Invesco

Invesco Advisers, Inc.
PO Box 4333
Houston, TX 77210-4333
11 Greenway Plaza, Suite 2500
Houston, TX 77046

713 626 1919
www.invesco.com

January 10, 2011

VIA ELECTRONIC MAIL at rule-comments@sec.gov

Ms. Elizabeth M. Murphy, Secretary
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 Number 4-619)**

Dear Ms. Murphy,

Invesco Advisers, Inc. is a registered investment adviser that, along with its affiliates, has managed and advised money market funds and other cash investment vehicles for over 30 years. As of December 31, 2010, Invesco had approximately $51.7 billion in assets under management in its registered money market funds operated in compliance with Rule 2a-7 of the Investment Company Act of 1940, as amended ("Rule 2a-7").

We strongly endorse the ongoing efforts of the United States Securities and Exchange Commission (the "Commission") and other policymakers to bolster the resiliency of money market funds. Since its adoption, Rule 2a-7 has provided for solid foundation of safety, liquidity, investment diversification, and a market based rate of return that have benefited money market fund investors and other stakeholders. We are highly supportive of the Commission's January 2010 amendments to Rule 2a-7 related to portfolio maturity, liquidity, credit quality and other shareholder protections, and we believe that these measures have significantly increased the intrinsic resiliency of money market funds by enhancing protections for investors, improving transparency for market participants and further strengthening the ability of money market funds to withstand periods of market stress. As a direct byproduct of the recent Rule 2a-7 enhancements, the industry is arguably better positioned today than at any time previously to protect investors during periods of market stress, including potential and extreme redemption pressures.

We are also encouraged that the Commission and other policymakers recognize the vital economic role that money market funds play as a source of credit and short-term financing to consumers, corporations, financial institutions, the U.S. government, agencies and state and local governments. As of October 2010, registered money market funds held approximately 45% of all outstanding short-term U.S. agency securities, 37% of commercial paper issuances, 25% of bank certificates of deposits and 12% of short-term U.S. Treasury securities. Given the central importance of money market funds to short term credit markets, a disruption of the funds or a significant reduction in their asset base could have a severe destabilizing impact on issuers and on markets generally.

We are writing to provide our views with respect to certain aspects of the Report of the President's Working Group on Financial Markets: Money Market Fund Reform Options, released in October 2010[1] (the "Report"). While the Commission's recent amendments to Rule 2a-7 have significantly enhanced investor protection for money market funds, the Report discusses additional potential reform options for money market funds intended to address systemic risk and to reduce the susceptibility of these funds to future investor runs.

We recognize that the goal of policymakers is to reduce further the vulnerability of the financial system, including money market funds, to systemic risk. We share this aim and have actively worked with both policymakers and our industry peers over the last two years to enhance industry standards and practices in, among other areas, the tri-party repurchase agreement market. Notwithstanding the significant progress toward this goal represented by the recent amendments to Rule 2a-7, we recognize that more may need to be done and we are pleased with the thoughtful and balanced approach to the potential policy options highlighted in the Report. However, we believe that any further potential reforms must be analyzed within a framework that acknowledges that the total elimination of risk from money market funds or other similar investment alternatives is not feasible and reforms should be focused on measures that can effectively reduce liquidity risk in times of extreme market stress.

Our interest in commenting is driven by our fiduciary responsibility to our money market fund shareholders and our belief that certain of the policy options discussed in the Report could disrupt or jeopardize the orderly functioning of the short-term credit and funding markets that play a vital role in the wider economy. Additionally, as clearly suggested in the Report, some of the policy options would diminish investor options with respect to cash management and could result in significant unintended adverse consequences. We strongly agree with the President's Working Group's observations that further policy or regulatory actions must be examined carefully to understand fully the potential adverse effects, as well as the benefits, that they may offer.

