January 3, 2011

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

Re: File Number 4-619

Dear Ms Murphy:

Thank you for the opportunity to opine on "The President's Working Group Report on Money Market Reform." Regarding my own qualifications to comment, I possess 24 years of fixed income, portfolio management experience. For 14 of those years, I served as Managing Director and head of Prudential Fixed Income Management's Money Market Desk, which manages over $60 billion in short-term assets including money funds. While consistently achieving top quartile investment performance versus peers, no money market fund under my supervision required any capital assistance to maintain its $1 per share NAV.

One of the lessons the money fund industry learned during the September 2008 run on money market funds (MMFs) was that the industry is only as strong as its weakest link. In that case, and as documented in the President's Report, the Reserve Fund broke its $1 NAV due to mark to market losses on its holdings of Lehman Brothers Holdings, Inc. The fund also did not have a strong sponsor with the financial capability and willingness to bail out the fund. As a result of this lesson, it is in the Commission's interest to promote the "best practices" within the industry, particularly when these best practices can be encouraged relatively easily through interpretive bulletins of SEC rule 2a-7, if not outright changes in the rule.

Shadow Price Daily

For example, in paragraph (c)(8)(ii)(A)(1) of rule 2a-7, the frequency of shadow pricing (the act of valuing the MMF at current market prices to determine the extent of the deviation from the MMF's amortized cost per share) is solely determined by the board of directors. Shadow pricing serves as a gauge to measure how the fund's NAV is faring against the changes in the market value of the fund's underlying securities. Shadow pricing on a more frequent basis would provide a fund's advisor and its board of directors with valuable information to make more timely adjustments to the underlying portfolio, thus reducing the possibility of the mark to market deviation growing to unmanageably large levels.

Currently, all non-2a-7 mutual funds must be market priced daily. I see no reason why MMFs should not be held to that same standard but for shadow pricing. In other words, shadow pricing should be performed at least daily, but contrary to other mutual funds, the MMFs will still maintain their $1.00 NAV if their per share deviation remains below ½ of one percent.

I believe any industry objections to such a change will be muted. While the current methods of money fund accounting were originally designed to reduce administrative costs, current industry arguments to maintain the $1 NAV primarily address tax considerations and ease of use for shareholders. Furthermore, during the 2008 financial crisis and its subsequent price volatility, MMFs should have been shadow pricing on a daily basis anyway, so the infrastructure should be in place and administrative costs should be minimal.

Enhance Money Fund "Firewall"

I also believe that paragraph (c)(8)(ii)(B) should be expanded to require more timely and active board of director governance for per share deviations lower than one-half of one percent. Specifically, I believe the board should be appraised when the per share deviation reaches three-tenths of one percent. Such a notification procedure, combined with daily shadow pricing, can serve as an effective "firewall" thereby communicating to the board the need for preemptive corrective action prior to the MMF being in crisis.

Susceptibility To Runs

The President's Report specifically commented on MMFs susceptibility to runs, the chief catalyst being the perception that the fund might suffer a loss. Shareholders therefore have an incentive to withdraw their funds early, thus precipitating a run on the MMF. Laggards then absorb a greater share of the previously unrealized losses in the portfolio. This analysis is certainly correct, but incomplete in my opinion. Institutional shareholders utilize money funds as depositories for their day-to day operating expenses, such as payroll. The prospect of a money fund breaking a dollar and being forced to liquidate would result in a freeze in money fund redemptions. Companies would therefore lose access to their operating funds for some unknown period of time, disrupting their businesses, and thus providing another incentive to get out early. The recent revision to rule 22e-3, which permits money funds to postpone redemptions in order to facilitate orderly liquidation is a very welcome change in promoting shareholder fairness, but the heightened risk of a freeze may also precipitate even earlier withdrawals by institutional shareholders with limited alternative sources of liquidity.

As detailed in the President's Report, none of the suggested avenues of money market reform offer simple, effective solutions without possible counterproductive consequences. However as a general rule and in a perfect world, those who reap the benefits should also pay for the accompanying risks.

Additional Policy Option

Another possible avenue of reform would allow shareholders to access to their funds during stressful market conditions, but to do so by allowing them to borrow against their money fund shares. Obviously, such a mechanism would only be implemented in cases of extreme stress, a disruptive level of redemption activity for a particular fund, and while the fund's share price has not yet fallen below $1 per share. In theory, a fund's board of directors, perhaps notified that the per share deviation for a money fund has reached a particular threshold (say, three-tenths of one percent) and after determining that the money fund is at risk for a run or material dilution (but not at the level requiring fund liquidation) would temporarily suspend redemption activity. Shareholders looking to redeem shares would instead be able to seamlessly borrow against (for example) 90% of their money fund share value from a third party financial institution. The remaining 10% would represent the shareholder's remaining "equity" in the money fund, and would be available to absorb capital losses, if any.

The benefits to this option are numerous. Sponsors will be able to stem potential runs on money funds (with all their documented inequities) without the fund being forced into liquidation. All shareholders will be treated equitably and have access to the majority of their needed liquidity. Third party banks would enjoy a potentially profitable line of business. In times of extreme financial stress, the Federal Reserve could explore making these secured lending vehicles eligible for the discount window or capital relief for the lending banks. Furthermore, by introducing an interim step to help work out money fund dislocations without requiring outright fund liquidation, sponsors might no longer be required to provide immediate capital support, thereby providing an incentive to sponsors to implement this strategy as soon as possible.

Implementing such an infrastructure would not be without challenges. Practicably speaking and given the documentation needed for such a lending facility at the shareholder level, it would be most effective for shareholders of institutional money funds. Alternatively, the relatively small balances and lower asset volatility of retail funds would make retail money funds less likely to participate.

As noted in the President's Report, over "100 MMFs received sponsor capital support in 2007 and 2008 because of investments in securities that lost value." Investor expectations of continued sponsor support of MMFs are possibly misguided. As the industry consolidates towards large sponsors that foster expectations of support, systemic risks to the financial system increase. Furthermore, with very low short-term interest rates squeezing profit margins for money fund sponsors, the business incentive to supply capital support has notably diminished. Sponsor capital support has been a boon for money fund shareholders, but it is not, in my opinion, a sustainable business model. Therefore, any policy solutions that rely on the assumption of continued sponsor capital support will in the long run have a limited chance of success.

Thank you very much for your consideration of these recommendations to assist the money fund industry. If you have any questions or would like further clarification regarding these points, my contact information is below.

Sincerely yours,

Joseph M Tully
Pennington, NJ
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