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October 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 European Commission ("EC") on its consultation document on Undertakings for Collective Investment in Transferable Securities; Product Rules, Liquidity Management, Depositary, Money Market Funds, Long-term Investments (the "Consultation Document").[2]

The Consultation Document sought comment on a variety of topics, including 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

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[1] Fidelity is one of the world's largest providers of financial services, with assets under administration of $3.8 trillion, including managed assets of $1.7 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] *Consultation Document – Undertakings for Collective Investment in Transferable Securities (UCITS) Product Rules, Liquidity Management, Depositary, Money Market Funds, Long-term Investments*, European Commission (July 26, 2012), *available at* http://ec.europa.eu/internal_market/consultations/docs/2012/ucits/ucits_consultation_en.pdf.

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 the EC and other regulators globally is to consider certain key features and principles that offer the greatest protections to 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 Commissioners or staff may have.

Sincerely,

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

Norm Champ, Director, Division of Investment Management

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October 18, 2012

European Commission
Directorate General Internal Markets and Services
Financial Markets and Asset Management
Brussels, Belgium
B-1049

Submitted via e-mail to: MARKT-UCITS-CONSULTATIONS@ec.europa.eu

Re: Comments on European Commission Consultation Document on Undertakings for Collective Investment in Transferable Securities (UCITS): Product Rules, Liquidity Management, Depositary, Money Market Funds, Long-term Investments

Fidelity Investments ("Fidelity")[1] appreciates the opportunity to provide comments to the European Commission ("Commission") on its consultation document on Undertakings for Collective Investment in Transferable Securities: Product Rules, Liquidity Management, Depositary, Money Market Funds, Long-term Investments (the "Consultation Document").[2]

Fidelity provides institutional asset management products and services in Europe primarily through its Pyramis Global Advisors group of companies ("Pyramis").[3] Fidelity currently markets its products in Europe under the Pyramis brand and recently began offering

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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$3.8 trillion, including managed assets of US$1.7 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] *Consultation Document – Undertakings for Collective Investment in Transferable Securities (UCITS) Product Rules, Liquidity Management, Depositary, Money Market Funds, Long-term Investments*, European Commission (July 26, 2012), *available at* http://ec.europa.eu/internal_market/consultations/docs/2012/ucits/ucits_consultation_en.pdf.

[3] Pyramis was established in 2005 and is headquartered in the U.S., with additional offices in London, Hong Kong, and Toronto. Pyramis provides investment management services to institutional investors (including corporate and public defined contribution plans, endowments, trusts foundations, and other institutions) through separately management accounts, commingled pools, sub-advisory, arrangements, and privately offered funds. Fidelity also provides sub-advisory services to some of its U.S. mutual funds through Fidelity Management & Research (U.K.) Inc.

equity and fixed income UCITS products, which we hope to expand and grow in the future. We focus our comments in this letter specifically on the Consultation Document's questions dealing with money market funds.

Fidelity is the largest money market mutual fund ("MMF") provider in the United States, with more than US$420 billion in MMF assets under management. Funds we manage represent more than 16% of MMF assets in the United States (as of August 31, 2012) and more than 8.5% of MMF assets worldwide (as of June 30, 2012). 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.

As the largest adviser of MMFs in the United States, we are writing to provide our view regarding the best approach to MMF regulation worldwide. We believe that that there are certain key features and principles that all MMFs should adopt in order to 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 of underlying securities, as well as greater transparency into a MMF's portfolio and clear fund governance arrangements, all of which have proven effective in increasing the resilience of U.S. MMFs. We support the goal submitted by the International Organization of Securities Commissions ("IOSCO") in its recent recommendations "to provide common standards for the regulation and management of MMFs across jurisdictions, articulated around some key principles of maturity, liquidity and credit risk."[4] We urge the Commission and other regulators globally to incorporate the following key concepts in any proposed MMF regulation:

- *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*:

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[4] *Policy Recommendations for Money Market Funds*, FR07/12, The Board of the IOSCO (Oct. 2012) at 8 [hereinafter IOSCO Final Report], *available at* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD392.pdf.

