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January 10, 2011

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

Re: File No. 4-619; Release No. IC-29497
President's Working Group Report on Money Market Fund Reform

Dear Ms. Murphy:

Fidelity Investments[1] appreciates the opportunity to provide comments to the Securities and Exchange Commission ("SEC") on the Report of the President's Working Group ("PWG") on Money Market Fund Reform Options ("PWG Report").[2]

Fidelity is the largest money market mutual fund ("MMF") provider in the country, with more than $450 billion in MMF assets under management. As of November 30, 2010, funds we manage represent more than 16% of MMF assets. More than 13 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. We believe that our focus on stability of principal, liquidity and shareholder return, in that order, have delivered great value to our shareholders over our more than 30 years in the MMF business.[3] Continued viability of MMFs is important to investors, issuers and financial markets, and it is important to us.

In addition to offering significant shareholder value, MMFs provide critical low-cost, short-term, stable funding for the federal government (including the Government-Sponsored Enterprises), corporations, financial institutions as well as state and local governments and non-profits, including universities and hospitals. As the PWG Report notes, "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

[1] Fidelity Investments is one of the world's largest providers of financial services, with assets under administration of nearly $3.4 trillion, including managed assets of over $1.5 trillion. The firm 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 financial intermediary firms.
[2] Report of the President's Working Group on Financial Markets, Money Market Fund Reform Options, October 2010, available at http://www.treasury.gov/press-center/press-releases/Documents/10.21%20PWG%20Report%20Final.pdf.
[3] For example, over the past twenty years, taxable retail MMFs have provided, on average, a yield more than 1.5% above bank money market demand accounts (MMDA), according to data from the Investment Company Institute, iMoneyNet and Bank Rate Monitor. In fact, when taking into account inflation over the same time period, bank MMDA yields produced an average negative yield (-0.19%) whereas taxable retail MMFs earned 1.36%.

particular difficulties for borrowers who rely on these instruments for financing."[4] In fact, more than 40% of the Treasury's short-term offerings and more than 65% of short-term municipal securities are purchased by MMFs.[5] That level of government funding results in MMFs holding $310 billion of U.S. Treasury securities, $415 billion of federal agency and GSE-backed securities and $332 billion of municipal securities.[6]

Fidelity has worked with the major dealers in the municipal and Treasury markets to estimate the cost to the federal government as well as to state and local governments if MMFs were not available to provide low cost financing. For municipal issuers, the amount of annual interest would be expected to increase by billions of dollars at a time when many state and local governments are already struggling financially.[7] The federal government would also have to pay billions more in additional annual interest to finance its short-term debt, adding to the overall federal deficit.[8]

Beyond those increased costs that government would bear, consider the impacts to American savers and global issuers if MMFs were substantially impaired or regulated out of existence, and banks essentially became the sole option for most domestic cash management. Individual Americans across the country who want to save money would be limited to low bank administered rates, subject to the credit risk of a single entity and deprived of the convenience and liquidity of MMFs. Even worse, these bank depositors would not know how the bank has invested their money, and the benefits of transparent MMF holdings would no longer exist. Corporate issuers would have a much less competitive marketplace in which to sell short-term debt, resulting in higher issuance costs and less borrowing capacity. This trend would be exacerbated by new banking regulations that are forcing banks to extend their liabilities into longer term markets. These greater financing costs would constrain growth in the economy at a time when the nation is still struggling with unemployment hovering around 10%. Finally, the shift of nearly $3 trillion to banks relying upon the Federal Reserve as a lender of last resort would significantly increase the potential systemic liabilities for the Federal Reserve.

[4] PWG Report at 21.
[5] *See* Report of the Money Market Working Group, Submitted to the Board of Governors of the Investment Company Institute, March 19, 2009.
[6] Board of Governors of the Federal Reserve System, Flow of Funds Accounts of the United States, Third Quarter 2010, Table L. 121 (December 9, 2010).
[7] This estimate is based upon the amount of outstanding notes, municipal commercial paper and variable rate demand notes held by MMFs (based on Fidelity's market data, Muniview and iMoneyNet, Inc.). These instruments are currently financed with short-term (often 7-day) floating rates today. If MMFs were not available to purchase these securities, these securities would be financed at longer, fixed rates, which would increase the interest cost to issuers.
[8] This estimate looked at the amount of short-term financing that MMFs provide in U.S. Treasury Bills, Agency notes and repurchase agreements for Government Securities (which help keep the cost of primary issuance low for Government Securities by ensuring a well-financed secondary market). Across those three market segments, MMFs represent approximately 34% of the funding. The increased cost is based upon assumptions about how much more in interest the U.S. Government would have to pay if nearly one-third of its short-term investor base was not in the market.

