Scott C. Goebel
Senior Vice President
General Counsel
FMR Co.
82 Devonshire Street V10E, Boston, MA 02109-3614
617.563.0371 FAX 617.385.1331 SCOTT.GOEBEL@FMR.COM

February 14, 2013

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

Re: Comments on Financial Stability Oversight Council Proposed Recommendations Regarding Money Market Mutual Fund Reform

Dear Ms. Murphy:

Enclosed is a copy of comments that Fidelity Investments ("Fidelity") submitted to the Financial Stability Oversight Council on its Proposed Recommendations Regarding Money Market Mutual Fund Reform.[1] We urge the Commission to give full consideration to these comments as it evaluates the appropriateness of any additional regulation for money market mutual funds.

Fidelity would be pleased to provide any further information or respond to any questions that the Commissioners or staff may have.

Sincerely,

cc: The Honorable Elisse B. Walter, Chairman
The Honorable Luis A. Aguilar, Commissioner
The Honorable Troy A. Paredes, Commissioner
The Honorable Daniel M. Gallagher, Commissioner
Norm Champ, Director, Division of Investment Management

[1] Proposed Recommendations Regarding Money Market Mutual Fund Reform, 77 Fed. Reg. 69455 (Nov. 19, 2012), *available at* http://www.gpo.gov/fdsys/pkg/FR-2012-11-19/pdf/2012-28041.pdf.

Scott C. Goebel
Senior Vice President
General Counsel
FMR Co.
82 Devonshire Street V10E, Boston, MA 02109-3614
617.563.0371 FAX 617.385.1331 SCOTT.GOEBEL@FMR.COM

February 14, 2013

Mr. Amias Gerety
Deputy Assistant Secretary
Financial Stability Oversight Council
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Submitted electronically through http://www.regulations.gov

Re: Comments on Financial Stability Oversight Council Proposed Recommendations Regarding Money Market Mutual Fund Reform

Fidelity Investments ("Fidelity")[1] appreciates the opportunity to provide comments to the Financial Stability Oversight Council ("FSOC") on its Proposed Recommendations Regarding Money Market Mutual Fund Reform (the "Proposed Recommendations").[2]

Fidelity is the largest money market mutual fund ("MMF") provider in the United States, with more than $430 billion in MMF assets under management. Funds we manage represent more than 16 percent of MMF assets in the United States (as of December 31, 2012) and more than 9 percent of MMF assets worldwide (as of September 30, 2012). More than 11 million customers, who include retirees, parents saving for college and active investors, use Fidelity's MMFs as a core brokerage account or cash investment vehicle.

Fidelity has been engaged actively in discussions regarding potential MMF reform for several years, and we do not believe that additional reform is necessary for MMFs. Furthermore, we believe that the FSOC has failed to meet the procedural and substantive requirements as well as the policy justifications that are necessary to exercise its authority under Section 120 of the Dodd-Frank Act ("Section 120") and make the Proposed Recommendations. However, should regulators nonetheless elect to proceed with additional regulatory reform, we strongly urge a narrowly tailored approach to address a clearly defined problem. In particular, we believe that neither the FSOC nor any other regulator has provided any reasonable justification for additional

---

[1] Fidelity was founded in 1946 in the United States and is one of the world's largest providers of financial services, with assets under administration of over $3.8 trillion, including managed assets of over $1.6 trillion. Fidelity provides investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and many other financial products and services to more than 20 million individuals and institutions, as well as through 5,000 financial intermediary firms.

[2] Proposed Recommendations Regarding Money Market Mutual Fund Reform, 77 Fed. Reg. 69455 (Nov. 19, 2012), *available at* http://www.gpo.gov/fdsys/pkg/FR-2012-11-19/pdf/2012-28041.pdf.

regulation of Treasury, government, tax-exempt, or retail prime MMFs. Any further reforms should be limited to institutional prime MMFs.

All MMFs are subject already to extensive oversight and regulation in the United States under the Investment Company Act of 1940, together with the rules promulgated thereunder. These comprehensive regulations and rules include portfolio construction constraints, investor protections, extensive disclosure requirements, and broad financial reporting and recordkeeping requirements. In addition, mutual fund investors are afforded protections under state law and other federal statutes, such as the Investment Advisers Act of 1940, the Securities Act of 1933 and the Securities Exchange Act of 1934.

In 2010, the Securities and Exchange Commission ("SEC"), the primary regulator for MMFs, significantly strengthened Rule 2a-7, which governs MMFs. The 2010 amendments to Rule 2a-7 were quite impactful in that they imposed more stringent constraints on fund maturity, liquidity, and quality, as well as new requirements on fund disclosure, operations, and oversight. Based on our experience as well as interactions with our customers, the 2010 Rule 2a-7 amendments reduced MMF risk.[3] In particular, the 2010 changes include the following:

- Minimum portfolio liquidity requirements (10 percent invested in daily liquid assets and 30 percent invested in weekly liquid assets) now enable funds to handle better large, unexpected redemptions in the rare instances when they do occur;

- Disclosure requirements have created a powerful governor on MMFs, as demonstrated in the summer of 2011, when investors, regulators, financial journalists, and other market observers were able to monitor fund holdings frequently;

- A reduced maximum allowable portfolio weighted average maturity ("WAM") of 60 days now limits the amount of both interest rate risk and credit risk in a MMF;

- A new maximum allowable portfolio weighted average life ("WAL") of 120 days now limits price volatility in a MMF (owing specifically to a change in credit spreads or to a dislocation in benchmark interest rates) by implicitly constraining holdings in floating rate securities; and

- Wind-down procedures now allow a MMF's board of trustees to suspend redemptions, thereby facilitating orderly liquidation of the fund and avoiding the need for forced asset sales in times of market stress.

For decades, MMFs have been attractive destinations for shareholder capital, due to their convenience, high credit quality, and liquidity. MMFs seek to provide a stable, constant net

---

[3] For further discussion of the impact of the 2010 amendments, *see* Letter from Scott C. Goebel, Senior Vice President and General Counsel, on behalf of Fidelity Investments, to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission (Mar. 1, 2012), *available at* http://www.sec.gov/comments/4-619/4619-125.pdf and attached as Exhibit 1.

asset value ("NAV") and daily access to money, with a competitive yield versus bank deposits and direct investments. MMFs are utilized by a broad spectrum of investors, from small, individual investors, to large, institutional investors. As the FSOC recognizes, "MMFs are a convenient and cost-effective way for investors to achieve a diversified investment in various money market instruments, such as commercial paper (CP), short-term state and local government debt, Treasury bills, and repurchase agreements (repos)."[4] MMFs provide retail individual investors, including retirees, a safe way to earn income on cash awaiting further investment with low risk and low volatility. Many of the instruments in MMFs generally are not available for direct purchase by individual investors. In addition, some MMFs offer check-writing privileges, allowing an investor to make payments directly out of a MMF rather than requiring the investor to redeem, transfer the proceeds to another account and then make the payments. These convenience features have made MMFs an attractive complement to bank accounts.

We also believe that MMFs are a success story for the capital markets, allowing issuers to access low-cost funding under a well defined financial regulatory framework. By investing in short-term debt instruments, MMFs serve as important providers of short-term funding to financial institutions, businesses and governments. Issuers of short-term debt instruments include the federal government and its agencies, corporations, hospitals, universities, banks, and state and local governments. Regulators recognized the importance of MMFs to the short-term funding markets in the Report of the President's Working Group on Money Market Fund Reform Options ("PWG Report"), stating that "MMFs are the dominant providers of some types of credit, such as commercial paper and short-term municipal debt, so a significant contraction of MMFs might cause particular difficulties for borrowers who rely on these instruments for financing."[5]

MMFs also provide investors a convenient, cost-effective cash investment option. In addition to millions of individual investors, institutional investors in MMFs include "corporations, bank trust departments, pension plans, securities lending operations, and state and local governments."[6] MMFs also assist broker-dealers, trustees, pension funds, and charitable foundations in managing customer assets. Today, while many MMFs offer a yield return of only one or two basis points in the current near-zero interest rate environment, investors have maintained MMF investments due to the safety, flexibility, and liquidity that MMFs provide.

Respectfully, Fidelity's message to the FSOC is simple: take no further action on MMFs at this time. As described in more detail in this letter, the SEC is the regulator with the authority and expertise to consider whether and how to adopt additional reforms on MMFs. Furthermore,

---

[4] Proposed Recommendations at 69457.

[5] Report of the PRESIDENT'S WORKING GROUP ON FINANCIAL MARKETS,MONEY MARKET FUND REFORM OPTIONS (Oct. 2010) at 21, *available at* http://www.treasury.gov/press-center/press-releases/Documents/10.21%20PWG%20Report%20Final.pdf.

[6] Proposed Recommendations at 69457.

the alternatives the FSOC has proposed are not workable; and the FSOC has failed to meet the procedural and substantive requirements as well as the policy justifications that are necessary to exercise its authority under Section 120 and make the Proposed Recommendations.

Fidelity believes that regulators should proceed cautiously when considering further structural changes to a well functioning investment vehicle that serves the needs of short-term investors and borrowers. The costs and benefits of additional reforms should be identified clearly and evaluated robustly before moving forward. Any changes to MMFs should be considered carefully *prior* to implementation to ensure that they are consistent with creating a stronger, more resilient product, without imposing harmful, unintended consequences on financial markets or on the global economy. Fidelity does not believe that the Proposed Recommendations or the accompanying discussion meet those standards.

As discussed in greater detail in the remainder of this letter, we have the following responses to the Proposed Recommendations:

1. Although we firmly believe that no further regulation is necessary for MMFs, any reforms that regulators determine to implement should be limited to prime MMFs purchased primarily by institutional investors. The concerns that the FSOC has identified regarding susceptibility to runs do not apply to all types of MMFs and, therefore, there is no justification for further reforms to Treasury, government, tax-exempt, or retail prime MMFs.

2. If the SEC concludes that institutional prime MMFs represent residual risk despite the dramatic changes wrought by the 2010 Rule amendments, the SEC should consider requiring liquidity gates and/or fees on institutional prime MMFs that would be triggered during times of market stress. Under this model, redemption restrictions, designed to halt significant redemptions, would be imposed in the event weekly liquid assets fell below a specified threshold.

3. As proposed, the FSOC's recommendations for MMF reform would actually increase systemic risk and would result in extensive structural changes requiring extensive operational and recordkeeping adjustments. These changes would make MMFs an unattractive investment option for many individual savers and investors as well as institutional investors and could cause many fund advisers to exit the MMF business. In addition, the proposed alternatives would result in a number of unintended consequences.

4. The FSOC's assessment of the economic consequences of its proposed recommendations is insufficient. Additionally, the FSOC has not supported adequately its proposed determination that Treasury, government, tax-exempt, or retail prime MMFs could create or increase the risk of spreading financial instability.

1. Treasury, Government, Tax-Exempt, and Retail Prime MMFs Should Not Be Subject to Any Additional Reforms

As stated above, Fidelity believes that the 2010 SEC reforms have made all types of MMFs more resilient, and that additional reform is not necessary. However, as the FSOC and the SEC have noted, there are vast differences in portfolio composition, liquidity, and risk profiles across the different types of MMFs. Inexplicably, the FSOC failed to consider these varying levels of risk within each category of MMFs and would apply their Proposed Recommendations to the entire MMF industry, with very limited exceptions.[7] This is not a prudent and balanced approach to reform, and risks imposing excessive costs on the economy and investors.

In the Proposed Recommendations, the FSOC identifies four types of MMFs based on their investment strategies: Treasury MMFs, government MMFs, tax-exempt MMFs, and prime MMFs. Treasury, government, tax-exempt, and retail prime MMFs do not pose the liquidity, credit, and redemption risks that the FSOC has identified as a concern.

Treasury, government, and tax-exempt MMFs actually served as a safe haven for investors during the financial crisis of 2007-2008, a time of unprecedented financial instability that resulted in significant distress in the commercial paper market. Overall, MMF assets increased by nearly $1.0 trillion during the period, demonstrating investor confidence in MMFs.[8] In fact, redemptions out of MMFs in 2008 were not so much a "run" on the MMF industry as a rapid reallocation by investors in institutional prime MMFs to Treasury and government MMFs. Prime MMFs are taxable funds that invest in short-term money market instruments of the highest-quality, including Treasury and government securities, certificates of deposit, repurchase agreements, commercial paper and other money market securities. As a result of the shift out of prime MMFs by large, institutional shareholders during the financial crisis, these funds had to sell various security holdings, including commercial paper to meet redemptions. This forced selling combined with higher levels of uncertainty and risk aversion added to pressure on banks and the bank commercial paper market. The behavior in 2008 was consistent with Fidelity's views that Treasury, government, and tax-exempt MMFs generally do not impact bank funding and the taxable commercial paper market, which is the market that most concerns the FSOC.[9] Therefore, there is no regulatory justification for additional reform of these types of MMFs.

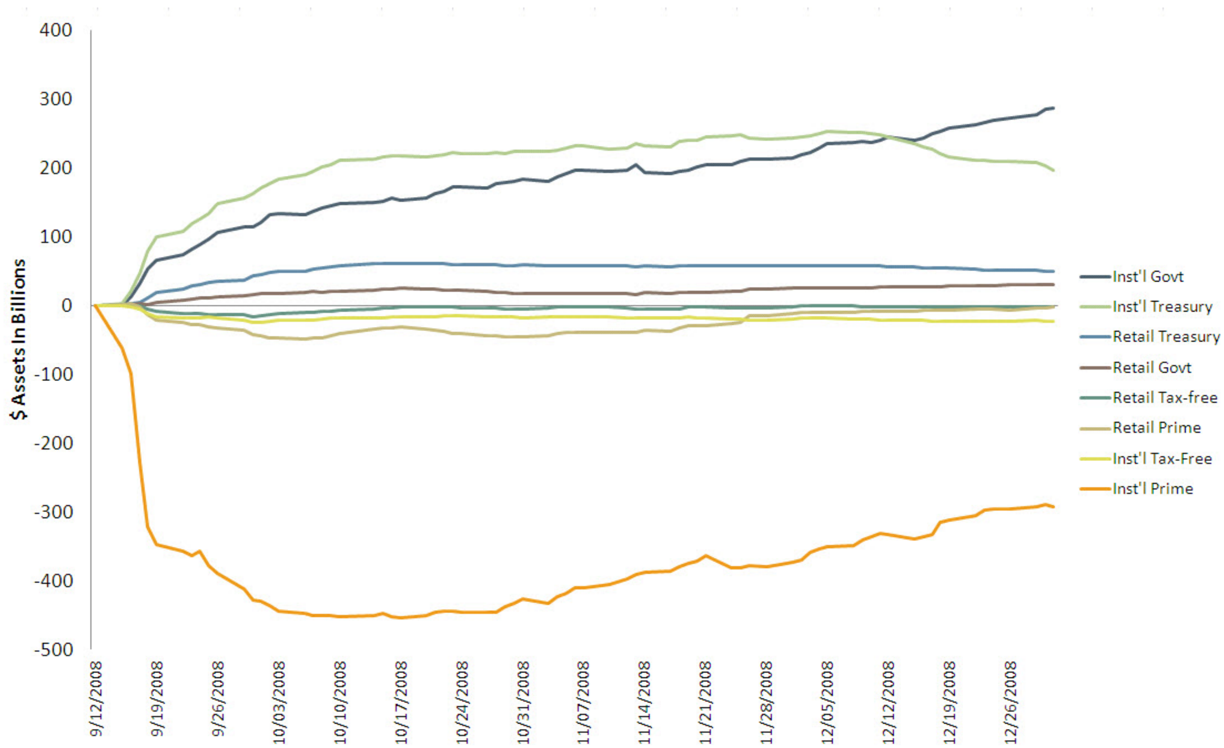
---

[7] We note that the Presidents of the 12 Federal Reserve Banks encourage the FSOC to consider whether any reforms of Treasury, government, and tax-exempt funds are necessary and put forth a scenario in which "investors will have the ability to continue investing in a traditional stable NAV fund by investing in a non-prime MMF." Letter from Eric Rosengren to FSOC (Feb. 12, 2013), *available at* http:\\www.bos.frb.org/news/press/2013/pr021213-letter.pdf.

[8] ICI Statistical Data.

[9] *See* Proposed Recommendations at 69462 (noting the FSOC's concern that "[g]iven the dominant role of MMFs in short-term funding markets, runs on these funds can therefore have severe implications for the availability of credit and liquidity in those markets.").

As the following chart illustrates, during the 2008 financial crisis, Treasury and government MMFs had significant inflows, while tax-exempt and retail prime MMFs had very moderate flows. It was only those prime MMFs predominantly owned by large, institutional investors that experienced significant outflows.



Source: iMoneyNet

Changes to 2010 markets addressed the composition of all MMFs, including institutional prime MMFs. Therefore, Fidelity believes that the FSOC should take no further action on any type of MMF and that the SEC should continue to review the results of its study prior to considering structural changes to a well functioning investment vehicle that serves the needs of short-term investors and borrowers. The SEC should identify clearly and evaluate robustly the costs and benefits of additional reforms before moving forward. As the SEC's recent study on MMFs demonstrates, based on the portfolio composition, liquidity position, shareholder behavior, and overall risk profile of Treasury, government, tax-exempt, and retail prime MMFs, there is simply no regulatory justification for any additional reform for these types of funds.[10] With respect to institutional prime funds, the SEC should narrowly tailor any reform proposals to address the perceived risks.

---

[10] *See generally* "Response to Questions Posed by Commissioners Aguilar, Paredes, and Gallagher," issued by the staff of the SEC's Division of Risk, Strategy, and Financial Innovation (Nov. 30, 2012), *available at* http://www.sec.gov/news/studies/2012/money-market-funds-memo-2012.pdf.

Any regulatory action – which should come only from the SEC and not from the FSOC – must be tailored narrowly to address actual, identified risks. Because Treasury, government, tax-exempt, and retail prime MMFs do not pose risk, these types of MMFs should be excluded from any additional reform measures.

A. There Is No Justification for Further Reform of Treasury MMFs

Fidelity does not believe that there is any empirical evidence that would justify subjecting Treasury MMFs to any further reforms. As the FSOC notes, Treasury MMFs "invest primarily in U.S. Treasury obligations and repos collateralized with U.S. Treasury securities."[11] Historically, Treasury securities maintain or increase in value when markets become volatile during times of market stress. In fact, the SEC has noted that "Treasury securities . . . have been the most liquid assets during times of market stress" and "the 'flight to liquidity' that happens during times of uncertainty makes it easy to sell Treasury securities in even large quantities."[12] The FSOC correctly recognizes that "Treasury MMFs are unlikely to suffer credit events; tend to experience net inflows, rather than net redemptions, in times of stress; and may be more likely to maintain a stable value during times of market stress, when Treasury securities generally maintain their values."[13]

We agree with the FSOC's assessment of Treasury MMFs and note its determination to exclude these funds outright from the NAV buffer alternatives and, further, to carve out Treasury securities and repos held in non-Treasury MMFs for purposes of determining the size of a fund's NAV buffer. Under the same logic, however, the FSOC also should have excluded Treasury MMFs from the floating NAV proposal.

