Original to Fred Gabriel Investment News

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[redacted]

This is a commentary on your editorial of October 8 on concerns about money market funds' liquidity problem encountered in 2008. The bank lobby is using your editor to advance an undisclosed agenda that would damage these funds, to the benefit of banks. Here is why:

In the Investment Company Act of 1940,, as amended, there are special provisions concerning SEC-registered money market funds (MMFs). Items added were that these funds must use only A1- and P1- rated cash-equivalent issues to the extent of not more than 5% of assets in any one issue, except for U.S. Treasuries, and issues of **banks**, which may be up to **15%.** The bank-issue exception is what sank the Reserve Fund, founded by Harry Brown in 1974.

The solution to address Mary Shapiro's concerns is to apply the **same 5% limit on bank cash-equivalent paper** as the limit on other cash-equivalents, **not** to cater to the bank lobby's hidden agenda. The banks want the SEC to limit **liquidity** of the MMFs. **Liquidity is the keynote** of MMFs - their principal competitive advantage. Bruce Bent, the manager of the Reserve Fund at the time of its demise, reached for **yield** instead of keeping **liquidity** foremost, and should not have held so much in Lehman Bros. MMFs also are required to maintain an average maturity of not more than 60 days.

Further, evidently your editor was not advised that most, if not all, MMFs, rather than selling off assets, may **borrow** up to 70% of the aggregate value of the fund to cover unexpected excessive withdrawals, simply paying off the lender as maturities transpire in the next few days. Also, the "penny rounding" accounting device is used to maintain the $1 value, by allocating some income from the aggregate to cover temporarily a decline in value of a holding .

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This writer was CEO and chief investment officer of an institutional SEC-registered MMF, from 1984 to 1992, and as the adviser had to be SEC-registered as well. Thus I know a little about the business.

Copy to Mary Shapiro, SEC

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"Time to brace for new money fund rules," Editorial, *InvestmentNews*, October 7, 2012. Web, 8 November 2012, http://www.investmentnews.com/article/20121007/REG/310079989