

January 10, 2011

Ms. Elizabeth M. Murphy  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549

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

Dear Ms. Murphy:

J.P. Morgan Asset Management ("J.P. Morgan") appreciates the opportunity to comment on the President's Working Group Report on Money Market Fund Reform (the "Report"). J.P. Morgan is one of the largest money market fund managers in the world, with fund assets under management of \$456 billion.<sup>1</sup> In the United States, J.P. Morgan provides investment management services for 13 money market funds registered under the Investment Company Act of 1940 (the "1940 Act") with assets totaling \$293 billion, including the JPMorgan Prime Money Market Fund, the industry's largest money market fund, with assets of \$133 billion.

We commend the President's Working Group's efforts to report on and analyze the potential advantages and disadvantages of options that seek to mitigate the risks of industry-wide runs on money market funds. We agree with the President's Working Group that "the significance of [money market funds] in U.S. financial systems suggests that the changes must be considered carefully."<sup>2</sup> We believe that it is critical to strike the proper balance between achieving that goal and ensuring that money market funds remain a stable and viable part of our financial system.<sup>3</sup>

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<sup>1</sup> Source – iMoneyNet Onshore/iMoneyNet Offshore. All assets levels are as of November 30, 2010 and are in U.S. dollars. Historical FX rates applied. Money Market Funds are defined as funds registered under the Investment Company Act of 1940 managed pursuant to Rule 2a-7, or, in the case of offshore funds, funds managed according to the IMMFA AAA rated style.

<sup>2</sup> See Securities and Exchange Commission Release No. IC-29497 (Nov. 3, 2010), Appendix at 13.

<sup>3</sup> Money market funds finance more than one-half of the U.S. dollar denominated corporate short term debt issuances. A significant reduction of money market fund assets would limit the supply of short-term credit to industrial and financial companies, or at best, make obtaining such credit through other financing sources more costly.

Over the past two years, J.P. Morgan has worked closely with the Investment Company Institute (the "ICI") and other industry groups to consider issues relating to the money market fund industry. J.P. Morgan was part of the ICI Money Market Working Group that issued, in March 2009, extensive recommendations to strengthen money market funds in response to the market crisis of 2008 (the "Working Group Report"). J.P. Morgan also submitted its own comment letter, in September 2009, and worked closely with the ICI on the ICI's comment letter to the Securities and Exchange Commission (the "SEC") in response to the SEC's proposed amendments to Rule 2a-7 of the 1940 Act.

J.P. Morgan more recently has been involved with efforts to develop an industry-sponsored liquidity facility to provide liquidity to "prime" money market funds in periods of unusual market conditions (the "Liquidity Facility"). We believe that the Liquidity Facility is the best single option presented in the Report to address the objective of further mitigating the risk of runs on money market funds, without damaging money market funds' ability to operate in their current structure and continue their important role in the financial markets. The Liquidity Facility is discussed in detail by the ICI in its letter to the SEC of January 10, 2011. We are in general agreement with the comments made by the ICI in that letter. We appreciate this opportunity to share the key reasons that led us to general agreement with the ICI in support of the Liquidity Facility and our concerns with the floating NAV option. In addition, we are recommending certain additional changes in money market fund regulations to strengthen further the recently adopted amendments to Rule 2a-7. These recommendations include giving a fund board the authority to suspend redemptions temporarily for up to five business days without requiring the liquidation of the fund. We believe that the Liquidity Facility described in the Report and the authority to suspend redemptions without the subsequent liquidation of the fund would benefit the specific fund in question and its shareholders as well as other money market funds and the money markets.

**The SEC's Recent Revisions to Rule 2a-7, as well as Other Regulatory Changes Should Substantially Strengthen the Resiliency of Money Market Funds and Provide Increased Transparency to Investors and Regulators**

In considering further reforms, we believe it is important to acknowledge the comprehensive changes adopted by the SEC last year with respect to Rule 2a-7 to strengthen the resiliency and stability of money market funds and provide increased transparency of money market funds' investments and operations to investors and regulators.