We are concerned that some of the policy options discussed in the Report could have unintended and highly adverse consequences including (i) reducing orderly functioning or efficiency of credit markets by substantially reducing availability of credit to consumers, corporations, financial institutions, and government borrowers; (ii) triggering a sudden, widespread shift of assets to less regulated vehicles that do not offer the protections afforded by Rule 2a-7 and the Investment Company Act of 1940, given our clients' extremely strong preference for a stable NAV product offering a market-based yield; and (iii) potentially reducing the number of investment options available to investors.

It is important to acknowledge that few actions, if any, would eliminate the risk of a run on money market funds entirely. Money market funds compliant with Rule 2a-7 are not, and were never intended to be, risk free instruments. Like all investments money market funds are intrinsically exposed to risks including credit, interest rate, market, and operational risks. These risks are not limited to money market funds, however, as even deposits with banks, which have access to limited deposit insurance

---

[1] *See* Report of the President's Working Group on Financial Markets: Money Market Fund Reform Options (October 2010).

and access to a lender of last resort, are not immune from the risks associated with an investor run. While we believe that eliminating the risk of a run on money market funds entirely would be virtually impossible without imposing untenable limitations or requirements on the funds, we would support further efforts to ensure that fund investors are fully informed as to the risks associated with their investments.

We have provided below our comments on those proposals discussed in the Report as to which we believe Invesco can offer particular insights drawn from our experience as one of the largest sponsors of registered money market funds.

Private Emergency Liquidity Facility for MMFs

We are highly supportive of further work to examine the feasibility of a private facility that would be available to provide short-term, incremental liquidity to prime money market funds in the event of an investor run. Like the recent Rule 2a-7 changes and the mandatory in-kind redemption proposal, this option would have the advantage of focusing specifically on liquidity issues that could potentially lead to more serious systemic risks if not properly mitigated. In addition to the tangible assistance that such a facility could provide to funds during periods of market stress, it would also bolster investor confidence, much as the U.S Treasury's Temporary Guarantee Program for Money Market Funds did during the recent credit crisis. Although more study is required, a private emergency liquidity facility for prime funds also appears more workable and less likely to have an adverse impact on market stability than the other proposals discussed in the Report. We note that our support for this option is premised upon the assumption, discussed further below, that money market funds would continue to use amortized cost and stable NAVs.

We believe that the need for a private liquidity facility would be limited to prime funds since government funds are less susceptible to widespread redemption risk during periods of market turmoil and, in fact, generally see an increase in assets during these periods due to the tendency for investors to engage in a "flight to quality." We note that during the period from September 10, 2008 to December 31, 2008 assets in government money market funds grew by approximately 72% while assets in prime funds declined approximately 20%. We believe that imposing the burden and cost of participation in the liquidity facility on government funds would unfairly saddle their investors with the cost of protection that they are highly unlikely to need or desire.

We believe that in order for a private liquidity facility to serve its intended purpose (i.e., mitigate the risk of industry runs by providing necessary liquidity during times of market stress and reinforcing investor confidence), participation by all Rule 2a-7 prime money market funds should be mandatory. If not, non-participating funds could provide a destabilizing factor and thereby potentially trigger a loss of investor confidence and runs on other funds. We would recommend that any prime fund not participating in the program be prohibited from using the term "money market" in its name and marketing materials. While the initial equity investment needed to fund such a facility and the annual participation fees associated with the facility could be spread across all prime money market funds, subsequent costs should be borne by the individual funds needing to access to the facility.

Finally, we believe strongly that if such a facility were to be implemented its purpose should be limited to serving as a liquidity backstop and that it should not provide credit support to any participating fund. Credit related losses suffered by a fund must remain with that fund.

