**MEMORANDUM**

TO: File

FROM: Thoreau Bartmann
Branch Chief
Division of Investment Management

DATE: February 26, 2013

RE: Money Market Fund Regulation and Special Study on Money Market Funds

On February 19, 2013, staff from the Division of Investment Management ("IM") met with the following representatives of Federated Investors: Peter Germain, Deborah Cunningham, Gregory Dulski, and Stephen Keen.

The following SEC staff participated in the meeting:

Norman Champ, IM
Craig Lewis, RSFI
David Grim, IM
Diane C. Blizzard, IM
Sarah G. ten Siethoff, IM
Thoreau Bartmann, IM
Brian Murphy, IM

Among other matters, the meeting participants discussed money market fund reform options and the analysis contained in the November 30, 2012 special staff study on money market funds prepared by the Division of Risk, Strategy, and Financial Innovation.

# **Money Market Reform Proposals:** Voluntary Gating Offers Many Advantages Over Floating NAV

| Question | Voluntary Gating | | Floating NAV | |
|---|---|---|---|---|
| **Does the reform concept preserve money market funds as a viable investment for managing cash?** | Yes | ▪ Meets investor and issuer needs<br>▪ Maintains stable value and daily liquidity during normal circumstances<br>▪ Compatible with existing administrative, accounting and tax rules and systems<br>▪ Consistent with state laws and most investment policies | No | ▪ Does not meet investor and issuer needs<br>▪ Limits same day liquidity<br>▪ Creates administrative, accounting and tax issues<br>▪ Requires reprogramming/replacing accounting, trading and settlement systems<br>▪ Eliminates MMFs as a viable sweep option<br>▪ Precludes investing by many companies and public entities due to regulations and investment policies |
| **Does the reform proposal prevent runs?** | Yes | ▪ Ability to employ temporary suspension of redemptions puts a complete stop to runs<br>▪ Allows time to tailor solutions that are in the best interests of shareholders<br>▪ Assigns accountability to the fund board – those who have the most information and responsibility for shareholders' best interest | No | ▪ VNAV does not stop runs or resulting "fire sales"<br>▪ Loss of discipline associated with the maintaining constant NAV could increase credit risk taking |
| **Does the reform proposal mitigate the theoretical "first mover advantage"?** | Yes | ▪ Ability to employ temporary suspensions of redemptions allows all shareholders to be treated equally<br>▪ Smaller shareholders may be able to redeem all or most of their account without facing a redemption limit | Yes/No | ▪ Assuming a correct NAV calculation, there should be no first mover advantage to avoid losses<br>▪ However, may introduce a different first mover advantage by creating an arbitrage opportunity |
| **Is the reform proposal something that could be implemented cost effectively?** | Yes | ▪ Does not require any operational changes because it simply stops redemptions for a short period<br>▪ Will not increase borrowing costs or reduce invest/saver returns | No | ▪ Requires reprogramming/replacing accounting, trading and settlement systems<br>▪ Increases borrowing costs to compensate shareholders for market risk |
| **Does the reform proposal promote competition, capital formation and efficiency?** | Yes | ▪ Not disruptive to commercial paper and municipal borrowing markets<br>▪ Maintains competition between MMFs, banks and other providers | No | ▪ Channels money to large banks and less regulated vehicles<br>▪ Drives providers of MMFs out of business<br>▪ Increases borrowing costs<br>▪ Decreases issuers' access to markets |
| **Does the reform proposal promote investor protection?** | Yes | ▪ Directly mitigates the risk of runs and "first-mover advantage"<br>▪ Allows time to tailor solutions that are in the best interest of shareholders<br>▪ Protects stability, daily liquidity and yield for shareholders<br>▪ Maintains the most efficient cash management vehicle for all investors | No | ▪ Harms investors by eliminating a desired and proven cash management solution<br>▪ Doesn't directly address default risk…the risk most likely to lead to "breaking the buck"<br>▪ Creates uncertainty regarding redemption values<br>▪ Adds to investor costs and reduces returns without a corresponding reduction in risk<br>▪ Potentially decreases return on investors' cash |