



charles SCHWAB



May 3, 2011

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

Re: File No. 4-619; Release No. IC-29497 President's Working Group Report on Money Market Fund Reform

Dear Ms. Murphy:

We are writing to express our support for the idea of adding a net asset value or NAV buffer to money market mutual funds. To the extent the Commission or other federal financial regulators believe that more regulation of money market mutual funds is necessary, we think that an NAV buffer is the leading concept to provide enhanced resiliency and shareholder protections for money market mutual funds. We urge the Commission to give full consideration to this proposal at the roundtable discussion scheduled for May 10, 2011.

The NAV buffer would be funded over time by withholding a small portion of the income paid to shareholders. This buffer would be an asset of each money market mutual fund and therefore belong to shareholders, not the management company. Disclosure would ensure that fund shareholders understood exactly how much income was held back to fund the buffer and what impact the holdback had on the net yield of the fund. The buffer would grow over a period of years to minimize disruption to short-term markets that could result if money market mutual funds were required to fund the buffer all at one time. Current and prospective fund shareholders would be able to evaluate the yield impact over time and decide whether to invest in a particular money market fund, or some other investment option. The buffer could apply to prime funds only or all money market mutual funds.

The NAV buffer would address both liquidity and credit concerns that federal financial regulators have raised. First, in terms of liquidity, money market mutual funds would have the ability to sell securities at a loss in times of market stress in order to meet redemptions. This flexibility to sell some securities at prices below par could be a key tool for money market mutual funds and one that did not exist during the financial crisis in 2008. Attachment 1 illustrates how a fully-funded NAV buffer creates significant resiliency for money market funds by showing the large percentage of a fund that is able to be liquidated over a short period of time before even approaching a market NAV of \$0.9950. Moreover, trades in money market securities transacted at market prices – rather than trades executed at par with government

supported facilities – should have the effect of allowing turbulent markets to reset more quickly in times of stress.

Second, the NAV buffer would allow money market funds to withstand price volatility of securities held in the portfolios caused by credit concerns in the market. Because money market mutual funds would operate at a net asset value higher than today, funds would be able to tolerate greater realized and unrealized losses due to credit issues.

Third, a key feature of the NAV buffer is that a fund's market value per share would typically *increase* as shareholders redeem. This greatly reduces any incentive for shareholders to run on the fund. If the NAV buffer were in place, each fund would typically operate at a per share market value of greater than \$1.00, but all purchases and redemptions of shares would take place at \$1.00. Thus, as shareholders redeem at \$1.00, the per share market value for the remaining shareholders increases because the buffer amount above \$1.00 is shared across a smaller shareholder base. This increase in market value greatly reduces the incentive to redeem shares of a money market mutual fund, as the likelihood of not receiving \$1.00 per share is significantly reduced – and each shareholder that exits the fund actually improves the position of the shareholders who remain in the fund. Of course, if a fund incurs losses selling securities while raising cash to meet large redemptions, this feature is diminished.

Finally, the NAV buffer has the advantage of simple implementation. The Commission could mandate an NAV buffer with some minor changes to Rule 2a-7. No other legislative or regulatory actions are required, but we remain open to discussion of any implementation challenges or questions that may arise. The buffer would be an asset of the fund, subject to board oversight. The investment advisor would invest the buffer as directed by the board just like every other asset of the fund.

The Commission has already made significant changes to Rule 2a-7 that have strengthened money market funds by creating massive pools of liquidity in the funds, along with reducing the maturity of portfolios and providing greater transparency to shareholders. Those changes alone have done much to improve the resiliency of money market mutual funds. Nonetheless, as the Commission, along with other federal financial regulators, considers additional regulation of money market mutual funds, we believe that many of the proposals in the PWG Report, such as floating the NAV or imposing bank-like capital requirements, could have damaging effects on money market mutual funds and the short-term markets. Moreover, combining any of these proposals with an NAV buffer would have the same harmful effects to the short-term funding markets. The NAV buffer addresses both liquidity and capital. Thus, no additional liquidity facility or onerous capital requirements are needed.

The NAV buffer would have positive effects on the capital markets by ensuring that money market mutual funds remain an attractive option for short-term investors and a key source of funding for the federal government, state and local governments, non-profit institutions, corporations and financial companies. We urge the Commission to give the NAV buffer strong

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consideration as it reviews whether any additional regulation for money market mutual funds is appropriate.

Sincerely,



Scott C. Goebel
Senior Vice President
General Counsel
Fidelity Management &
Research Company

Sincerely,



Carrie E. Dwyer
Executive Vice President,
General Counsel and Corporate
Secretary
The Charles Schwab Corporation

Sincerely,



C. David Messman
Secretary and Chief Legal
Officer
Wells Fargo Funds
Management, LLC

cc: The Honorable Mary L. Schapiro, Chairman
The Honorable Kathleen L. Casey, Commissioner
The Honorable Elisse B. Walter, Commissioner
The Honorable Luis A. Aguilar, Commissioner
The Honorable Troy A. Paredes, Commissioner

Eileen Rominger, Director, Division of Investment Management
Robert E. Plaze, Associate Director, Division of Investment Management

▶ Buffer Supports Ability to Raise Cash to Meet Redemptions

