Goldman Sachs Asset Management

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January 10, 2011

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

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

Dear Ms. Murphy:

Goldman Sachs Asset Management, L.P. ("GSAM") appreciates the opportunity to comment on the October 2010 Report of the President's Working Group on Financial Markets ("PWG") regarding Money Market Fund Reform Options ("Report"). In the Report, the PWG provides a thoughtful and balanced assessment of the regulatory control environment currently applicable to U.S. registered money market mutual funds (hereafter referred to as "money market funds" or "MMFs") governed by Rule 2a-7 under the Investment Company Act of 1940, as amended (the "1940 Act"). The PWG also presents a well-reasoned discussion of the advantages and disadvantages of some of the additional measures that could be taken to reduce even further the potential systemic risks that money market funds pose to the financial system. We are submitting several comments in this letter to assist the Securities and Exchange Commission ("Commission") and the Financial Stability Oversight Council ("FSOC") in their ongoing evaluation of this important matter.

As you will see, our comments echo one of the Report's primary themes: the need to establish an appropriate balance in the regulation of money market funds. In particular, we agree with the PWG's observation that policymakers "should balance the benefits of allowing individual MMFs to take some risks and facilitating private and public borrowers' access to term financing in money markets with the broader objective of mitigating systemic risks – in particular, the risk that one fund's problems may cause serious harm to other MMFs, their shareholders, short-term funding markets, the financial system

and the economy." [1] In this regard, we offer the following comments, which are discussed in greater detail in subsequent parts of the letter:

- The amendments to Rule 2a-7 and related rules adopted by the Commission in 2010 have vastly improved the regulatory structure of money market funds and, in our view, have mitigated the potential systemic risks presented by money market funds to a greater extent than outlined in the Report. In particular, new regulations requiring money market funds to maintain minimum liquidity levels, to adopt "know your investor" requirements to determine whether even higher liquidity levels are warranted, and to adhere to reduced maturity limits, along with provisions designed to promote an orderly liquidation in cases where a money market fund is about to "break the buck," have added a significant level of stability to the operations of money market funds.

- Notwithstanding the benefits derived from these recent regulatory changes, we agree with the PWG that certain other enhancements could be made that would even further mitigate the systemic risks posed by money market funds. For instance, we are supportive of the creation of a private emergency liquidity facility for prime money market funds ("Liquidity Facility"), as described in the Report. We have been part of a working group formed by the Investment Company Institute ("ICI") to explore the feasibility of establishing a Liquidity Facility. While there are many logistical and regulatory obstacles that would need to be addressed before a Liquidity Facility could become a reality, we believe that such a facility could provide an additional liquidity buffer for prime money market funds in times of market stress.

- In addition to supporting the creation of a Liquidity Facility, we also encourage policymakers to consider adopting two additional requirements that are not discussed in the Report but that could even further address the potential structural vulnerabilities of money market funds. Specifically, we believe that the regulatory framework governing money market funds would be strengthened by (1) mandating that money market fund managers conduct mark-to-market or "shadow" pricing of their funds at least weekly and even more frequently depending on a fund's then-prevailing market-based net asset value ("NAV"); and (2) requiring financial intermediaries to provide information to facilitate a money market fund's ability to comply with the new "know your investor" requirements. In our view, these enhancements would even further mitigate the two primary variables that can put stress on money market funds: insufficient liquidity and the potential for undetected market NAV deterioration, especially during periods of market volatility and significant redemption activity.

[1] Report, pp. 13-14.

- Finally, other than establishing a Liquidity Facility, we have concerns about the other policy options outlined in the Report either because they are unnecessary and potentially would cause more problems than they would solve, or because they would face considerable logistical and practical challenges rendering their ultimate implementation unlikely. Specifically, as it pertains to the policy option that would require money market funds to transact at a floating NAV, we agree with all of the concerns outlined in the Report and in particular the view that the elimination of transacting at a stable NAV "may cause investors to shift assets to stable NAV substitutes that are vulnerable to runs but subject to less regulation" than money market funds.[2] We also note that existing regulations require the public disclosure of the mark-to-market NAVs for all money market funds on a monthly basis with a 60-day lag. We believe this type of transparency and information is sufficient as compared to the practical difficulties of requiring that money market funds transact at a floating NAV.

