January 10, 2011

VIA ELECTRONIC SUBMISSION ON FILE No. 4-619

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: President's Working Group on Financial Markets File No. 4-619 (SEC Rel. No. IC-29497)

Dear Ms. Murphy:

United Services Automobile Association (USAA) appreciates the opportunity to provide its comments on the Report of the President's Working Group on Financial Markets Money Market Fund Reform Options (the Report). The findings in the Report, and more importantly the regulatory response to the Report, are of vital importance to the future of the money market fund (MMF) industry and to USAA's members: retail investors.

USAA is a member-owned association that seeks to facilitate the financial security of its members, specifically the members of the United States military and their families, by providing a full range of highly competitive financial products and services, including insurance, banking and investment products. USAA Investment Management Company (IMCO), an indirect wholly owned subsidiary of USAA, serves as the investment adviser and distributor of the USAA family of no-load mutual funds, including the USAA money market funds.

I. Summary:

The Report requests industry input on a number of issues, including: (1) the need for stable net asset value (NAV) mutual funds; and (2) the creation, structure and operation of a back-up liquidity facility to provide further stability to MMFs. Our comment on each of these issues is discussed below.

II. Need for Stable NAV Mutual Funds:

Retail MMFs provide a reliable short-term investment vehicle for the average investor, while at the same time providing critical funding for the short-term capital needs of domestic corporations and municipalities, as well as the federal government and its agencies.

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MMFs are governed by an intricate framework of regulations that are designed to ensure a stable NAV and provide for adequate liquidity in times of financial distress. MMFs are subject to disclosure and anti-fraud requirements as well as substantive prohibitions and mandates for day-to-day operations. In addition, MMF's credit and liquidity standards have been further bolstered by the recent amendments to Rule 2a-7.

The essential characteristics of MMFs, including liquidity and a stable NAV, must be preserved in any further structural changes or regulatory efforts. It is these essential characteristics combined with the rigorous securities laws and rules that have allowed MMFs to remain not only a commercially successful product and vital part of retail investors' portfolios, but also a necessary component of financing within the capital markets.

To the extent MMFs require further changes to address their susceptibility to systemic liquidity events, USAA echoes the views of industry participants and the Investment Company Institute (ICI) in urging that any structural changes to MMFs, intended to address systemic events, preserve the essential characteristics of MMFs through appropriate prudential measures, within the parameters of a stable NAV.

III. <u>Creation of an Industry Funded Back-Up Liquidity Facility</u>:

USAA generally agrees with the ICI's proposed creation, structure and function of an industry funded back-up liquidity facility. For the reasons set forth below, USAA proposes that any mandatory liquidity facility initial capitalization and ongoing commitment fees (the fees) be variable so that those MMFs that pose the greater potential "systemic risk," as borne out in the most recent financial turmoil, pay proportionally higher fees than those MMFs that pose significantly less systemic risk.

The fees should be tied to the risks posed by the participating MMF in a manner similar to the standards applied in underwriting an insurance risk. Therefore, in considering a mandatory liquidity facility for MMFs, the Financial Stability Oversight Commission and the Securities and Exchange Commission (Commission) should ensure that the fees are tailored to the risks presented historically by similarly situated MMFs. For example, retail MMFs that have historically been less susceptible to liquidity crises would have a lower risk profile and therefore a lower required fee for participation in the liquidity facility.

Failure to take into account the amount of risk posed would result in the fees having a regressive character. This would place higher marginal costs on retail investors in MMFs that pose comparatively less risk and that are least able to afford them. A risk-sensitive fee schedule would lessen the extent to which large institutional MMFs with high net cash flows and a past susceptibility to liquidity issues caused by large redemptions, would benefit from the disproportionate costs borne by MMFs whose characteristics have historically made them less susceptible to liquidity events.

Retail MMFs have characteristics that pose less systemic risk as compared to institutional MMFs due to, among other factors, the historical fact that they (1) require less liquidity, as a result of their smaller average daily cash flows; (2) have substantially smaller average account sizes; and (3) have cash flows that are far less volatile. Indeed, the Report determined that the run on MMF assets in

2008 was caused "almost exclusively [as a result of] redemptions from prime money market funds by institutional investors."

USAA notes that a liquidity differentiation between retail and institutional MMFs was considered within the proposing and adopting releases to the recent amendments to Rule 2a-7, but was not adopted as a result of definitional concerns. USAA believes a similar distinction could be made by examining MMFs' risk factors, instead of focusing on definitional aspects. With further study and industry participation, the Commission could establish reasonably quantifiable measures of risk that could be used to set liquidity facility fees that are based on each MMF's or MMF family's risk attributes. For example, risk could be measured by the asset size of the particular fund or fund family, the average account balances held or the daily and weekly velocity of net cash flows in comparison to the required daily and weekly liquidity.

In addition to decreasing the burden on less risky MMFs, a fee schedule that assigns a cost to identified risk characteristics would better incentivize participants to mitigate their own liquidity risk factors.

USAA notes that significant study into the operation, parameters and feasibility of the liquidity facility is required prior to implementation. During this time, USAA recommends the Commission undertake a study to delineate risk factors that increase MMFs' susceptibility to liquidity crises. These risk factors could then be used to determine the fees, if any, required to participate in the liquidity facility.

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USAA appreciates the opportunity to provide comments on the Report and looks forward to future input into any proposed rulemaking or regulation. If you have any questions regarding our comments, or would like additional information, please contact me at (210) 498-7405 or Chris Laia at (210) 498-4103.

Sincerely,

/s/ Matthew Freund
Matthew Freund
Senior Vice President, Investment Portfolio Management
USAA Investment Management Company