Floating Net Asset Values

As the Report acknowledges, a stable net asset value ("NAV") is an integral element of a money market fund and is central to the fund's utility as an investment tool for investors. We strongly believe that eliminating the stable NAV, which has been a defining feature of money market funds for over four decades, would increase rather than decrease the systemic risks that the President's Working Group is attempting to mitigate. While imposing a floating NAV regime for money market funds could theoretically lessen the risk that investors would view them as guaranteed-principal products, it would do so at the cost of drastically decreasing their usefulness and appeal as an investment option and would likely only reallocate that risk to other, less regulated or unregulated, investment vehicles. Large investors, in particular, may be prone to transfer funds currently invested in Rule 2a-7 money market funds to other less regulated vehicles that continue to offer stable NAVs such as offshore cash funds, private separately managed cash accounts, and other unregistered segregated cash pools (e.g., short-term investment funds similar to those used in connection with securities lending programs). Alternatively, investors may choose to move their assets into bank deposits, which could pressure the banking system by requiring additional capital to support those new deposits. For many of our larger clients, including corporations and municipalities, these bank deposits would likely be uninsured and would represent an incremental reduction in their ability to diversify their cash management investments.

Among the primary reasons for the overwhelming popularity of money market funds are the administrative, accounting and tax efficiencies that they offer investors, efficiencies that are directly linked to the funds' stable NAVs. If money market funds were required to adopt floating NAVs, investors could be required to determine cost basis and relevant gains and losses on each transaction, creating a substantial burden on those seeking to use the funds to manage their short-term liquidity needs. This is especially true given that money market fund investors generally engage in more frequent transactions than investors in long-term funds. Additionally, as noted in the Report, many of our corporate or governmental investors would be prohibited by internal or statutory restrictions from investing in a money market fund that did not have a stable NAV. The popularity of money market funds as compared with similar floating-NAV products in the U.S. market such as ultra short bond funds supports the proposition that floating NAV cash funds are not widely embraced by U.S. investors.

We share the President's Working Group's concern that the imposition of a floating NAV regime for money market funds could precipitate a destabilizing flood of preemptive withdrawals by investors seeking to guarantee the return of their principal. This would bring about the very result that the measure was intended to prevent in the first place: a run on funds triggering a liquidity crisis and potentially destabilizing financial markets through widespread, forced sales of portfolio holdings.

As of December 29, 2010 the Investment Company Institute reported approximately $2.8 trillion of assets were invested in stable NAV taxable and tax-exempt money market funds in the United States. As noted in the Report, "these funds play a dominant role in some short-term credit markets."[2] A large reduction in money market fund assets due to investor withdrawals would threaten a critical source of short-term financing for businesses, governments and other borrowers at a time when other sources of credit are likely to be constrained. Concurrently, the recent adoption of a variety of new regulatory capital requirements has led banks and other financial institutions around the world to re-evaluate the appropriate size of their balance sheets and future levels of credit extension. The pending implementation of these more stringent capital requirements could greatly magnify the systemic effects of any additional reduction in credit extended by money market funds due to a smaller asset base.

Perhaps most importantly, we do not believe that the implementation of a floating rate NAV structure for money market funds would reduce investors' propensity to redeem shares during periods of market stress. As the Investment Company Institute Report of the Money Market Working Group (March 17, 2009)[3] has pointed out, the experience of ultra-short bond funds, which may have investment strategies and portfolio characteristics similar to money market funds but maintain a floating net asset value, illustrates the redemption pressures that might face floating net asset money market funds. During 2007-2008 period these ultra-short bond funds experienced an average decline of 2% in their net asset value but experienced a decline in net assets of 50% in 2008 and 60% from their peak in 2007.[4] The ICI Report highlights a similar trend with respect to European floating NAV cash funds, noting that "[t]he experience in Europe of certain money and bond funds likewise demonstrates that floating net asset value funds can also face strong investor outflows during periods of market turmoil." [5]

In summary, we believe that investors of all types have a strong preference for stable NAV money market funds for a variety of reasons and that any shift toward floating rate NAVs for some or all funds would increase systemic risk by leading to large outflows from Rule 2a-7 funds into other, less regulated or unregulated vehicles that continue to offer stable NAVs.

