January 10, 2011

Filed Electronically

Elizabeth M. Murphy, Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: President’s Working Group Report on Money Market Fund Reform; Release No. IC-29497; File No. 4-619 (“PWG report”)

Dear Ms. Murphy:

On behalf of the Thrivent mutual funds, I would like to express our appreciation for the work of the Securities and Exchange Commission (the “Commission”) and its staff to improve the regulation of money market funds. We similarly commend the efforts of the President’s Working Group on Financial Markets (the “PWG”) in considering additional measures to enhance investor protections and financial stability in the money market arena. We welcome the opportunity to comment on the reform options set forth in the PWG report and add additional perspective on stability in the money markets.

The Thrivent money market funds consist of our retail money market fund, the Thrivent Money Market Fund; our money market portfolio for variable insurance products, the Thrivent Money Market Portfolio; and the Thrivent Financial Securities Lending Trust, which serves as the vehicle for managing collateral for our securities lending programs. Each of the Thrivent money market funds is advised by Thrivent Financial for Lutherans (“Thrivent”) or a wholly owned subsidiary of Thrivent. Thrivent is a fraternal benefit society which offers insurance products to its members and, through its subsidiaries, also offers mutual funds, investment advisory services, brokerage and banking. Thrivent Financial has approximately $70 billion in assets under management. While our money market funds are small by industry standards and represent a modest portion of Thrivent’s overall assets under management, we believe that our comments and concerns may be shared by other smaller, retail-oriented money market funds.

Financial Market Stability

The PWG report articulates well the key events surrounding the financial crisis of 2008, the risks and vulnerabilities of money market funds, and the need for further regulatory reform.
However, the report omits one of the primary causes of declining short-term market liquidity that has come about gradually over the last decade and continues unabated.

Historically, short-term market liquidity was provided by active participation of the dealer community and the depth of buyers and sellers active within the short-term debt market. The secondary market functions well only when there are sufficient buyers and sellers of similar sizes. Over the years, however, some participants have become so large that there are fewer buyers remaining in the market that can absorb their positions. At the same time, the dealer community has become increasingly reluctant to inventory such billion dollar positions. Thus, as a fund grows larger, the secondary market for its positions becomes thinner, and its portfolio becomes less liquid. As a fund grows larger, it often also outstrips its adviser's ability to provide financial support to the fund, either by purchasing distressed securities or investing directly in the fund to provide liquidity to meet redemptions. This is a dangerous cycle, because as a fund becomes larger, it achieves economies of scale that reduce expenses and increase potential yield, which in turn drives further asset growth. However, as assets continue to grow in a large fund, its potential impact on the financial market increases while at the same time its liquidity -- and often the ability of the adviser or its affiliates to support the fund -- is decreasing.

Policy Options

Floating net asset values. Thrivent acknowledges the tax and accounting simplicity and other benefits of a stable $1.00 per share net asset value. As noted by the PWG, much of the success of money market funds over the past decades is due to the sterling record of money market funds in maintaining a stable $1.00 per share NAV, which in turn has been the result of periodic voluntary financial support by fund affiliates. We are concerned, however, that it could be misleading to an investor to market a stable net asset value when a fund does not have access to some source of potential support, whether through private liquidity support or external insurance, or by virtue of a sponsor with sufficient financial capacity to provide support.

While observing the role of affiliate support in maintaining stable money market fund NAVs, the PWG report also notes that such support is, and for regulatory reasons generally must be, voluntary. An explicit guarantee could require a sponsor to consolidate the fund on its balance sheet and, if the sponsor is a financial institution subject to regulatory capital requirements (such as Thrivent), it would presumably need to hold additional regulatory capital to cover such exposure. We would point out, however, that even in the absence of any binding commitment to provide support to a money market fund, the existence of a fund affiliate with the means to provide support, particularly liquidity support, is itself an important consideration and can reduce the likelihood of "runs" on a fund. If investors know that a fund has an affiliate capable of providing support, they may not feel the need to redeem preemptively and the vicious cycle of redemptions followed by liquidity challenges followed by more redemptions may be avoided altogether. Indeed, the PWG report notes that outflows following the Lehman Brothers collapse tended to be higher among funds with sponsors that were themselves under financial strain, indicating that some investors quickly redeemed shares out of concern regarding the ability of the funds' affiliates to provide support to the funds.¹

