January 10, 2011

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

Re: President’s Working Group Report on Money Market Fund Reform
(File No. 4-619)

Dear Ms. Murphy:

We are writing on behalf of T. Rowe Price Associates, Inc. (“Price Associates”), which together with other affiliates, serves as investment adviser to the T. Rowe Price family of mutual funds (“Price Funds”) (over 120 funds with approximately $261 billion in assets as of September 30, 2010), and in particular, the Price money market funds, to express our views on the President’s Working Group Report (“PWG Report”). Price Associates manages 11 taxable and tax-exempt money market mutual funds, of which eight are sold to retail investors, two are cash management vehicles for the Price Funds and other institutional clients,¹ and one is a variable annuity portfolio, and which held, in total, approximately $28 billion in assets as of September 30, 2010. The Price Funds currently maintain the third largest market share in the direct-marketed retail distribution channel.

We appreciate the opportunity to comment on the PWG Report. Overall, we believe that the Report presents a balanced and thorough commentary of the possible money market fund reform options. As indicated in the Report, the PWG undertook a study of possible reforms that, individually or in combination, might mitigate systemic risk and address money market funds’ susceptibility to runs by complementing the amendments to Rule 2a-7 (“Rule 2a-7”) under the Investment Company Act of 1940 (“1940 Act”) adopted by the Securities and Exchange Commission (“SEC”) last January. The PWG Report acknowledges that the SEC’s new rules make money market funds more resilient and less risky and, therefore, reduce the likelihood of runs on money market funds, increase the size of runs that money market funds can withstand, and mitigate the systemic risks they pose. As the Report notes, it may not be possible to eliminate all risk from money market funds, but the SEC and PWG suggest that more should be done to address systemic risk and the structural vulnerabilities of money market funds to runs.

¹ These two internal funds are registered under the 1940 Act, but not the Securities Act of 1933, and are managed to comply with Rule 2a-7.
In this regard, we are pleased that the PWG Report acknowledges that retail money market funds have not historically presented the same systemic challenges as institutional money market funds. As the PWG Report notes, the run on money market funds in September 2008 was almost exclusively due to redemptions from prime money market funds by institutional investors. Such investors typically have generated greater cash flow volatility than retail fund shareholders. In fact, the Report notes that more than 90 percent of the net outflows from prime money market funds in the week following the Lehman bankruptcy came from institutional funds. Nevertheless, the SEC imposed new liquidity standards and shortened the weighted average maturity requirements applicable to all funds, despite the disproportionate reaction from institutional investors. We recognize though that a run on an institutional fund could cause harm to the entire money fund industry, and therefore, the PWG options need to be considered in this context.

A Stable NAV is Critical for Retail Money Funds

Our consideration of the PWG Reform options is informed by the fact that our retail shareholders use money market funds as a cash management tool that provides a high degree of liquidity, stability of principal, and short-term income. These investors may also use their money funds as a source from which to pay their living expenses. These goals may require frequent cash movement for check writing, cash sweep, and exchanges into other T. Rowe Price funds for their long-term investments—all which are best served by $1.00 NAV funds. Thus, retail shareholders value the convenience and simplicity of the stable $1.00 NAV, which is also essential for efficient operations, since typically these funds handle more transaction activity than the typical mutual fund. Finally, we would note that money funds were innovative precisely because of the $1.00 NAV feature and the fact that they gave retail investors access to the commercial paper and other short-term debt markets—markets that institutional investors have historically been able to access directly. We fear that removing the $1.00 NAV would substantially reduce the attractiveness of money funds to investors, and potentially cause serious disruption in the short-term credit markets.

Therefore, as a provider of money funds to retail investors, we strongly oppose a mandated floating NAV for money market funds. Furthermore, we believe the current risk-limiting conditions in Rule 2a-7 are entirely appropriate for retail stable NAV money funds. As the PWG Report notes, a switch to floating NAVs may reduce investor demand for money market funds and, therefore, diminish their capacity to supply credit to borrowers that obtain financing in short-term debt markets. In fact, shareholders have demonstrated that they will tolerate extremely low yields for the safety and convenience of a $1.00 NAV. Based on a T. Rowe Price survey of its investors in September 2010, 66 percent of surveyed investors found a change to a floating NAV for money market funds.