- 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*:
  - All securities must represent minimal credit risk.
  - Adviser 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 adviser 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 Consultation Document questions whether MMFs present risks to the financial system and whether additional reform is needed. This question overlooks the important benefits that MMFs provide to the financial system in the form of efficient financing for corporations, financial institutions and governments worldwide, as well as a low cost cash investment option for individual and institutions. 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. 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.

BOX 6: QUESTION 1

What role do MMFs play in the management of liquidity for investors and in the financial markets generally? What are close alternatives for MMFs?

For decades, MMFs have been attractive destinations for shareholder capital, due to their convenience, high credit quality, and liquidity. MMFs seek to provide a stable, constant NAV and daily access to funds, while also offering both retail and institutional investors a competitive yield versus bank deposits and direct investments.

Fidelity has conducted research into the views of retail and institutional U.S. MMF investors.[5] 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 primarily as a "parking place" in between investments. Of these investors, 98% use MMFs as a complement to bank deposit products and not as a replacement for these government-guaranteed vehicles.[6]

In addition, we believe that MMFs are a success story for the capital markets, allowing issuers access to low-cost funding under a well defined financial regulatory framework. As IOSCO acknowledged in its April 2012 report, MMFs are important providers of short-term funding to financial institutions, businesses and governments.[7] Issuers of short-term debt instruments include governments and their agencies, corporations, hospitals, universities, banks, and U.S. state and local municipalities. Investors in MMFs include corporations, municipalities, pension plans, trust funds, hospitals, universities, and individuals.

The U.S. Securities and Exchange Commission ("SEC") also recognized the importance of MMFs to the short-term funding markets in its Report of the President's Working Group on 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."[8]

MMFs are highly liquid because their assets are limited to high quality, short-term assets that can be readily sold off to meet redemption requests. In the U.S., MMFs are subject to liquidity requirements that we believe have proven effective in increasing the resilience of MMFs. These liquidity constraints require MMFs to maintain 10% daily and 30% weekly liquid asset minimums. Most U.S. MMFs in fact hold liquidity levels well above the 10% and 30% minimums.

Based on our research, retail and institutional U.S. MMF investors indicated that any MMF reform measures that would reduce liquidity 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.[9] We anticipate that this would result in even more concentration of cash in

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

[6] *Id.* at 2.

[7] *Money Market Fund Systemic Risk Analysis and Reform Options*, CR07/12, Technical Committee of IOSCO (Apr. 27, 2012) at 1, *available at* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD379.pdf.

[8] 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.

[9] 57% of institutional investors and 47% of retail investors surveyed said they would move all or some of their assets of out MMFs if the NAV of these funds were allowed to fluctuate. Fidelity 2011 Survey at 4.

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 bank deposits. 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.[10]

BOX 6: QUESTION 2

What type of investors are MMFs mostly targeting? Please give indicative figures.

MMFs serve various purposes for both retail and institutional investors. They provide retail individual investors, including retirees, a safe way to earn income on cash awaiting further investment with low risk and low volatility. In addition, some MMFs offer check-writing privileges, allowing investors to make payments directly out of their MMFs rather than requiring the investor to redeem, transfer the proceeds to another account and then make the payments.

MMFs also meet the short-term cash management needs of corporate treasurers, municipal governments, and other institutional investors and assist broker dealers, trustees, pension funds, and charitable foundations in managing customer assets. As of May 2012, institutional and retail MMFs held 64% and 36%, respectively, of all U.S. MMF assets.[11]

BOX 6: QUESTION 3

What types of assets are MMFs mostly invested in? From what type of issuers? Please give indicative figures.

