FINANCIAL SERVICES INSTITUTE
VOICE OF INDEPENDENT BROKER-DEALERS AND INDEPENDENT FINANCIAL ADVISORS
www.financialservices.org

**VIA ELECTRONIC MAIL**

January 10, 2011

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

RE: File Number 4-619: President's Working Group Report on Money Market Fund Reform

Dear Ms. Murphy:

On November 3, 2010, the Securities and Exchange Commission (SEC) requested comments on the options discussed in the President's Working Group on the Financial Market's (PWG) report presenting possible money market fund reforms. The Report of the President's Working Group on Financial Markets on Money Market Fund Reform Options (PWG Report)[1] outlines possible reforms to the regulation of money market funds that, individually or in combination, could reduce money market funds' susceptibility to runs and related systemic risk. The SEC under existing statutory authority could implement several of the measures discussed in the PWG Report; others would require new legislation, coordination by multiple government agencies, or the creation of new private entities.

The Financial Services Institute (FSI)[2] supports steps to improve the regulatory framework governing money market funds. However, we oppose measures that would fundamentally alter the existing framework. Money market funds offer important and unique benefits to investors that cannot be easily replicated in the market place. We believe efforts to impose floating net asset values (NAV) on money market funds would result in substantial alterations to and negative unintended consequences for investors. Accordingly, we urge the SEC and the Financial Stability Oversight Council (FSOC) to reject Options a., e., and f. of the PWG Report.

## Background on FSI Members

FSI represents independent broker-dealers (IBD) and the independent financial advisors affiliated with them. The IBD community has been an important and active part of the lives of American investors for more than 30 years. The IBD business model focuses on comprehensive financial planning services and unbiased investment advice. IBD firms also share a number of other similar business characteristics. They generally clear their securities business on a fully disclosed basis; primarily engage in the sale of packaged products, such as mutual funds and variable insurance products; take a comprehensive approach to their clients' financial goals and objectives; and provide investment advisory services through either affiliated registered investment adviser firms or such firms owned by their registered representatives. Due to their unique business model,

[1] President's Working Group Report on Money Market Fund Reform (November 3, 2010), available at http://www.sec.gov/rules/other/2010/ic-29497.pdf.
[2] The Financial Services Institute, Voice of Independent Broker-Dealers and Independent Financial Advisors, was formed on January 1, 2004. Our members are broker-dealers, often dually registered as federal investment advisers, and their independent contractor registered representatives. FSI has 123 Broker-Dealer member firms that have more than 183,000 affiliated registered representatives serving more than 15 million American households. FSI also has more than 14,500 Financial Advisor members.

IBDs and their affiliated financial advisors are especially well positioned to provide middle-class Americans with the financial advice, products, and services necessary to achieve their financial goals and objectives.

In the U.S., approximately 201,000 financial advisors – or 64% percent of all practicing registered representatives – operate as self-employed independent contractors, rather than employees of their affiliated broker-dealer firm.[3] These financial advisors provide comprehensive and affordable financial services that help millions of individuals, families, small businesses, associations, organizations, and retirement plans with financial education, planning, implementation, and investment monitoring. Clients of independent financial advisors are typically "main street America" – it is, in fact, almost part of the "charter" of the independent channel. The core market for advisors affiliated with IBDs is clients who have tens and hundreds of thousands, as opposed to millions, of dollars to invest. Independent financial advisors are entrepreneurial business owners who typically have strong ties, visibility, and individual name recognition within their communities and client base. Most of their new clients come through referrals from existing clients or other centers of influence.[4] Independent financial advisors get to know their clients personally and provide them investment advice in face-to-face meetings. Due to their close ties to the communities in which they operate their small businesses, we believe these financial advisors have a strong incentive to make the achievement of their clients' investment objectives their primary goal.

FSI is the advocacy organization for IBDs and independent financial advisors. Member firms formed FSI to improve their compliance efforts and promote the IBD business model. FSI is committed to preserving the valuable role that IBDs and independent advisors play in helping Americans plan for and achieve their financial goals. Our mission is to insure our members operate in a regulatory environment that is fair and balanced. FSI's advocacy efforts on behalf of our members include industry surveys, research, and outreach to legislators, regulators, and policymakers. We also provide our members with an appropriate forum to share best practices in an effort to improve their compliance, operations, and marketing efforts.

