liquidity facility for money market funds.

To support the efforts to create a private emergency liquidity facility, we suggest that the SEC lead the formation of a task force of industry stakeholders, including other regulators, issuers and investors, as well as money market fund sponsors, who can flesh out the details of this option. That task force would facilitate information sharing by (among others) multiple regulators, who are newly tasked with coordinating intersecting spheres of authority.

2. Recommendation: Do not require money market funds to adopt a market–based (floating) NAV for share transactions.

We believe that requiring money market funds to adopt a market-based (floating) NAV for purposes of share transactions[2] is a more sweeping reform than necessary to address concerns regarding runs on funds, and will create more difficulties for shareholders than it will resolve. Forcing money market funds to adopt a floating NAV does not ensure that the funds will avoid a run and could have severe consequences for investors and the broader economy.

Redemption risk will remain for money market funds with a floating NAV, because shareholders will continue to be likely to redeem their shares at times of market stress. The likelihood of redemption as NAV declines in a floating NAV fund has been demonstrated in ultra-short term bond funds.[3] Accordingly, requiring a floating NAV will not eliminate the risk of runs on money market funds.

Furthermore, we strongly expect that investors will reject money market funds that do not have a stable NAV. Money market funds with a floating NAV will lack the tax convenience, accounting simplicity and operational convenience of money market funds in their current form. Our members have expressed that it is critically important to money market mutual fund investors that the stable NAV be preserved.

As we reported in our letter commenting on the Commission's 2009 proposed amendments to Rule 2a-7,[4] one of our members surveyed 37 of its largest institutional money market fund shareholders, which collectively represented over $60 billion invested in the member's institutional money market funds. These clients came from a cross-section of business lines within the member firm (e.g., broker-dealer sweep services, asset servicing, corporate trust, cash collateral management, operating cash management). Of those responding to the survey, 86% reported that a stable NAV was a "very important" factor in their decision to utilize a money market fund. Several of these respondents noted that operational issues associated with floating NAVs would virtually eliminate the money market fund as an eligible option for

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2 Money market funds calculate a market-based NAV as required under Rule 2a-7 and Rule 30b1-7 under the Investment Company Act for regulatory and reporting purposes, but for purposes of share transactions, the NAV is based on amortized cost values under normal circumstances overseen by each fund's independent Board of Trustees.

3 See the Report of the Money Market Fund Working Group of the Investment Company Institute (March 17, 2009), Sec. 8.1.1.1.

4 See comment letter dated September 8, 2009 from SIFMA on the Commission's 2009 proposed amendments to the Rule *available at* http://sec.gov/comments/s7-11-09/s71109-128.pdf.

sweeping cash assets. Of those responding to the survey, 67% reported that if the floating NAV were introduced, their business could not continue to invest in the fund and would have to seek an alternative investment option. Of the respondents who could not continue to invest in floating NAV money market funds, 28% said they would invest directly in money market instruments, which would increase their risk as they did not have the resources to manage short-term investments. Further, clients who would move to alternative investments expected to incur increased costs. Comment letters on the Commission's 2009 proposed amendments to the Rule overwhelmingly favored retaining the stable NAV.

If investors reject money market funds that convert to a floating NAV, investment managers likely will seek to meet the investors' need by creating a stable NAV product outside the protections of the Investment Company Act of 1940. Accordingly, a significant portion of the assets currently in money market funds is likely to flow into other types of cash pools that are less regulated or outside U.S. regulatory oversight. This would increase risks to shareholders and to the U.S. financial markets.

Alternatively, if investors reject the floating NAV, the cash held in money market funds may be transferred to banks. Presently, banks may not have the capital to take on deposits in amounts that would accommodate the cash held in money market funds, and it is unlikely that banks would provide financing to issuers on the scale currently available through money market funds. Even if banks could provide financing on an adequate scale, the cost of that financing to issuers is likely to increase significantly. Any significant reduction in that source of financing or increase in its cost could drastically affect governments, bank and non-bank issuers and municipalities. In particular, money market funds are a significant source of short-term financing for the U.S. Treasury and Government Sponsored Enterprises (GSEs).