Because there is no evidence that Treasury MMFs could create or increase systemic risk, regulators should exclude these funds from any additional reform measures.

B. There Is No Justification for Further Reform of Government MMFs

Fidelity does not believe that there is any empirical evidence that would justify subjecting government MMFs to any further reforms. As the FSOC notes, government MMFs "invest primarily in U.S Treasury obligations and securities issued by entities such as the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Banks (FHLBs), as well as in repo collateralized by such

---

[11] Proposed Recommendations at 69457.

[12] Securities and Exchange Commission, *Money Market Reform*, 75 Fed. Reg. 10060, at 10078 (March 4, 2010) ("SEC 2010 Amendments"), *available at* http://www.sec.gov/rules/final/2010/ic-29132fr.pdf.

[13] Proposed Recommendations at 69471.

securities."[14] The SEC has noted the strong liquidity of these securities even in times of market stress.[15]

Like Treasury MMFs, government MMFs experienced substantial inflows during the 2008 financial crisis, as part of the "flight to quality." Specifically, as the FSOC acknowledges, "government MMFs attracted inflows of $192 billion during the week following the Lehman bankruptcy."[16]

The industry asset flow chart provided on page 6 further illustrates this point by reflecting the over $300 billion in assets that government MMFs attracted in the three months immediately following the crisis. These data support the conclusion that government MMFs are not susceptible to large, sudden redemptions in times of market stress.

In addition, "[g]overnment MMFs did not face similar run vulnerabilities [as institutional prime MMFs] at the time because they had significantly different portfolio holdings than the distressed prime funds and many government MMF investments were appreciating in value."[17] We agree wholeheartedly with these observations on government MMFs and, accordingly, are perplexed at the FSOC's determination that "[g]overnment MMFs nonetheless pose the same structural risks, in that the funds' investors would have an incentive to redeem if they feared even small losses" and that "government MMFs also can be vulnerable to runs."[18]

The Proposed Recommendations refer to the Treasury's assistance with the liquidation of the Reserve Fund's U.S. Government Fund during the 2008 financial crisis and the outflows from government MMFs during the market volatility of July 2011. These events, however, do not demonstrate that government MMFs as a segment of the industry pose a systemic redemption risk. Indeed, if anything, the experience of the Reserve U.S. Government Fund demonstrates that poor management of one government MMF does not lead to contagion across the government MMF industry as a whole. The facts and data show that, while the Reserve U.S Government Fund had large outflows, other government MMFs experienced significant inflows during the financial crisis. The FSOC provides no data to the contrary. Trouble in one fund, the Reserve U.S. Government Fund, did not cause stress on other funds, as shown by the significant

---

[14] *Id.* at 69457.

[15] SEC 2010 Amendments at 10079 ("Transaction volume in agency discount notes increased over this time period which suggests to us that money market funds were able to sell their shorter maturity agency discount notes at amortized cost or higher prices.").

[16] Proposed Recommendations at 69464.

[17] *Id.*

[18] *Id.*

inflows into other government MMFs. As such, not only is there no support to conclude that government MMFs pose systemic risk, the evidence suggests the opposite is true.[19]

The Reserve U.S. Government Fund had difficulty meeting redemptions because of its poor liquidity profile and spread risk due to its extraordinary portfolio composition. The fund's daily and weekly liquidity were each at 4.8 percent, well below the 10 percent daily and 30 percent weekly minimums required following the 2010 amendments to Rule 2a-7. The fund held over 80 percent of its assets in agency floating rate securities, many of which used the prime rate and the federal funds rate as base indices. These interest rates diverged sharply from other market rates during the crisis, ultimately revealing the fund's extreme exposure to "basis" risk as it incurred a significant loss of value in its floating rate securities. Furthermore, the fund's WAL, based on holdings in August 2008, was 234.5 days.[20] This WAL is well above the current maximum of 120 days, which the SEC's 2010 amendments to Rule 2a-7 imposed. In other words, the Reserve U.S. Government Fund could not take on the level of risk today that contributed to its problems during this crisis. Accordingly, we do not believe that regulators must solve for an issue that no longer exists under current regulations.

The FSOC suggests that the increased outflows from government MMFs during the summer of 2011 support applying further reforms to these funds. We disagree. Government MMFs proved to be resilient during July 2011 as they successfully endured the tumultuous markets. Although government MMFs experienced outflows during this time, these funds held significant liquidity and the market value of the government securities that they owned maintained their value. Government MMFs were in no danger of breaking the buck and were not subject to destabilizing outflows. In fact, as the FSOC recognizes, in July 2011, "outflows from government MMFs totaled 7 percent of assets."[21] We disagree with the conclusion that outflows of 7 percent represent a run. These outflows had no impact on the overall resiliency of government MMFs and demonstrate the effectiveness of the SEC's 2010 amendments to Rule 2a-7, which require MMFs to hold high levels of liquidity. In fact, even after the 7 percent outflows in 2011, Fidelity's government MMFs had greater than 60 percent of their assets in weekly liquid assets, well above the 30 percent requirement under amended Rule 2a-7.

---

[19] We also note that most Treasury and government MMFs terminated their participation in the Treasury Temporary Guarantee Program for Money Market Funds in April 2009, which was earlier than other MMFs. Although Fidelity's research has shown overwhelmingly that MMF investors understand that MMF are not guaranteed by the U.S. Government (see Exhibit 1 attached hereto), the more limited participation in the Treasury Guarantee Program by government MMFs makes the risk of any shareholder misperception of a federal guarantee of government MMFs even less likely. *See* Crane Data, *Treasury Money Funds, Most Govt, Dropping Temporary Guarantees* (Apr. 8, 2009), *available at* http://cranedata.com/archives/all-articles/2232/.

[20] WAL calculated based on data provided in the Reserve U.S. Government Fund's Form N-Q filing with the SEC for the quarter ending August 31, 2008, *available at* http://www.sec.gov/Archives/edgar/data/83335/000110465908066624/a08-25991_5nq.htm.

[21] Proposed Recommendations at 69464.

To illustrate further the broadly accepted view that securities issued by government agencies and government sponsored entities ("GSEs") are low-risk investments, we note that pursuant to the Federal Reserve Act, every Federal Reserve bank has the power to buy and sell in the open market Treasury securities as well as short-term government and municipal securities.[22] In fact, as of January 30, 2013, more than one-third (over $1 trillion) of the Federal Reserve's balance sheet is made up of government securities and government agency mortgage-backed securities, with another 57 percent ($1.71 trillion) in Treasury securities.[23] The Federal Reserve's investment in government securities and government agency mortgage-backed securities represents over five times the size of these holdings across all government MMFs (over three times the size when including government repo).[24] We question the need to reform government MMFs, which invest in the same instruments that represent one-third of the Federal Reserve's balance sheet.

In addition, regulators must consider the significant role that government MMFs play in financing government securities. As of the end of the third quarter in 2012, MMFs were invested in more than $331 billion of agency and GSE-backed securities and held more than $513 billion of government repo assets.[25] Unnecessarily subjecting government MMFs to further regulation may have the unintended consequence of reduced financing for government securities.

Regardless of the future of GSEs, the securities they have issued will continue to play an important role in the stability of the financial system. More specifically, before proposing to regulate MMFs further, regulators must consider the potential negative impact that reforms to government MMFs may have on the ability for the Federal Reserve Bank to conduct its large scale reverse repurchase agreement transactions ("reverse repos"). The Federal Reserve Bank of New York (the "FRBNY") conducts reverse repos to reduce temporarily the supply of reserve

---

[22] Section 14(b) of the Federal Reserve Act states that "[e]very Federal reserve bank shall have power: (1) To buy and sell, . . . bonds and notes of the United States, bonds issued under the provisions of subsection (c) of section 4 of the Home Owners' Loan Act of 1933, as amended, and having maturities from date of purchase of not exceeding six months, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, and obligations of, or fully guaranteed as to principal and interest by, a foreign government or agency thereof, such purchases to be made in accordance with rules and regulations prescribed by the Board of Governors of the Federal Reserve System. Notwithstanding any other provision of this chapter, any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to the principal and interest may be bought and sold without regard to maturities but only in the open market; and (2) To buy and sell in the open market, . . . any obligation which is a direct obligation of, or fully guaranteed as to principal and interest by, any agency of the United States. 12 U.S.C. 355, as amended, *available at* http://www.federalreserve.gov/aboutthefed/section14.htm.

[23] Federal Reserve Statistical Release – *Factors Affecting Federal Reserve Balances* (Jan. 31, 2013), *available at* http://www.federalreserve.gov/releases/h41/current/h41.htm#h41tab1.

[24] Based on government MMF portfolio holdings as of October 31, 2012, as reported by Crane Data.

[25] Federal Reserve Statistical Release – *Flow of Funds Accounts of the United States, available at* http://www.federalreserve.gov/Releases/Z1/Current/accessible/l119.htm.

balances in the banking system as part of its normal open market operations. In 2009, the FRBNY determined that it needed to expand its list of eligible reverse repo counterparties to include domestic MMFs to help drain large amounts of reserves in the future.[26] As the Federal Reserve continues its policy of quantitative easing by purchasing Treasury notes and government agency mortgage-backed securities, the future need for reverse repo increases. Government MMFs are ideal counterparties for the Federal Reserve because they have a large, stable demand for repos backed by Treasury and government agency securities. Unjustified reforms to government MMFs may make it more difficult for the Federal Reserve Bank to drain reserves and conduct monetary policy in an optimum manner.

Because there is no evidence to justify that government MMFs could create or increase systemic risk, regulators should exclude these funds from any additional reform measures.

C. There Is No Justification for Further Reform of Tax-Exempt/Municipal MMFs

Fidelity does not believe that there is any empirical evidence that would justify subjecting tax-exempt MMFs (also known as "municipal MMFs") to any further reforms. The FSOC defines tax-exempt MMFs as funds that "invest in short-term municipal securities and pay interest that is generally exempt from state and federal income taxes, as appropriate."[27] More specifically, tax-exempt MMFs invest in short-term obligations of tax-exempt entities, such as state and municipal governments, and provide financing for universities, hospitals, housing, student loans, transportation, utilities, and other uses.

The FSOC has not provided any data or analysis to suggest that tax-exempt MMFs are vulnerable to significant redemptions or that they pose any systemic risk. To the contrary, as shown in the chart on page 6 of industry asset flows during the 2008 financial crisis, tax-exempt MMFs experienced very modest outflows. Recent data indicates that over 80 percent of the assets held by the industry's tax-exempt MMFs are liquid within seven days, which is more than double the 30 percent weekly minimum required following the SEC's 2010 amendments to Rule 2a-7.[28] This high level of liquidity provides great protection against the risk of credit deterioration and shareholder outflows.

Tax-exempt MMFs have significant holdings in short-term debt in the U.S. and provide an efficient means for state and local governments to obtain financing for a variety of projects and cash flow needs. As of March 2012, MMFs held 74 percent "of the short-term debt that finances state and local governments for public projects such as roads, bridges, airports, water

---

[26] As of January 15, 2013, the FRBNY's expanded list of reverse repo counterparties includes 96 MMFs. Federal Reserve Bank of New York Reverse Repo Counterparties List, *available at* http://www.newyorkfed.org/markets/expanded_counterparties.html.

[27] Proposed Recommendations at 69457.

[28] Based on industry data provided by Crane Data as of December 31, 2012, which represents over 90 percent of the securities that tax-exempt MMFs hold.

and sewage treatment facilities, hospitals, and low-income housing."[29] Changing the structure of these funds potentially would reduce sharply investor demand for them, thereby forcing states and municipalities to seek other sources for financing. Ultimately, this would result in increased financing costs for state and local governments, as well as increased taxes and user fees for taxpayers. Given the size of tax-exempt MMFs' short-term debt holdings, contracting this market could have a chilling effect on critical public sector projects, a concern that many municipalities and public entities have expressed in recent letters to the SEC regarding potential MMF reform.[30] These entities would be forced to turn to banks for financing, which is more costly and more difficult to obtain.

In addition, regulators must consider the potential negative economic impact of reforms on state and local governments and certain non-profit entities (such as hospitals and universities) that rely heavily on tax-exempt MMFs to help meet their normal operating cash flow needs and reduce the long-term costs of their debt obligations. Many state and local governments receive revenue during the year at regular intervals, but in widely varying and often unpredictable amounts (e.g., annual income tax receipts or quarterly real estate tax receipts). These governments also are obligated to make payments during the year (e.g., employee salaries and vendor invoices), but the timing and amounts of these cash payments are not necessarily well matched to the timing and amounts of the cash receipts. Tax-exempt MMFs play a critical role in solving the cash flow challenge because they purchase more than two-thirds of the short-term notes issued by municipal entities, thereby enabling these entities to have adequate cash on hand throughout the year.

The importance of MMFs in the overall municipal debt market is sometimes masked by cyclical market conditions, as issuer preferences shift temporarily away from short-term debt and toward long-term debt. Such a shift has occurred in recent years as long-term municipal interest rates have declined to historically low levels and as municipal issuers accordingly have increased their use of long-term debt to lock in cost savings. However, when market conditions shift back and interest rates begin to rise, issuers will once again prefer to issue short-term debt, and any permanent loss of demand for short-term debt also would have an adverse impact on financing costs that municipal borrowers face.

---

[29] Investment Company Institute, *Money Market Funds in 2012, Money Market Funds are Valued by Investors and Play a Critical Role in the U.S. Economy* (July 17, 2012), *available at* http://ici.org/pdf/12_mmf_inv_econ_jul.pdf.

[30] *See, e.g.,* Letter from Joe Wray, Brown County Treasurer, Association of Indiana Counties, Inc., to SEC, *available at* http://www.sec.gov/comments/4-619/4619-184.pdf, Letter from Dennis Yablonsky, CEO, Allegheny Conference on Community Development and Barbara McNees, President, Greater Pittsburgh Chamber of Commerce, to SEC, *available at* http://www.sec.gov/comments/4-619/4619-168.pdf, Letter from Edward J. Zabrocki, Executive Board Chairman and Mayor, Metropolitan Chicago Mayors Caucus, to SEC, *available at* http://www.sec.gov/comments/4-619/4619-160.pdf, Letter from Stephen J. Acquario, Executive Director, New York State Association of Counties, to SEC, *available at* http://www.sec.gov/comments/4-619/4619-202.pdf, Letter from L. Brent Gardner, Executive Director, Utah Association of Counties, to SEC, *available at* http://www.sec.gov/comments/4-619/4619-205.pdf, Letter from Stephanie Rawlings-Blake, Mayor, City of Baltimore, to SEC, *available at* http://www.sec.gov/comments/4-619/4619-219.pdf, and Letter from Michael B. Hancock, Mayor, City of Denver, to SEC, *available at* http://www.sec.gov/comments/4-619/4619-220.pdf.

Because there is no evidence to justify that tax-exempt MMFs could create or increase systemic risk, regulators should exclude these funds from any additional reform measures.

D. Any Further Reforms of Prime MMFs Should Be Tailored Narrowly

Both the FSOC and the SEC have noted that the experience of prime MMFs that are owned by large, institutional shareholders, differed in the 2008 financial crisis from all other types of MMFs, including prime MMFs owned by individual investors. The Proposed Recommendations note that both the 2008 financial crisis and the volatile markets in the summer of 2011 "suggest that retail investors are far less likely to redeem in times of stress."[31] Similarly, during her testimony before Congress in June 2012, then SEC Chairman Mary Schapiro stated that "early redeemers tend to be institutional investors with substantial amounts at stake who can commit resources to watch their investments carefully and who have access to technology to redeem quickly. This can provide an advantage over retail investors who are not able to monitor the fund's portfolio as closely."[32] The FSOC also noted that MMF outflows during the week following the Lehman bankruptcy "were primarily prevalent among the more sophisticated, risk-averse institutional investors, as institutional funds accounted for 95 percent of the net redemptions from prime funds."[33]

We recognize that no regulatory classification of funds as institutional or retail currently exists. Today, MMF advisers self-classify funds and voluntarily report to an industry vendor whether a particular fund is retail or institutional. Therefore, an important step toward creating properly tailored reform is to establish formal criteria that distinguish between these two fund types. Retail and institutional MMFs exhibit different redemption patterns not only because of fundamental differences in the nature of their shareholders, but also because these two shareholder populations differ greatly in the ways that they use MMFs. For example, many institutional shareholders are corporations that use MMFs as a liquidity management vehicle for their operating cash to meet short-term business needs. On the other hand, most retail shareholders are individuals who use MMFs primarily as a trade settlement vehicle within a brokerage account or as a conservative component of a balanced investment portfolio (such as within a 401(k) account).

Because there is no evidence to justify that retail prime MMFs could create or increase systemic risk, regulators should exclude these funds from any additional reform measures. In narrowly tailoring any potential reform, regulators should consider the differences in redemption

---

[31] Proposed Recommendations at 69471.

[32] Testimony on "Perspectives on Money Market Mutual Fund Reforms," by Chairman Mary L. Schapiro, U.S. Securities and Exchange Commission, before the Committee on Banking, Housing, and Urban Affairs of the United States Senate (June 21, 2012), *available at* http://www.sec.gov/news/testimony/2012/ts062112mls.htm.

[33] Proposed Recommendations at 69464.

patterns between "institutional" and "retail" investors and how these investors might be classified.[34]

2. Regulators Should Consider Alternative Options for Reform

In addition to the three reform alternatives included in the Proposed Recommendations, the FSOC "solicits comment on other possible reforms of MMFs that the Council should consider for its final recommendation."[35] As stated above, Fidelity strongly holds that the FSOC should not make final recommendations with regard to MMF reform, as MMF regulation is appropriately the domain of the SEC. Nonetheless, Fidelity would like to offer suggestions on alternative options for regulators to discuss with the industry.

A. Liquidity-Triggered Gates and/or Fees for Institutional Prime MMFs

Among the possible reforms that the FSOC identifies is a structure that would impose liquidity-triggered redemption gates and/or fees on MMFs during times of market stress. If regulators' ultimate goal is to stop significant redemptions on the types of funds that they have identified as susceptible to runs (prime funds owned primarily by large, institutional investors), then regulators should consider redemption gates and/or fees, which are the only effective means to achieve that goal.

Pursuant to this model, in the event a MMF's weekly liquidity level falls below a predetermined threshold, the fund would institute a temporary restriction that automatically would suspend redemptions for "a period of time for a fund to restore its health."[36] In the event a MMF's weekly liquidity level continues to fall and reaches a level below another predetermined threshold, shareholders would have the option to redeem, subject to a fixed redemption fee of 1.00 percent. Imposing a redemption fee on redeeming shareholders would "compensate MMFs and the remaining MMF investors for the potential cost of withdrawing this liquidity from the fund."[37]

We believe that the automatic imposition of a redemption gate and, if necessary, a redemption fee, once a MMF's weekly liquid assets fall significantly below the current 30

---

[34] Fidelity recently submitted comments to the SEC in response to the study issued by the staff of the SEC's Division of Risk, Strategy, and Financial Innovation, entitled "Response to Questions Posed by Commissioners Aguilar, Paredes, and Gallagher," *available at* http://www.sec.gov/news/studies/2012/money-market-funds-memo-2012.pdf, in which we suggest that the SEC consider distinguishing retail and institutional MMFs based on shareholder concentration, regardless of whether underlying shareholders are individuals or institutions. Letter from Scott C. Goebel, Senior Vice President and General Counsel, on behalf of Fidelity Investments, to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission (Jan. 24, 2013), at 5, *available at* http://www.sec.gov/comments/mms-response/mmsresponse-16.pdf.