These comments reflect our underlying views that (1) there is no perfect solution for money market funds that eliminates all risks to investors and to the financial system; (2) the current regulatory framework for money market funds is not broken and in fact already works well to mitigate the potential systemic risks posed by money market funds; and (3) certain enhancements to the current regulatory structure for money market funds may be appropriate but the adoption of any fundamental changes to the current regulatory framework, such as requiring money market funds to transact at a floating NAV, are not warranted and likely would result in adverse unintended consequences.

1. <u>The 2010 Amendments to Rule 2a-7 And Related Rules Have Vastly Improved the Regulatory Structure of Money Market Funds</u>

In the Report, the PWG outlines many of the amendments to Rule 2a-7 and other rules related to money market funds adopted by the Commission in 2010 and appropriately observes that "the rules should mitigate (although not eliminate) systemic risks by reducing the susceptibility of MMFs to runs, both by lessening the likelihood that an individual fund will break the buck and by containing damage should one break the buck."[3] We agree with this observation. In fact, we believe that the recent amendments to Rule 2a-7 and related rules have had an even more significant impact on mitigating the systemic risks posed by money market funds than the Report suggests. The Commission made a significant number of changes to money market fund regulation in 2010 and we do not recite them all here. Instead, we are highlighting several particularly critical changes whose impact are worth noting to the Commission and the FSOC.

[2] Report, p. 21.
[3] Report, p. 14.

Minimum Liquidity Requirements: First, as discussed in the Report, amended Rule 2a-7 now requires money market funds to maintain minimum levels of portfolio liquidity. Specifically, to comply with the new daily liquidity requirements, a taxable money market fund must maintain at least 10% of its assets in cash, U.S. Treasury obligations, and securities (including repurchase agreements) that mature or for which the fund has a contractual right to obtain cash in one day. In addition, to comply with the new weekly liquidity requirements, a money market fund must maintain at least 30% of its assets in securities that mature or can be converted to cash within one week, U.S. Treasury obligations, and securities issued by federal government agencies and government-sponsored enterprises with remaining maturities of 60 days or less.

The Commission has clearly indicated that these liquidity standards represent *minimum* liquidity levels that money market funds must maintain at the time a new security is acquired. Importantly, but not discussed extensively in the Report, amended Rule 2a-7 also imposes a "general liquidity requirement" that may very well cause money market funds, depending on the nature of their shareholder base, to maintain even higher levels of portfolio liquidity. To comply with this general liquidity requirement, money market fund managers are expected to adopt "know your customer" procedures designed "to consider factors that could affect the fund's liquidity needs, including characteristics of a money market fund's investors and their likely redemptions."[4] This requirement also places an obligation on a money market fund's board of directors to oversee that fund management is managing the fund in a manner consistent with maintaining a stable NAV in light of the type of investors permitted to invest in the fund.

We highlight these new liquidity requirements for the Commission's and FSOC's consideration because they directly address one of the primary reasons money market funds have been vulnerable during periods of significant levels of shareholder redemption activity, particularly during the market crisis in 2008. As noted in the Report, "[r]edemptions in excess of MMFs' cash-like liquidity may force funds to sell less liquid assets."[5] When money market funds are forced to sell less-liquid assets, especially during a volatile market, the fund may very well need to sell that security at below cost, thereby negatively affecting such fund's NAV. Thus, addressing the root cause of this type of liquidity crisis by mandating that money market funds – for the first time – maintain a significant level of minimum portfolio liquidity is a very important development in mitigating the systemic risks presented by money market funds.