Accordingly, any reform proposal that puts this funding source in jeopardy should be scrutinized closely before adoption. We believe that each of the various options in the PWG Report will greatly impair the attractiveness of MMFs to shareholders or impose additional expenses on MMFs without improving the risk profile of the product. If the MMF industry contracts dramatically, whether due to shareholder dissatisfaction with lower yields or because current sponsors who find the business no longer economical exit the marketplace, the consequences for the short-term funding of governments and corporations would be severe.

Fidelity believes that MMFs are a success story for the capital markets, allowing issuers access to low cost funding under a well defined financial regulatory framework. For decades, MMFs have been attractive destinations for shareholder capital, due to their flexibility and liquidity. Certainly, MMFs have faced stress during different market periods, particularly in 2008 and early 2009. After Lehman Brothers went bankrupt in September 2008, shares of the Reserve Primary Fund, which held a large amount of Lehman Brothers securities, dipped below the all-important $1 per share price that MMFs strive to maintain. That was only the second instance of the value of a MMF dropping below $1 per share in history. Ultimately, Reserve Primary Fund shareholders received slightly more than 99 cents per share.[9] In response, the federal government stepped in to support temporarily MMFs with a fee-based insurance program, the U.S. Treasury Department Temporary Guarantee Program for Money Market Funds ("Guarantee Program"). This program suffered no losses, as no MMF needed these resources. Indeed, the temporary support during the crisis earned the U.S. Treasury — and, hence, taxpayers — approximately $1.2 billion in fees from MMFs.[10]

More recently, the SEC's amendments to Rule 2a-7 along with other significant changes to the regulatory structure of our capital markets have meaningfully increased the ability of MMFs to absorb large, unexpected redemptions. We strongly agree with the observation in the PWG Report that the changes to Rule 2a-7 have directly addressed liquidity risks associated with maturity transformation and elements of MMF portfolios' exposures to credit and interest rate risks.[11] We have also developed a new idea discussed below in which each MMF would be required to retain a portion of the fund's income in order to build a reserve in the fund against potential realized or unrealized future losses. When combined with the changes to Rule 2a-7, which position MMFs to withstand better heavy redemptions and accordingly reduce the incentive to redeem shares, this mandatory reserve (which would grow over time) would strengthen the

[9] Press Release of The Reserve, July 15, 2010, available at http://www.reservefunds.com/pdfs/Primary%20Distribution_71510.pdf.
[10] Glenn Somerville, US Treasury's Money Market Guarantee Closing Down, Reuters, September 18, 2009.
[11] *See* PWG Report at 14.

ability of MMFs to maintain the stable $1.00 NAV and minimize the incentive to redeem shares in the event of market volatility.[12]

After a brief review of recent important regulatory changes, our letter comments on the options described in the PWG Report in more detail. Finally, we discuss our mandatory reserve proposal.

I. Recent Regulatory Changes

A. Money Market Mutual Fund Reform

Much has changed in the short-term markets and regulatory landscape since 2008. First, and most importantly for MMFs, all of the portfolio management changes under revised Rule 2a-7 are now in effect. The impact of these changes is significant and has greatly increased the resiliency and liquidity of MMFs.

Specifically, the new overnight and weekly liquidity requirements have created massive pools of liquidity in MMFs without support from any taxpayer money or guarantee. By way of comparison, MMFs now have approximately $840 billion in seven-day liquidity, which dwarfs the $50 billion made available under the Guarantee Program and the peak outstanding loans of $152 billion under the Asset-Backed Commercial Paper Money Market Fund Liquidity Facility in October 2008.[13] In addition, the new one-day and seven-day liquidity requirements have resulted in MMFs holding a significant amount of 30-day liquidity.