[35] Proposed Recommendations at 69478.

[36] *Id.*

[37] *Id.*

percent requirement would cover the liquidation costs associated with selling securities necessary to meet redemptions. Once a redemption gate comes down based on this objective criterion, a MMF's board would have a predetermined period during which to determine to lift the gate. If the fund is not reopened by the end of that period, the fund would be required to liquidate.

After a MMF has been gated (temporarily closed) during a period of market stress, it would no longer be subject to immediate redemption pressure, unlike a fund that remains open. A gated fund would not need to sell assets into a distressed market, and thus would protect non-redeeming shareholders from absorbing the associated liquidation losses. Because the gated fund would not be forced to sell assets to meet redemptions, it would not be contributing to potential disruption of the short-term markets. Moreover, as the fund builds liquidity by allowing its holdings to mature, it would act as a market stabilizing force by reinvesting the proceeds of its maturities over a horizon consistent with its targeted re-opening date. Redemption gates, therefore, not only would provide a significant benefit to non-redeeming shareholders, but also would have a restorative influence on the market.

Although some investors may redeem in advance of the automatic redemption gate or fee, we do not believe that the objective triggers would necessarily accelerate or increase redemptions. The liquidity fee would serve as a premium on redemptions and, therefore, would discourage redemptions. Investors that choose to remain in the fund during times when the redemption fee is in effect would benefit from the boost in NAV that the fund would gain from the fees paid by redeeming investors.

Unlike the "minimum balance at risk" ("MBR") requirement in Alternative Two, which would impose a continuous redemption restriction and limit the utility of MMFs as a viable cash investment vehicle for many investors, these proposed liquidity-triggered redemption restrictions would be imposed only during times of stress and would be based on objective criteria applied uniformly to prime MMFs that are primarily owned by large, institutional shareholders. We understand that a number of industry groups and fund companies have considered this model, each with slight variations to the design features, including whether the trigger for the fee and/or gate should be objective or subjective. We urge regulators to engage in further discussions regarding the most suitable form of a liquidity gate and fee structure.

B. Additional Alternatives

Fidelity encourages regulators to continue to explore other alternatives beyond liquidity-triggered fees and gates that may enhance the resiliency of the narrowly defined set of MMFs that the regulators have identified as still susceptible to risk, namely, institutional prime MMFs. One option would be for the SEC to modify its rules to require prime MMFs to maintain a 50 percent core minimum allocation to government securities. Such an allocation could reduce any potential risk in a MMF's portfolio.

3. Fidelity Does Not Support the FSOC's Recommendations

The FSOC states that it aims to address, through its Proposed Recommendations, "the activities and practices of MMFs that make them vulnerable to destabilizing runs: (i) the lack of explicit loss-absorption capacity in the event of a drop in the value of a security held by an MMF and (ii) the first-mover advantage that provides an incentive for investors to redeem their shares at the first indication of any perceived threat to an MMF's value or liquidity."[38] Fidelity believes that not only would the FSOC's proposed alternatives fail to address these concerns, but the extent of the structural changes actually could cause significant redemptions from MMFs, disrupt the financial marketplace, and increase systemic risk. We note that the Treasury Department has appropriately recognized the dangers of disrupting markets through regulatory reforms in other contexts. Specifically, the Treasury Department took such market impact into account in its final determination on foreign exchange swaps and forwards, stating that "[t]his market plays an important role in helping businesses manage their everyday funding and investment needs throughout the world, and disruptions to its operations could have serious negative economic consequences."[39] We applaud the Treasury Department for considering the potential negative market impacts that regulatory reforms may have and narrowly tailoring regulation accordingly. We believe that regulators should apply the same approach in the context of MMF reform.

Our research indicates that fundamental changes to the structure of MMFs could cause a significant number of individual and institutional investors to shift assets out of MMFs into banks and other short-term investment vehicles.[40] We anticipate that this even greater concentration of deposits in banks would result in increased strain on an already overextended federal guarantee system. Beyond bank deposit products, investors would be forced to look at other investment instruments that have greater risk and do not provide the same transparency and comprehensive regulatory protection as MMFs. These alternatives include investing directly in short-term instruments. A rise in direct investments of money market securities would cause short-term investors to have non-professionally managed portfolios that would be less diversified, less liquid, less regulated, and poorly optimized as compared to MMFs. Additionally, the risk that assets will shift from more regulated jurisdictions, companies, and products to those that are less regulated is widely acknowledged. For example, in his statement regarding his decision not to support Chairman Schapiro's reform proposals in the summer of 2012, SEC Commissioner Luis Aguilar noted his concern "that the Chairman's proposal will be a catalyst for investors moving significant dollars from the regulated, transparent money market

---

[38] *Id.* at 69465.

[39] U.S. Treasury Department Office of Public Affairs Fact Sheet: Final Determination on Foreign Exchange Swaps and Forwards (Nov. 16, 2012), *available at* http://www.treasury.gov/press-center/press-releases/Pages/tg1773.aspx.

[40] Letter from Scott C. Goebel, Senior Vice President and General Counsel, on behalf of Fidelity Investments, to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, (Feb. 3, 2012) at 4 ("Fidelity 2011 Survey"), *available at* http://www.sec.gov/comments/4-619/4619-116.pdf. The survey results are attached as Exhibit 2.

fund market into the dark, opaque, unregulated market."[41] In addition, the PWG highlights this risk in discussing the unintended consequences and limited effectiveness of partial MMF reforms.[42]

MMFs also serve as a reliable source of direct short-term financing for the U.S. Government, domestic and foreign banks, financial and non-financial corporations and municipal issuers (including state and local governments as well as universities, hospitals, and utilities). The decrease in investor demand for MMFs likely to result from certain changes to the fundamental structure of the funds would significantly limit the availability of this important source of short-term funding for businesses as well as federal, state, and local governments. This will result in potentially meaningful increases in borrowing costs that will ultimately be passed through to taxpayers and consumers, leading to negative impacts across the U.S. and global economies.

A. Floating Net Asset Value (Alternative One)

Fidelity does not support the FSOC's floating NAV recommendation. Under this alternative, the FSOC proposes requiring all MMFs to replace the use of the current stable NAV with a floating NAV that would fluctuate with the value of the underlying portfolio, consistent with the valuation methodology applicable to other mutual funds. In addition, the proposal would require MMFs to reprice their shares from $1.00 to $100.00. The FSOC acknowledges that restructuring MMFs from a stable NAV to a floating NAV would result in prohibiting the use of amortized cost valuation for securities held in MMFs, which would reduce investors' options for investment of cash. Fidelity believes that imposing a $100 floating NAV on MMFs would create, rather than reduce, systemic risk by increasing concentration of short-term assets in the banking system.

The FSOC suggests that "floating NAVs could make investors less likely to redeem *en masse* when faced with the prospect of even modest losses by eliminating the 'cliff effect' associated with breaking the buck."[43] However, the FSOC has not provided, nor are we aware of, empirical evidence to support the idea that in a period of market turmoil, funds with floating NAVs would be at lower risk of significant redemptions from shareholders. To the contrary,

---

[41] *See Statement Regarding Money Market Funds*, by Commissioner Luis A. Aguilar, U.S. Securities and Exchange Commission, Washington, D.C. (Aug. 23, 2012), *available at* http://sec.gov/news/speech/2012/spch082312laa.htm. In December 2012, Commissioner Aguilar reiterated his concern regarding the potential impact of structural change to MMFs, stating that "it remains a concern that assets could flow to unregulated, opaque funds." *Statement on Money Market Funds as to Recent Developments*, by Commissioner Luis A. Aguilar, (Dec. 5, 2012), *available at* http://www.sec.gov/news/speech/2012/spch120512laa.htm.

[42] *See, e.g.*,PWG Report at 4, 6, 8, 21, and 33 n.29.

[43] Proposed Recommendations at 64966.

floating NAV funds in Europe experienced similar redemption pressures during the 2008 financial crisis.[44]

Fidelity believes that the FSOC's proposed floating NAV alternative would be hugely unpopular to the millions of retail and institutional MMF shareholders and that mandating a shift to a $100 floating NAV would result in massive fund outflows. Moving to a $100 floating NAV would limit the number of available stable NAV investment product options, potentially resulting in higher costs and lower returns for investors. This would decrease choices for short-term savers and limit their opportunity for market returns on cash. Our research shows that a significant percentage of MMF shareholders, particularly institutional shareholders, would redeem holdings in these funds if regulators eliminated the stable NAV.[45]

Moreover, under many state laws and regulations, municipalities, insurance companies and others are authorized to invest in MMFs only if the funds maintain a stable NAV and, in some cases, only in funds managed pursuant to Rule 2a-7. Sponsors of retirement plans that are subject to fiduciary obligations also may be reluctant to include $100 floating NAV MMFs as a cash investment option in group retirement plans. In addition, short-term financing for corporations, financial institutions and governments would be more expensive and less available if MMFs are forced to convert to a $100 floating NAV. Corporations also may be subject to internal investment guidelines that limit their cash management investments to products that seek to maintain a stable NAV.[46] MMFs also serve as a reliable source of direct short-term financing for the U.S. Government, domestic and foreign banks, financial and non-financial corporations and municipal issuers (including state and local governments as well as universities, hospitals, and utilities). The decrease in investor demand for MMFs likely to result from moving to a $100 floating NAV would limit significantly the availability of this important source of short-term funding. This would result in higher borrowing costs that would ultimately be passed through to taxpayers and consumers, leading to negative impacts across the U.S. and global economies.

In addition, as the FSOC recognizes, a floating NAV would impose an increase in tax, accounting, and record-keeping requirements for investors unless regulators provide additional administrative relief.[47] Unlike a floating NAV fund shareholder, an investor in a MMF designed

---

[44] *See* Stephen Jank and Michael Wedow, *Sturm und Drang in Money Market Funds: When Money Market Funds Cease to Be Narrow*, Deutsche Bundesbank Discussion Paper, Series 2: Banking and Financial Studies, No. 20/2008, *available at*, http://www.bundesbank.de/Redaktion/EN/Downloads/Publications/Discussion_Paper_2/2008/2008_12_30_dkp_20.pdf?__blob=publicationFile.

[45] Fidelity 2011 Survey.

[46] *See* Letter from Joseph C. Meekand and Denise Laussade, on behalf of Association for Financial Professionals, to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission (Jan. 10, 2011) at 2, *available at* http://www.sec.gov/comments/4-619/4619-17.pdf (stating that "many corporate investors will either be precluded from investing in MMFs, or will be required to modify their investment policies to allow for the flexibility to invest in instruments that fluctuate in value.").

[47] Proposed Recommendations at 69467.

with a stable $1.00 NAV does not need to consider the timing of transactions for purposes of the Internal Revenue Service ("IRS") "wash sale rule." If MMFs had a floating NAV, all share sales would be treated as tax reportable events, as they are for sales in long-term mutual funds. However, shareholders do not invest in long-term mutual funds for cash management purposes and, accordingly, typically make fewer purchases and sales in these funds. Furthermore, shareholders often invest in long-term mutual funds through tax-advantaged accounts that are relieved of this burden.

From an accounting perspective, a MMF with a stable $1.00 NAV qualifies as a "cash equivalent" under generally accepted accounting standards. Because the NAV is stable at $1.00 per share, investors are not required to recognize gains or losses for financial accounting purposes. There is no guidance, however, suggesting that a floating NAV MMF would qualify as a cash equivalent. For fund advisers, additional burdens would include obligations to mark to market the value of a MMF's shares, to track the costs of these shares, and to determine how to match purchases and redemptions for purposes of calculating gains and losses for accounting and tax purposes, all of which would require building new reporting systems at great costs.

The FSOC states that the "Treasury Department and the IRS have indicated to the Council that they will consider the extent to which expansion or modification of basis reporting could help shareholders deal with floating-NAV MMFs"[48] and "will evaluate the possibility of some administrative relief from the wash sale rules for *de minimis* losses on floating-NAV MMF shares."[49] Such vague and soft assurances are not much comfort for MMF shareholders. Until regulators provide clarity that they will grant such relief and treat a floating NAV MMF as a cash equivalent for accounting purposes, we do not believe that the SEC and the industry can begin to consider seriously the viability of a floating NAV alternative.

Moving to a floating NAV also would require extensive modifications to automated accounting and settlement systems throughout the financial system. Amortized cost accounting and a stable $1.00 NAV simplify cash management policies for investors and allow corporations, broker dealers, and banks to invest in shares of MMFs as cash "sweep" vehicles for any uninvested customer cash balances. In addition, broker-dealers offer clients a variety of features that are available generally only to accounts with a stable NAV, including ATM access, check writing, and ACH and fedwire transfers. A floating NAV would force MMFs that offer same day settlement on shares redeemed through wire transfers to shift to next day settlement or require fund advisers to modify their systems to accommodate floating NAV MMFs. The FSOC does not provide any estimates in the Proposed Recommendations of the costs associated with such systems overhauls. Fidelity estimates the initial cost of modifying our systems to support a floating NAV to be between $15 and $20 million. The estimate does not, however, include the costs associated with broader required changes to the operations process, prospectus and

---

[48] *Id.*

[49] *Id.*

marketing disclosure, client communications, or converting client assets out of MMFs that are deemed "ineligible" investments.

The Proposed Recommendations state that a "floating NAV would also reduce the first-mover advantage that exists in MMFs today because investors would no longer be able to redeem their shares for $1.00 when the shares' market-based value is less than $1.00."[50] This statement is misleading and suggests that there are no limitations on when a MMF can report a $1.00 NAV. SEC rules require a MMF to compare regularly its price per share calculated using the amortized cost method to the price per share based on market prices. MMFs can only use amortized cost accounting to report a stable $1.00 NAV when the market price remains within one-half of a cent of $1.00. If a fund's market price deviates more than one-half of a cent, SEC regulations require the fund's board to consider promptly whether to take action, including whether to discontinue the use of amortized cost valuation and to reprice the fund's NAV. The board also may consider whether to suspend redemptions and liquidate the fund. In addition, the SEC's 2010 amendments to the Rule 2a-7 require the funds to disclose their portfolios' per-share values at market prices on a monthly basis (with a 60-day delay) to four decimal places. More recently, Fidelity and other MMF sponsors have taken steps to begin disclosing MMF per-share market values on a daily basis.[51] These actions provide investors with greater transparency into MMF valuation and pricing. In addition, the reported data have shown that deviations between MMFs' market value prices and amortized costs are small.

B. Stable NAV with NAV Buffer (Alternatives Two and Three):

Fidelity opposes Alternatives Two and Three of the Proposed Recommendations, which include options that would impose capital requirements on non-Treasury MMFs of up to one percent or three percent, respectively. The Proposed Recommendations state that the NAV buffer "would be designed to reduce MMFs' susceptibility to runs . . ., providing a disincentive for shareholders to redeem in times of stress."[52] However, the FSOC does not provide any evidence to suggest that these buffers would mitigate systemic risk effectively or lessen MMFs' susceptibility to significant redemptions. Given the importance of MMFs to investors and to the financial markets, we do not believe that any structural reforms of the product should be based on unsupported assumptions that could have the unintended consequence of damaging rather than improving the industry.

The rationale for bank-like capital requirements simply does not apply to MMFs. The goal of bank capital regulation is to provide banks with a buffer to absorb credit losses against an investment portfolio with a wide variety of credit risks and many illiquid long-term investments.

---

[50] *Id.* at 69466.

[51] *See* Ross Kerber and Tim McLaughlin, "*Fidelity, Federated, Schwab to post daily fund values,*" Reuters (Jan. 11. 2012), *available at* http://www.reuters.com/article/2013/01/11/us-funds-fidelity-moneymarket-idUSBRE90A14420130111.

[52] *Id.* at 69469.

Unlike banks, which may assume significant credit risk on long-term loans, MMFs are investment vehicles that are permitted under Rule 2a-7 to incur only minimal credit risk. In addition, pursuant to the SEC's 2010 amendments to Rule 2a-7, MMFs must limit their investments to short-term assets at higher liquidity levels, which allow the funds to avoid the duration mismatch between deposits and investments that banks experience, and to meet redemptions in most situations, thereby addressing the issue of potential runs more effectively than capital requirements could.

With respect to the size of the NAV buffer, the FSOC does not provide any basis for the proposed requirements or for the formulas to calculate them. Alternative 2 would require MMFs to have a buffer of up to one percent, "based on the riskiness of the fund's assets."[53] The proposal, however, does not include any explanation supporting the one percent requirement, nor does it appear to differentiate sufficiently across underlying MMF securities. The proposal would require a 0.75 percent buffer for daily liquid assets, other than cash, Treasury securities, and Treasury repos (or for weekly liquid assets in tax-exempt MMFs). Under this structure, a security with a maturity of two days would be grouped in the same bucket for purposes of calculating the buffer as a security with a maturity of 397 days. The FSOC does not offer any analysis regarding how these numbers or categories consider actual risk differences. The same objections hold true in the case of Alternative 3, which arbitrarily would require a NAV buffer of up to three percent.

The Proposed Recommendations suggest three methods of funding the NAV buffer under Alternatives Two and Three; however, Fidelity does not believe any of these options are feasible, particularly at the proposed capital levels.

1. *Sponsor-Provided Capital (Escrow Account)*

The FSOC identifies sponsor-provided capital through an escrow account as one method of funding the NAV buffer. Based on the proposed levels of required capital, however, we do not believe that many fund sponsors have the requisite capital to satisfy the requirement or, even if they did, that they would choose to allocate it for this purpose. It is important to recall that shareholders, not fund sponsors, own mutual funds. Requiring fund sponsors to provide capital is tantamount to requiring that they provide a level of insurance on their own funds, which may create greater interconnectedness.[54] Accordingly, a sponsor-provided capital model likely would force MMF advisers to exit the business of managing MMFs and potentially increase systemic risk as investors migrate to less-regulated products.

---

[53] *Id.*

[54] Furthermore, our recent research demonstrates that MMF investors are aware of the risks associated with MMFs and understand that these funds are not guaranteed by the government. *See* Letter from Scott C. Goebel, Senior Vice President and General Counsel, on behalf of Fidelity Investments, to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission (Apr. 26, 2012), *available at* http://www.sec.gov/comments/4-619/4619-170.pdf and attached as Exhibit 3.

2. *Subordinated Buffer Shares*

We also have particular concerns with the subordinated share class option. Fund advisers could not pass through the costs of the buffer to shareholders without shareholder approval. The likelihood of shareholders approving a fee increase for this purpose is unlikely. Instead, we believe that shareholders would redeem out of MMFs and invest in alternative products, including products regulated less than MMFs. Consequently, a subordinated share class model may force MMF advisers to exit the business of managing MMFs and potentially increase systemic risk as investors migrate to less-regulated products.