**Comments**

For almost three decades, money market mutual funds have provided individual and institutional investors with a powerful tool for managing cash, while also providing a crucial source of funding for American business. FSI is deeply aware of the value that businesses, non-profit institutions, state and local governments, and retail investors derive from money market funds because these are our clients.

While we support steps to improve the regulatory framework governing money market funds, we oppose measures that would fundamentally alter them. One such step would be to force money market funds, directly or indirectly, to abandon their stable per-share value. We urge the SEC and the FSOC to reject any reform options that would impose floating NAV on money market funds, including Options a.[5], e.[6], and f.[7] of the PWG Report[8] because each of these options endorses a floating NAV for at least some money market funds.

[3] Cerulli Associates at http://www.cerulli.com/.
[4] These "centers of influence" may include lawyers, accountants, human resources managers, or other trusted advisors.
[5] This option recommends floating net asset values for money market funds.
[6] This option recommends a two-tier system of money market funds with enhanced protections for stable NAV funds.
[7] This option recommends a two-tier system of money market funds with stable NAV money market funds reserved for retail investors.
[8] http://www.treasury.gov/press/releases/docs/10.21%20PWG%20Report%20Final.pdf

For our independent broker-dealers, financial advisors and the investors whom they serve, the benefits of money market funds are clear: They provide a high degree of liquidity, diversification, and stability in principal value, along with a market-based yield.

The benefits of the stable NAV are equally clear. Investors purchase and redeem millions of dollars in money market fund shares every day. With a stable NAV, typically set at $1.00 per share, those investors are relieved of the burden of tracking gains or losses for tax or financial accounting purposes. Forcing these funds to float their value would make every money market fund sale a tax-reportable event, substantially increasing tax and recordkeeping burdens. The resulting tax-reporting burden would significantly reduce the attractiveness of money market funds.

Many governments and institutions operate under legal constraints or investment policies that prevent them from investing cash balances in instruments that fluctuate in value. If money market funds were required to float their NAVs, many IBD clients would be forced to use alternative funds that are less regulated, less secure, and less liquid.

Such changes would sharply restrict the short-term financing that American businesses and state and local governments rely upon. Money market funds own one-third of all commercial paper outstanding, and hold nearly two-thirds of short-term debt that finances state and local governments.[9] Changing the fundamental nature of money market funds will disrupt that vital and essential flow of funding in the public and governmental sectors. There are no immediate, well-regulated substitutes for money market funds in this role. Some have suggested that bank lending will provide the public and private sectors with attractive options for investing cash balances in instruments that do not fluctuate in value. Unfortunately, bank lending cannot fill this funding gap unless banks raise substantial new capital, and the PWG has recognized the investor and systemic risks inherent in encouraging investors to migrate to unregulated cash pools. During a prolonged period of adjustment, and perhaps on a permanent basis, financing for American business and state and local government would be less efficient and far more costly—hardly a tonic for an economy still hampered by the aftereffects of recession.

**Conclusion**

FSI appreciates the efforts of the PWG, the SEC, and the FSOC to find ways to make America's financial system stronger. We respectfully suggest, however, that doing away with the stable NAV for money market funds would get us no closer to that goal, while risking profound disruption to the operations of thousands of American businesses, nonprofits, and governments. Accordingly, we urge the SEC and FSOC to reject Options a., e., and f. of the PWG Report.

We are committed to constructive engagement in the regulatory process and, therefore, welcome the opportunity to work with you to improve the regulatory framework governing money market mutual funds.

[9] FEDERAL RESERVE BOARD, STATISTICAL RELEASE Z.1: FLOW OF FUNDS ACCOUNTS OF THE UNITED STATES: FLOWS AND OUTSTANDINGS FOURTH QUARTER 2008, at 86, Table L.208 (Mar. 12, 2009), available at http://www.federalreserve.gov/releases/z1/Current/z1.pdf ("FED. FLOW OF FUNDS REPORT").

Thank you for your consideration of our comments.  Should you have any questions, please contact me at 202 379-0943.

Respectfully submitted,

Dale E. Brown, CAE
President & CEO