Next, lowering the portfolio weighted average maturity to 60 days from 90 days has decreased interest rate risk in MMFs. Introducing a weighted average life test of 120 days and limiting the amount and maturity of second tier investments has reduced credit risk in MMFs. Additionally, MMF boards have significantly more information about potential risk in MMFs because of the new stress test requirement. Finally, MMFs now provide enhanced transparency for regulators, investors and market participants by making monthly holdings information available on the web and providing more detailed portfolio and security data to the SEC, which will be available publicly on a delayed basis.

[12] Just as the Guarantee Program gave MMF investors confidence in the stability of their assets in 2008, we believe that each fund's reserve would similarly improve shareholder confidence, and reduce the likelihood of shareholder outflows in a crisis.

[13] *See* Burcu Duygan-Bump *et al.*, *How Effective Were the Federal Reserve Emergency Liquidity Facilities? Evidence from the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility*, Federal Reserve Bank of Boston, available at http://www.bos.frb.org/bankinfo/qau/wp/2010/qau1003.pdf.

B. Systemic Risk Regulation

Beyond MMF reform, the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act has changed the financial regulatory landscape. The result is that the financial markets and major market participants in which MMFs invest are more tightly regulated, and the credit market disruptions that cause large, unexpected redemptions should be less likely to occur. First, the new Financial Stability Oversight Council ("FSOC") has been established to promote market discipline as well as to identify and mitigate threats to the financial stability of the United States.[14] Second, the FSOC and other federal agencies will have the benefit of additional market information that is collected by the Office of Financial Research.[15] Finally, the Dodd-Frank Act provides broader powers for the orderly resolution of systemically important financial institutions that do fail.[16] MMFs will benefit from this increased certainty in the markets and greater mitigation of systemic risks.

Additionally, the institutions that ran a business model predicated on short-term funding from MMFs and other capital markets participants either no longer exist or have been converted into bank holding companies. These institutions are now subject to greater regulatory scrutiny and have access to the Federal Reserve's discount window. In short, we believe that there is already, and will continue to be, less systemic risk in the markets in which MMFs invest.

C. Regulation of Issuers in Which MMFs Invest

Banking regulators worldwide have agreed upon new Basel III rules intended to improve the safety and soundness of banks, which issue instruments that are widely held by MMFs. The new rules increase the capital requirements and liquidity thresholds as well as reduce leverage for banks globally.[17] The capital proposals would significantly revise the definitions of Tier I and Tier II capital, end the use of certain hybrid instruments and focus on common equity as the predominant component of Tier I capital. The liquidity proposals will require banks to have greater amounts of high quality liquid assets on hand to satisfy short-term liabilities, which should make banks a safer investment for MMFs.

D. Changes in Tri-Party Repo Market

Significant work is also underway to reduce potential risk in the tri-party repo (or repurchase agreement) market. With leadership from the Federal Reserve Bank of New

[14] The Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, Sect 111, 124 Stat. 1376, 1395.
[15] Pub. L. No. 111-203, Sect 111, at 1413.
[16] Pub. L. No. 111-203, Sect 204-05, at 1454-1459.
[17] *See* Bank for International Settlements, Basel III: A global regulatory framework for more resilient banks and banking systems (December 2010), available at http://www.bis.org/.

York, the Payments Risk Committee has formed a Task Force on Tri-Party Repo Infrastructure Reform.[18] That group has produced a number of recommendations with the goals of reducing the amount of intraday credit provided by the two clearing banks in the repo market, increasing the transparency in many aspects of the tri-party repo market and helping MMFs and other repo buyers better prepare for the possibility of a repo counterparty default.[19] The Task Force has already made proposals tied to these recommendations that will result in significant changes to the tri-party repo market. In particular, the first proposal specifies parameters to facilitate three-way trade confirmation among sellers, buyers (including MMFs), and the clearing banks.[20] This should provide regulators and market participants with increased certainty regarding tri-party repo trades. The second proposal would establish a standardized window for the settlement of maturing and new tri-party repo transactions.[21] As these changes are implemented over time, the result should be a more stable and transparent repo market and, consequently, greater stability in this key investment for taxable MMFs.

All of the regulatory changes outlined above should be taken into consideration before any additional reforms are proposed. Solving for the problems of 2008 without taking into account what has changed since then runs the risk of unintended consequences.