In addition, it is highly speculative that any market would develop for such subordinated shares. Even if market demand existed initially, we believe it is very unlikely that this market would be deep and liquid in times of market stress. In other words, any market that developed would be quite fragile, and likely to cease functioning when it is needed most. This approach essentially would redirect a stable stream of income from a MMF that invests in short maturity instruments of the highest quality with no leverage, to levered investors seeking a significant return on longer-term investments. It is hard to see how such an approach contributes to systemic stability.

Finally, the ability to issue a subordinated share class initially would require significant infrastructure and expense, which would create a drag on the fund's yield. Larger fund advisers would have an advantage over smaller advisers because these costs can be more readily absorbed by larger funds. This structure also invites potential conflicts between senior and subordinated shareholders, which is further complicated if the fund adviser invests in the subordinated shares. Accordingly, Fidelity does not support a subordinated share class model.

3. *Shareholder-Provided Capital (Retained Earnings)*

Fidelity does not believe that it would be possible to build a NAV buffer within a MMF in the foreseeable future at the levels proposed in Alternatives Two or Three (one percent and three percent, respectively). The Proposed Recommendations provide that the transition period for MMFs would require a fund "to put in place a buffer equal to one-half of the buffer described above one year after the effective date of any rule. The full required buffer would have to be in place two years after the effective date." With the current low interest rate environment, MMFs do not generate sufficient yields to support this model with a one percent buffer, never mind a three percent buffer. Note that MMF advisers already are currently waiving, voluntarily, billions of dollars in fees to maintain a positive yield in the funds.

C. "Minimum Balance at Risk" (Alternative Two)

Fidelity opposes Alternative Two of the FSOC's recommendations, which would include a capital buffer coupled with an MBR requirement that would restrict shareholder redemptions. In addition to presenting burdensome operational challenges and implementation costs, the proposal would be difficult to explain to investors. The FSOC suggests that "[t]he MBR requirement could make MMFs more resilient by diminishing or reversing the first-mover advantage for investors who might otherwise redeem MMF shares when their fund is under stress."[55] We do not believe that the Proposed Recommendations provide any basis to support this position or such a drastic change to the structure of MMFs. To the contrary, the MBR model would create systemic risk by driving investors out of MMFs and sponsors out of the MMF business, thereby damaging the short-term debt market that provides financing for businesses as well as state and municipal governments. Furthermore, assets would migrate from regulated MMFs to less-regulated, potentially riskier alternatives.

As described, the three percent MBR would apply to all non-Treasury MMFs at all times, regardless of market conditions. Imposing such a costly and unpopular restriction on MMFs, even during stable market periods, is impracticable and unwarranted. Fidelity has conducted research surveying both retail and institutional investors on their reactions to the possibility of redemption restrictions on MMFs. Fidelity retail and institutional investors reported that they would invest less, or stop investing altogether, in MMFs if reform measures would reduce liquidity or if there was a possibility of being subjected to a continual redemption restriction.[56] Accordingly, we oppose permanent or "always on" restrictions on redemptions that would impair investors' ability to redeem all shares (even during stable market periods).

The exorbitant costs associated with the operational and technology changes required under the MBR approach would discourage some fund sponsors, intermediaries, and service providers from remaining in the MMF business. Implementing the MBR requirement and monitoring the "High Water Mark" for all investors on a rolling 30-day basis will require extensive systems programming changes at substantial costs. The FSOC acknowledges these additional costs, but does not quantify them in any way. Although the MBR requirement would not apply to account balances below $100,000, retail investors would bear a significant portion the costs associated with compliance under this alternative, which would likely reduce already very low MMF yields.

The MBR framework also poses implementation challenges for intermediaries that establish omnibus accounts for underlying investors in MMFs, including banks, broker-dealers, trust companies, and retirement plan sponsors,. The allocation of shares and trades across underlying investors is not always transparent or available to the fund. Accordingly, the responsibility of implementing the MBR requirement would shift to the intermediary rather than the MMF and the fund would have no way of ensuring compliance. It is also unclear whether the MBR requirement applies at the aggregated or the underlying account level. Both situations create inequities across investors.

In addition, describing the MBR structure would confuse our customers and alter significantly one of the simplest and well understood financial products available today. As the FSOC itself acknowledges, "[t]he MBR may be confusing to some investors, particularly

---

[55] *Id.*

[56] Fidelity 2011 Survey at 5.

initially, and may be unattractive to those who have come to expect full and immediate liquidity from their MMFs (potentially to the detriment of the investors who remain in the fund)."[57] For many years the SEC has undertaken to enforce plain English principles in disclosure included in Form N-1A, the registration form for mutual funds. We are concerned that the lengthy description necessary to explain the mechanics of the MBR requirement would detract from the description of the principal objectives of a MMF and would violate the SEC's "plain English" principles.[58] Similarly, plan sponsors and intermediaries would face these challenges in their own disclosure documents, further discouraging them from selecting MMFs as an investment option.

Fidelity believes that the obstacles that an MBR requirement would impose on fund sponsors, MMFs, investors, intermediaries, and service providers far outweigh any benefits. Accordingly, we do not support Alternative 2 of the Proposed Recommendations.

D. Unintended Consequences

In addition to the concerns we discuss above with respect to each of the FSOC's proposed alternatives, we caution the FSOC to consider that these proposed reforms would create further unintended consequences across the financial services industry.[59] Specifically, we highlight consequences of the proposals to brokerage core accounts and retirement plans.

1. *Negative Impacts on Brokerage Accounts*

---

[57] Proposed Recommendations at 69473.

[58] General Instruction C.1(c) to Form N-1A provides as follows: "Responses to the Items in Form N-1A should be as simple and direct as reasonably possible and should include only as much information as is necessary to enable an average or typical investor to understand the particular characteristics of the Fund. The prospectus should avoid: including lengthy legal and technical discussions; . . . Avoid excessive detail, technical or legal terminology, and complex language. Also avoid lengthy sentences and paragraphs that may make the prospectus difficult for many investors to understand and detract from its usefulness."

[59] In addition to the brokerage and retirement issues discussed in this section, we draw the FSOC's attention to the serious implications the MBR requirement would have on the ability of a futures commissions merchant ("FCM") to invest customer segregated funds under Commodity Futures Trading Commission ("CFTC") Rule 1.25. We agree with the FSOC's assessment that the MBR would disqualify non-Treasury MMFs from eligibility as permitted investments for customer funds under CFTC Rule 1.25 as currently written.

Because the MBR would involve a holdback, preventing FCM customers from receiving their entire investment in certain situations by the business day following a redemption request, the CFTC would need to ensure that MMFs under this structure would fit into one of the two exemptions under CFTC Rule 1.25. The rule allows for two exemptions to the requirement that a MMF receiving FCM customer funds must redeem that investment by the next business day following a redemption request, as follows: "(D) For any period as the Securities and Exchange Commission may by order permit for the protection of security holders of the company; (E) For any period during which the Securities and Exchange Commission has, by rule or regulation, deemed that: (1) Trading shall be restricted; or (2) An emergency exists." CFTC Rule 1.25(c)(5)(ii)(D) and (E).

Our concern is that in the current regulatory environment, the CFTC may resist any further exemptions that would jeopardize or delay the proper use of customer funds.

Brokerage accounts include a core account that is typically used for settling transactions or holding balances awaiting investment. A core account may be used as a spending account through which a customer purchases securities, pays bills, uses a debit card, writes checks and sends wires. Uninvested money in a customer's brokerage account typically is held in the customer's core account until the customer directs otherwise. Given their stability and liquidity, MMFs are commonly offered as an investment option in a core account along with unregistered taxable interest bearing options and bank sweep options.

If regulators modify MMFs based on one of the proposed alternatives, pursuant to FINRA rules[60] broker-dealers will need to assess whether MMFs remain a product that is suitable as a core account option for at least some investors as well as whether they are suitable for specific investors. Given how brokerage customers typically use a core account, broker-dealers may determine that MMFs, as modified, are no longer suitable for a core account and it may be challenging for some broker-dealers to find alternative options to offer clients. Depending on the outcome of the proposals, broker-dealers may need to notify customers of the modification to MMFs and how it might affect their core account, to determine whether the customers should be moved into new funds, and how to best obtain customer consent for that change. FINRA rules generally prohibit broker-dealers from exercising any discretion in customer accounts unless the customer has granted the broker-dealer prior written authorization to enter into the transaction. Although broker-dealers are permitted to conduct bulk exchanges of MMFs used as core or sweep accounts in certain circumstances, it is not clear that FINRA would permit such a process should regulators adopt any of the FSOC's proposed alternatives. We urge regulators to consider the potential negative consequences further reforms may have on the critical function that MMFs play in brokerage accounts.

2. *Negative Impacts on Retirement Plans*

Employee benefit plans use MMFs in various ways. Like other large institutional investors, investment managers of defined benefit plans and large welfare benefit plans use MMFs to hold plan assets in a stable and liquid investment. This may be done temporarily until the investment manager is ready to invest plan contributions. The plan also may use MMFs to provide liquidity for benefits payments.

Many participant-directed defined contribution plans commonly make MMFs available on the plan's investment menu as a way to help satisfy the requirements of section 404(c) of the Employee Retirement Income Security Act of 1974 ("ERISA"). The section provides relief for fiduciaries of participant-directed plans who offer at least three investment alternatives, which in the aggregate enable a participant to achieve a portfolio with aggregate risk and return characteristics at any point normally within the range appropriate for the participant.[61] This generally is interpreted to mean that participant-directed plans seeking to be 404(c) plans must

---

[60] *See* FINRA Rule 2111.

[61] *See* 29 C.F.R. §2550.404c-1(b)(3)(i)(B).

offer at least one "safe" investment alternative to participants. MMFs, along with unregistered stable value funds, typically serve that role.[62]

ERISA requires that every plan appoint one or more fiduciaries with the authority to invest the plan's assets.[63] ERISA section 404(a)(1)(B) requires that a fiduciary discharge his or her duties "with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims."[64]

If any of the FSOC's proposals are implemented, each plan fiduciary will need to consider whether it can continue to use MMFs within its plans consistent with the duties that ERISA imposes on plan fiduciaries. Plan fiduciaries will need to reevaluate MMFs as modified in light of the risks that the fund presents, the purposes to which the fund is being used in the plan's overall portfolio, the anticipated return associated with the investment and the liquidity needs of the plan.[65] Before selecting MMFs as investment options, plan fiduciaries likely will look to the Department of Labor and Internal Revenue Service, among others, to help provide guidance on these issues.

4. FSOC Has Failed to Meet the Requirements Necessary to Take Action under Section 120

The FSOC proposes to exercise its authority under Section 120 to recommend that the SEC, the primary regulator of MMFs, adopt new MMF regulations. We recognize that such an action is highly significant for the FSOC because, as the first attempt to alter an existing regime, the FSOC's credibility and potential precedent for the exercise of this authority in the future is at issue. By definition, the exercise of this authority is also highly significant to the MMF industry and its stakeholders, the U.S. financial system, and the U.S. economy because the FSOC must first determine "that the conduct, scope, nature, size, scale, concentration, or interconnectedness of" an activity or practice that MMFs conduct "could create or increase the risk of significant liquidity, credit, or other problems spreading among bank holding companies and nonbank

---

[62] *See* PROFIT SHARING COUNCIL OF AMERICA, 55th ANNUAL SURVEY 38 (2012) (more than half of all plans offer a cash equivalent (CD/Money Market) investment option); Deloitte et al., Annual 401(k) Benchmarking Survey 54 (2011), *available at* https://deloitte.com/assets/DComUnitedStates/local%20Assets/Documents/us_consulting_Deloitte%20401k%20Survey_2011%edition_12082011.pdf (53% of plans currently offer a MMF).

[63] *See* ERISA sections 402(c)(3) and 403(a).

[64] ERISA section 404(a)(1)(B).

[65] For example, to the extent a MMF is used for liquidity, a plan fiduciary would need to take into account, in evaluating the investment, rules that require distributions or other actions by a particular deadline. Certain proposed modifications, such as the imposition of a floating NAV, would like make a MMF ineligible to serve as a temporary qualified default investment alternative (QDIA) in accordance with regulations prescribed by the Department of Labor (DOL), requiring the DOL to either amend the regulation or issue guidance the interpret the regulation to mean that a floating NAV MMF qualifies as a temporary QDIA.

financial companies, financial markets of the United States, or low-income, minority, or underserved communities."[66] Fidelity believes that the FSOC has failed to meet the procedural and substantive requirements as well as the policy justifications for action under Section 120.

We understand that various industry trade groups and their member firms intend to submit, or have submitted already, comments that provide a more extensive discussion of the requirements for issuing a recommendation under Section 120 and an analysis of the FSOC's determination in the Proposed Recommendations. In the interests of the MMF industry and its stakeholders, the U.S. financial system, the U.S. economy, and the FSOC itself, we urge the FSOC to consider those comments carefully and to reevaluate its Proposed Recommendations and ultimate determination.

* * *

We appreciate the opportunity to comment on the Proposed Recommendations. Fidelity would be pleased to provide any further information or respond to any questions that the FSOC staff may have.

Sincerely,

Scott C Goebel

cc: Honorable Neal S. Wolin, Acting Secretary and Deputy Secretary of the Treasury, Acting Chairman of the Financial Stability Oversight Council, U.S. Department of the Treasury
Honorable Ben S. Bernanke, Board of Governors of the Federal Reserve System
Honorable Richard Cordray, Director, Consumer Financial Protection Bureau
Honorable Thomas J. Curry, Comptroller of the Currency, Office of the Comptroller of the Currency
Honorable Edward J. DeMarco, Acting Director, Federal Housing Finance Agency
Honorable Gary Gensler, Chairman, Commodity Futures Trading Commission
Honorable Martin J. Gruenberg, Chairman, Federal Deposit Insurance Corporation
Honorable Deborah Matz, Chairman, National Credit Union Administration
Honorable Elisse B. Walter, Chairman, Securities and Exchange Commission
S. Roy Woodall, Jr., Independent Member, Financial Stability Oversight Council
John P. Ducrest, Commissioner, Louisiana Office of Financial Institutions
John Huff, Director, Missouri Department of Insurance, Financial Institutions, and Professional Registration
David Massey, Deputy Securities Administrator, North Carolina Department of the Secretary of State, Securities Division
Michael McRaith, Director, Federal Insurance Office

[66] 12 U.S.C. 5330(a).

Honorable Luis A. Aguilar, SEC Commissioner
Honorable Troy A. Paredes, SEC Commissioner
Honorable Daniel M. Gallagher, SEC Commissioner
Norm Champ, Director, SEC Division of Investment Management

Scott C. Goebel
Senior Vice President
General Counsel
FMR Co.
82 Devonshire Street V10E, Boston, MA 02109-3614
617.563.0371 FAX 617.385.1331 SCOTT.GOEBEL@FMR.COM

March 1, 2012

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

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

Dear Ms. Murphy:

Fidelity Investments ("Fidelity")[1] would like to take the opportunity to provide the Commission with data and commentary regarding the effectiveness of the Commission's 2010 amendments to Rule 2a-7 on money market mutual funds.

Currently, money market mutual funds are subject to a comprehensive regulatory framework and to oversight by the Commission. This existing structure includes the recent enhancements to Rule 2a-7, which were designed to strengthen further money market mutual funds. Fidelity has been working with regulators, including Commission staff, to evaluate the need for additional money market reforms. To inform our viewpoint, we have gathered data that illustrate the impact that the 2010 amendments have had on money market mutual funds, particularly during the turbulent market conditions of the past year.

The materials we submit today demonstrate that the amended version of Rule 2a-7 reduced risk in money market funds by imposing more stringent constraints on portfolio liquidity, maturity, and quality, and through new requirements relating to disclosure, operations, and oversight. In the wake of these SEC actions in 2010, money market funds now hold investment portfolios with lower risk and greater transparency, characteristics that reduce the incentive of shareholders to redeem. Contrary to recent comments by some that mutual funds are living on borrowed time, we strongly believe that additional regulation of money market funds is neither necessary nor desirable.

To the extent that regulators continue to explore additional reforms, it is critical that any new regulations be carefully considered prior to implementation to ensure that they are

---

[1] Fidelity is one of the world's largest providers of financial services, with assets under administration of nearly $3.4 trillion, including managed assets of over $1.5 trillion. Fidelity is a leading provider of investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and many other financial products and services to more than 20 million individuals and institutions, as well as through 5,000 intermediary firms.

consistent with creating a stronger, more resilient product that serves the needs of short-term investors and borrowers, without imposing harmful, unintended consequences on financial markets or on the U.S. economy. In particular, we continue to believe that proposals such as floating the NAV, imposing onerous capital requirements or adding burdensome redemption restrictions will ultimately destroy the money market fund industry. In addition to the obvious impact on money market fund shareholders and sponsors, the demise of money market funds would remove important short-term financing capacity from the markets, inevitably resulting in less credit extension that would impact businesses large and small. Moreover, without money market funds as an investment option, we anticipate even more concentration of cash in banks, which would put even greater strain on an already overextended federal guarantee system.

We urge the Commission to give full consideration to these materials, and we appreciate the opportunity to provide further information on the President's Working Group Report on Money Market Fund Reform. Fidelity would be pleased to provide any further information or respond to any questions that the staff may have.

Sincerely,

Scott C Goebel

cc: The Honorable Mary L. Schapiro, Chairman
The Honorable Elisse B. Walter, Commissioner
The Honorable Luis A. Aguilar, Commissioner
The Honorable Troy A. Paredes, Commissioner
The Honorable Daniel M. Gallagher, Commissioner

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

A Look at Regulatory Reform for Money Market Mutual Funds:

Studying the Impact of the 2010 Changes

March 1, 2012

Overview

In 2010, the Securities and Exchange Commission (SEC) adopted a comprehensive set of amendments to Rule 2a-7, the rule that governs money market mutual funds (MMFs). Responding to the upheaval in financial markets in 2008, the SEC designed its 2010 reforms specifically to make MMFs more resilient to major market disruptions and to reduce their susceptibility to large and sudden shareholder redemptions.

To achieve its goals, the SEC instituted a broad and diversified set of risk-mitigating reforms. Certain elements of the 2010 regulation serve to reduce risk directly by setting specific limits on portfolio construction. These changes have made MMFs less sensitive to both market and shareholder activity by establishing minimum levels of liquidity, reducing average portfolio maturity, and improving overall credit quality.

Other elements of the new regulation look beyond pure portfolio structure, seeking to lower the risk of contagion during a crisis. These changes include requiring MMFs to provide frequent and timely public disclosure of holdings, as well as furnishing each MMF board of directors with new powers (such as suspending redemptions in a fund) and new means of oversight (such as periodic review of portfolio stress test results).