New Portfolio Maturity and Quality Requirements: While money market funds were previously subject to strict portfolio maturity and quality requirements, the more stringent standards imposed under amended Rule 2a-7 have further mitigated the degree to which money market funds are

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[4] SEC Release No. IC-29132, February 23, 2010 ("Final Release"), p. 52. Regarding the "know your customer" requirements, we discuss under Section 3 additional enhancements that could be implemented to even further strengthen this new requirement.

[5] Report, p. 9.

susceptible to interest rates and credit events. In particular, the adoption of a requirement limiting the dollar-weighted average life to maturity of a money market fund's portfolio to 120 calendar days is a new type of measurement that restricts the extent "to which a fund can invest in longer term securities that may expose a fund to spread risk."[6]

With respect to the revised portfolio quality requirements, amended Rule 2a-7 further mitigates the potential credit risks of money market funds by reducing the degree to which a money market fund may invest in second tier securities. Specifically, the amended rules reduce the permitted percentage that may be invested in second tier securities from five percent to three percent and lower the permitted concentration of second tier securities from a single issuer to one-half of one percent. Finally, a money market fund may not acquire any second tier security with a remaining maturity in excess of 45 days.

Collectively, these enhanced portfolio maturity and quality requirements place considerable additional restrictions on the ability of money market fund managers to take excessive interest rate and credit risks. While money market funds can never be fully immune from these types of market risks in light of the investments they make in the short-term public and private debt markets, these additional constraints help to reduce the overall systemic risk profile of money market funds.

Orderly Fund Liquidations: Finally, in conjunction with the amendments to Rule 2a-7, the Commission also adopted new Rule 22e-3 under the 1940 Act "to permit money market funds to suspend redemptions and postpone payment of redemption proceeds in order to facilitate an orderly liquidation of the fund."[7] This provision establishes an orderly framework for money market funds and their boards of directors to follow in the event that it is determined that a fund may break the buck. The ability of a fund board to suspend redemptions under such circumstances "is intended to reduce the vulnerability of investors to the harmful effects of a run on the fund, and minimize the potential for disruption to the securities markets."[8]

In sum, the substantive, reporting, and procedural enhancements to Rule 2a-7 and related rules pertaining to money market fund regulation:[9] (1) have significantly enhanced a money market fund's ability to withstand significant levels of redemption activity; (2) reduce a fund's susceptibility to changes in interest rates and credit events; and (3) empower a money market fund and its board to

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[6] Final Release, p. 43.
[7] Final Release, p. 97.
[8] Final Release, p. 98.
[9] We have not addressed every enhancement to money market fund regulation adopted by the Commission in 2010. Other enhancements, including requiring money market fund advisers to conduct stress tests based on certain hypothetical events and expanding the circumstances under which money market fund investment advisers or other affiliates can purchase distressed assets from a fund, have also strengthened the regulatory framework governing money market funds.

suspend redemptions when it may break the buck in order to prevent the adverse consequences associated with a run on a fund. These improvements significantly reduce the systemic risk posed by money market funds to the stability of the financial markets.

2. We Support Establishing A Liquidity Facility for Prime Money Market Funds

For many of the reasons identified in the Report, we support the establishment of an industry-sponsored Liquidity Facility for prime money market funds. While many structural details of such a Liquidity Facility still need to be developed, including from a governance and operational perspective, we believe that the Liquidity Facility could provide an additional layer of liquidity for prime money market funds during periods of market stress.

We have participated in a working group formed by the ICI to explore the feasibility of establishing such a Liquidity Facility, and we would expect the ICI to provide a more detailed discussion of the Liquidity Facility proposal in its comment letter. We nevertheless want to highlight several aspects of the Liquidity Facility that we believe would be instrumental to its success in augmenting the liquidity supply for prime money market funds.