In the U.S., SEC regulations limit the types of investments MMFs can make to high quality, short-term investments that pose minimal credit risk such as government securities, municipal securities, repurchase agreements, bank obligations, notes, and highly rated commercial paper. As of March 2012, U.S. MMFs hold 37% of the commercial paper issued by U.S. businesses and 74% "of the short-term debt that finances state and local governments for public projects such as roads, bridges, airports, water and sewage treatment facilities, hospitals, and low-income

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

[11] Investment Company Institute, Frequently Asked Questions about Money Market Mutual Funds, *available at* http://www.ici.org/mmfs/background/faqs_money_funds#Whataremoneymarketfundsandhowdoinvestorsusethem.

housing."[12] In addition, U.S. MMFs hold 17% of U.S. Treasury issued short-term debt, 21% of large certificates of deposits in the banking system, and a significant share of asset-backed commercial paper that finances credit card, home equity, and auto loans.[13]
As of September 30, 2012, the portfolio composition of Fidelity Cash Reserves Fund[14] (a non-government "prime" MMF) included:

- More than 35% in certificates of deposit;
- More than 17% in U.S. Treasury debt;
- More than 4% in U.S. government agency debt;
- More than 12% in commercial paper;
- Nearly 2% in variable rate demand notes;
- Nearly 9% in government agency repurchase agreements; and
- More than 14% in other repurchase agreements.

BOX 6: QUESTION 4

To what extent do MMFs engage in transactions such as repo and securities lending? Is the collateral marked-to-market daily and how often are margin calls made?

In the U.S., transactions in repurchase agreements and securities lending must comply with regulations aimed at protecting investors. Although many of Fidelity's equity and bond funds engage in securities lending activities, our MMFs do not participate in such transactions. Accordingly, we focus our response on our MMFs' participation in repo transactions as a purchaser of assets.

Repo is a key source of short-term financing for a wide range of market participants such as banks and brokerage firms. Likewise, the repo market is used by many cash investors, such as corporations, governments, financial institutions and mutual funds, to invest short-term cash. In the U.S., MMFs invested $519 billion in repos in June 2012.[15] The Federal Reserve Bank of New York's ("FRBNY") white paper on tri-party repo provides a comprehensive description of the U.S. repo market and the role MMFs play in it as cash investors.[16]

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[12] Investment Company Institute, *Money Market Funds in 2012, Money Market Funds are Valued by Investors and Play a Critical Role in the U.S. Economy* (July 17, 2012), *available at* http://ici.org/pdf/12_mmf_inv_econ_jul.pdf.

[13] *Id.*

[14] Fidelity Cash Reserves Fund, Monthly Holdings as of September 30, 2012, *available at* http://fundresearch.fidelity.com/mutual-funds/composition/316067107.

[15] Statement of the Investment Company Institute - Hearing on "Tri-Party Repo Market: Remaining Challenges" – Subcommittee on Securities, Insurance, and Investment – Committee on Banking, Housing, and Urban Affairs – United States Senate – August 2, 2012.

[16] Report, Task Force on Tri-Party Repo Infrastructure, Payments Risk Committee (May 17, 2010), available at, http://www.newyorkfed.org/prc/report_100517.pdf,

We note that U.S. MMFs are distinct from other participants 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. MMFs engaged in repo transactions must receive as collateral at least 100% of the value of the cash invested. In practice, virtually all investors over-collateralize repos at levels ranging from 102 to 110%, demonstrated by the collateral haircut data published monthly by the FRBNY. Tri-party clearing banks must price the collateral at least daily through various independent pricing sources, thereby ensuring centralized and consistent valuation. The clearing banks continually review the pricing sources to ensure that the repo transactions are marked-to-market daily and are adjusted so that the obligations remain fully collateralized at all times. The Investment Company Act requires that U.S. registered mutual funds use market values to value portfolio securities for which market quotations are readily available. When market quotations are not readily available, such funds must value portfolio securities by using fair value as determined in good faith by the board of directors of the funds.

