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March 15, 2011

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

Re: File No. 4-619; Release No. IC-29497 President's Working Group Report on Money Market Fund Reform; Supplemental Comment of Federated Investors, Inc. in Response to Comment of Mr. Paul A. Volcker

Dear Ms. Murphy:

We are writing on behalf of our client, Federated Investors, Inc. and its subsidiaries ("Federated"), to provide a supplemental comment in response to the U.S. Securities and Exchange Commission's (the "Commission's") request for comments on the President's Working Group Report on Money Market Fund Reform. We supplement Federated's earlier comments submitted in this docket in order to respond to a comment letter filed after the close of the comment period by Mr. Paul Volcker.[1] Federated has served since 1974 as an investment adviser to money market mutual funds ("Money Funds").[2] We appreciate the opportunity to submit this supplemental comment letter.

In his letter, Mr. Volcker argues for fundamental change to the regulation and structure of Money Funds based on three premises, each of which is clearly erroneous:

(1) Money Funds "*promise*" investors that they will maintain a stable net asset value (NAV) per share;

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[1] Letter from Paul A. Volcker (Feb. 11, 2011).

[2] Federated has more than thirty-five years in the business of managing Money Funds and, during that period, has participated actively in the money market as it has developed over the years. The registration statement for Federated's Money Market Management fund first became effective on January 16, 1974, making it perhaps the longest continuously operating Money Fund to use the Amortized Cost Method. Federated also received one of the initial exemptive orders permitting use of the Amortized Cost Method in 1979.

(2) Money Funds do not have equity capital or liquidity standards; and

(3) Money Funds are not regulated.

On the first point, Money Funds very clearly and very specifically *Do Not Promise* to maintain a stable net asset value. Quite the opposite is true. In both prospectuses and marketing literature, Money Funds specifically state that their values are not guaranteed and may fluctuate. For example, the marketing literature for the Federated Prime Cash Obligations Money Fund states:

"An investment in money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in these funds."

Similarly, in addition to providing a list of ways the fund could lose money or break a buck, the prospectus for the Federated Prime Cash Obligations Money Fund states on pages 2-4 that:

> "All mutual funds take investment risks. Therefore, even though the Fund is a money market fund that seeks to maintain a stable NAV, it is possible to lose money by investing in the Fund.... The Shares offered by this Prospectus are not deposits or obligations of any bank, are not endorsed or guaranteed by any bank and are not insured or guaranteed by the U.S. government, the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency."

This language is not unique to Federated's Money Funds, it is required in the marketing literature and prospectuses of *all* Money Funds by both SEC and FINRA rules and interpretations.[3] The Federated Prime Cash Obligation Money Fund's Prospectus further describes the risk that it may not be able to maintain a stable net asset value:

[3] SEC Form N-1A, Item 4(b)(ii) & (iii) ("Principal risks of investing in the fund"). Form N-1A was adopted by the SEC as a formal rule under the notice and comment process of the Administrative Procedures Act and has the binding force of a federal regulation. FINRA Notice to Members No. 08-82 (2008), FINRA/NASD Rule 2210 and IM-2210-1 (brokerage firms must disclose to investors that it is

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> In the unlikely event that the Fund's Board were to determine, pursuant to Rule 2a-7, that the extent of the deviation between the Fund's amortized cost per share and its market-based NAV per share may result in material dilution or other unfair results to shareholders, the Board will cause the Fund to take such action as it deems appropriate to eliminate or reduce, to the extent practicable, such dilution or unfair results, including, but not limited to, considering suspending redemption of Shares and liquidating the Fund under Rule 22e-3 under the Investment Company Act of 1940. ....There is no guarantee that the Fund will provide a certain level of income or that any such income will exceed the rate of inflation. Further, the Fund's yield will vary. A low interest rate environment may prevent the Fund from providing a positive yield or paying Fund expenses out of current income and could impair the Fund's ability to maintain a stable NAV.... The Fund attempts to stabilize the NAV of its Shares at $1.00 by valuing the portfolio securities using the amortized cost method. In addition, for regulatory purposes, the Fund calculates a market-based NAV per Share on a periodic basis. The Fund cannot guarantee that its NAV will always remain at $1.00 per Share.