KEY TAKEAWAYS

- **The SEC adopted strong MMF reforms in 2010.** The amended version of Rule 2a-7 reduced risk in MMFs by imposing more stringent constraints on portfolio liquidity, maturity, and quality, and by imposing new requirements on disclosure, operations, and oversight.
- **The reforms have made MMFs less susceptible to runs.** MMFs now hold investment portfolios with lower risk and greater transparency, serving to reduce the incentive of shareholders to redeem. They also hold higher levels of liquidity, enabling them to handle large, unexpected redemptions in the rare instances when they do occur. Moreover, MMF boards now have the power to suspend redemptions in a fund, thereby facilitating orderly liquidation. All of these changes reduce the likelihood that MMFs will be forced to sell securities in times of market stress, which in turn reduces the risk of contagion.
- **The reforms achieved a proper balance between costs and benefits.** The new, more stringent constraints imposed on the MMF industry have come with costs, notably the reduced yield received by MMF investors and the expense of new operational and reporting infrastructure incurred by MMF sponsors. However, the risk-reducing benefits produced by the new regulation appear to outweigh these costs.
- **The reforms enabled MMFs to navigate 2011 market volatility successfully.** While much remains to be learned about the effects of the new regulation, a significant market test of the regulation occurred in summer 2011. During this period of extreme market volatility, MMFs were able to satisfy large redemptions, without suffering significant negative impacts to their net asset values (NAVs).
- **Any further regulation of MMFs should be undertaken with great caution.** Additional reforms should be carefully considered prior to implementation to ensure that they are consistent with creating a stronger, more resilient product that serves the needs of short-term investors and borrowers, without imposing harmful, unintended consequences on financial markets or on the U.S. economy.

Fidelity INVESTMENTS | Asset Management℠

The amended version of Rule 2a-7 has strengthened the overall MMF product. Not only has it successfully reduced risk in MMFs, it has preserved the fundamental features of MMFs that enable them to facilitate efficient allocation of capital in our financial system, features including a stable $1 share price, on-demand liquidity, and a return that reflects prevailing short-term market rates. Of course, these reforms have not been without costs, notably the reduced yield received by MMF investors and the expense of new operational and reporting infrastructure incurred by MMF sponsors, but the overall benefits appear to outweigh these costs.

Despite the recency and apparent early success of the 2010 reforms, some regulators have suggested that additional, more stringent reform is needed for the MMF industry. The debate over the need for additional reform was escalated in October 2010 with the release of a widely anticipated report from the President's Working Group on Financial Markets (PWG). In this report, the PWG acknowledged that the 2010 changes to Rule 2a-7 help to reduce risk and to ensure that episodes of contagion remain rare, but it concluded that, notwithstanding the recent changes, MMFs could become a source of systemic risk because of their susceptibility to sudden shareholder redemptions. It devoted much of its report to evaluating policy options aimed at further reducing perceived risks posed by MMFs.

Importantly, however, the PWG cautioned policymakers against the temptation to try to perfect the MMF product, stating that "preventing any individual MMF from ever breaking the buck is not a practical policy objective."[1] Pointing to the significance of MMFs in the U.S. financial system, it called for carefully considered, balanced regulation, and it warned of certain unintended consequences that may result from enacting additional regulation that is too severe.

With its 2010 changes to Rule 2a-7, the SEC has introduced balanced regulation that deserves more examination over a longer period of time. Fidelity believes that the impact of these changes should be explored and understood more thoroughly, and that all costs and benefits should be enumerated and evaluated, before regulators seek to make further structural changes to a well functioning investment vehicle.

A thorough examination of the impact of the 2010 changes is precisely the subject of this paper. In the following pages, we present tangible evidence that the new reforms have made MMFs more resilient. We first describe the major changes in the new regulation and explain why these changes have increased the safety and resiliency of MMFs. We then examine several key industry statistics that demonstrate the impact of the 2010 changes, and we explicitly quantify the impact of the changes on some of our own managed portfolios.

EXHIBIT 1: THE REFORMS OF 2010 REDUCED RISK IN MMFs BY IMPOSING SIGNIFICANT CONSTRAINTS ON PORTFOLIO LIQUIDITY, MATURITY, AND QUALITY.

Portfolio Attribute	Former Rule 2a-7	Current Rule 2a-7
Daily liquidity (taxable funds)	None	10%
Weekly liquidity (all funds)	None	30%
Weighted average maturity (WAM)	90 days	60 days
Weighted average life (WAL)	None	120 days
Illiquid securities	10%	5%
Second tier securities	5% 1% per issuer 397-day limit	3% 0.5% per issuer 45-day limit

Source: Securities and Exchange Commission

- The 2010 money market reforms included broad requirements relating to MMF disclosure, operation, and oversight, as well as several new restrictions relating specifically to portfolio structure. Exhibit 1 highlights the major portfolio-related changes, which are aimed primarily at governing MMF liquidity, maturity, and quality.
- Prior to 2010, Rule 2a-7 did not contain any requirements on MMF liquidity. The 2010 amendments introduced the concepts of "daily liquid" and "weekly liquid" instruments as those that can be readily converted to cash (either through maturity, sale, or exercise of a demand feature) within one day or one week. Rule 2a-7 now sets minimum levels of daily and weekly liquidity at 10% and 30% of fund assets, respectively, enabling MMFs to manage large and sudden shareholder redemptions.
- The new liquidity rules also include a general requirement that MMFs "hold securities that are sufficiently liquid to meet reasonably foreseeable shareholder redemptions." This additional requirement obligates MMFs with especially volatile patterns of shareholder activity to hold liquidity in excess of the 10% and 30% minimum levels, if appropriate.
- Enhanced risk-limiting constraints regarding maturity and credit quality and new rules controlling portfolio weighted average life (a measure of exposure to credit spread widening) reduce investment risks in MMFs and make them safer and more resilient.
- Each change highlighted in Exhibit 1 represents a significant constraint on MMF portfolio construction now imposed by Rule 2a-7. However, all of these changes are consistent with the more conservative mindset that has been adopted by MMF advisors in the aftermath of the 2008 financial crisis. The extraordinary events of September 2008 recalibrated perceptions about the degree of potential risks that must be managed in MMFs. It also served as a useful reminder to MMF shareholders that investing in MMFs carries risk, and that these investments are not guaranteed or insured against losses.

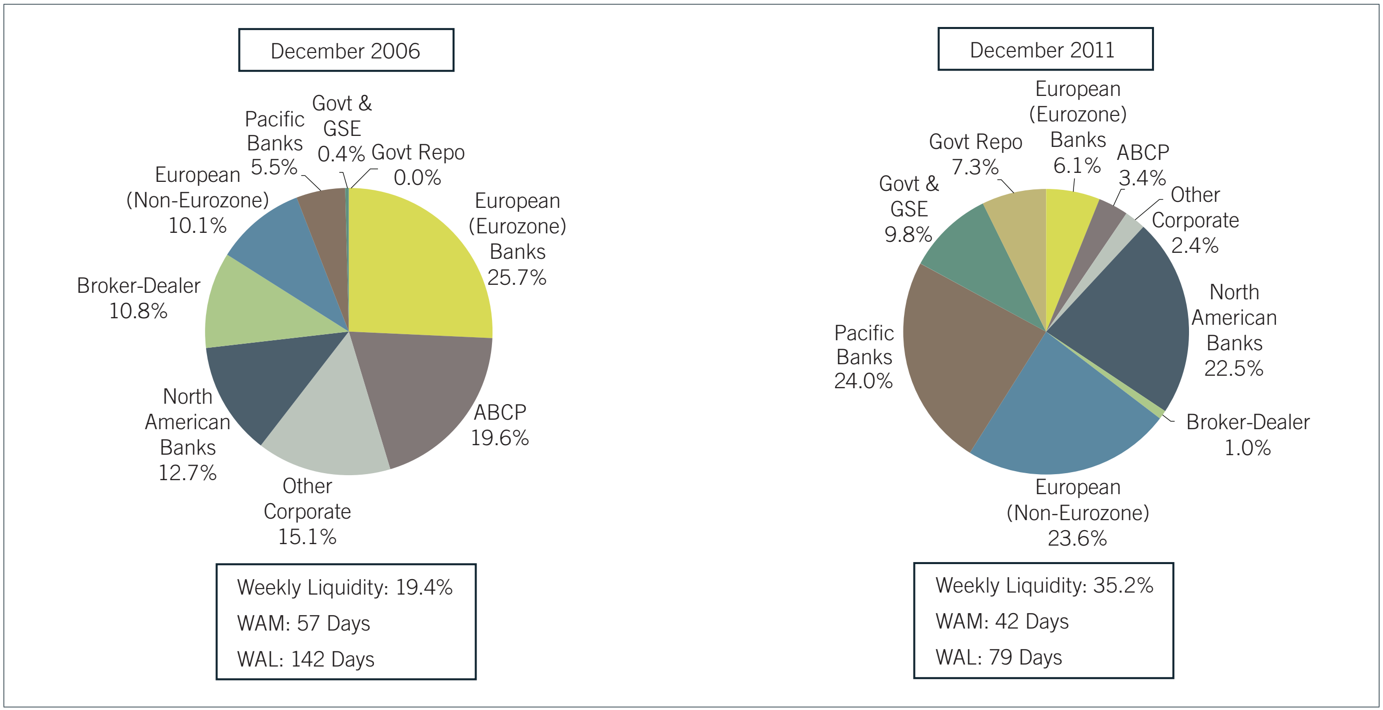
EXHIBIT 2: THE REFORMS OF 2010 REDUCED RISK IN MMFs BY IMPOSING NEW REQUIREMENTS ON DISCLOSURE, OPERATIONS, AND OVERSIGHT.

Rule Change	Description
Website holdings disclosure	Monthly posting of portfolio holdings by no later than fifth business day of each month (to be maintained on website for six months)
Detailed fund position information to SEC and public	Monthly delivery of detailed security and portfolio information (Form N-MFP) to SEC, including market NAV, by no later than fifth business day of each month (available to public with 60-day delay)
Stress testing	Board must set intervals for and receive results of periodic stress testing that measures fund's ability to maintain a stable NAV based upon certain hypothetical events, including: • Change in short-term interest rates • Increase in shareholder redemptions • Downgrade or default of portfolio securities • Spread widening or narrowing
Suspension of redemptions	Board may suspend redemptions if it determines that deviation between amortized cost per share and market based NAV may result in material dilution or other unfair result to shareholders and after irrevocable decision to liquidate fund (SEC notification required)
Processing of transactions	All money market funds (or fund transfer agents) must be able to process purchases and redemptions at prices other than $1.00 per share
General liquidity / know your customer	General liquidity requirement that funds adopt policies and procedures to identify investors whose redemption requests may pose liquidity risks and to hold sufficiently liquid securities to meet foreseeable shareholder redemptions

Source: Securities and Exchange Commission and Fidelity

- Exhibit 2 highlights major elements of the 2010 reforms that look beyond pure portfolio structure. These changes are aimed at reducing risk in MMFs by improving their transparency, strengthening their operations, and enhancing board and SEC oversight.
- Comprehensive, frequent, and easily accessible MMF disclosure enables shareholders, regulators, and market participants to be better informed about fund holdings, reducing the risk of contagion.
- Frequent, periodic stress testing enables board members to better understand fund risks, and thus more effectively fulfill their fiduciary duties to shareholders.
- New authority given to MMF boards to suspend redemptions in a crisis reduces the need to sell securities into a poorly functioning market.
- Better understanding of shareholder concentration and historical redemption profiles facilitates liquidity management.

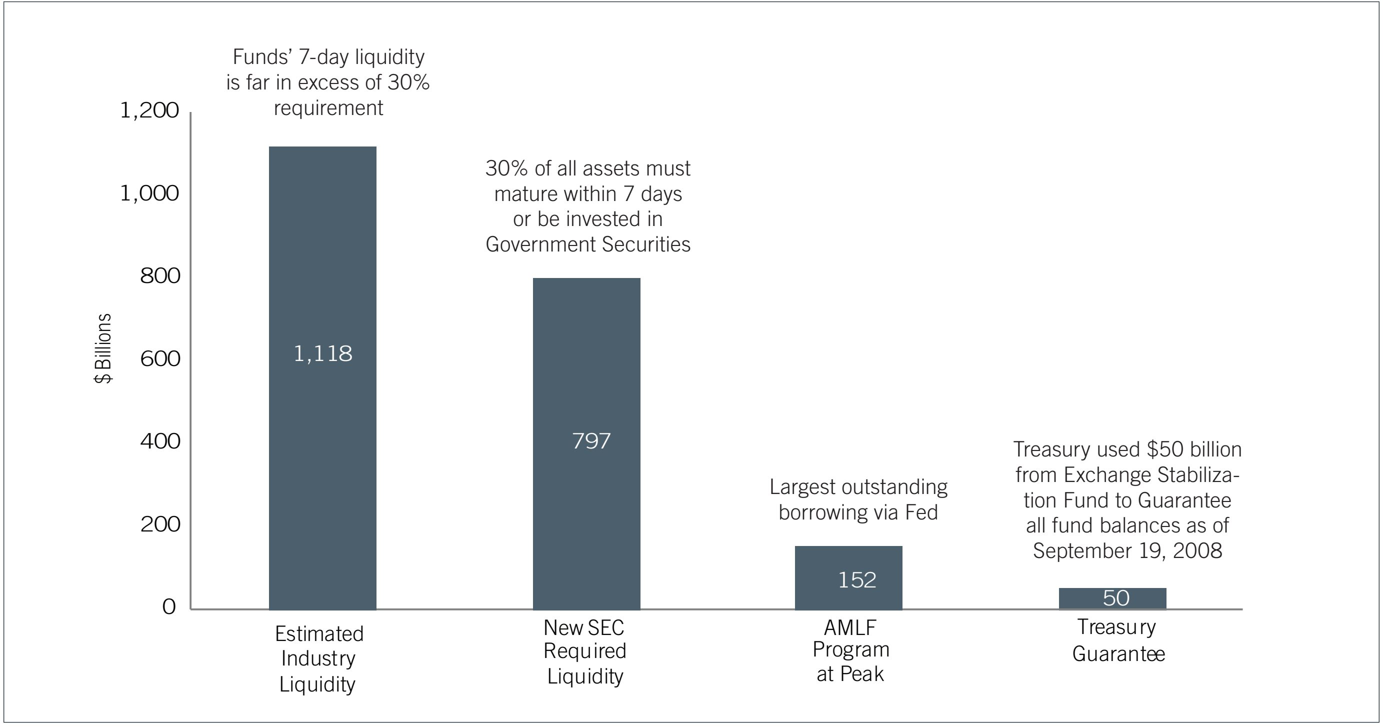
EXHIBIT 3: MMFs HAVE TAKEN DRAMATIC STEPS TO REDUCE RISK IN RESPONSE TO CHANGES IN THE MARKET ENVIRONMENT AND TO THE 2010 AMENDMENTS TO RULE 2a-7.



Source: Fidelity

- Exhibit 3 shows dramatic changes in the structure and attributes of an actual Fidelity prime MMF before the financial crisis and at year-end 2011.
- These changes have made the fund much more resilient to market stress. Many of the changes have been implemented as a direct response to the 2010 reforms. Significant reductions in risk were achieved through an 81% increase in weekly liquidity, a 26% reduction in weighted average maturity, and a 44% reduction in weighted average life.
- Shorter maturities, in addition to reducing interest rate risk and credit risk, provide managers with greater flexibility to change portfolio composition in response to or in anticipation of changing market conditions, thus enabling more timely and effective risk management.
- In addition, the 2010 changes have influenced a rebalancing of sector exposures, which show substantial increases in U.S. government holdings, government repurchase agreements, and other sectors exhibiting stability (e.g., North American and Pacific banks), as well as sharp reductions in sectors characterized by uncertainty and declining credit quality (e.g., broker-dealers and Eurozone banks).

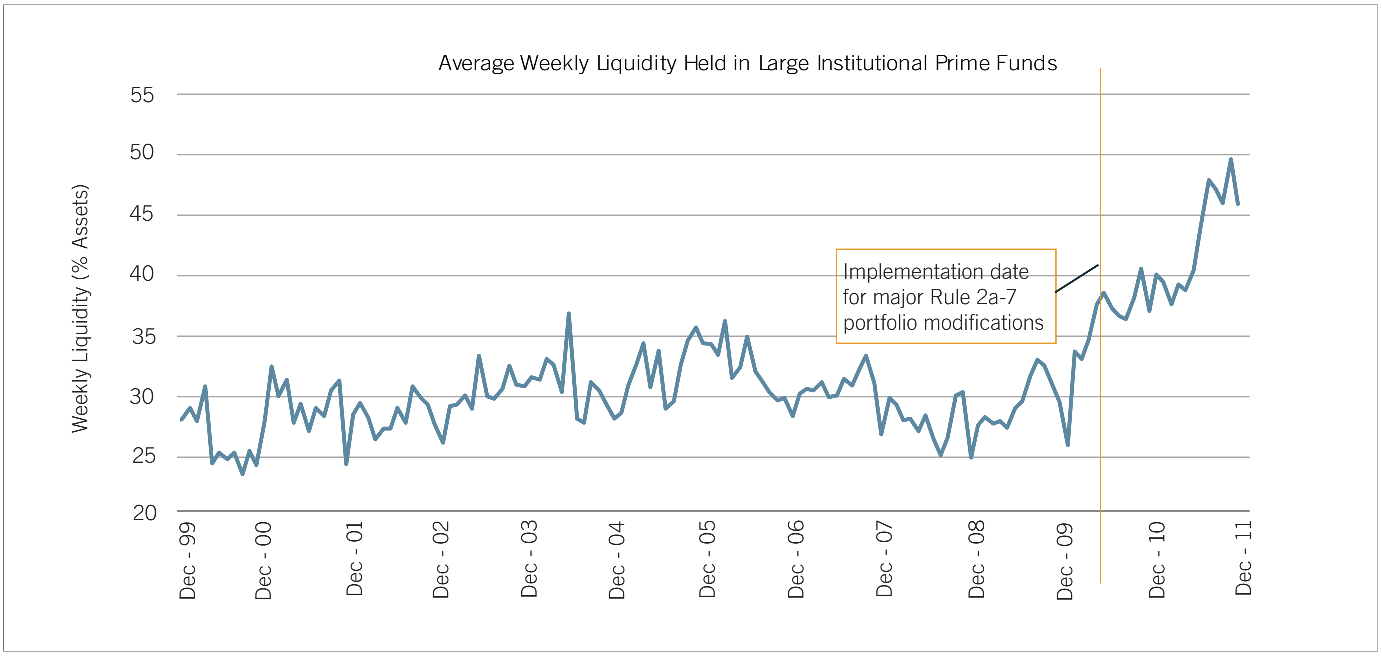
EXHIBIT 4: THE LIQUIDITY CURRENTLY HELD IN MMFs FAR EXCEEDS THE REQUIREMENT IMPOSED BY RULE 2a-7 AND IS MANY TIMES LARGER THAN ALL SOURCES OF GOVERNMENT SUPPORT MADE AVAILABLE DURING THE FINANCIAL CRISIS.