With leadership from the FRBNY, 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 market, which is the most prevalent form of repo contract in the U.S. The Task Force highlighted a number of areas in which significant progress was made to reduce meaningfully the potential for systemic risk and the magnitude of the risk associated with the tri-party repo infrastructure. The Force produced a number of recommendations and made proposals tied to these recommendations that have resulted in significant changes to the tri-party repo market.[17] These changes include the following:

- 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, greatly reducing the duration of intraday credit extensions by the tri-party repo clearing banks to the dealers. 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. Work on this front continues with the ultimate goal of reducing credit extensions by the tri-party repo clearing banks to the dealers to no more than 10% of a dealer's notional tri-party book.

- A process of automated collateral substitution has been adopted, which allows dealers to substitute collateral from tri-party repo deals without having to unwind the entire transaction, which helps to prevent disruptions to regular market activity as dealers have full access to their positions throughout the day. It also allows cash investors such as MMFs to monitor and manage their intraday collateral positions and ensure that their repo exposures are adequately collateralized on a "real-time" basis. This program assures

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[17] 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.

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. Industry participants continue to actively work with the tri-party repo clearing banks to build out the capabilities of this technology and improve the transparency and the efficiency of this important monitoring system.

- 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 repo transaction and the underlying collateral. It also enables the clearing banks to monitor "real-time" credit exposures and an additional level of transparency within the repo market and reduces the risk of the occurrence of failed or intraday defaulted repo trades for all market participants.

- Monthly reporting activity in the tri-party repo market is now published by the FRBNY online and encompasses the overall size of the market, collateral breakdowns, dealer concentrations, and margin requirements that exist within the market.[18] All of this information provides further transparency into the repo market.

- In addition to the increased transparency in the tri-party repo market, registered funds are required to provide additional disclosure about their repo activities. This disclosure appears in the fund's prospectus and statement of additional information, both of which are available to investors, regulators, and the public. MMFs have additional disclosure obligations that require them to post their portfolio holdings on their websites each month within five business days after month end. MMFs also must file Form N-MFP with the SEC on a monthly basis. This provides details on the fund and its portfolio holdings and repo positions (including detail on each security held as collateral), and has given regulators and the public significantly enhanced transparency with respect to MMFs' role in tri-party repos.

In 2010, the SEC adopted amendments that affect U.S. MMF investments in repo agreements for purposes of fund diversification requirements. These amendments limit investments in repurchase agreements to those collateralized by cash items or government securities in order to obtain special look-through treatment of those investments under the diversification requirements. In addition, the amendments require a MMF's board to evaluate the creditworthiness of the repurchase agreement's counterparty.

BOX 6: QUESTION 5

Do you agree that MMFs, individually or collectively, may represent a source of systemic risk ('runs' by investors, contagion, etc…) due to their central role in the short term funding market? Please explain.

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[18] *See* Federal Reserve Bank of New York Tri-Party Reform Infrastructure Statistical Data, http://www.newyorkfed.org/banking/tpr_infr_reform.html.

We believe that MMFs in the U.S. are well regulated and do not represent a source of systemic risk. MMFs in other regions of the world appear to be well managed and supervised, but would likely benefit from the codification of strict investment limitations that the Commission is now considering.

We agree that MMFs play a central role in the short-term funding market. As the Consultation Document states, MMFs "provide an important source of funding for a variety of institutions such as sovereigns, banks, or companies. Active trading by MMFs is vital for liquid markets for commercial paper, short-term bank debt and sovereign debt."[19] 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.

U.S. officials recognized this fact in the 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."[20]

We disagree with the Commission's implicit assertion that MMFs pose systemic risk because of limitations in the design of the product itself. 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 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.[21] 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 SEC adopted amendments to Rule 2a-7, the rule governing U.S. MMFs, that we believe have made MMFs more resilient. 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

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[19] Consultation Document at 12.

[20] PWG Report at 21.

[21] ICI Statistical Data.

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. credit rating, 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.