In particular, we note that the 2010 amendments included the requirement for a maximum 120-day Weighted Average Life, a reduction in Weighted Average Maturity, minimum liquidity requirements, a reduction in permitted investments in illiquid securities, periodic stress testing, adoption of know your customer procedures, a process by which fund boards may effect an orderly liquidation of a money market fund, and enhanced transparency through new disclosures to investors and the SEC. We recognized at the time that some of those amendments could have the effect of reducing money market fund yields. Notwithstanding that adverse effect, we generally supported those changes because of the overriding benefit to investors and the markets.

In light of the adoption of those recent regulatory changes and the ongoing regulatory changes being implemented pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, all of which seek to promote financial stability and transparency, we question the need for, and urge caution with respect to, some of the additional reform options reviewed in the Report

and with respect to which the SEC seeks comments. We are concerned that many of those options would make money market funds an undesirable and unworkable investment option for meeting the needs of current money market fund investors.

We are particularly concerned with the option of a floating NAV. The success of money market funds over the past decades has been due to the combination of competitive market yields with the ease and convenience of transacting at a \$1.00 NAV. We fear that a significant percentage of money market fund assets would leave money market funds without the stable NAV, and, as a result, significantly reduce the supply of short-term credit to the financial markets. We are also concerned about the risk that some portion of money market fund assets would migrate to other products that offer stable NAVs but lack the carefully crafted protections of Rule 2a-7 and the thoughtful oversight of the SEC, which would have the effect of undoing the recent regulatory amendments designed to increase transparency and financial stability. That risk has been cited by the President's Working Group in the Report and by the Treasury Department.<sup>4</sup> We believe that efforts to oversee less regulated vehicles (such as funds organized in the U.S. or in offshore jurisdictions and sold to U.S. investors on a private placement basis) by the SEC would be difficult, costly and time-consuming, and in the end, provide less protection against systemic risk than the SEC's oversight of money market funds.

The other options referenced in the Report raise concerns that are well articulated by the President's Working Group and with which we agree.

#### **A Private Industry-Sponsored Liquidity Facility is the Best Single Option in the Report to Address Concerns of Runs, While Maintaining the Successful Money Market Fund Structure**

A private industry-sponsored Liquidity Facility that offers money market funds the ability to sell money market fund securities to the Liquidity Facility at amortized cost would provide funds access to an alternative liquidity source at times of unusual market conditions. This new source of liquidity would further bolster the already enhanced liquidity levels required by Rule 2a-7 and would help limit the potential of large money market fund sales of money market instruments and the negative impact of such sales on the money markets. The existence of the Liquidity Facility should also bolster investor confidence in the viability of money market funds' stable NAV during unusual market conditions and, as a result, reduce the risk of the type of mass redemptions that occurred in 2008.

We expect that the implementation and operation of the Liquidity Facility will result in ongoing costs to money market funds and shareholders. As with the recent changes to Rule 2a-7 noted above, we believe that those costs are appropriate in that they will promote the stability of money market funds without significantly diminishing the viability of money market funds as a short-term investment option for investors.

We acknowledge that the Liquidity Facility, although simple in concept, has the potential to be complex in structure and operation, and has a number of issues that need to be thoughtfully addressed including capacity, governance, structure and pricing. We believe, however, that those issues can be satisfactorily addressed, and urge our industry colleagues and regulators to work towards finding solutions.

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<sup>4</sup> See *Financial Regulatory Reform, A New Foundation: Rebuilding Financial Supervision and Regulation* (June 17, 2009), available at [http://www.financialstability.gov/docs/regs/FinalReport\\_web.pdf](http://www.financialstability.gov/docs/regs/FinalReport_web.pdf), at 39.