For the T. Rowe Price money funds, we only had one fund (a tax-exempt fund) that experienced a net outflow greater than 5% during the month of September 2008 on an aggregate basis. None of our prime money funds exceeded a 5% threshold, and the worst cumulative rolling 5-day redemptions for any of the T. Rowe Price money funds during this time period was 6.1 percent.
to be unfavorable.\(^3\) Almost 62% out of that population indicated that they would close their money market accounts or decrease the balance in their accounts if the SEC required a floating NAV for money market funds. In light of these survey results, we believe that retail investors may significantly reduce or eliminate their investments in money market funds if there is a shift from stable to floating NAVs. Therefore, we are concerned that moving to a required floating NAV may produce a run on retail money funds – the very result that the options in the PWG Report are designed to thwart.

**Consideration of PWG Reform Options.**

We have not commented on all of the PWG Report options below; rather, we are only addressing what we believe to be the most viable options presented.

**Private Liquidity Facility.**

The most viable, broad-based option in the PWG report in our view is a private liquidity facility for prime money funds. As the PWG Report suggests, a liquidity facility, in combination with the SEC’s new liquidity requirements, may assist money market funds to withstand outflows without selling assets into potentially illiquid markets. Also, the liquidity facility provides greater assurance to money fund investors and other market participants that a single shock or adverse event in the credit markets will not turn into a systemic run on money funds. Therefore, we would generally support a requirement for prime money funds to participate in a liquidity facility. Municipal and Treasury money funds should be excluded from the facility as these funds do not present the same liquidity risks.

As noted above, money market funds have differing needs for liquidity based on the nature of their shareholder base and the investments in their portfolios. Therefore, our support for a private liquidity facility as the most viable of the PWG options is tempered by our concern that some funds may have less of a need to access a liquidity facility than others. We also fear that the cost of such a facility, if passed along to retail investors, may make such funds less competitive to other cash management products. We would suggest that it may be appropriate to tier the commitment and maintenance fees for the facility and charge certain funds less for their participation if they satisfy more stringent liquidity and credit requirements than those required under Rule 2a-7. For example, the private liquidity facility could require money funds that pay reduced facility fees to hold more concentrated liquidity positions, and to preclude such funds from holding illiquid and second tier securities altogether. Tiering the facility fees in this fashion would provide incentives for participating money funds to structure their portfolios in a manner that poses less systemic risk, in keeping with the goals of the facility to provide greater assurance to the marketplace.

---

\(^3\) T. Rowe Price selected 413 adults for the survey using the following screening criteria: age of the investor, the investor's responsibility for investment decisions, dollar amount of investable assets, ownership of a money market fund, and the investor's purchase methodology (i.e., purchases directly versus relying solely on an adviser's investment advice). A full methodology is available upon request.
In-Kind Redemptions.

As another option, the PWG Report suggests that money market funds could distribute large redemptions in-kind to institutional investors. We agree that it would be operationally difficult for retail money market funds to distribute securities in-kind to retail investors. As the PWG Report notes, retail investors are not typically permitted to directly invest in the types of securities held by money market funds. In-kind redemptions, however, may present operational and policy challenges for all money market funds. Therefore, this option may still create systemic risk as the redeeming institutional investors are attempting to sell their in-kind securities into a market that is already being pressured by distressed sellers. Moreover, it may be difficult for a money market fund to redeem a pro rata portion of all of its securities because certain money market securities are not easily transferable.

We appreciate the opportunity to comment on the PWG Report. If you have any questions concerning our comments or would like additional information, please feel free to contact any of the undersigned.

Sincerely,

David Oestreicher
Chief Legal Counsel

Joseph K. Lynagh
Vice President and Portfolio Manager

Darrell N. Braman
Managing Counsel

Fran Pollack-Matz
Senior Legal Counsel