Source: Federal Reserve, U.S. Treasury, Investment Company Institute as of 2/8/12 and Crane Data as of 1/31/12

- Exhibit 4 illustrates the extraordinarily large liquidity cushion currently held across the MMF industry. As articulated in the PWG report, a liquidity cushion is one of the most effective means to handle large and unexpected redemptions in MMFs.
- The amount of liquidity currently held in MMFs is many times larger than the temporary government support provided during the 2008 financial crisis. Moreover, current liquidity far exceeds the amounts redeemed from MMFs during either of the two most recent identifiable episodes of market crisis: (1) $172 billion within an eight-week period from June 2011 to August 2011 in the wake of the European debt crisis and U.S. debt ceiling debate; and (2) $310 billion in the week following the Lehman bankruptcy in September 2008.
- The large liquidity cushions now required by Rule 2a-7 have mitigated risk without imposing exceedingly costly unintended consequences. Shareholders have incurred a cost in the form of lower fund yields, but core MMF investment objectives of safety and liquidity have been furthered.

EXHIBIT 5: AVERAGE LIQUIDITY HELD IN INSTITUTIONAL PRIME MMFs HAS RISEN DRAMATICALLY SINCE THE ADOPTION OF THE 2010 AMENDMENTS TO RULE 2a-7.



Estimated weekly liquidity is the sum of two fund-level metrics provided by iMoneyNet: (1) holdings maturing within 7 days; and (2) holdings issued by the U.S. Treasury. Data set for each month includes largest funds within institutional prime universe that account for 75% of universe assets.

- Exhibit 5 shows that the average liquidity level in institutional prime MMFs is now significantly higher than it has been at any other time over the past decade. During the ten-year period leading up to reform implementation, the average level of weekly liquidity held in institutional prime funds was 30%. This average began to rise sharply near the implementation date, and it has recently been as high as 50%.
- Importantly, the liquidity levels shown on the chart are merely averages for the institutional prime universe. On any given date, there may be significant dispersion in liquidity levels of MMFs around the average. Some MMFs may hold much less liquidity than average, while others may hold much more. Because Rule 2a-7 now imposes a lower bound on MMF liquidity, we expect that the future average liquidity level will remain above this lower bound.
- The massive allocation to liquid instruments shown above makes the funds more resilient to market stress, as it enhances their ability to satisfy unexpected, large shareholder redemptions without the need to sell securities.

EXHIBIT 6: NEW REQUIREMENTS IMPOSED BY RULE 2a-7 ON PORTFOLIO MATURITY AND LIQUIDITY HAVE MADE MMF MARKET NAVs LESS SENSITIVE TO UNEXPECTED, SIMULTANEOUS INCREASES IN INTEREST RATES AND SHAREHOLDER REDEMPTIONS.

		Redemptions (% Assets)					
		0	10	20	30	40	50
Rate Rise (bp)	0	1.0000	1.0000	1.0000	1.0000	0.9992	0.9980
	50	0.9994	0.9993	0.9992	0.9991	0.9981	0.9968
	100	0.9988	0.9986	0.9985	0.9982	0.9971	0.9955
	150	0.9982	0.9979	0.9977	0.9974	0.9961	0.9943
	200	0.9975	0.9973	0.9969	0.9965	0.9951	0.9931

Pre-Reform Period
WAM: 45 Days
Weekly Liquidity: 30% of Assets
Liquidation Cost Under Stress: 0.50% of Face Value

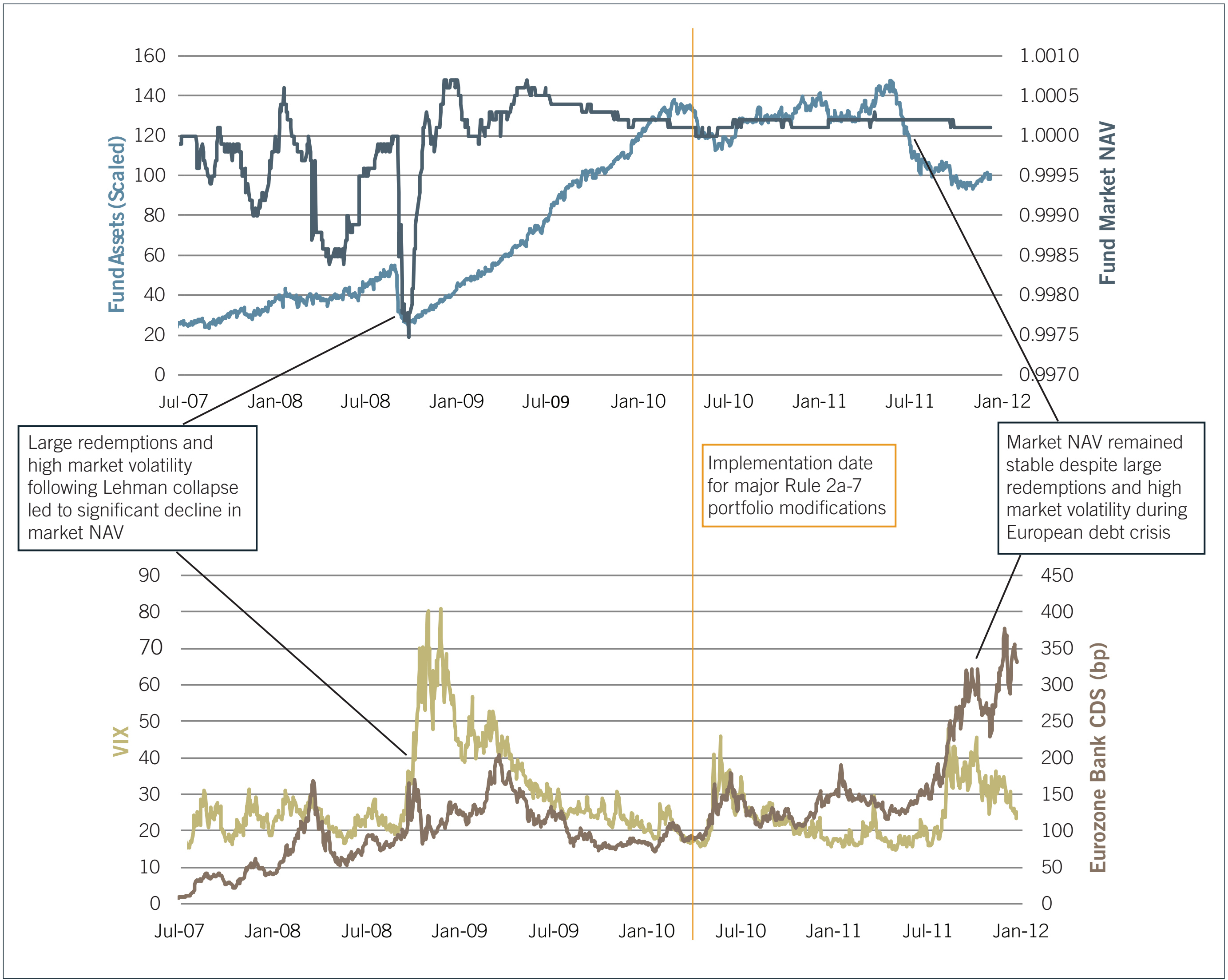
		Redemptions (% Assets)					
		0	10	20	30	40	50
Rate Rise (bp)	0	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
	50	0.9995	0.9995	0.9994	0.9993	0.9992	0.9990
	100	0.9990	0.9989	0.9988	0.9986	0.9984	0.9981
	150	0.9986	0.9984	0.9982	0.9979	0.9976	0.9971
	200	0.9981	0.9979	0.9976	0.9973	0.9968	0.9962

Post-Reform Period
WAM: 35 Days
Weekly Liquidity: 50% of Assets
Liquidation Cost Under Stress: 0.50% of Face Value

Source: iMoney Net and Fidelity

- Exhibit 6 compares the NAV sensitivity of a typical institutional prime MMF before and after the implementation of 2010 reforms.
- For each fund structure, the corresponding color-coded grid, or "heat map," displays the set of market NAVs that would result from various hypothetical scenarios in which interest rates rise suddenly and shareholders abruptly redeem a portion of outstanding shares. Each scenario has been simulated using the assumption that the original market NAV is precisely $1.0000.
- Clearly, the lower average maturity and additional liquidity of the post-reform MMF structure make it much less sensitive to volatile market action and shareholder behavior. Despite the severity of many scenarios included in the test set, none of the scenarios caused the post-reform MMF to "break the buck" (i.e., to breach the critical market NAV of $0.9950).
- Note that the most extreme scenario included in the test set simulates an instantaneous rise in interest rates of 200 basis points, as well as a simultaneous shareholder redemption of 50% of outstanding shares. To provide historical context for the severity of this scenario, we note that in the aftermath of the Lehman bankruptcy in 2008, it took four weeks for the three-month LIBOR rate to rise by 200 basis points. Moreover, shareholder redemptions in the week following the bankruptcy totaled approximately 30% of institutional prime MMF assets.

EXHIBIT 7: FOLLOWING THE 2010 CHANGES TO RULE 2a-7, THE MARKET NAV OF A REPRESENTATIVE PRIME MMF HAS REMAINED REMARKABLY STABLE DESPITE PERIODS OF HEAVY REDEMPTIONS AND HIGH MARKET VOLATILITY.



Source: Bloomberg and Fidelity

- Exhibit 7 shows the historical asset level and market NAV of an actual Fidelity prime fund (upper chart) as well as concurrent historical indicators of broad-market volatility (lower chart). The market indicators shown are the S&P 500 volatility index (VIX) and the average credit default swap (CDS) levels for a large set of high-quality Eurozone banks.
- The pre-reform period was characterized by episodes of extreme market volatility. The most severe episode, which occurred in September 2008 with the bankruptcy of Lehman, led to declining valuations on MMF holdings and large scale shareholder redemptions, putting downward pressure on the market NAVs of most MMFs.

- The 2010 reforms reduced the susceptibility of MMFs to runs and increased their resiliency in times of market stress. The market events of 2011 served as the first major test of the robustness of the new regulation.
- In mid-2011, market participants were concerned that the prospect of default by a peripheral Eurozone country could spark financial contagion throughout Europe. These concerns extended to shareholders of many MMFs, who began redeeming shares on a large scale, particularly from funds with substantial exposure to Eurozone banks.
- Redemptions totaled $172 billion over an eight-week period from June 2011 to August 2011. During this period of extreme market volatility, which was further exacerbated by the uncertainty arising from the U.S. debt ceiling debate, MMFs were able to satisfy all redemptions, and they did so without suffering significant negative impacts to their NAVs.

Endnotes

[1]Report of the President's Working Group on Financial Markets, Money Market Fund Reform Options (October 2010), at p. 4, available at http://www.treasury.gov/press-center/press-releases/Documents/10.21%20PWG%20Report%20Final.pdf

Fidelity INVESTMENTS | Asset Management℠

Exhibit 2

Fidelity INVESTMENTS

Scott C. Goebel
Senior Vice President
General Counsel
FMR Co.
82 Devonshire Street V10E, Boston, MA 02109-3614
617.563.0371 FAX 617.385.1331 SCOTT.GOEBEL@FMR.COM

February 3, 2012

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

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

Dear Ms. Murphy:

Fidelity Investments ("Fidelity")[1] would like to provide the Commission with the results of some of our recent research into the views of money market mutual fund investors.

Currently, money market mutual funds are subject to a comprehensive regulatory framework overseen by the Commission. This existing structure includes the recent enhancements to Rule 2a-7, which were designed to strengthen further money market mutual funds. Fidelity has been working with regulators, including Commission staff, to evaluate the need for additional money market fund reforms. To inform our view, we have conducted extensive research with retail and institutional investors to gain insight into which money market mutual fund features are most important to investors and how investors might react to potential reforms.

We urge the Commission to consider these materials as it evaluates whether any additional regulation for money market mutual funds is appropriate.

We appreciate the opportunity to provide additional information related to the President's Working Group Report on Money Market Fund Reform. Fidelity would be pleased to provide any further information or respond to any questions that the staff may have.

Sincerely,

Scott C. Goebel

[1] Fidelity is one of the world's largest providers of financial services, with assets under administration of nearly $3.4 trillion, including managed assets of over $1.5 trillion. Fidelity is a leading provider of investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and many other financial products and services to more than 20 million individuals and institutions, as well as through 5,000 intermediary firms.

cc: The Honorable Mary L. Schapiro, Chairman
The Honorable Elisse B. Walter, Commissioner
The Honorable Luis A. Aguilar, Commissioner
The Honorable Troy A. Paredes, Commissioner
The Honorable Daniel M. Gallagher, Commissioner

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

The Investor's Perspective:

How individual and institutional investors view money market mutual funds and current regulatory proposals designed to change money funds

February 3, 2012

In 2010, regulations governing money market mutual funds (Rule 2a-7) were strengthened by requiring funds to hold more liquid and shorter duration investments in their portfolios. Since then, Fidelity Investments, along with other money market mutual fund managers, has been working with regulators to evaluate whether additional money market reform proposals are needed. To inform our viewpoint on these proposals, Fidelity, the largest money market mutual fund manager with $433 billion in assets under management and 10.9 million money market mutual fund accounts as of December 31, 2011, has conducted extensive research with both individual investors, often called "retail" investors, and "institutional" investors, including corporate treasurers, bank and broker/dealer intermediaries. Among other things, we hope this research will provide further insights into which money market mutual fund features are most important to investors and feedback about how investors might react to certain reform proposals now being considered by regulators.

While Fidelity has serious questions about the need for more regulation, especially since there is compelling evidence to suggest that the 2010 reforms have significantly improved the overall soundness of money market mutual funds and made them more resilient to market stress, we continue to keep an open mind to new ideas that might further improve money market mutual funds. We believe that the costs and benefits of any new rule proposal should be carefully weighed to understand the potential impact on the millions of retail and institutional investors who have come to rely upon money market mutual funds to manage their cash balances. The following research results suggest that adopting rules requiring money market mutual funds to float their net asset values (NAV) or impose liquidity restrictions on shareholders – two ideas that are currently under consideration – could spark retail and institutional investors to pull significant amounts of assets out of money market mutual funds, leading to unintended consequences for the financial markets and the U.S. economy.

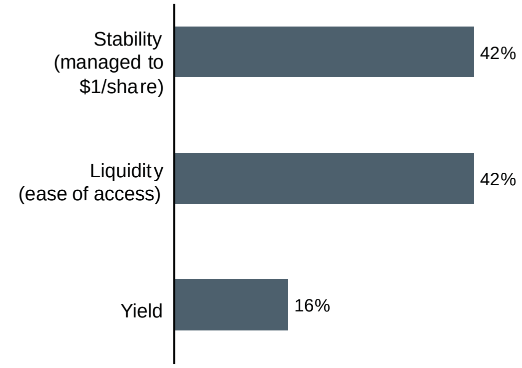
KEY TAKEAWAYS FROM FIDELITY RESEARCH

- Retail and institutional investors overwhelmingly indicate that they first and foremost invest in money market mutual funds for safety of principal and liquidity, while yield is a secondary consideration.
- Retail investors use money market mutual funds as a complement to bank products, such as checking and savings accounts, not as a replacement for these FDIC-insured vehicles.
- A vast majority of retail money market mutual fund investors understand that these funds are not FDIC-insured and the prices of securities held by these funds fluctuate up and down daily.
- Money market mutual fund reform measures that would reduce liquidity or require the NAV to float could cause a significant number of retail and institutional investors to shift assets out of money market funds into banks and other short-term investment vehicles.

Fidelity INVESTMENTS | Asset Management℠

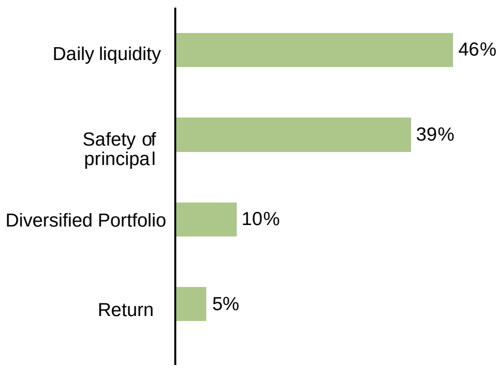
EXHIBIT 1: WHAT INVESTORS VALUE MOST IN MONEY MARKET MUTUAL FUNDS (MMFs)

Most Important MMF Feature Among Retail Customers



Source: Fidelity Retail Customer Survey - March 2011

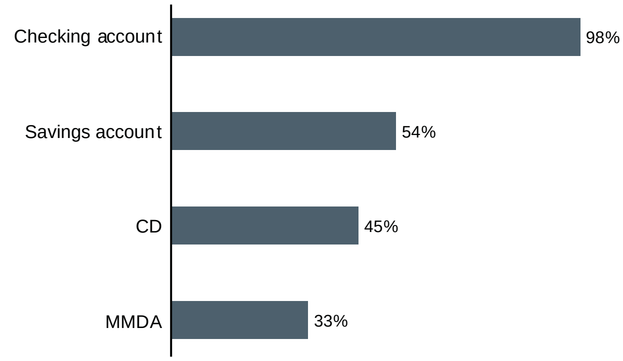
Institutional Clients-Primary Reason For Using/Recommending MMFs



Source: Fidelity Institutional Client Survey - July/August 2011

EXHIBIT 2: RETAIL MMF INVESTORS ALSO OWN BANK CASH-BASED PRODUCTS

Ownership of Bank Cash-Based Products among Fidelity Retail Customers With MMFs



Source: Fidelity Retail Customer Survey - July 2011

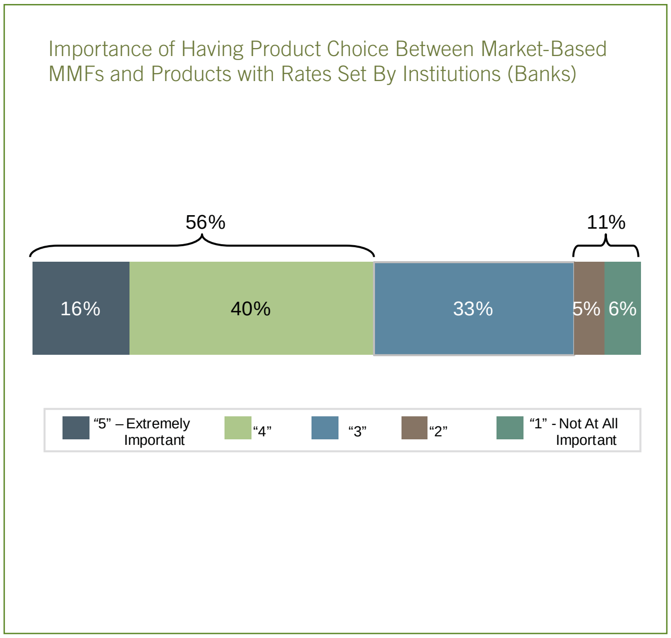
Safety of Principal and Liquidity are What Investors Value Most in Money Market Mutual Funds.

- Fidelity retail and institutional investors overwhelmingly viewed protecting the principal of, and maintaining ready access to, their investments as the most important characteristics of money market mutual funds.
- In fact, as Exhibit 1 demonstrates, retail investors weighted stability of principal and liquidity as 2.5 times more important than yield when they were asked to choose the key feature of money market mutual funds that is most important to them.
- Institutional investors similarly valued liquidity and safety of principal over return.