Accordingly, we urge the Commission to consider the potential adverse effect on the capital markets generally if the stable NAV is eliminated. Groups representing various constituencies have weighed in clearly that stable-value money market funds are a critical source of low cost short term financing. The Government Finance Officers Association ("GFOA") adopted a public policy statement in favor of maintaining the stable NAV of money market funds.[5] The statement notes that money market funds hold 65% of outstanding short-term municipal debt, making them the largest holder of short-term tax-exempt debt. The GFOA expresses concern that if the purchasing power of money market funds declined upon the move to a floating NAV, state and local governments would suffer higher borrowing costs for short-term debt.[6] The National Association of State Treasurers also has expressed its view that moving to a floating NAV would reduce or eliminate an important market for short-term public and non-

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[5] See June 8, 2010 statement "Maintaining the Stable Net Asset Value Feature of Money Market Funds (2010)" *available at* http://www.gfoa.org/downloads/GFOA_NAVPolicyStatement2010.pdf.

[6] We note that municipalities also would suffer if investors in money market funds shifted their assets to banks in the wake of a move to the floating NAV, as banks cannot pass along tax-exempt interest to investors.

profit debt.[7] The National Association of College and University Business Officers pointed out that the move to a floating NAV could limit the investment market for its members' debt and raise their cost of capital.[8] The U.S. Chamber of Commerce noted the same danger for its members.[9]

The transition to a floating NAV, itself, would involve significant systemic risk as investors shift rapidly to alternative investments that may pose increased risk. The alternative investments are likely to include products with less robust requirements as to limits on investment risks, valuation, reporting, disclosure, custody and capital structure and weaker prohibitions on affiliated transactions and leverage. Further, these alternative products may lack capacity to accommodate the additional assets, slashing available short-term financing. Or, increased risks may arise as these products seek to accommodate additional assets by rapidly adjusting investment parameters and operational arrangements.

In short, requiring a floating NAV for money market funds is a problematic approach to reform of money market funds that will do more harm than good.

3. Do not impose bank-like capital requirements on money market funds or their sponsors.

Our members believe that asset management firms would be unable to provide the capital needed to support money market funds on a comparable scale to bank regulatory capital. The cost of the firm's holding capital on a bank-like scale would either be borne by fund shareholders (who would bear higher fees and/or lower returns), or, management firms would bear the costs and likely will elect to exit the money market fund business. If the level of required capital cannot be sustained by the marketplace, the result of a capital requirement would be to severely curtail the availability of money market funds, eliminating an attractive cash management option for investors, likely prompting a shift to less heavily regulated investment vehicles which pose more systemic risk, and eliminating a source of financing for issuers.

Further, bank-like capital requirements are inappropriate for money market funds. Unlike banks, money market funds do not use leverage or hold non-transparent assets, and they do not have operating assets, use off-balance sheet financing or have deposit insurance. It is for

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[7] See comment letters from the National Association of State Treasurers on the Report *available at* http://sec.gov/comments/4-619/4619-6.pdf and on the Commission's 2009 proposed amendments to the Rule *available at* http://sec.gov/comments/s7-11-09/s71109-132.pdf.

[8] See comment letter dated September 8, 2009 from the National Association of College and University Business Officers on the Commission's 2009 proposed amendments to the Rule *available at* http://sec.gov/comments/s7-11-09/s71109-127.pdf.

[9] See comment letter dated September 8, 2009 from the U.S. Chamber of Commerce on the Commission's 2009 proposed amendments to the Rule *available at* http://sec.gov/comments/s7-11-09/s71109-124.pdf.

these reasons that banks have capital buffers that are structured to shield the Federal Deposit Insurance Corporation, depositors and other creditors. Investors in money market funds are shareholders, not creditors. They are subject to potential loss, in return for a market return on their short-term investments.

Our members believe that bank-like capital requirements would severely curtail the money market fund business and will not provide the intended protection.

Conclusion

SIFMA respectfully urges the Commission to carefully consider the foregoing comments regarding the Report. Money market funds have been one of the most important innovations within the mutual fund industry, are of fundamental importance to the financial system and have provided a great benefit to investors. SIFMA supports steps to enhance the resilience of money market funds to runs and to help maintain investor confidence in them, such as exploring and developing an emergency liquidity facility. But SIFMA believes that certain of the options in the Report, such as requiring a floating NAV or imposing bank-like capital requirements on money market funds, are not in the best interests of money market fund shareholders and the money markets generally, and would create additional risks and impose substantial unnecessary costs upon money market firms and their shareholders that would be far greater than the potential benefits that might result.

If you have any questions or require additional information, please do not hesitate to contact me at 212-313-1389. Thank you for your attention to these comments.

Sincerely,

Timothy W. Cameron
Managing Director
SIFMA's Asset Management Group

cc: The Honorable Mary L. Schapiro
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