First, we believe that it is important that participation in the Liquidity Facility be mandatory for all prime money market funds. We agree with the PWG's observation in the Report that "[n]on-participating MMFs might present greater risks than their competitors but would free-ride on the stability that the Liquidity Facility would provide."[10] In this regard, the PWG also suggested an approach under which participation in the Liquidity Facility could be voluntary, but non-participating prime money market funds would be subject to more stringent risk-limiting constraints or would be required to switch to a floating NAV. We are not in favor of such a proposal, as we believe that it could result in investor confusion as to which prime money market funds are participating in the facility and which ones are not. Also, the idea suggests that more stringent risk-limiting constraints or the use of a floating NAV are reasonable substitutes for participation in the Liquidity Facility. In reality, the Liquidity Facility may be needed as much by a prime money market fund adhering to stringent risk-limiting constraints, but nevertheless facing a liquidity crunch based on a highly-stressed market environment. Moreover, a prime money market fund transacting at a floating NAV would not be immune to liquidity pressures either, so it is not immediately apparent if these options in fact present choices intended to achieve comparable results.

Second, we believe that the Liquidity Facility must develop a set of stringent access policies that ensure that it is only tapped under appropriate circumstances. For instance, the Liquidity Facility must not be used to provide credit support to prime money market funds. Further, in order to access the facility, a prime money market fund must demonstrate a clear need for liquidity as demonstrated by

[10] Report, p. 24.

significant redemption requests that have exhausted the fund's portfolio liquidity. Finally, the Liquidity Facility should not be available for a fund that already has broken the buck to avoid having a single fund consume a disproportionate amount of the facility's funding. In this regard, rather than accessing the Liquidity Facility under these circumstances, we note that the new ability of money market funds to suspend redemptions and to conduct an orderly fund liquidation as discussed above are the appropriate steps that should be followed when a money market fund has or is about to break the buck.

Finally, we believe the Liquidity Facility must assess a meaningful access fee to ensure that participating prime money market funds only seek to sell securities to the facility after they have exhausted their portfolio liquidity and after they have attempted to sell the securities in the marketplace. This fee should be designed to discourage prime money market funds from engaging in interest rate arbitrage by selling low-yielding securities to the Liquidity Facility in a period when interest rates are increasing.

3. Additional Enhancements to Money Market Fund Regulation May Be Warranted

We agree with the PWG that additional reforms could be made to the regulation of money market funds that could further mitigate the systemic risk that they pose to the financial markets. In addition to the Liquidity Facility discussed in the preceding section, below we address two potential reforms that are not discussed in the Report that we believe would help further the objectives of the Commission's 2010 amendments to Rule 2a-7 and related rules.

First, we recommend that the shadow pricing requirements currently included in Rule 2a-7 be modified to mandate that shadow pricing be conducted on not less than a weekly basis for all money market funds. In addition, Rule 2a-7 should be amended to require that money market funds conduct shadow pricing on an even more frequent basis depending on the then-prevailing market-based NAV of a fund. For instance, the Commission should consider requiring that shadow pricing be conducted on a daily basis in the event that a money market fund's market-based NAV is $.9980 or lower.

While money market funds are required to undertake shadow pricing, Rule 2a-7 currently leaves the determination of how often to conduct shadow pricing to individual money market funds and their boards of directors.[11] It is our understanding that many funds perform shadow pricing on at least a weekly basis during ordinary market conditions and on a daily basis when the market NAV is at or below certain levels. Nevertheless, we believe that bringing a level of standardization across all money market funds to such an important process would mitigate the potential for systemic risk caused by an individual money market fund that currently does not adhere to such robust standards. As we learned during the 2008 market crisis, well-managed money market funds can be impacted by less robust

[11] Currently, Rule 2a-7 provides that shadow prices be calculated pursuant to written procedures at such intervals as the board of directors determines appropriate and reasonable in light of current market conditions.

practices at other firms. Moreover, mandatory weekly shadow pricing would provide money market funds and their boards with data that could provide an early warning to complement the new stress testing requirements now mandated under Rule 2a-7.