II. PWG Options Evaluation

The PWG has requested that the "FSOC consider the options discussed in this report to identify those most likely to materially reduce MMFs' susceptibility to runs and to pursue their implementation."[22] Fidelity recognizes the balanced approach taken by the PWG in drafting the PWG Report. Most importantly, the PWG Report concludes that there is no easy additional change to regulation of MMFs that will insulate the funds from the risk of potential losses in the future. In fact, the PWG Report points out that such an outcome is neither desirable nor achievable — and that "preventing any individual MMF from ever breaking the buck is not a practical policy objective."[23] However, Fidelity believes that the options identified in the PWG Report ultimately will not reduce the risk to MMFs of large, unexpected redemptions and in some cases could actually cause shareholders to redeem more quickly.

[18] *See* http://www.ny.frb.org/banking/tpr_infr_reform.html and http://www.ny.frb.org/tripartyrepo/.
[19] Report, Task Force on Tri-Party Repo Infrastructure, Payments Risk Committee (May 17, 2010), available at http://www.ny.frb.org/prc/report_100517.pdf. Reducing the intraday credit provided by the two clearing banks decreases systemic risk by minimizing the potential problems posed by an intraday insolvency of one of the banks.
[20] *See* http://www.ny.frb.org/tripartyrepo/pdf/tpr_proposal_101203.pdf.
[21] *See* Id.
[22] PWG Report at 2.
[23] *See* Id. at 4.

A. Floating NAV

The least desirable option is any proposal that involves floating the NAV of MMFs, either for all funds or for some funds in a two-tier structure. As previously described in our 2009 comment letter to the SEC in response to the 2009 Rule 2a-7 rule amendments proposal, Fidelity strongly opposes a floating NAV for MMFs.[24]

Imposing a floating NAV on MMFs will create, rather than reduce, systemic risk by increasing concentration of short-term assets in the banking system. Some believe that in a period of market turmoil, funds with floating NAVs would be at lower risk of significant redemptions from shareholders. We are not aware of empirical evidence to support this belief. However, our research does show that a significant percentage of MMF shareholders, particularly institutional shareholders, would redeem holdings in these funds if they adopted a floating NAV. A survey of MMF investors conducted by Fidelity revealed that 92% of institutional investors expressed a preference for the stable NAV.[25] In that same survey, 69% of institutional investors stated that they would either eliminate (22%) or reduce (47%) their use of MMFs if the funds adopted a floating NAV. These investors would instead invest directly in short-term instruments, bank MMDAs or certificates of deposit. Greater bank deposits would increase the bank concentration risk for the 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.

Fidelity believes that it is in the best interests of our fund shareholders and customers to maintain the stable $1.00 NAV for MMFs. Clearly, a floating NAV is hugely unpopular with the millions of individual and institutional MMF shareholders and would result in massive fund outflows. With a floating NAV, investors could expect an increase in tax, accounting, and record-keeping requirements. Moving to a floating NAV 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 state laws and regulations, municipalities, insurance companies and others are authorized to invest in MMFs only if the funds maintain a stable NAV. Sponsors of 401(k) plans also may be reluctant to include non-stable NAV 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 float the NAV. MMFs serve as a reliable source of direct short-term financing for the U.S.

[24] *See* http://sec.gov/comments/s7-11-09/s71109-38.pdf.

[25] This survey was conducted in August 2009 and no affiliation to Fidelity was disclosed. The percentages reflect the investors who expressed a preference to keep the constant $1.00 NAV after being informed of the potential tax and accounting impacts of a fluctuating NAV.

Government, domestic and foreign banks, financial and non-financial corporations and municipal issuers (including state and local governments as well as universities and hospitals). The decrease in investor demand for MMFs likely to result from moving to a floating NAV 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 U.S. 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 do not support any solution that mandates a floating NAV, whether for all funds or some funds.

B. Private Liquidity

We wholeheartedly agree with the PWG that much has been done through the SEC's reform of the 2a-7 regulations to enhance the liquidity of MMFs.[26] Market experience has demonstrated that the shareholder base in MMFs overall is quite stable. We believe that the new SEC rules have addressed liquidity sufficiently for MMFs. We have concerns that the costs, infrastructure and complications associated with private liquidity facilities are not worth the minimal liquidity that would be provided.

Although we are not aware of a proposal for a private liquidity facility that we support, we understand that some financial regulators may wish to establish an emergency infrastructure that would allow the federal government to act in an extreme crisis. Certainly, it seems prudent to ensure that the federal government has the tools to act in the face of unprecedented market disruption, whatever the cause. Fidelity is interested in participating in any further discussions of potential emergency liquidity facilities and would offer the approach of the Tri-Party Repo Infrastructure Reform Task Force as a model for its inclusion of regulators and market participants.

