Federated Investors, Inc.
Federated Investors Tower
1001 Liberty Avenue
Pittsburgh, PA 15222-3779
412-288-1900 Phone
FederatedInvestors.com

Federated
WORLD-CLASS INVESTMENT MANAGER®

May 6, 2011

VIA E-MAIL RULE-COMMENTS @SEC.GOV

Ms. Elizabeth M. Murphy
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 address recent industry proposals that seek to further reform money market funds managed in accordance with Rule 2a-7 ("Money Market Funds") by adding a net asset value ("NAV") buffer to Money Market Funds ("Buffer Proposal"), by requiring some other form of capital requirement, or by regulating Money Market Funds as special purpose banks. Although Federated Investors, Inc. ("Federated") [1] previously commented on the proposals made in the President's Working Group Report[2], we consider it extremely important to highlight, in advance of the May 10, 2011 roundtable discussion, some strong reservations we have on such reforms, and to reiterate our support for the Investment Company Institute's proposed liquidity exchange facility ("Liquidity Facility"). We believe that the Liquidity Facility is the leading concept to provide enhanced liquidity, resiliency and shareholder protections for Money Market Funds.

I. WHILE THE BUFFER PROPOSAL PROVIDES SOME LIMITED UTILITY IN ADDRESSING SMALL CREDIT OR LIQUIDITY PROBLEMS, IT WOULD NOT HAVE INSULATED THE MONEY MARKET FUND INDUSTRY FROM THE 2008-2009 CRISIS.

Federated acknowledges that the Buffer Proposal would permit a Money Market Fund to incur small trading losses without having to disclose a shadow NAV significantly below a dollar and that it is possible that small trading losses could help to avoid later and more significant

[1] Federated is one of the largest investment management firms in the United States, managing $239 billion in registered money market fund assets and $354.9 billion in total assets as of March 31, 2011. With 147 mutual funds and a variety of separately managed account options, Federated provides comprehensive investment management to more than 5,400 institutions and intermediaries including corporations, government entities, insurance companies, foundations and endowments, banks and broker/dealers.

[2] Our prior comment letters are available at http://www.sec.gov/comments/4-619/4619-41.pdf, http://www.sec.gov/comments/4-619/4619-82.pdf, and http://www.sec.gov/comments/4-619/4619-83.pdf.

credit losses. Federated also acknowledges that the Buffer Proposal would provide limited protection against credit and liquidity events (except in the event the markets freeze up as in the Fall of 2008) and could be implemented relatively easily (notwithstanding the obvious tax inefficiencies and providing interest rates increase to a level at which it would be possible to retain sufficient income to create the buffer). We believe, however, caution is called for when considering any proposal that so fundamentally alters the character of what has been an important and highly successful part of the capital markets.

In light of the success of the Commission's first round of changes to Money Market Fund regulation, any subsequent round of change should be focused on addressing the core issues that caused the liquidity crisis in the first instance, rather than altering the product so fundamentally. More specifically, while the Buffer Proposal purports to allow Money Market Funds to sell portfolio securities at a loss without "breaking the buck," the crisis in 2008-2009 would not have been alleviated by a Money Market Fund maintaining a 40 basis point buffer. In the days following the Lehman bankruptcy there were no bids available or the spreads were much wider than 40 basis points (as was the case during the crisis). The crisis was alleviated to a large measure by the Boston Fed's AMLF program. This program provided needed liquidity to a system that had ceased to function because of issues wholly unrelated to Reserve Primary Fund's breaking the buck.

The Liquidity Facility provides greater protection against systemic risk than the Buffer Proposal. After ten years, the Liquidity Facility is projected to provide nearly $54 billion in available funds to help respond to a liquidity crisis. In contrast, using the same assumptions, a 40 basis point cushion would never provide more than $6.6 billion. The buffer is designed to allow funds to absorb modest losses created by an illiquid market, while the Liquidity Facility is designed to *avoid* such losses. Importantly, the Liquidity Facility, as proposed, would be a member bank of the Federal Reserve System with access to the Fed discount window.

II. Unintended Consequences of The Buffer Proposal

The marginal utility of the Buffer Proposal does not come close to justifying the unintended consequences which would negatively impact shareholders and financial markets. We note the following significant unintended consequences:

- *Provides an Opportunity to Arbitrage Funds, Is Generally Confusing, and Sends the Wrong Message to Shareholders.* The Buffer Proposal will provide an opportunity for more sophisticated shareholders to game/arbitrage the system by buying funds which already have a buffer in place and moving out of funds that are cutting yields to build buffers. Shareholders could be left confused as to when they will be subject to a fee to build a buffer and feeling as if they are being treated unfairly, as they will not benefit from the fund's retention of the buffer after they depart. Additionally, the Buffer Proposal further enhances the public misperception that Money Market Funds are guaranteed and blurs the line between bank products and Money Market Funds.