Second, in connection with the "know your customer" obligations discussed above in the context of a money market fund's general liquidity obligations, we encourage the Commission to adopt rules mandating that financial intermediaries provide information to money market fund managers so that this obligation can be fulfilled more effectively. Given that many money market fund positions are often held in omnibus accounts in the name of a financial intermediary, it would strengthen the efficacy of the "know your customer" requirements if the Commission adopted rules requiring the financial intermediary to furnish pertinent information relating to the client type and redemption characteristics of the underlying beneficial shareholders in the fund. To be clear, we do not believe that money market fund managers need to receive information that actually identifies the underlying shareholders in order enhance the effectiveness of the "know your customer" requirement.

4. <u>We Have Concerns About The Other Policy Options Described in the Report, Including Requiring Money Market Funds To Transact Using a Floating NAV</u>

The Report outlines a series of policy options in addition to the Liquidity Facility previously discussed. These policy options include: (1) requiring money market funds to transact at a floating NAV instead of at a stable NAV; (2) requiring money market funds to honor large redemptions on an in-kind basis instead of in cash; (3) having money market funds purchase insurance akin to the Temporary Guarantee Program for Money Market Program implemented in September 2008;[12] (4) developing a two-tiered system of money market funds, with enhanced protections for stable NAV funds; (5) developing a two-tiered system of money market funds, with stable NAV funds reserved for retail investors; (6) regulating stable NAV money market funds as special purpose banks; and (7) imposing enhanced constraints on unregulated money market fund substitutes.[13] In our view, these policy options either are not necessary in light of the recently-enacted enhancements to money market fund regulations and the possible additional enhancements discussed previously, or they raise potentially significant logistical and practical problems that make their ultimate implementation seem unlikely.

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[12] Our concern with respect to this policy option is based on our expectation that any type of insurance option would not be economically feasible or desirable for money market funds or their shareholders.

[13] This policy option is only viable if appropriate constraints are placed on all forms of unregulated money market substitutes. If such constraints are not enacted, a regulatory imbalance would result where certain types of investors may still be able to invest in stable NAV money market products, thereby negating the objective of the policy option. Because we think it will be difficult for U.S. policymakers to place constraints on all types of money market substitutes, some of which may operate beyond the reach of domestic regulators or lawmakers, we respectfully do not believe these types of constraints to be particularly practical options.`

Of these policy options, we wish to provide some more detailed observations about four in particular: (1) the option to require money market funds to transact at a floating NAV; (2) the requirement that money market funds honor large redemptions on an in-kind basis; (3) the option to create two tiers of funds, with enhanced protections for stable NAV funds; and (4) the option to create two tiers of funds, with stable NAV funds reserved only for retail investors.

a. Transacting at a Floating NAV

There has been considerable industry discussion regarding the potential merits and drawbacks associated with mandating that money market funds transact purchases and redemptions based on a floating NAV instead of using the amortized cost valuation methodology. The Report presents a concise summary of the arguments on both sides of this issue. Among the arguments cited in favor of requiring money market funds to transact using a floating NAV, the PWG cites: (1) the view that a stable NAV has helped to foster investors' expectations that money market fund shares are risk free cash equivalents; (2) use of a stable NAV for fund transactions may accelerate shareholder redemptions if a fund is at risk of breaking the buck and thus experiencing a capital loss; and (3) permitting money market funds to transact on a stable NAV can cause abrupt and sudden changes in valuation if the floating NAV deviates from $1 by more than 50 basis points.[14] While we understand the basis for these concerns, we believe that the arguments supporting the continued ability for money market funds to transact using a stable NAV are more persuasive and, accordingly, we oppose any proposal that would require money market funds to transact using floating NAVs. Our reasons for supporting the continued use of stable NAVs for money market fund transactions, many of which are outlined in the Report, are as follows:

- We believe that money market funds would still be considered low-risk cash equivalents and would still experience significant redemptions in the event of a NAV decline even if they were required to transact purchases and redemptions using a floating NAV. In this connection, we agree with the PWG's observations that converting to a floating NAV for money market fund transactions may in fact do very little to improve "investors' understanding of the riskiness of MMFs or reduce the stigma and systemic risks associated with breaking the buck," as the floating NAV of most money market funds deviate very little from $1.00.[15] Likewise, there is little reason to conclude that a shift to a floating NAV will prevent significant redemption activity during periods of market volatility and stress. As the ICI has previously explained in its Money Market Working Group Report,[16] ultra-short bond funds that have a fluctuating NAV experienced substantial outflows and in some instances suspended redemptions during the course of 2008 following significant NAV declines.

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[14] Report, p. 20.
[15] Report, p. 22.
[16] Investment Company Institute: Report of the Money Market Working Group, March 17, 2009, pp. 105-107.

- As noted previously, we maintain that requiring money market funds to transact using floating NAVs is unnecessary because of the significant regulatory framework applicable to them in their current form. While we agree that certain enhancements could be made to even further mitigate the potential systemic risks posed by money market funds, we do not believe these additional enhancements should include mandating money market funds to use a floating NAV, especially in light of the possible unintended consequences, including:

  - Floating NAV money market funds would likely reduce demand among investors for a variety of reasons, ranging from systems and operational limitations to tax and investment policy standards.[17] Therefore, to the extent that money market funds today serve as one of the primary providers of short-term credit for commercial paper and other products, a significant reduction in money market fund assets may create problems for borrowers who today rely on money market funds for financing.

  - Prohibiting money market funds from transacting on a stable NAV may very well prompt certain types of investors, particularly institutional shareholders, to invest in unregulated cash management vehicles that offer a stable NAV through the use of amortized cost. As noted in the Report, an influx of assets of any significance into these types of products that would not be governed by the important substantive and procedural provisions of the rules governing money market funds could actually result in greater systemic risk than exists today.[18]

  - The process of converting the entire money market fund industry from using stable NAVs to floating NAVs could itself present significant levels of systemic risk. For instance, investors may look to redeem from money market funds until such a conversion is complete to avoid incurring any losses that may occur as a result. If such a development occurred on a wide-scale basis and was concentrated in a focused period of time, it is possible that the conversion process and related shareholder redemption activity could itself be destabilizing.

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[17] For example, money market funds currently allow purchases and redemptions at any point during the day, a feature that is useful for a number of market participants operating cash management programs. A requirement to transact using a floating NAV may present difficulties in allowing for capital activity at many points during the day.

[18] We note that another policy option outlined in the Report suggests one way of combating this migration to less-regulated products would be to place enhanced constraints on such vehicles by prohibiting them from using a stable NAV as well. Indeed, assuming necessary Congressional action is taken, it would be conceivably possible to amend some of the more common sections of the 1940 Act which exempt these types of unregulated vehicles from having to register as investment companies to prevent them from using a stable NAV. However, the potential outlets for institutional investors seeking stable NAV funds also could include offshore products that may very well be beyond the jurisdictional reach of U.S. policymakers.

- Finally, it should be noted that permitting money market funds to transact using a stable NAV is not inconsistent with principles of mark-to-market accounting which we strongly support. Permitting money market funds to transact at a stable NAV is a practical expediency and simply provides a convenient and predictable way for investors to transact during times when the market-based NAV stays within tightly-prescribed bands (e.g., between $0.9950 and $1.0050 per share). Moreover, Rule 2a-7 contains certain mark-to-market characteristics by requiring that shadow market prices of each fund be determined at intervals established by the fund's board.[19] In addition, where a money market fund's floating NAV deviates from $1.00 per share by more than one-half of one percent, the money market fund's board is required to take appropriate action – which may include suspending redemptions – in order to avoid material dilution or other unfair results to shareholders. We believe that these requirements provide appropriate limits and oversight pertaining to the use of stable NAV pricing for money market funds for transactional purposes.