C. Mandatory Redemptions in Kind

At first glance, mandatory redemptions in kind may seem like an attractive answer to address the goals of the PWG Report. In practice, however, making redemptions in kind mandatory is an unworkable approach and would raise a number of troubling fiduciary responsibility issues for fund boards and sponsors. As the PWG Report notes, "[p]ortfolio holdings of MMFs sometimes are not freely transferable or are only transferable in large blocks of shares, so delivery of an exact pro rata portion of each portfolio holding to a redeeming shareholder may be impracticable."[27] That sentence actually understates the case. First, many MMFs have large positions in repurchase agreements, which, while liquid when held by the funds, are two-party transactions that

[26] *See* PWG Report at 14.
[27] Id. at 26.

are inherently non-transferable. Second, advisers may be able to transfer only the most liquid securities, leaving a less liquid portfolio for shareholders who did not redeem. Moreover, as uneven positions are transferred to redeeming shareholders, the remaining shareholders would be left with odd lot positions that are more difficult and more expensive to trade. When these positions are sold, there is a risk of undesirable, distressed market repricing. The consequences to remaining shareholders call into question whether a fund adviser is meeting its fiduciary duty by transferring out certain securities in kind. Of course, MMFs have the ability to execute redemptions in kind today. Those transactions can be in the best interest of the fund and its shareholders under certain circumstances. Making redemptions in kind mandatory, however, would not resolve any potential systemic risk concerns regarding MMFs.

D. Insurance

The PWG Report also raises the possibility of insurance for MMFs. The report does not specify, but we assume that the only type of insurance under consideration is private insurance.[28] There are two primary challenges inherent in such a proposal – capacity and cost. Each of these constraints makes the likelihood of private insurance near zero. As the PWG Report states, "[p]rivate insurers have had considerable difficulties in fairly pricing and successfully guaranteeing rare but high-cost financial events, as demonstrated, for example, by the recent difficulties experienced by financial guarantors. That no private market for insurance has developed is some evidence that such insurance for MMFs may be a challenging business model. . ."[29] We believe that the cost of insurance would make MMFs unattractive for investors and unsustainable for MMF sponsors. For these reasons, Fidelity does not support an insurance requirement for MMFs.

E. Regulate Stable NAV Funds as Special Purpose Banks

The PWG Report considers "mandating that stable NAV MMFs be reorganized as [special purpose banks] [which] might subject these MMFs to banking oversight and regulation, including requirements for reserves and capital buffers, and provide MMFs with access to a liquidity backstop and insurance coverage within a regulatory framework specifically designed for mitigation of systemic risk."[30] Transforming MMFs into banks would decrease short-term funding options for governments, corporations and non-profits. Moreover, this option would increase costs and introduce greater risks to the U.S. financial system by creating homogeneity in the financial regulatory scheme and relying on the bank business model for all short-term cash investments. More than 350 banks

[28] The PWG Report does note that, "[i]nsurance could, in principle, be provided by the private sector, the government, or a combination of the two . . . ." PWG Report at 27. Yet, a repeat of the Guarantee Program is now forbidden by federal law. 12 U.S.C 5236(b). This is among the facts that cause Fidelity to question the assumption that there is an expectation the government will act to guarantee MMFs in the future.
[29] PWG Report at 27.
[30] Id. at 32.

have failed in the U.S. alone since the financial crisis in 2008 despite the oversight and support described above and the extraordinary steps taken by the U.S. government to support the banking industry in response to the crisis.[31]

Banks use leverage, hold long-term, often highly non-transparent investments, and may have substantial off-balance sheet commitments. MMFs, on the other hand, are not overly leveraged, nor do they hold the same types of opaque and excessively risky assets that frequently plague banks' balance sheets. In fact, MMFs' very premise is to be lower risk in order to maintain their investment objective of preservation of cash and the provision of liquidity. Given the unprecedented difficulties the banking industry has experienced recently, it seems bizarre to propose that MMFs operate more like banks, which have absorbed hundreds of billions of dollars in government loans and handouts. Narrowing America's investment landscape by funneling trillions of dollars into just one sector - the banking industry - may increase rather than decrease risks to our economy. The pressure on the Federal Deposit Insurance Corporation would increase. Worse, investors' ability to diversify cash investment risk, as MMFs do today, would become more complex and expensive. For these and many other reasons, the bank regulatory regime, which was designed to mitigate risks arising from the traditional bank business model, is poorly suited to MMFs and likely to present an insupportable burden to them without the corresponding benefits it provides when applied to traditional banks. Fidelity does not support regulating any MMFs as special purpose banks.

