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28 April 2011

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 Fund Reform —File No. 4-619

Dear Ms. Murphy:

CFA Institute[1] appreciates the opportunity to submit the following comments on the Report of the President's Working Group on Financial Markets ("Report") pertaining to money market fund reforms. CFA Institute represents the views of investment professionals before standard setters, regulatory authorities, and legislative bodies worldwide on issues that affect the practice of financial analysis and investment management, education and licensing requirements for investment professionals, and on issues that affect the efficiency, integrity and accountability of global financial markets.

Executive Summary

While a stable net asset value (NAV) for money market mutual funds (MMF) does not accurately reflect the true value of such instruments at any point in time, we recognize the difficulties noted in the Report with forcing the $3 trillion sector to migrate to a floating NAV. Therefore, assuming retention of a floating NAV model, we believe that additional protections should be put in place to ensure that neither the sector nor individual funds are ever considered "too big to fail."

Such protections should include a voluntary, industry-funded, risk-based insurance fund to support a MMF only in cases of fund failure. We further propose a complete review of current disclosure requirements and more clear and prominent warnings to potential investors that MMF instruments may subject investors to loss of interest and principal. We also encourage

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[1] CFA Institute is a global, not-for-profit professional association of nearly 105,000 investment analysts, advisers, portfolio managers, and other investment professionals in 139 countries, of whom nearly 94,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 135 member societies in 58 countries and territories.

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consideration of additional technical provisions described below that would give MMF operators the ability to invoke certain mechanisms in the event of liquidity emergencies to stem or otherwise mitigate a potential "run" on a fund and prevent any need for taxpayer-funded financial support.

Discussion

We appreciate the concerns that have been raised in the wake of the Primary Reserve Fund "breaking the buck" in 2008 and the subsequent large volumes of outflows from numerous other money market funds. We agree that the potential disruption to the financial markets in such events is considerable given the significant sums invested in money funds. We also note the extraordinary actions required of government to back-stop and calm the MMF industry in the throes of the recent financial crisis and to prevent the kind of circumstances that might cause policy makers to consider providing similar help in the future.

New Disclosures in the Stable NAV Model

As recognized in the Report, the existence of a stable NAV has been a source of investors' attraction to money market funds. At the same time, this feature conveyed a false sense of security to many investors that such investments are risk-free. That misconception, in particular, should be addressed through such additional disclosures as the SEC shall determine in order to convey that these instruments may subject investors to loss of principal and interest.
While our strong and public support of fair-value accounting for financial instruments is consistent with a floating NAV, we also recognize that forcing the $3 trillion industry to end the use of stable NAVs would likely cause significant disruption to investors. Mainly, this is because money market funds in their current form represent a major component of many savers' and investors' accounts. We therefore concur with the Report's assessment that such a shift would be "a dramatic change" for a significant sector of the asset-management industry that has been "built around the stable share value."

The industry also needs to adopt disclosures that provide more and better information about these instruments. For one, we believe fund managers need to make prominent and clear disclosure about the risks of loss to money market investors. Such disclosures must not only be prominent in communications, but also a regular part of every communication. Likewise, fund distributors should have to apprise potential investors of the risks of investment in these vehicles.

Further, when a fund's NAV falls below the current regulatory threshold of valuation, they would have to disclose this information to their investors in a timely manner, such as within 48 hours of the threshold being breached. This would be more appropriate and useful to investors than hearing 60 days after the fact that the threshold had been breached, as is currently required.

Insurance Fund for MMF Defaults

CFA Institute would not support a taxpayer-supported insurance fund for these investment vehicles, because we believe a taxpayer-supported fund would perpetuate moral hazard issues, including the all-too-common assumption for both investors and fund managers that these institutions and funds are "too big to fail."

We would support creation of a voluntary private insurance fund as a means to provide greater certainty of return of investment capital to investors in the instruments. A private fund would have to ensure that insurance premiums were set on the basis of risk rather than solely on the basis of assets under management. Ultimately, such an insurance fund would have to combine a workable risk-based premium structure with low cost to provide investors with both security and acceptable returns.

We suggest that the insurer have an FDIC-like administrator structure, be it as a new line of insurance for a private firm, or a completely new firm. Regardless, the insurer would have to have adequate financial capital and reserves, as deemed appropriate by the money market fund industry, the insurance industry and regulators. It also would need experienced and qualified insurance personnel to oversee the insurance fund.

Cognizant of the moral hazard concerns raised by the PWG in its report about such an insurance fund, we foresee that the insurer would step in only to resolve failed funds—not to shore up troubled funds or to provide liquidity. A disinterested party would take receivership of the assets of a failed fund on behalf of the fund investors and sell or liquidate those assets. The insurer would then make whatever payments are needed to make fund investors whole up to the insured amount.

Those money-market funds that forego the insurance product would provide no liquidity protection for its investors, and would have to prominently and consistently alert investors of that fact. This would give investors two options—an insured vehicle, presumably with a lower yield and an uninsured yield with higher yield to compensate for the higher risk.

Fund Governance and Redemption Policies

To the extent fund trustees and managers are not carefully analyzing the type and nature of MMF investments in the context of MMF liquidity requirements, additional rules should be considered. Obviously, these parties should recognize and regularly stress test instruments that provide liquidity today but may become quickly and fatally illiquid in a very brief period. Again, fund firms should not be permitted to market these MMF products without proper disclosures in this regard.

We support developing new mechanisms that will allow industry to create and implement market-wide circuit breakers that trigger relevant redemption mechanisms in certain and rare circumstances we refer to here as a liquidity event ("Event"). These resolution procedures could be structured to give fund managers the following options:

- Extend the advance-notice period required from investors for intended redemption in case of an Event;
- Allow fund managers to redeem investor units using a combination of cash or in-kind distributions;
- Suspend redemptions for a reasonable period of time for markets to stabilize; or
- Require redeeming investors to accept their pro-rata share of forced redemption proceeds.

In these circumstances, fund managers would forego their management fees during periods in which these measures are invoked.

The declaration of an Event would need to be carefully structured for a number of reasons. One suggestion might be for the SEC, in consultation with the FSOC, to make and communicate such decisions in response to individual applications by requesting fund firms. It would need to approve, in an expedited manner, applications to use such procedures from individual funds or fund families to apply the modified redemption policies described above.

Conclusion

As noted above, we reluctantly recognize the impracticality of forcing money market mutual funds to implement floating NAVs. However, in consideration of retaining a stable NAV structure, the industry, either through industry efforts or, if such efforts are unsuccessful, through regulation, should be required to adopt and implement changes such as those described above that hopefully reduce systemic risk through a combination of disclosure, insurance and resolution protections. Should you have any questions about our positions, please do not hesitate to contact Kurt N. Schacht, CFA at kurt.schacht@cfainstitute.org or 212.756.7728; or James C. Allen at james.allen@cfainstitute.org, or 434.951.5558.

Sincerely,

/s/ Kurt N. Schacht

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