## **Additional Recommendations to Strengthen the Resiliency of Money Market Funds**

### **(a) Board Authority to Temporarily Suspend Redemptions**

As noted above, the recently adopted amendments to Rule 2a-7 permit a fund's board to suspend redemptions and effect an orderly liquidation of a fund in the event that a fund cannot meet redemption requests. That option ensures that all shareholders are treated fairly and paid out equally over the course of the liquidation. An orderly liquidation should also prevent "fire sales" and the negative implications of such sales to other money market funds and the stability of the money markets. As a result, the ability to suspend redemptions is a powerful tool that not only benefits the fund (and its shareholders) in question, but also other money market funds and the money markets.

The ICI, in the Working Group Report, recommended that a fund's board have the authority to suspend fund redemptions temporarily for a period not to exceed five business days. Further, to prevent abuse, the ICI recommended that the option only be allowed to be exercised once every five years. The recommendation was not adopted. We believe it should be reconsidered, as this recommendation may at times be more appropriate than liquidation. A five-day window would give a fund and its board an opportunity to evaluate all options it may have during a severe market dislocation, including seeking capital support, arranging for a sale of its portfolio securities, or ultimately deciding to liquidate a fund. The authority to suspend redemptions temporarily without the requirement to then liquidate the fund could provide the same benefits of preventing "fire sales" and the negative effects of such sales as the existing authority to suspend redemptions followed by liquidation of the fund.

### **(b) Know Your Customer Enhancements**

The 2008 crisis highlighted the importance of robust "know your customer" procedures as essential to the ability of a fund to plan for its liquidity demands. The recently implemented Rule 2a-7 regulatory enhancements include a general liquidity requirement that requires a money market fund to consider, among other things, the characteristics of its investors and their likely liquidity demands.

The use of certain omnibus accounts and transaction-oriented portals reduces the ability of funds to analyze the cash flows of their ultimate shareholders. That lack of transparency makes it more challenging for funds to determine the optimal levels of liquidity they should maintain. We recommend the adoption of additional Rule 2a-7 requirements that will promote greater transparency from such omnibus accounts and portals including an analysis and profile (not the identity) of the largest shareholders investing through each omnibus account and portal.

### **(c) Subordinated Class Structure or Other Capital Provision Concepts**

We understand that the SEC staff has had preliminary discussions with industry participants about the potential to establish a money market fund with a stable NAV share class for investors and a subordinated share class to be held by the fund sponsor or its affiliate. The subordinated share class would support the stable NAV class in the event of a default or potential decline in portfolio value due to liquidity issues. While we recognize that this type of product may have structural and regulatory issues that need to be addressed, we recommend that further consideration be given to this proposal or proposals which incorporate some other form of provision of capital support by the fund sponsor

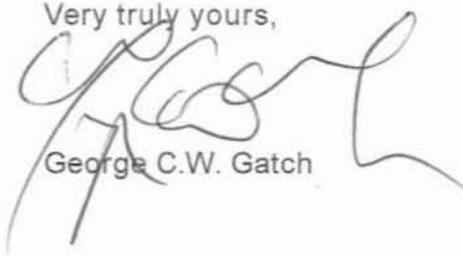
or its affiliate. The subordinated share class would support the stable NAV class in the event of a default or potential decline in portfolio value due to liquidity issues. While we recognize that this type of product may have structural and regulatory issues that need to be addressed, we recommend that further consideration be given to this proposal or proposals which incorporate some other form of provision of capital support by the fund sponsor or its affiliate.

We do not believe the creation of a subordinated share class should be used in place of the Liquidity Facility nor should it be mandated across the industry. However, we believe that this idea warrants further consideration.

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J.P. Morgan appreciates the opportunity to comment on the Report. We would be pleased to provide any further information or respond to any questions that the SEC or the staff may have.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Gatch', written over the typed name 'George C.W. Gatch'.

George C.W. Gatch

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

Jennifer B. McHugh, Acting Director, Division of Investment Management  
Robert E. Plaze, Associate Director, Division of Investment Management