III. Idea for Consideration: Create Mandatory Reserve in MMFs

Fidelity has devoted significant time and effort in evaluating potential options for MMF reform. Although Fidelity has concerns that the options described in the PWG Report are not advisable, we believe the creation of a well designed reserve within MMFs could further improve the stability and viability of MMFs.[32] This reserve would be funded by a holdback of a portion of a fund's income, similar in size to the amount shareholders paid for the Guarantee Program. The holdback would be disclosed in the MMF prospectus, as either a shareholder "charge" or "fee". Each fund's reserve would be used to protect shareholders of the fund in the event of an unrealized or realized loss in that fund.[33] We would encourage federal financial regulators to explore this idea further and seek input from investors, advisers, issuers and MMF sponsors as to its feasibility.

[31] Federal Deposit Insurance Corporation, Failed Bank List, available at http://fdic.gov/bank/individual/failed/banklist.html (last visited January 10, 2011).

[32] Although this idea is not covered in the PWG Report, we believe it is responsive to the SEC request for comment: "We also are interested in comments on other issues commenters believe are relevant to further money market fund reform, including other approaches for lessening systemic risk not identified in the Report." SEC Release No. IC-29497 at 4.

[33] Fidelity also believes that once a reserve in a fund builds to a sufficient level (a process that could take several years), additional funding of a reserve should not be required, and the shareholder holdback would be suspended.

This idea addresses all five features of MMFs that the PWG Report argues create an "incentive to redeem shares before other shareholders."[34] First, it addresses the feature of "maturity transformation with limited liquidity resources" because a fund would have a reserve to absorb losses if a MMF had to sell assets in the secondary market at a loss.[35] Thus, the "incentive to redeem shares *before* a fund has depleted its cash-like instruments" would be substantially mitigated (emphasis in original).[36] Second, the focus on the $1.00 stable NAV would be less of a concern for shareholders because MMF market value NAVs would be above $1.00 on a regular basis. Accordingly, there would be no incentive to redeem early out of fear of not receiving $1.00 in return. Third, the loss reserve would help ensure that funds are able to handle credit and interest rate risks that may result in unrealized losses. Fourth, we recommend that the required loss reserve be mandatory, regulated and transparent. Moreover it would be subject to board oversight. Finally, this idea would fit well with MMF investors' low risk tolerance and expectations. Investors would understand the cost of the stable NAV in the form of a slightly lower net yield. MMFs would be safer because shareholders would pay to protect a fund against losses.

This concept is responsive to the notion in the PWG Report that it is "imperative that MMFs be required to internalize fully the costs of liquidity or other risks associated with their operation."[37] The new liquidity requirements have successfully internalized the cost of liquidity and a reserve funded by holding back a portion of a fund's income would internalize the cost of a potential credit loss issue. The PWG Report expressed the concern that "market participants will likely expect that the government would provide emergency support at minimal cost for MMFs *during* the next crisis." (emphasis in original.)[38] Fidelity does not necessarily agree with that statement and is not aware of any survey of MMF shareholders or market participants that provides empirical evidence for such belief. Nonetheless, we understand that policy makers are seeking changes that would address this perceived concern. We believe that the answer is not to follow bank-like capital models and regulate MMFs and their advisers by a safety and soundness standard. Rather, the way to "internalize" the costs of any potential losses from MMF investing is to lower investment returns slightly. This holdback could be applied to all MMFs or just institutional general purpose MMFs, creating a buffer to offset possible future losses. If applied to all MMFs, it is conceivable that the amount of the holdback (or the aggregate reserve cap limit) might vary based on the type of MMF, such that a retail MMF would have a lower holdback rate than an institutional MMF or a Treasury MMF might have a lower holdback rate than a general purpose MMF.[39]