¹ PWG Report, p. 10.
An investor may purchase a money market fund, which is required by Rule 2a-7 to invest in a diversified portfolio of liquid, short-term securities that present minimal credit risk, and yet be making, often unknowingly, a significant investment decision with respect to a single credit (the adviser or its affiliate). Yet investors, particularly retail investors, who purchase a prime money market fund receive no disclosure whatsoever as to the ability of an adviser or its affiliates to provide support to the fund. In addition to the lack of disclosure generally, this situation also disadvantages retail investors in a fund that also has institutional investors in that institutional investors are more likely to have information about the financial situation of a fund’s sponsor and act quickly to redeem. We believe that in the absence of external credit or liquidity support, and where a fund has no affiliate capable of providing support, the Commission should consider prohibiting the marketing of a stable NAV.

While we recognize that the suggestion of a floating NAV is not popular in our industry, we do not believe that instituting floating NAVs would destroy the money market fund industry as some have suggested. The first concern raised by the PWG report is reduced demand for money market funds. While shareholders may express a preference for the stable NAV product, and some investor guidelines may strictly state it as a requirement, investors will not necessarily flee money market funds that do not provide a stable NAV. Any change could be implemented with sufficient advanced notice to allow institutional investors to modify their investment guidelines to permit investment in a floating NAV fund, where appropriate. A mass exodus assumes that investors have a clear alternative, which they do not, and come to the same conclusion in tandem, which is improbable given the lack of clear alternatives. Banks, separate accounts, and other short-term bond funds have always been in competition for money fund assets. Money market funds have been able to attract assets because they are considered one of the most conservative and flexible investment options and a floating NAV will not necessarily change the analysis. Moreover, as noted by the PWG report, even a reduction in money market fund assets might be an economically efficient result if “such credit has been over-supplied because markets have not priced liquidity and credit risks appropriately.”

Arguments for massive movements into vehicles such as cash enhanced funds, offshore money market funds and the like seem to assume that investors will behave irrationally. There would be no logical reason to move from highly regulated money market funds with a history of maintaining a close proximity to $1.00 per share net asset value to cash enhanced funds, which are much less regulated and likely to have a much more widely fluctuating NAV, nor to offshore money funds which have the same basic guidelines but with a category name that by itself suggests more risk, nor to stable value vehicles, the growth of which is limited by available supply of insured product with commensurate credit ratings. Separately managed accounts would be less diversified, require oversight, and would have greater NAV fluctuation. Banks could offer a stable NAV, but in amounts beyond FDIC insurance investors are exposed to a single creditor, and banks presumably do not want large institutional deposits that are likely to move rapidly. Banks have always been competition for money funds. However, banks will only attract as much in deposits as they can reasonably and more efficiently deploy back into the market.

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2 PWG Report, p. 21.
Private emergency liquidity facilities for money market funds. The PWG report articulates many unresolved and complex operational, structural, pricing, and capacity concerns that would need to be addressed before any liquidity facility can practically be considered. However, setting aside such practical considerations, our primary concern is that any such facility could easily result in funds that present less liquidity risk subsidizing funds with higher liquidity risk, thereby exacerbating rather than ameliorating the conditions that give rise to the liquidity risks in the first place.

Money market funds with the most acute need for liquidity support are (i) larger funds, since sheer size can make it difficult to liquidate positions, (ii) funds with institutional or concentrated shares bases, (iii) funds without external liquidity arrangements or the potential for adviser support, and (iv) funds that exhibit a combination of these characteristics. While the PWG report recognizes the free-riding problem that could result if some funds but not others participate in any liquidity facility, it does not address the moral hazard and other problems that would result from requiring funds to participate in a facility that do not require, and would not plausibly ever require, liquidity support from such a facility. Small funds with highly diverse, retail shareholder bases, which may also have the potential for support from a financially capable affiliate, would be subsidizing funds that have much greater need for liquidity support. Such subsidization could possibly be reduced, but could never be eliminated, through the pricing of participation in the facility. Moreover, once a large or concentrated fund has received liquidity support, such support will only allow the fund to continue to grow larger and larger, and potentially more and more concentrated in its shareholder base, and exacerbate the liquidity demands in the market.

