84

HSBC

Global Asset Management

RECEIVED
MAR 21 2011
OFFICE OF THE SECRETARY

February 28, 2011

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

Re: Report of the President's Working Group On Financial Markets – Money Market Fund Reform Options (File No. 4-619)

Dear Ms. Murphy:

HSBC Global Asset Management welcomes the opportunity to provide comments to the Securities and Exchange Commission ("SEC") on the Report of the President's Working Group on Financial Markets ("PWG") on Money Market Reform Options.

HSBC Global Asset Management is a leading global asset manager with $438.9B assets under management (as of November 2010); of which $98.5B are liquidity assets managed for our clients, including $19.9B in the U.S. HSBC Investor Money Market Funds. HSBC Global Asset Management brings the experience and perspective of not only managing Investment Company Act Rule 2a-7 compliant money market funds ("MMFs"), but also managing MMFs in 14 countries worldwide.

We welcome the changes imposed by the recent amendments to Rule 2a-7 and we are supportive of the PWG's goal of enhancing the stability of the money market fund industry. We have participated in the US industry debate through the Investment Company Institute in their review of possible reforms, and have worked with other international organizations, such as the Institutional Money Market Fund Association ("IMMFA").

After the recent market events, we continue to affirm our commitment to the money market fund business. We believe MMFs are an important investment product to continue to offer our clients and have an important role to play in the financial system. However, it must be clear that the risks of investing in MMFs reside with the investors. Over the years, due to a number of fund sponsors stepping in to support their MMFs, and the most recent U.S. governmental action in support of MMFs, we believe there continues to be ambiguity about who owns the risk of investing in MMFs. As long as ambiguity about risks continues to exist, we believe there will be an unacceptable mispricing of these risks, and a misallocation of resources. As disclosed to investors in prospectuses, money market funds are an investment product and, as such, investors' capital in MMFs is at risk. We believe that by not addressing this issue at this time that the investment industry will, so to speak, be kicking the can down the road until the next financial crisis.

HSBC

Global Asset Management

While we believe that the recent regulatory changes to Rule 2a-7 of the Investment Company Act have increased the safety and liquidity of MMFs, we agree that the next phase of the regulatory process needs to address the risks associated with material shocks to the industry. We agree with the PWG in their statement: "MMFs are vulnerable to runs because shareholders have an incentive to redeem their shares before others do when there is a perception that the fund might suffer a loss." (Page 2) Any potential reforms need to focus on creating a disincentive for this vulnerability.

We do not believe that there is a single reform that addresses the issue of MMFs susceptibility to runs by investors. As we can never presage future market events, experience shows that MMF investment advisors and Boards need appropriate tools at their disposal to act in the best interest of their shareholders. HSBC Global Asset Management is responding now to the Report because, in addition to the eight possible reforms put forth in the Report, we believe there is another reform worthy of further consideration. We believe the most effective way of mitigating systemic risk is to discourage shareholder runs; and the most effective way of discouraging shareholder runs is to apply a charge on redemptions that accurately reflects the cost of raising liquidity to meet redemptions and hence the realisable value of the shares being redeemed.

During a period of market stress, or idiosyncratic stress of an individual fund, redemptions would be estimated to investors not at the Constant Net Asset Value ("CNAV") price, but at the variable net asset value price ("VNAV") (including an estimate of the sale price of any distressed asset). If an investor then decided to redeem, the proceeds would be met by selling a representative portion of assets, including any distressed securities. The difference between the stable value and the actual value can be called a redemption charge or some other acceptable term (e.g. liquidity protection payment).

A redemption charge of this type would have a number of benefits, including ensuring that: (i) shareholders carefully consider their liquidity needs before taking action to redeem, (ii) those shareholders that do redeem at the time of difficulty redeem at the appropriate price for the Fund, and (iii) it is fair to all shareholders by protecting those shareholders that remain in the fund. Thought of another way, redemption charges allow MMFs to operate as CNAV funds during periods when amortized cost treatment is appropriate (and provide all the benefits that CNAV funds entail), but move to VNAV only during pre-defined periods of stress. Having the ability to apply redemption charges also avoids the moral hazard implicit in some other proposed reforms. Sponsors of MMFs would want to avoid having to apply a redemption charge and thus would encourage the investment advisor to manage their funds in a prudent, risk-averse manner.

We are aware that implementing redemption charges would not be without challenges. Determining when to apply a redemption charge is key to its success as a reform mechanism. The trigger could be fund specific, such as a pre-defined shadow NAV level, or be determined by a regulator and be applied to all funds during a period of broader market stress. Another challenge is to avoid a redemption charge being incorrectly perceived as a tax but instead being correctly viewed as the cost of

HSBC

Global Asset Management

protecting the shareholders that remain invested in the fund by reflecting the true value of shares redeemed during times of market disruption.

We have observed that a number of MMF industry participants have noted that further review of "redemptions in kind" may be warranted. While we agree that there should be further consideration of this reform proposal, there are some obvious challenges to making this an effective tool during a crisis, such as the ability of investors to both manage the delivery of assets and their potential sale if desired. A redemption charge provides the benefits of a redemption in kind, that is providing redeemers a representative holding of the MMF, while providing the additional benefit of having the handling and sale of distressed assets managed by experienced investment advisors.

The redemption charge mechanism is designed to manage a systemic or idiosyncratic run by investors combined with a liquidity event in the money markets. It is not designed to manage, for example, a jump to default of an asset held in a MMF.

Any reform enacted should include the removal of the moniker ***Constant*** Net Asset Value Money Market Fund. An alternative label should be applied that does not suggest the Net Asset Value cannot change.

In summary, we are supportive of the PWC's efforts to enhance the stability of the money market fund industry and we believe now is an opportune time to make the changes necessary to achieve that goal. Any reform enacted must look to remove the ambiguity that exists as to who owns the risk in a money market fund. We believe the use of redemption charges would help achieve both these objectives.

We again thank the Commission for having the opportunity to provide our views on reform proposals. We would be happy to answer any questions that you have, and would welcome the opportunity to discuss our thoughts with you in greater detail.

Yours sincerely,

John Flint
Chief Executive
HSBC Global Asset Management

cc: Bob Plaze