Retail Investors Use Money Market Mutual Funds as a Complement to Bank Deposit Products.

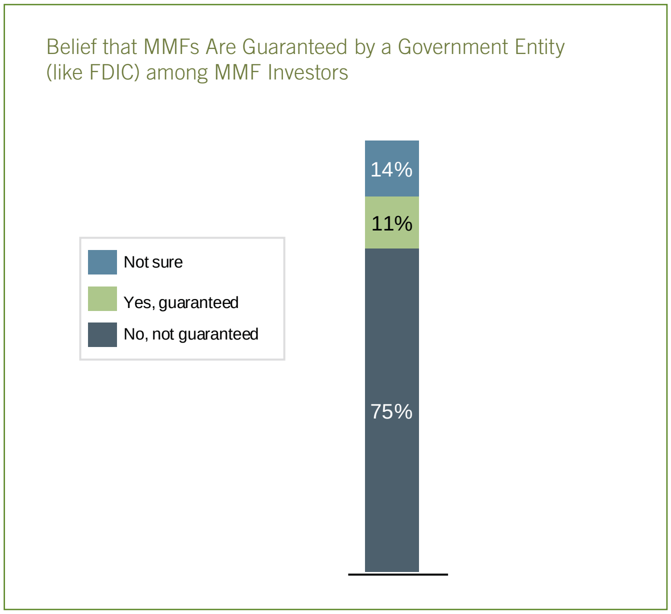
- 98% of Fidelity retail money market fund investors had a bank checking account and a large percentage utilize other bank products for their savings needs (Exhibit 2).
- The data suggests that most investors use money market mutual funds as a complement to and not as a replacement for bank deposit products.
- This was further reinforced when we looked at how frequently Fidelity customers use money market mutual funds to pay bills or make purchases. We found that only 3% of our customers with money market mutual funds make 12 or more of these types of transactions over the course of the year.

EXHIBIT 3: HAVING A CHOICE OF CASH PRODUCTS IS IMPORTANT TO FIDELITY RETAIL CUSTOMERS



Source: Fidelity Retail Customer Survey - July 2011

EXHIBIT 4: FIDELITY RETAIL CUSTOMERS UNDERSTAND MMFs ARE NOT GUARANTEED BY A GOVERNMENT ENTITY (LIKE FDIC)



Source: Fidelity Retail Customer Survey - July 2011

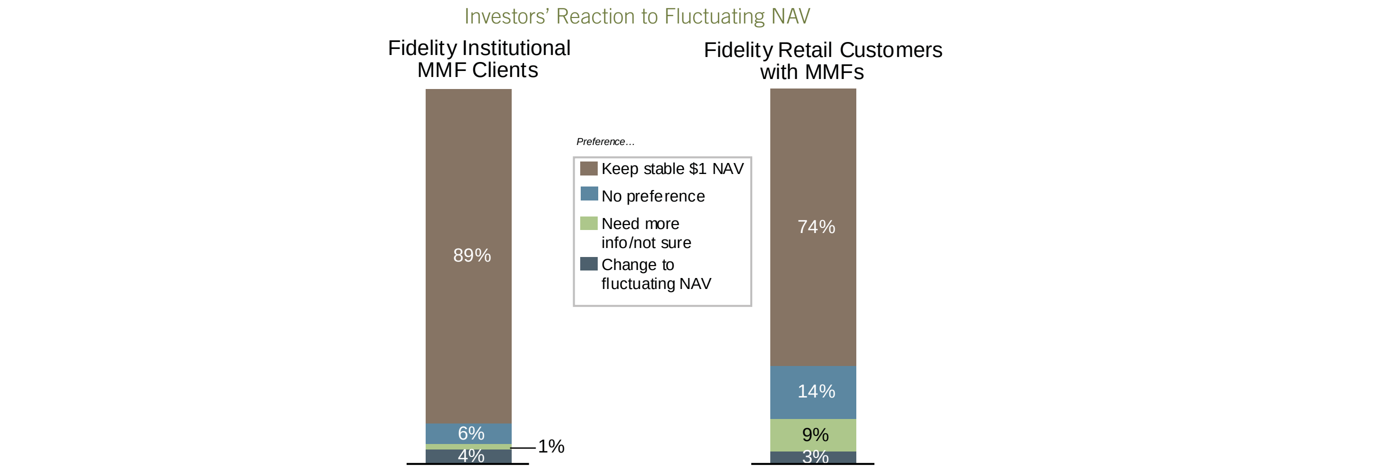
Having a Product Choice is Important to Investors

- Fidelity customers valued having an alternative to bank deposit products where they can invest cash balances (Exhibit 3).
- More than half of Fidelity retail money market mutual fund investors (56%) responded that it is important to have a choice between cash products with market-based rates of return, such as money market mutual funds, and those with rates set by a bank.

A Large Percentage of Fidelity Customers Have a Good Understanding of Money Market Mutual Fund Risks.

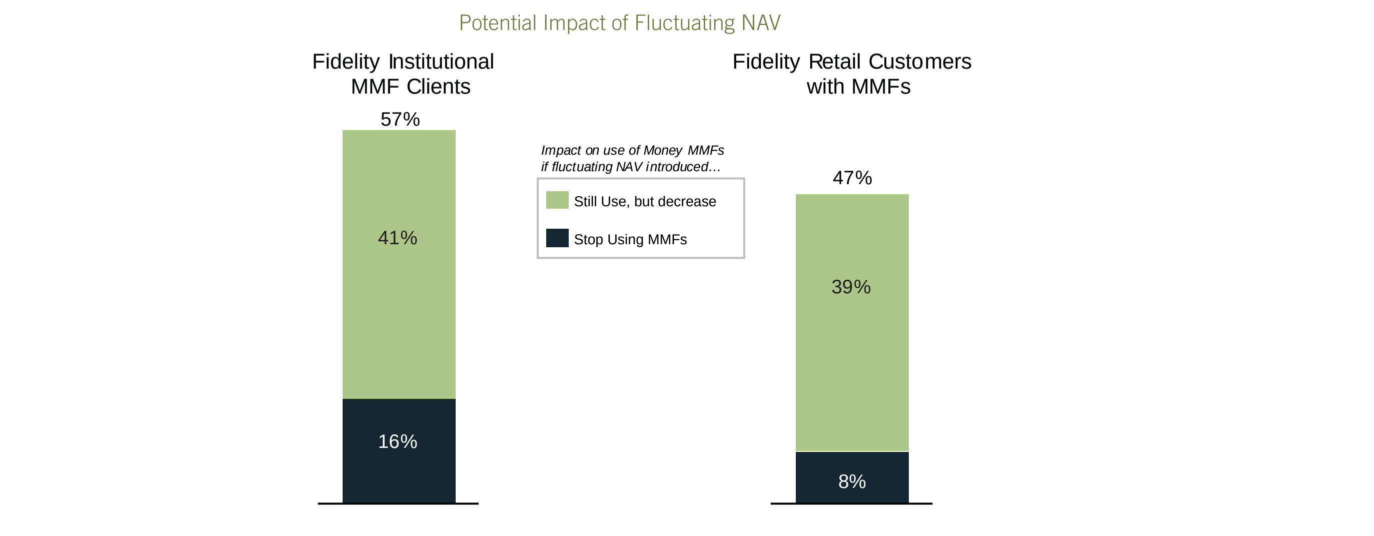
- As Exhibit 4 demonstrates, three out of four (75%) Fidelity retail money market mutual fund investors understand that there is not any sort of government guarantee standing behind money market mutual funds.
- When we probed further on the topic of risks associated with money market mutual funds, 81% of those surveyed understood that the securities held by money market mutual funds had some small daily price fluctuations (11% thought money market mutual fund securities didn't fluctuate while 8% were unsure).
- Further, only 10% of Fidelity retail money market mutual fund investors believe the government will step in if a money market mutual fund is in danger of breaking $1.

EXHIBIT 5: INVESTORS STRONGLY PREFER KEEPING A STABLE $1 NAV



Sources: Fidelity Institutional Client Survey - July/August 2011 and Fidelity Retail Customer Survey - March 2011

EXHIBIT 6: INVESTORS WOULD REDEEM MMF SHARES IN THE WAKE OF A FLUCTUATING NAV



Sources: Fidelity Institutional Client Survey - July/August 2011 and Fidelity Retail Customer Survey - March 2011

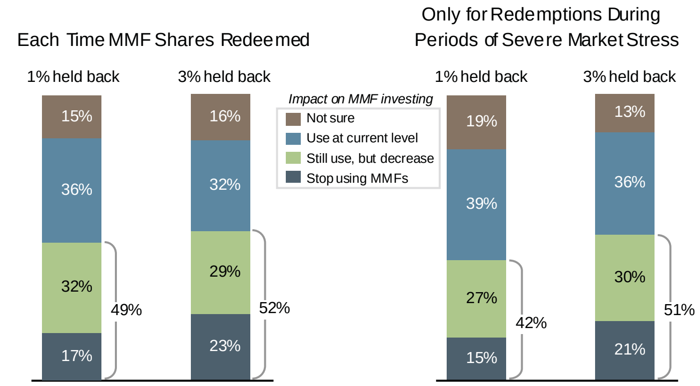
Vast Majority of Institutional and Retail Investors Favor Keeping a Stable $1 NAV.

- 89% of institutional investors indicated a preference for keeping the stable $1 NAV and only 4% of those surveyed indicated a preference to change to a fluctuating NAV (Exhibit 5).
- A large percentage of retail money market mutual fund investors (74%) also favor keeping the stable $1 NAV and just 3% indicated a preference to change to a fluctuating NAV.

Changing to a Fluctuating NAV Could Prompt Institutional and Retail Investors to Flee from Money Market Mutual Funds.

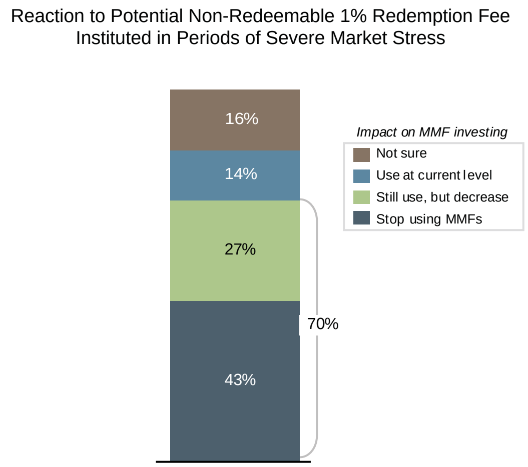
- 57% of institutional investors we surveyed said they would move all or some of their assets out of money market mutual funds if the NAV of these funds were allowed to fluctuate.
- Likewise, 47% of retail investors said they would move all, or some of their assets, out of money market mutual funds (Exhibit 6).
- It also appears that banks would capture the lion's share of the assets moving out of money market mutual funds. For instance, when we asked institutional investors to indicate the primary investment vehicle into which they would move, 42% said they would move to money market deposit accounts at banks and 14% said they would move to CDs/Time Deposits. 19% said they would transfer assets primarily into Treasury securities and 13% said into commercial paper. Separately managed cash accounts, offshore funds, non-2a-7 funds with maturities under 1 year, and cash were mentioned by only 1%. (Note: 8% did not indicate a primary vehicle.)
- Finally, a majority of Fidelity retail investors who said they would move out of a money market mutual fund if it had a floating NAV, also indicated they would move assets to bank deposit accounts.

EXHIBIT 7: RETAIL MMF INVESTORS REACTED NEGATIVELY TO INSTITUTING A HOLDBACK FEATURE ON MMFS



Source: Fidelity Retail Customer Survey - December 2011

EXHIBIT 8: RETAIL MMF INVESTORS REACTED EVEN MORE NEGATIVELY TO A NON-REFUNDABLE REDEMPTION FEE



Source: Fidelity Retail Customer Survey - December 2011

Instituting Liquidity Restrictions on Money Market Mutual Funds Could Be Received as Negatively as a Floating NAV.

- Regulators are also considering whether to institute liquidity restrictions on money market mutual funds as a way to make them less susceptible to runs during periods of market stress. One approach that has been talked about is holding back a portion of redemption proceeds for a period of time to provide a safety cushion should a money market fund run into trouble.
- Fidelity has tested two versions of a holdback feature. In the first version, a portion of proceeds (either 1% or 3%) was held back for 30 days on <u>all</u> redemptions. In the second version, a portion of proceeds (either 1% or 3%) was held back for 30 days <u>only</u> during periods of severe market stress that resulted in the NAV of a money market mutual fund to falling below a certain "trigger level" ($.9975 was used as the example) and was in danger of breaking the $1 stable share price. In this instance, retail investors were told the holdback feature would remain in place until the fund rose back above the trigger level.
- As Exhibit 7 demonstrates, we learned that this potential reform could be as destabilizing as a floating NAV. 52% of retail investors said they would invest less, or stop investing altogether, in money market mutual funds if a 3% holdback feature was instituted on all redemptions. Note, too, that the results did not significantly change when we dropped the holdback to 1%.
- Limiting the holdback to periods of market stress also did little to change the results. At a 3% holdback level, 51% of retail investors said they would invest less, or stop investing altogether, in money market mutual funds and 42% said they would pull money if the holdback was set at 1%.
- An alternative approach to a holdback on redemptions that has been discussed among regulators is creating a non-refundable redemption fee that would be charged if a fund's NAV fell below a certain trigger point. We tested (with Fidelity retail money market mutual fund investors) the idea of a 1% <u>non-refundable redemption fee</u> that is triggered if a fund's share price dipped below $.9975. Of the investors we surveyed, 70% said they would invest less, or stop investing altogether, in money market mutual funds if there was a possibility of being subjected to this type of redemption fee.
- Given the importance retail investors place on the liquidity feature of money market mutual funds, it is not surprising that investors reacted so negatively to a potential rule that would restrict access to principal.

Research Details

March 2011

Survey of Fidelity Retail Customers fielded by TNS Custom Research

- Online survey fielded March 9 - 22, 2011
- Total participants: 612 “random” and 1,116 affluent* customers

July 2011

Survey of Fidelity Retail Customers fielded by TNS Custom Research

- Online survey fielded June 23 - July 6, 2011
- Total participants: 466 “random” and 967 affluent* customers

July/August 2011

Survey of Fidelity Institutional Money Market Mutual Fund Clients conducted by E.R. Market Research

- Phone surveys conducted June 13 - August 18, 2011
- 139 Total Participants: Fidelity Institutional money market mutual fund clients contacted in past 12 months
  - Corporate: Primarily Corporate Treasurers – purchase MMFs directly (n=69)
  - Intermediaries: In banks, have selling agreement with Fidelity – recommend/select money market mutual funds for institutional clients (n=70)
- Fidelity identified as the research sponsor

October 2011

Survey of Fidelity Retail Customers fielded by TNS Custom Research

- Online survey fielded October 13 - 27, 2011
- Total participants: 510 “random” and 1,044 affluent* customers

December 2011

Survey of Fidelity Retail Customers fielded by TNS Custom Research

- Online survey fielded December 2 - 16, 2011
- Total participants: 734 “random” and 1,472 affluent* customers

*Affluent customers are investors with Fidelity Retail assets of $100,000 or more.

Research Details (cont.)

Descriptions Used in December 2011 Survey

As background, the extremely volatile market environment in Sept 2008 caused stresses in money markets, and a MMF "broke the buck" when the value of the assets the fund held caused the share price to fall below $1. There were substantial redemptions out of MMFs that held commercial paper (short-term IOUs issued by corporations) over a short time period. Fund managers were forced to sell money market securities to meet redemption requests, which caused additional stress on the financial markets that already were reeling on news of the collapse of Lehman Brothers.

Regulators have taken some steps to make Money Market Funds safer and continue to investigate other changes. A current area of their focus is making MMFs less susceptible to shareholder runs in times of stress in the financial markets, with a goal of giving MMFs a cushion of time to sell securities to meet redemptions.

There are several ideas and we would like your opinion of three:

In the first idea, each time you redeem money market fund shares, 1% would be held back and delivered after a waiting period of 30 days.
For example, if you redeem $1,000 from your money market fund:

- You receive $990
- The remaining $10 would be delivered after a waiting period of 30 days

Another idea is to hold back 1% of the money market fund assets only in periods of severe market stress, (i.e., if Net Asset Value (NAV) of your fund drops below an established "trigger" level). This 1% would be redeemable only after a waiting period of 30 days. This hold-back structure would remain in place until the fund's NAV rises back above the trigger level.

For example: Financial stress caused your money fund's NAV to drop below a certain level (e.g., $0.9975), although your shares continue to be redeemed at $1 per share. If you want to redeem $1,000 in this fund:

- $990 is available at any time
- The last $10 (1%) is only available after the waiting period of 30 days

Note: ideas above were tested at both 1% and at 3%

Finally, they are also considering a non-redeemable fee for accessing your MMF holdings only in the event of serious stress in the financial markets (resulting in the Net Asset Value of your fund dropping below an established level). The redemption fee would benefit those shareholders who remained in the fund by increasing the value of the fund's NAV.

For example: Financial stress has caused your money market fund's NAV to drop below a certain level (e.g., $0.9975), although your shares continue to be redeemed at a price of $1 per share. If you want to redeem $1000:

- You are charged a 1% fee to access your holdings. If you remove $1,000, you will receive $990 in cash and the fee of $10 is retained in the fund (not returned to shareholders)

This fee on redemptions would be applied until the MMF's NAV rises back above the trigger level.

Fidelity INVESTMENTS | Asset Management℠

Scott C. Goebel
Senior Vice President
General Counsel
FMR Co.
82 Devonshire Street V10E, Boston, MA 02109-3614
617.563.0371 FAX 617.385.1331 SCOTT.GOEBEL@FMR.COM

April 26, 2012

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

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

Dear Ms. Murphy:

Fidelity Investments ("Fidelity") [1] would like to take the opportunity to provide the Commission with the results of our recent research, which demonstrates that money market mutual fund investors are well aware of the risks associated with these funds.

Currently, money market mutual funds are subject to a comprehensive regulatory framework and to oversight by the Commission. This existing structure includes a requirement for a money market mutual fund to disclose in its prospectus that investments in the fund are not insured or guaranteed by the Federal Deposit Insurance Corporation.

Recently, a number of regulators and commentators have suggested that investors do not understand the risks associated with money market mutual funds. We do not share this view, and research conducted with our customers yields little evidence to suggest that a significant number of investors are misinformed about the risks associated with money market mutual funds.[2] To the contrary, in our experience, investors today are generally quite aware of the investment risks of mutual funds, and there is ample, robust disclosure of money market mutual fund risks available upon the most cursory review of fund materials. In fact, we credit the Commission and its salutary focus on investor education and disclosure for contributing substantially to the well informed state of the typical mutual fund investor.

---

[1] Fidelity is one of the world's largest providers of financial services, with assets under administration of $3.7 trillion, including managed assets of $1.6 trillion. Fidelity is a leading provider of investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and many other financial products and services to more than 20 million individuals and institutions, as well as through 5,000 intermediary firms.

[2] Fidelity's reported results represent responses from Fidelity retail customers on three separate surveys conducted online between March 2011 and April 2012.