Thrivent does not believe that small, retail funds without significant shareholder concentration should be required to subsidize the liquidity requirements of funds that have grown much larger or have concentrated shareholder bases. Funds with the need for enhanced liquidity already have the ability to solve liquidity issues on their own by creating alliances or purchasing access to liquidity support. Without a subsidized industry-wide liquidity facility, firms would have to grow their money market funds within the natural market constraints that liquidity costs would impose, ultimately leveling the playing field. Fair competition would encourage more entrants, ultimately leading to a healthier secondary market. In other words, the liquidity facility would effectively eliminate the incentives to manage growth within the natural constraints of the market and the associated sponsor.

While we do not support a mandatory private liquidity facility, if all money market funds are required to participate in such a facility, Thrivent strongly urges that that the costs imposed should take into consideration shareholder concentration and other factors that affect a fund’s potential need for liquidity.

Insurance for money market funds. As with a private emergency liquidity facility, we acknowledge the PWG’s observation that insurance would not likely be a plausible option unless all funds were required to obtain insurance, in order to prevent free-riding. However, Thrivent believes that any insurance requirement should take into account the ability of a fund’s adviser to support the fund. We believe that it would be imprudent to disregard the historical function of the potential for such support exclusively in favor of a mandatory insurance regime. One option
would be a hybrid approach, mentioned in the PWG report, in which a money market fund (with the potential for support of its sponsor), agrees to retain losses up to a certain amount, beyond which losses would be covered by insurance. Such a program would impose a cost on sponsors who grow their funds beyond the sponsor’s ability to provide support to the fund.

Eight-tier system of money market funds with enhanced protections for stable NAV money market funds. Interestingly, many of the concerns regarding the challenges of establishing a liquidity facility, requiring insurance or implementing floating NAVs can be addressed by implementing a two-tier system. The main issues raised by the PWG report is that the two-tier system might create a situation in which significant money flows from floating NAV funds to stable NAV funds during a market crisis. However, if fund sponsors are required, as a condition of marketing a stable NAV, to have access to external liquidity or insurance facilities and/or demonstrate the capacity for support by affiliates, then sponsors would bear the costs of growing their stable NAV funds. Sponsors would limit inflows to the stable NAV funds, especially during a market crisis, in order to protect their own liquidity and capital positions.

Eight-tier system of money market funds with stable NAV money market funds reserved for retail investors. While retail balances in money market funds have clearly demonstrated more stability with significantly lower shareholder concentrations (i.e., a more diversified shareholder base), establishing a two-tier system in this manner may be confusing both to retail and institutional clients. The proposal does highlight that restrictions imposed on retail funds and their shareholders due to the problems largely caused by institutional client behavior may not be fair or necessary. Retail accounts have lower shareholder concentrations, which in turn have been demonstrated to be more stable, and therefore should not have the same liquidity requirements as funds with primarily institutional accounts. Accordingly, we suggest that the Commission and its staff give further consideration to approaching portfolio liquidity on the basis of the concentration among a fund’s shareholders. If stable NAVs required external liquidity support, and firms could benefit from having a more stable and diversified shareholder base, then firms would be more inclined to seek retail-sized accounts (and limit large accounts because of the attendant costs) into their stable NAV funds. The market would have the natural incentive to encourage “hot” money and large accounts to go into floating rate NAV funds due to the potential liquidity costs of having large shareholder concentrations. In the long-run, stable NAV funds would most likely be made up of largely retail accounts, and floating NAV funds would be largely institutional accounts. The added benefit of this structure is that if a retail investor so chooses to seek a higher yield and accept the additional risk or perceived risk of a floating NAV fund, the investor would and should have that option.

We are well aware of the difficulties in discerning underlying fund shareholders among omnibus accounts and are sympathetic to the views expressed by others that many “institutional” accounts are aggregations of small retail shareholder accounts. Nonetheless, the Commission could require, for example, that each stable NAV fund maintain sufficient daily liquidity to meet the potential redemptions of the 15 largest unaffiliated accounts and sufficient weekly liquidity to meet redemptions from the 25 largest unaffiliated accounts. The board of the fund could approve procedures for determining such accounts. There could perhaps be a safe harbor for retail funds in which no shareholder owns 1% of the fund. Whatever the actual liquidity
requirement, we believe that any such requirement should give money market fund sponsors an incentive to be mindful of concentration within their shareholder base.

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We appreciate the opportunity to comment on the proposals to reshape the money fund industry to promote financial stability and the protection of investors. We would welcome the opportunity to discuss with you further the concerns and suggestions we have presented.

Yours very truly,

Russell W. Swansen
President, Thrivent Mutual Funds, Thrivent Series Fund, Inc. and Thrivent Financial Securities Lending Trust