[34] PWG Report at 9.
[35] Id.
[36] Id.
[37] Id. at 17.
[38] Id.
[39] A portion of income would be subject to holdback until the reserve reached an appropriate level in the fund. Then, under the supervision of the MMF board, the holdback would be suspended until the reserve

Of course, shareholders invest in MMFs for income and therefore a potential drawback of this idea is that returns for shareholders will decrease. Current low yields make this challenge more acute. Nonetheless, MMF shareholders have demonstrated that yield is not the only reason for investing in MMFs. Currently, MMFs are yielding an average of seven basis points,[40] but investors still have over $2.8 trillion invested in MMFs.[41] Perhaps proving the point even more is the over $800 billion invested in government MMFs, which are yielding one basis point on average.[42] While it may be the case that some shareholders would object to the lowered returns, it seems that most would accept that cost for greater protection against losses.[43]

Another advantage of this idea is the simplicity of implementation by any MMF. There is no need to set up a new infrastructure or government program, and costs to MMFs of all sizes should be considerably less than other options. Moreover, the existing regulatory regime under the SEC and effective corporate structure with board oversight will remain intact, and the holdback will be disclosed to shareholders in fund documents. We acknowledge that there are accounting and tax considerations that may require regulatory changes to facilitate implementation of the reserve, but the PWG Report already contemplates potential regulatory relief to achieve the desired policy objectives for MMFs.[44] The accounting issues are less complicated if the reserve in a MMF is capped at lower than 50 basis points (as the MMF's NAV will round down to a dollar, not round up to a dollar and a penny).

Under this proposal, shareholders would receive the benefits of the stable NAV and a reserve to support it, but would incur the associated cost. For example, if the mark to market NAV of a MMF were to rise to a range of $1.0025 to $1.0040, that fund could withstand a 75-90 basis points of loss before breaking the buck.[45] This additional safety should accomplish the PWG Report's goal of reducing the susceptibility of MMFs to large, unexpected redemptions, as a fund's reserve will be available to help absorb the potential losses associated with forced sales at distressed prices.

needed to be replenished. The holdback would be retained in the fund, not paid out to the management company or another entity.

[40] Crane Data, Crane 100 Money Fund Index, available at http://www.cranedata.us/ (last January 9, 2011).

[41] *See* Money Market Mutual Fund Assets, Investment Company Institute (December 30, 2010), available at http://ici.org/research/stats/mmf/mm_12_30_10.

[42] *See* Id.

[43] One could imagine a competitive environment in which some MMFs reduce management fees to cover some or all of the costs of the shareholder reserve holdback.

[44] *See* PWG Report at 29.

[45] A MMF with a market value NAV of $1.0040 can absorb a 90 basis point drop before hitting the $0.9950 threshold, and a fund with a market value NAV of $1.0025 can similarly absorb a 75 basis points drop.

IV. Conclusion

Fidelity reiterates its recognition of the thoughtful approach taken by the PWG Report. Like many others in the MMF industry and at various regulatory agencies, Fidelity believes it is critical that any further regulatory reform of MMFs is limited and appropriate. As the PWG Report notes, many of the options proposed could result in significant shareholder flows out of MMFs, resulting in massive disruption to the short-term capital markets. Other options may result in costs to fund sponsors that are sufficiently burdensome to cause advisers, including Fidelity, to reconsider whether offering MMFs is a worthwhile business. If either shareholders or sponsors are forced to abandon MMFs, the consequences for the federal government, federal agencies and state and local governments of losing funding from MMFs will be severe. Fidelity is determined to preserve this business on behalf of and standing beside our customers. Based on formal surveys we have conducted and informal discussions with issuers and investors across the country, we anticipate that MMF shareholders and issuers of all types will voice their strong opposition to attempts to overregulate MMFs.

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Although we believe the revisions to Rule 2a-7 and other recent regulatory reforms have made MMFs significantly more resilient, we are open to further reforms that can improve the MMF vehicle that already serves the needs of shareholders and issuers. In that spirit, we appreciate the opportunity to comment on the PWG Report. Fidelity would be pleased to provide any further information or respond to any questions that the SEC or staff may have.

Sincerely,

Scott C Goebel

cc: The Honorable Mary L. Schapiro, Chairman
The Honorable Kathleen L. Casey, Commissioner
The Honorable Elisse B. Walter, Commissioner
The Honorable Luis A. Aguilar, Commissioner
The Honorable Troy A. Paredes, Commissioner

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