As daily participants in the broader money markets, we remain concerned with the narrow regulatory focus on MMFs. We 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 unregulated areas before trying to force structural changes onto MMFs. We support IOSCO's recent recommendation urging regulators to "assess the need to extend the perimeter of regulation to such products [e.g. structured vehicles, private funds or unregulated cash pools] and to impose requirements which are consistent with" IOSCO's recommendations for MMFs.[22]

BOX 6: QUESTION 6

Do you see a need for more detailed and harmonised regulation on MMFs at the EU level?

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. Finally, we reiterate our encouragement for regulators to expand their focus beyond MMFs 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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[22] IOSCO Final Report at 12.

BOX 6: QUESTION 7

Should a new framework distinguish between different types of MMFs, e.g.: maturity (short term MMF vs. MMF as in CESR guidelines) or asset type? Should other definitions and distinctions be included?

We believe that investors will benefit from having a common definition of MMFs that is well understood and clearly regulated. Accordingly, we recommend that regulators adopt the following definition for a MMF:

"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)."

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, which are available to investors if such an investment meets their needs. We believe that characterizing these funds as MMFs is confusing to investors. We recommend that the definition of a MMF should be interpreted to exclude short-term bond funds and support a definition that only includes funds that use "cash" or "money market" in their fund name. Accordingly, we support IOSCO's recent recommendation that "all CIS which present characteristics of a MMF or which are presented to investors . . . as having similar investment objectives are captured."[23]

In addition to the concepts that should help define MMFs, we describe in the introduction to our responses other features that we think should be adopted to distinguish MMFs from other products, such as portfolio credit quality, diversification and concentration requirements, governance controls, transparency, and stress testing of portfolio assets.

BOX 7: QUESTION 1

What factors do investors consider when they make a choice between CNAV and VNAV? Do some specific investment criteria or restrictions exist regarding both versions? Please develop.

[23] IOSCO Final Report at 11.

Retail and institutional investors choose CNAV funds for cash management purposes. The benefits of CNAV funds versus VNAV include convenience and simplicity of taxes, accounting, recordkeeping, and operations. Fidelity's research shows that a vast majority of retail and institutional U.S. MMF investors (74% and 89%, respectively) prefer keeping the stable $1 NAV and a significant percentage of these shareholders, particularly institutional shareholders, would redeem holdings in these funds if they adopted a VNAV.[24]

Imposing a VNAV for MMFs 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.

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.

BOX 7: QUESTION 2

Should CNAV MMFs be subject to additional regulation, their activities reduced or even phased out? What would the consequences of such a measure be for all stakeholders

[24] Fidelity 2011 Survey at 4.

involved and how could a phase-out be implemented while avoiding disruptions in the supply of MMF?

We recommend that regulators consider some of the existing key features and principles that we deem as best practices for CNAV MMFs, which we describe in the introduction to our responses. In addition, we encourage regulators to codify these features and principles by including them directly in the definition of a MMF. Retail and institutional investors worldwide affirmatively seek and choose to invest in CNAV funds; therefore, we do not support any measures that would reduce or phase out these funds as investment options.

BOX 7: QUESTION 4

Should valuation methodologies other than mark-to-market be allowed in stressed market conditions? What are the relevant criteria to define "stressed market conditions"? What are your current policies to deal with such situations?

SEC rules require a U.S. MMF to regularly compare its price per share calculated using the amortized cost method to the price per share based on market prices. U.S. MMFs can only use amortized cost accounting to report a stable US$1.00 NAV when the market price remains within one-half of a cent. If a fund's market price deviates more than one-half of a cent, SEC regulations require the fund's board to consider promptly whether to take action, including whether to discontinue the use of amortized cost valuation and to reprice the fund's NAV. The board also may consider whether to suspend redemptions and liquidate the fund. In addition, the SEC's 2010 amendments to the rules governing MMFs require the funds to disclose their portfolios' per-share values at market prices on a monthly basis (with a 60-day delay) to four decimal places. This provides investors with greater transparency into MMF valuation and pricing.

For these reasons, we support the use of mark-to-market pricing for MMFs and think it provides an effective method for verifying that a fund's NAV accurately reflects the fund's fair value market price.