Various regulators and commentators have also suggested that investors expect the federal government will provide a bailout of money market mutual funds in the future. Our research indicates that the vast majority of our customers understand that these funds are not guaranteed by the government and that the securities held by these funds have some small day-to-day price fluctuations. Moreover, Fidelity believes that the Commission's 2010 amendments to Rule 2a-7 have been quite helpful in clarifying the process by which money market mutual funds can suspend redemptions if needed. This process provides money market mutual funds with a pre-ordained orderly liquidation plan.

We urge the Commission to give full consideration to these materials as it evaluates whether any additional regulation for money market mutual funds is appropriate.

We appreciate the opportunity to provide further information on the President's Working Group Report on Money Market Fund Reform. Fidelity would be pleased to provide any further information or respond to any questions that the staff may have.

Sincerely,

Scott C Goebel

cc: The Honorable Mary L. Schapiro, Chairman
The Honorable Elisse B. Walter, Commissioner
The Honorable Luis A. Aguilar, Commissioner
The Honorable Troy A. Paredes, Commissioner
The Honorable Daniel M. Gallagher, Commissioner

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

The Investor's Perspective:

What individual investors know about the risks of money market mutual funds

April 2012

Despite the significant reforms adopted by the Securities and Exchange Commission (SEC) in 2010, which improved the overall soundness of money market mutual funds (MMMFs) and made them more resilient to market stress, there are some policymakers who insist more should be done to regulate these funds. A key argument underlying the push for more change is that a significant number of individual investors do not understand the risks associated with MMMFs.

However, research that Fidelity Investments conducted with our customers finds little evidence to suggest that a significant number of investors are misinformed about the risks associated with MMMFs. To the contrary, the research indicates that the vast majority of our customers understand that MMMFs are not guaranteed by the government, and the securities held by these funds have some small day-to-day price fluctuations. In fact, we found that only a small percentage of these investors (approximately 1 out of 10) thinks otherwise.

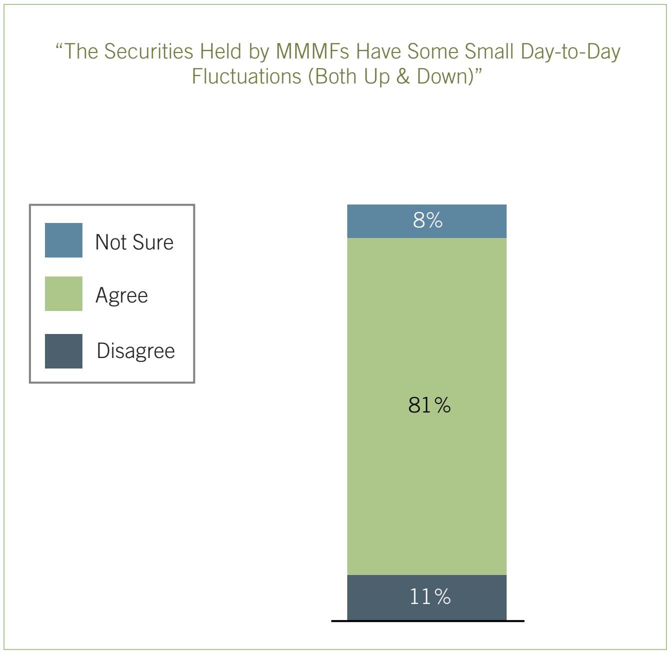
Fidelity believes that policymakers should be careful not to over-regulate these funds and undermine the fundamental benefits tens of millions of investors have come to rely upon, because a small minority of investors are not as knowledgeable as they could be. We are providing the following research with Fidelity customers to give policymakers a better understanding about what investors truly think and know about the risks involved with MMMFs.

KEY TAKEAWAYS FROM RESEARCH WITH FIDELITY RETAIL CUSTOMERS

- 81% of Fidelity retail customers with MMMFs indicate they understand that the securities held by these funds fluctuate up and down daily in value.
- 75% of Fidelity customers know that the MMMFs they invest in are not guaranteed by the government.
- Only 10% believe the government would step in to prevent MMMFs from breaking a stable $1 share price.
- The majority of customers do not favor further regulation of MMMFs, but would support additional investor education.

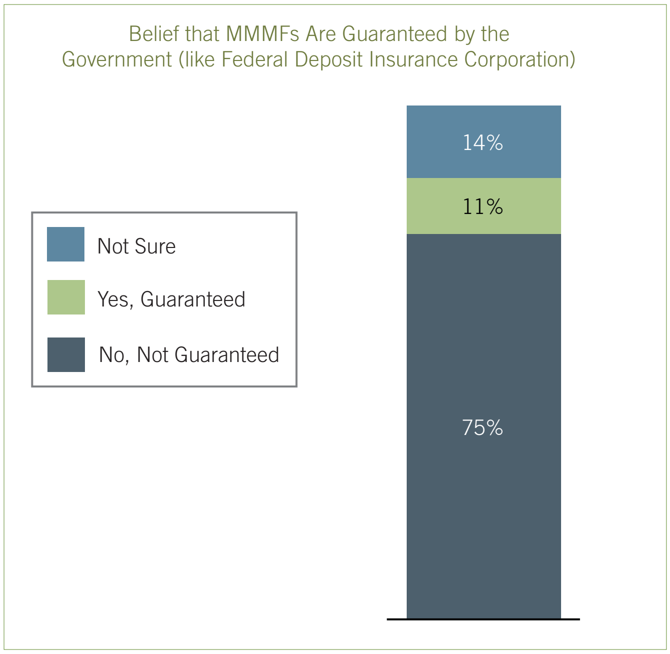
Fidelity INVESTMENTS

EXHIBIT 1: MAJORITY OF FIDELITY CUSTOMERS WITH MMMFs UNDERSTAND THAT THE UNDERLYING SECURITIES FLUCTUATE IN VALUE



Source: *Fidelity Retail Customer Survey fielded by TNS Custom Research – July 2011*

EXHIBIT 2: MOST FIDELITY INVESTORS UNDERSTAND THAT MMMFs ARE NOT GUARANTEED BY THE GOVERNMENT



Source: *Fidelity Retail Customer Survey fielded by TNS Custom Research – July 2011*

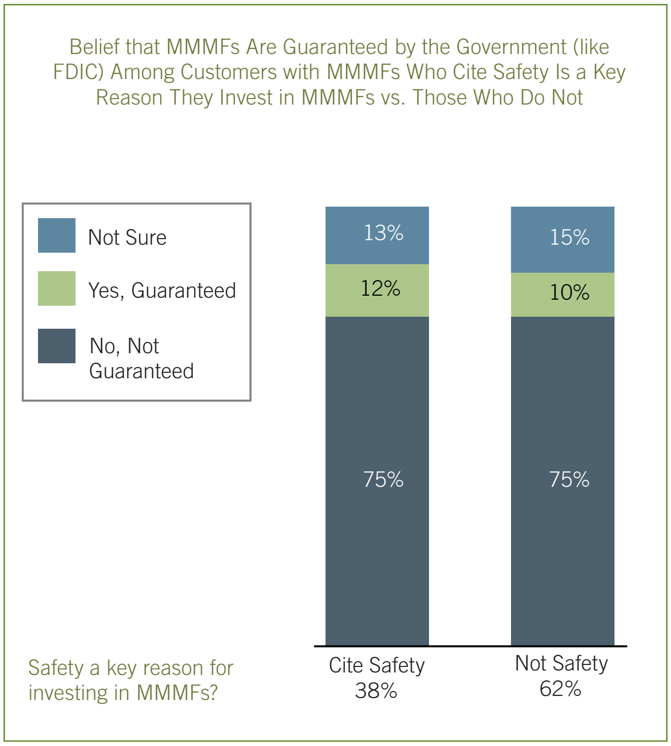
Investors Understand the Value of Money Market Securities Fluctuates Up and Down.

- Fidelity's research indicates that a majority of investors understand the risks of investing in MMMFs.
- 81% of Fidelity investors know that the securities held by MMMFs have some small fluctuations up and down in value.
- Correspondingly, only 11% think the prices of money market securities do not fluctuate.

Most Investors Know MMMFs Are Not Government Guaranteed.

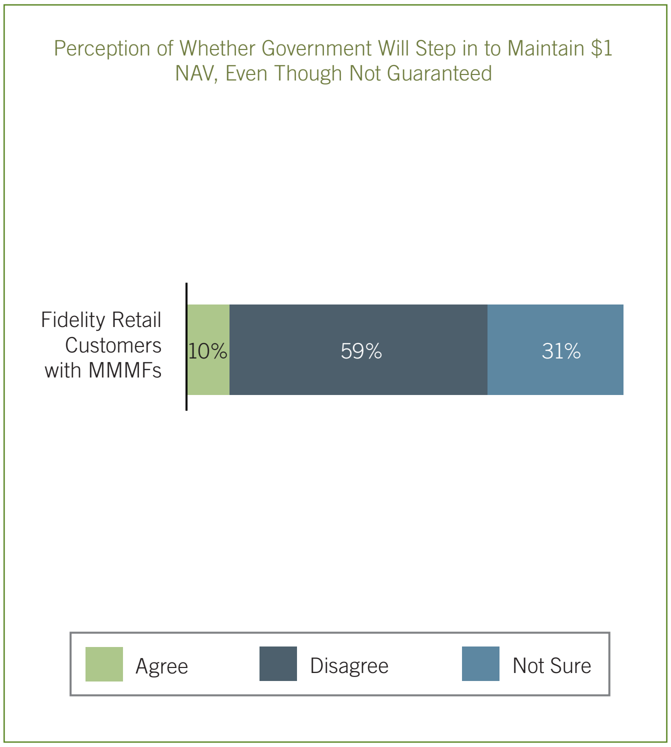
- There is little evidence to suggest many Fidelity retail investors mistakenly believe that MMMFs offer a government guarantee protecting the stable $1 share price. This should not come as a surprise given the amount of disclosure that is provided to shareholders on the topic.
- Our research indicates that 75% of Fidelity customers know that there is no government guarantee associated with MMMFs.
- Only 11% believe MMMFs are government guaranteed, while 14% are unsure.

EXHIBIT 3: EVEN THOSE WHO CITE SAFETY AS A KEY REASON FOR INVESTING UNDERSTAND MMMFs ARE NOT GUARANTEED



Source: Fidelity Retail Customer Survey fielded by TNS Custom Research—July 2011

EXHIBIT 4: FEW EXPECT THE GOVERNMENT TO STEP IN TO SUPPORT MMMFs



Source: Fidelity Retail Customer Survey fielded by TNS Custom Research—July 2011

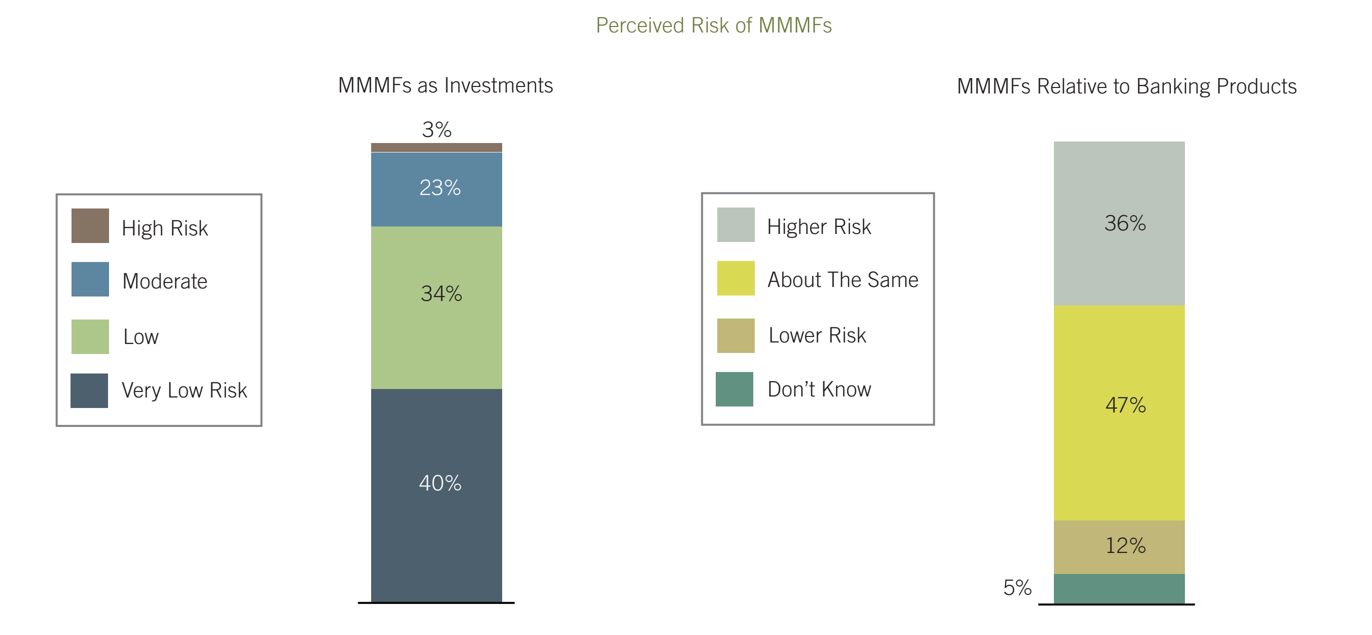
Those Investing in MMMFs for Safety Are Not Confused about Government Guarantees.

- Fidelity also tested to see if those survey participants who cite safety as a key reason for choosing to invest in MMMFs might be more inclined than other investors to believe their principal is Federal Deposit Insurance Corporation (FDIC)-insured.
- We found that they do not. Fully 75% of the respondents who say that they are drawn to MMMFs for safety reasons also tell us that they understand that these funds are not government guaranteed.

Only a Small Percentage of Investors Would Expect the Government to Step in and Support MMMFs.

- One issue that has been raised by regulators is that investors now expect the government would support MMMFs that run into trouble, because the U.S. Treasury Department temporarily provided a principal guarantee on these funds in September of 2008. However, our research indicates that only a small percentage of investors believe the government would intervene in the future to support MMMFs.
- Specifically, only 10% of Fidelity MMMF investors say they would expect the government to step in to help MMMFs maintain a stable share price if they were in danger of breaking the $1 net asset value (NAV).
- A majority (59%) say they do not anticipate the government would support MMMFs, while 31% say they are not sure.

EXHIBIT 5: MMMFs VIEWED AS A CONSERVATIVE INVESTMENT WITH RISKS GREATER THAN OR COMPARABLE TO BANK PRODUCTS

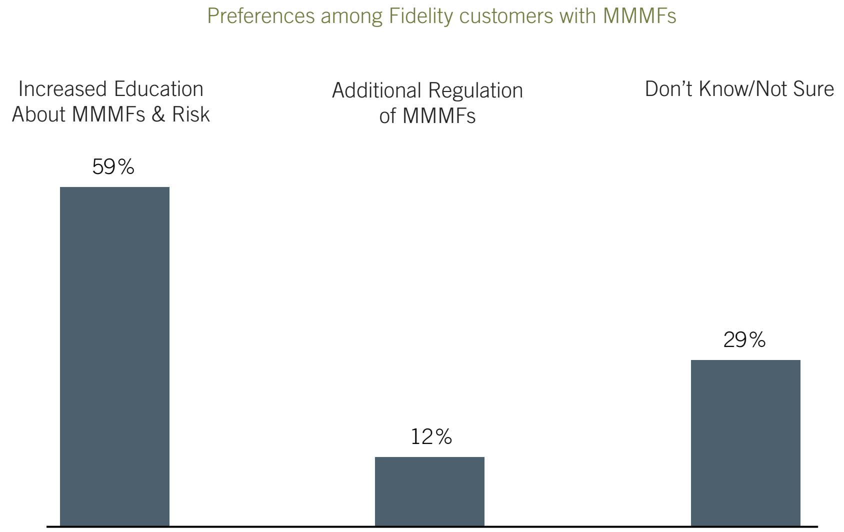


Source: Fidelity Retail Customer Survey fielded by TNS Custom Research - March/April 2012

Investors Have a Good Understanding of the Relative Risks of MMMFs and Bank Products.

- Another issue that has arisen is whether investors put MMMFs in the proper risk context, especially when making comparisons against bank products.
- Customers generally identify MMMFs as a conservative investment product, but also recognize that MMMFs have risks that are comparable or higher than those of banking products.
- For instance, as Exhibit 5 demonstrates, 74% view MMMFs as either having low, or very low, risk when viewed relative to other investments. On the other hand, only 12% of those we surveyed describe MMMFs as having lower risks when compared to bank products. (36% describe MMMFs as having higher risk while 47% say they have comparable risks.)
- One other noteworthy item from Fidelity's research is the fact that many investors don't believe the FDIC would always be there to bail out depositors in cases where a bank fails. Specifically, only 35% believe the FDIC would always be there to protect depositors, while 46% feel the FDIC would not.
- Our research also indicates that MMMFs play an important role in helping investors diversify away the risk of having too much of their cash sitting in banks. This may be why 47% of investors say they view MMMFs as having a similar risk profile to bank products that rely on FDIC insurance. And, it may explain why 56% of survey participants tell us it is important to have an investment alternative, like MMMFs, as an option to bank products for their cash balances. (11% say it isn't important to them and 33% are neutral on the topic.)

EXHIBIT 6: IF REGULATORS FEEL MORE NEEDS TO BE DONE, INVESTORS FAVOR EDUCATION OVER REGULATION



Source: Fidelity Retail Customer Survey fielded by TNS Custom Research—July 2011

Very Few MMMF Customers See a Need for More Regulation.

- Fidelity customers do not believe additional regulation of MMMFs is needed to make MMMFs safer and more transparent to investors.
- Exhibit 6 demonstrates this fact, with 59% of MMMF investors telling us that they prefer policymakers focus on requiring more disclosure on the risks and safety of MMMFs in lieu of creating new regulations that affect how these funds operate. Only 12% of investors prefer additional regulation.
- We believe the following comments from research participants[1] reflect the feelings of many MMMF investors about the need for additional regulation:

> *"It is important to regulate financial markets but I don't think that MMMFs are a big part of the problem."*
>
> *"Leave them alone—quit trying to change them into bank accounts."*

Research Details

The results included in this survey report represent responses gathered from Fidelity customers only.

March 2011

Survey of Fidelity Retail Customers fielded by TNS Custom Research

- Online survey fielded March 9 - 22, 2011
- Total participants: 613 "random" and 1,116 affluent* Fidelity customers

July 2011

Survey of Fidelity Retail Customers fielded by TNS Custom Research

- Online survey fielded June 23 - July 6, 2011
- Total participants: 466 "random" and 967 affluent* Fidelity customers

March/April 2012

Survey of Fidelity Retail Customers fielded by TNS Custom Research

- Online survey fielded March 27 - April 10, 2012
- Total participants: 824 "random" and 1,737 affluent* Fidelity customers

*Affluent customers are investors with Fidelity Retail assets of $100,000 or more.

[1] *Source: Fidelity Retail Customer Survey – March 2011.*

Fidelity INVESTMENTS