Based on the foregoing reasons, we strongly encourage the Commission and the FSOC to oppose the policy option discussed in the Report to force money market funds to transact at floating NAVs.

b. Mandatory redemptions-in-kind

We also respectfully oppose requiring money market funds to honor large redemptions on an in-kind basis. First, most money market funds today have the ability to redeem on an in-kind basis in their discretion. It is true that money market fund redemptions are rarely handled on an in-kind basis, but for important and valid reasons. First, requiring investors to receive in-kind redemptions has the potential to further destabilize a market that may already be under stress. Many money market fund investors will not wish or be permitted to hold onto securities received as part of an in-kind redemption. Accordingly, a potential result of forced in-kind redemptions is simply to transfer the selling responsibility from presumably sophisticated and experienced asset managers to a disparate group of investors who do not necessarily have any reason to know how to dispose of these securities effectively.

In addition, as noted in the Report, an in-kind redemption requirement "would present some operational and policy challenges."[20] Indeed, money market funds may not necessarily be able to transfer title to certain securities or instruments held in the fund. Moreover, other securities may not be eligible for transfer because the shareholder does not meet the eligibility standards to hold the securities directly. Finally, fairly allocating money market securities on an in-kind basis so that neither

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[19] As discussed above, we recommend that Rule 2a-7 be modified to require that shadow pricing be conducted not less than weekly and even more frequently if the then-prevailing market-based NAV of a money market fund is at or below a certain level.
[20] Report, p. 26.

the redeeming investor nor the fund is unfairly disadvantaged presents a considerable and challenging compliance obligation.

Accordingly, we recommend that policymakers do not propose any regulations that would impose mandatory redemptions in-kind on money market funds.

c. *Policy options involving the creation of two tiers of Money Market Funds*

Finally, we have concerns regarding any proposal that would seek to establish two tiers of money market funds. In specific response to the policy options outlined in the Report, we are concerned about creating two tiers of money market funds that would preserve stable NAV funds for retail investors but require that institutional investors invest in money market funds that transact at a floating NAV. We believe that classifying money market funds in two categories on this basis would cause significant confusion among investors and would raise very practical implementation problems. Specifically, this policy option assumes that money market fund investors can be neatly classified as "retail" or "institutional," whereas the reality is more complicated. Money market fund share classes today often consist of a mixture of retail and institutional investors. In addition, what may appear on the surface to be an institutional investor may in fact represent an omnibus account in the name of a financial intermediary investing on behalf of underlying retail investors.

In many respects, this policy option also raises the same concerns expressed above with respect to mandating that money market funds transact at floating NAVs, albeit with a focus on the institutional segment of the investor base for money market funds. In particular, a foreseeable outcome of this approach would be the migration of institutional investors to unregulated cash vehicles that use amortized cost. This development would raise the same concerns discussed above regarding the unintended consequences of causing all money market funds to shift to transacting at a floating NAV.

For similar reasons, we also oppose the establishment of a two-tier system for money market funds that would require stable NAV funds to adhere to certain types of enhanced protections. We believe that this type of distinction also would be confusing to the investing public. We agree with the PWG's observation that in order for this type of two-tier system to work, "investors would have to fully understand the difference between the two types of funds" and that their failure to do so would defeat the objective of this type of structure in mitigating the risk of runs from stable NAV money market funds. [21] Accordingly, we strongly recommend that any additional enhancements or requirements that policymakers determine to apply to this industry should be applied to all money market funds without attempting to draw distinctions that would be hard to implement and even harder for the investing public to understand.

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[21] Report, p. 30.

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In closing, we wish to thank the PWG, the Commission, and the FSOC for providing the public with an opportunity to comment on these very important issues. We would be pleased to discuss any of our comments with you at your convenience.

Sincerely,

/s/James A. McNamara
James A. McNamara
Managing Director

cc: The Honorable Mary L. Schapiro
The Honorable Kathleen L. Casey
The Honorable Elisse B. Walter
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