Mandatory Redemptions In-Kind

We have previously expressed our concern that requiring money market funds to satisfy redemptions in-kind under certain circumstances would likely be technically unworkable and could result in disrupting, rather than stabilizing, markets. While we continue to harbor these concerns, we would be supportive in principle of a mandatory in-kind redemption requirement if these technical challenges could be addressed successfully in partnership with regulatory authorities. We believe that further examination of this option may be merited in order to assess more accurately its feasibility.

In the context of this discussion it is worthwhile to examine the liquidity strains experienced by money market funds during the peak of the credit crisis in the week following the collapse of Lehman Brothers and the significant effects that the recently

---

[2] *See* Report of the President's Working Group on Financial Markets: Money Market Fund Reform Options (October 2010), at 7
[3] *See* Investment Company Institute Report of the Money Market Working Group (March 17, 2009) at 105.

[4] *See* Investment Company Institute Report of the Money Market Working Group (March 17, 2009) at 105.
[5] *Id* at 106

implemented new liquidity fund requirements under Rule 2a-7 would have had during this period. As of December 29, 2010 the Investment Company Institute reported that, in accordance with the revised Rule 2a-7 liquidity requirements, prime money market funds held over $1.644 trillion in assets and a minimum of $164 billion in daily liquidity and $493 billion in weekly liquidity. As the Report notes, "if [money market funds] had held enough liquid assets in September 2008 to meet the new liquidity requirements, each [fund] would have had adequate daily liquidity to meet redemption requests on most individual days during the run."[6] A mandatory in-kind redemption requirement should therefore be viewed as an additional, incremental step to ensure adequate liquidity during periods of extreme market volatility.

A critical issue to address in considering the adoption of a mandatory in-kind redemption requirement is the question of how and when the requirement would be triggered. We would strongly oppose any industry-wide trigger since we believe that this would impose an undue hardship on investors redeeming from stable funds in order to protect investors in funds experiencing liquidity problems. We believe that the decision as to when to require redemptions to be made in kind should be based upon the particular characteristics of the fund itself and that such decisions should therefore be made on a fund-by-fund basis by the board of directors charged with a fiduciary responsibility to protect all investors in the fund equally. Such an approach would be consistent with the power to suspend redemptions granted to fund boards under the recent revisions to Rule 2a-7. Once a fund's board of directors has established the detailed criteria for imposing the in-kind redemption requirement, these criteria should be clearly and prominently disclosed in the fund's prospectus.

One of the principal benefits offered by a mandatory in-kind redemption requirement is that it would allocate more fairly the risk associated with destabilizing, frictionless, large-scale redemption requests made without prior notice, which historically have been initiated primarily by large investors. By eliminating redemption transaction costs borne by a fund, such a scheme would insulate investors from costs associated with redemptions by fellow shareholders that may have concentrated ownership positions within a fund. Potentially requiring investors to take holdings in-kind following the breach of pre-defined trigger thresholds would encourage them to carefully consider potential outcomes before withdrawing their assets during periods of stress. Equally important, it would also encourage investors to consider more carefully the current investments and historical investment practices of the funds in which they invest, as well as the concentration of their exposure to various portfolios, since they could potentially end up holding those securities directly. Similarly, fund managers would have a greater incentive to ensure the quality of their funds' holdings since failing to do so would make their funds decidedly less attractive to potential investors. We would envision that the introduction of mandatory in-kind redemption provisions would be accompanied by more explicit and comprehensive disclosure, as well as a general re-education of the marketplace regarding the related risks.

We have previously expressed our concerns that (i) not all money market holdings could be divided equally among investors, (ii) many money market fund investors would lack the necessary custody accounts to hold securities upon transfer and

---

[6] *See* Report of the President's Working Group on Financial Markets: Money Market Fund Reform Options (October 2010), at 18.