BOX 8: QUESTION 3

Different redemption restrictions may be envisaged: limits on share repurchases, redemption in kind, retention scenarios etc. Do you think that they represent viable solutions? How should they work concretely (length and proportion of assets concerned) and what would be the consequences, including in terms of investors' confidence?

Fidelity has conducted research surveying both retail and institutional investors on their reactions to the possibility of redemption restrictions on MMFs. Fidelity retail and institutional investors reported that they would invest less, or stop investing altogether, in MMFs if there was a possibility of being subjected to a continual redemption restriction.[25] Accordingly, we oppose permanent or "always on" restrictions on redemptions that would impair investors' ability to redeem all shares (even during stable market periods).

BOX 8: QUESTION 4

Do you consider that adding liquidity constraints (overnight and weekly maturing securities) would be useful? How should such a mechanism work and what would be the proposed proportion of the assets that would have to comply with these constraints?

We agree with IOSCO's recent recommendation that MMFs "should hold a minimum amount of liquid assets."[26] We recommend that regulators consider some of the existing key features and principles in U.S. regulations that we deem as best practices for MMFs, which we discuss in our response to Box 6: Question 7. Specifically, we suggest that liquidity constraints require MMFs to maintain 10% daily (overnight) and 30% weekly liquid asset minimums, as well as a maximum of 5% of portfolio assets invested in illiquid securities (securities that cannot be sold or disposed of within seven days). We believe that these liquidity requirements have made U.S. MMFs even safer and have limited significantly any likelihood of "runs" occurring. Accordingly, we encourage regulators to codify these features and principles by including them directly in the definition of a MMF.

BOX 8: QUESTION 6

If you are a MMF manager, what is the weighted average maturity (WAM) and weighted average life (WAL) of the MMF you manage? What should be the appropriate limits on WAM and WAL?

We agree with IOSCO's recent recommendation that "MMF regulation should define limits on the average weighted term to maturity (WAM) and the weighted average life (WAL) of the portfolio."[27] In 2010 the SEC amended the rules governing U.S. MMFs to restrict further the maturity of securities in a MMF's portfolio. For all U.S. MMF holdings, the rules restrict the WAM to a maximum of 60 days and the WAL to a maximum of 120 days. This is in addition to the requirement that each instrument that a U.S. MMF holds have a maximum maturity of 397 days.

We believe that these principles protect investors and have proven effective in increasing the soundness and resilience of MMFs.

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[25] Fidelity 2011 Survey at 5.

[26] IOSCO Final Report at 14.

[27] *Id.* at 11.

BOX 9: QUESTION 1

Do you think that the definition of money market instruments (Article 2(1)(o) of the UCITS Directive and its clarification in Commission Directive 2007/16/EC) should be reviewed? What changes would you consider?

We urge regulators to 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 and in our responses to Box 6: Question 7. These identify some of the characteristics of eligible securities for MMFs, including a maximum instrument maturity of 397 days (as required under the UCITS Directive).

BOX 9: QUESTION 2

Should it still be possible for MMFs to be rated?

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 adviser can evaluate that request, but a regulatory requirement is not appropriate.

BOX 9: QUESTION 3

What would be the consequences of prohibiting investment criteria related to credit ratings?

The use of credit 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. This is consistent with IOSCO's recent recommendation that MMF regulation be clear "that the responsibility for the assessment of credit worthiness lies with the responsible entity and that external ratings are only one element to take into consideration when assessing the credit quality of an instrument."[28]

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.

BOX 9: QUESTION 4

MMFs are deemed to invest in high quality assets. What would be the criteria needed for a proper internal assessment? Please give details as regards investment type, maturity, liquidity, type of issuers, yield etc.

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. 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 the European Commission and other regulators globally to think about MMF regulation with these key concepts in mind.

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We appreciate the opportunity to comment on the Consultation Document. Fidelity would be pleased to provide any further information or respond to any questions that the Commission Staff may have.

Sincerely,

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

[28] *Id.* at 17.