- *Increased Run Potential.* The Buffer Proposal does not reduce the risk of runs on Money Market Funds, but rather could change the trigger for runs on Money Market Funds from credit events to "lack of capital events." This change could needlessly increase the risk and frequency of runs on Money Market Funds.

- *Moral Hazard.* The Buffer Proposal would create moral hazard risks where advisors could take increased credit risk to compete on yield while "risking" only the fund's buffer.

- *Anti-Competitive & Too-Big To Fail.* The Buffer Proposal would create an anti-competitive market where large funds with established internal reserves would have an advantage on smaller funds and start-up costs would be so prohibitive that new funds would have difficulty in attracting assets without a buffer. Once funds have built a substantial cushion, they will have a competitive advantage over new entrants. A new fund will start without any cushion; even if it holds back more income to build the cushion more quickly, any growth in assets will dilute the cushion, so the fund will always be playing "catch-up" to existing funds. It is therefore less likely that new funds would ever be created, thus stifling competition and innovation. Additionally, the anti-competitive market and new barriers to entry would lead to greater industry concentration.

- *Lengthy Implementation Period.* Because of the small spreads between prime and government Money Market Funds, prime Money Market funds cannot afford to hold back a significant percentage of income to create the buffer. For example, if a prime Money Market Fund retained three basis points a year, it would take over a decade to build a 40 basis point buffer.

III. PROPOSALS TO REQUIRE ADVISERS TO MAINTAIN CAPITAL WILL HAVE ADDITIONAL UNINTENDED CONSEQUENCES AND WILL NOT PREVENT SYSTEMIC RISK.

As with the Buffer Proposal, regulated capital would increase investor expectations that Money Market Funds are protected or guaranteed against loss. Additionally, fears that advisers cannot maintain required capital could prompt massive shareholder redemptions. This would serve not to reduce the risk of shareholder runs, but rather to shift the trigger for a shareholder run from a "fear of portfolio default" to a "lack of capital event."

A major reason for the additional returns Money Market Funds provide shareholders is their low cost. Shareholders do not pay advisors to maintain capital and the competitive environment of Money Market Funds will not allow associated price increases to compensate for increased costs. Requiring any meaningful amount of adviser capital would result in a return on equity below any rational economic incentive.

Regulated capital requirements make sense for banks and insurance companies, but do not make sense for Money Market Funds. Unlike banks and insurance companies, advisers do not have an equity stake in Money Market Funds. Money Market Funds are owned directly by shareholders. Our March 25, 2001 Comment Letter provides a more thorough discussion of the implications of capital requirements on Money Market Funds.[3]

IV. THE LIQUIDITY FACILITY PROVIDES GREATER PROTECTION AGAINST SYSTEMIC RISK AND THERE IS NOT ENOUGH YIELD SPREAD BETWEEN PRIME AND GOVERNMENT MONEY MARKET FUNDS TO SUPPORT THE EXPENSE OF MULTIPLE PROGRAMS.

The Liquidity Facility provides greater protection against systemic risk than the Buffer Proposal or other forms of capital requirements. After ten years, the Liquidity Facility is projected to provide nearly $54 billion in available funds to help respond to a liquidity crisis. In contrast, using the same assumptions, a 40 basis point cushion would never provide more than $6.6 billion. The buffer is designed to allow funds to absorb losses created by an illiquid market, while the Liquidity Facility is designed to *avoid* such losses.

One could argue that Money Market Funds could theoretically build a buffer and participate in the Liquidity Facility; however, there is not currently enough yield spread between prime and government Money Market Funds to support the expense of multiple programs. The historical yield spread between prime and government Money Market Funds has ranged as low as six basis points,[4] which is not enough to fund the additional costs and provide any remaining incentive for investors to own prime Money Market Funds.

V. CONCLUSION

Federated again wishes to express its strong support for the Liquidity Facility and, for the reasons noted above, hopes the Commission will consider each of the unintended consequences with respect to the Buffer Proposal and other forms of capital requirements in its roundtable discussion and subsequent rulemakings. Federated believes that it is highly imprudent to subject such a critical capital market facility to the unnecessary risks and likely unintended consequences of the Buffer Proposal when it will not accomplish the objective of protecting the industry during a period such as 2008-2009.

[3] http:www.sec.gov/comments/4-619/4619-83.pdf

[4] The historical spread between prime and government Money Market Funds was ten basis points or less in approximately 30% of the monthly periods over the past 10 years (iMoneyNet Analyzer 5/11).

Federated hopes that the Commission finds these comments helpful and constructive and is happy to provide additional information relating to our comments or discuss any questions you may have.

Yours very truly,

/s/ John W. McGonigle
Vice Chairman

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

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