(iii) once in the hands of shareholders, the market valuations of these securities (which are often widely held across many unaffiliated fixed income funds) would further decline as shareholders engaged in "fire sales" to eliminate their positions in these securities as rapidly as possible. After further analysis, we now believe that some of these concerns could be substantially mitigated. For example, with respect to the first issue, we are of the opinion that redemption in-kind may not always need to represent a perfect pro-rata slice of a portfolio in order to represent an equitable share of the fund's overall holdings. Furthermore, while sales by large investors who chose to liquidate holdings distributed to them in-kind could adversely affect the value of those securities, the additional transactional friction created by the in-kind redemption requirement would mitigate this impact versus shareholders' current ability to redeem for cash at little or no cost. We also believe that with sufficient implementation time and coordination among policymakers and industry participants such as fund advisers and client custodians, the operational, policy, and legal challenges relating to the distribution of underlying portfolio securities to fund investors could be resolved in an equitable manner for all shareholders. We note that variable insurance funds face additional obstacles related to, among other things, state insurance law requirements. However, we do not believe that these challenges should stand in the way of implementing in-kind redemption requirements if the issues facing other money market funds are able to be resolved satisfactorily.

Two-Tier System of MMFs, with Stable NAV MMFs Reserved for Retail Investors

We do not believe that permitting only retail money market funds to maintain stable NAVs while requiring institutional investors to utilize funds with floating NAVs represents a feasible or effective approach to reducing systemic risk. As an initial matter, given the complexity of today's fund marketplace it is extremely difficult to characterize investors as either "institutional" or "retail". For example, any such analysis would need to address how to treat individual accounts that are effectively controlled by large intermediaries who place designated funds on their platforms. We would welcome any steps to improve transparency in this area by requiring intermediaries to provide more detailed information with respect to the underlying investors in a fund.

Attempts to define categories of investors by asset levels would also encounter difficulty. A retail consumer invested through a 401(K) plan may be invested in "institutional" money market funds through omnibus accounts that are considered institutional in nature. High net worth individuals with large money market fund balances could be categorized as institutional whereas corporations, governments or municipalities with small balances could be considered retail investors. In addition, investors might seek to circumvent distinctions based upon asset thresholds by structuring their investments carefully to stay below the stated amounts, which would create an illusion of stability and potentially trigger runs on multiple funds in the event that these amounts were withdrawn simultaneously.

Furthermore, as noted in our earlier discussion of floating NAV funds, we have serious concerns that removing or significantly restricting institutional investors' access to stable NAV money market funds would lead them to seek out other, less regulated vehicles that continue to offer a stable NAV. As discussed previously, both institutional and retail fund investors have clearly expressed their strong preference for stable NAV money market funds. With institutional money market funds accounting for nearly two-thirds of Rule 2a-7 compliant money market fund assets under management, such a shift could trigger a wider run on money market funds that could harm investors and result in serious unintended and adverse repercussions for credit markets and potentially the banking system.

It is also important to recognize that a wide variety of investors rely on Rule 2a-7 funds to provide cost-effective access to money market instruments. While the Report suggests that institutional investors have the ability to purchase these instruments directly, even very large investors are often not able to benefit from the economies of scale and access to securities, issuers, tenors and prices currently available to most money market funds. Money market fund investors also benefit from the professional portfolio and credit management expertise of their fund's advisors, expertise that the large majority of investors lack internally.

Conclusion

In conclusion, we believe that a properly structured private liquidity facility, coupled with the implementation of carefully tailored mandatory redemption in-kind provisions and the enhanced protections provided by the recent revisions to Rule 2a-7 could provide a solid framework for preventing a run on money market funds and the related destabilizing effects on the financial system. On the other hand, we believe that the elimination of the stable NAV for all or a subset of money market funds would pose a grave risk to the efficient functioning and popularity of money market funds and, as a result, could greatly increase systemic risk due to the central role played by these funds within the wider economy. We look forward to a continuing dialogue with the Commission and other policymakers and industry participants aimed at identifying workable and effective solutions to strengthen money market funds further.

Sincerely,

Lyman Missimer
Head of Global Cash Management