For a Money Fund to state that it will attempt to maintain a stable NAV, but that it may not in all circumstances be able to do so, and that investors may as a result lose money, is very different from a promise to maintain a stable NAV. When, due to market conditions or otherwise, Money Funds are not able to maintain a stable net asset value based upon current market values of their portfolio assets, Money Funds are required by Rule 2a-7 to immediately switch to a floating NAV. The marketing literature and prospectuses of Money Funds warn shareholders that this could happen.

On the second point, of course Money Funds have equity capital. In fact they *only* have equity capital. Money Funds do not use leverage or debt. They are financed entirely by equity capital from their investor/shareholders. Money Funds also have far more stringent liquidity standards than do banks. Unlike banks, all portfolio assets of a Money Fund must be highly liquid, high quality short term debt instruments. If the portfolio assets of a Money Fund decline in value, there is no problem repaying lenders, because there are none. Instead, the Money Fund is required to mark its assets to market,

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possible to lose money with an investment in a Money Fund). *See also*, Federal Reserve, FDIC, OCC, OTS, Interagency Statement on Retail Sales of Non-deposit Investment Products (Feb. 1994).

the Money Fund "breaks a buck" and shareholders get back something less than 100 cents on the dollar. In the 40 years that Money Funds have existed, that has happened only twice. In one case shareholders got back 96 cents on the dollar. In the other, shareholders got back more than 99 cents on the dollar. And in neither case did taxpayers foot the bill.

If what Mr. Volcker means is that Money Funds should be required to maintain a class equity capital that is subordinated to the claims of Fund shareholders -- capital presumably furnished by Fund sponsors -- it would mark an extraordinary intrusion by government into equity markets. We can think of no other situation in which holders of equity, which is what Money Fund shareholders are, are provided with governmentally-mandated protection in the form of a subordinated form of equity.

On the third point, Money Funds are, of course, comprehensively regulated and supervised by the Commission under the Investment Company Act, Rule 2a-7 and other federal securities laws and regulations. What Mr. Volcker can only mean is that Money Funds are not regulated by the Federal Reserve, unlike the more than 2800 insured depository institutions that were regulated by the Federal Reserve and its sister federal banking agencies, prior to their failures over the four decades since Mr. Volcker first spoke out against Money Funds during his tenure as Chairman of the Board of Governors of the Federal Reserve System.

Drawing upon arguments built on his false premises, and a variety of other inaccurate assertions, Mr. Volcker goes on to advocate doing away with Money Funds as we currently know them.

> I feel the natural and predominant destination for investors that seek secure, stable value, interest bearing financial products is the banking system.... Thus an important potential benefit to the financial system as a result of applying new regulations of this type to MMMFs would be a banking system funded by an increased amount of stable, lower cost deposits. This is not an insignificant factor to consider at a time when banking participation will be important to a restructuring of the residential mortgage market.

Essentially, Mr. Volcker wants to forcibly transfer nearly three trillion dollars of private investor money from Money Funds into the banking system.

We see two major flaws with Mr. Volcker's proposal: Even at the 20-1 leverage ratios permitted at banks, this transmutation of Money Fund shareholder balances into bank deposits would require roughly $150 billion in new equity capital at bank. One must ask where that new capital would come from, particularly at a time when bank capital is under enormous stress. Second, such a forced transfer would have a profound impact both on investors in Money Funds and on the markets for short-term corporate and government debt, which are presently supported in large part by the Money Fund industry.

We appreciate the opportunity to submit this supplemental comment letter on the Report of the President's Working Group on Money Market Fund Reform.

Sincerely,

John D. Hawke, Jr.

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