SFOF
LOOK TO THE STATES

April 26, 2021

Via Electronic Mail (rule-comments@sec.gov)

Vanessa Countryman, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Request for Comment on Potential Money Market Fund Reform Measures in President's Working Group Report, File No. S7-01-2

Dear Ms. Countryman:

I am writing on behalf of the State Financial Officers Foundation ("SFOF")[1] to respond to the Commission's request for comment on potential reform measures for money market funds ("MMFs"), as highlighted in the Report of the President's Working Group ("PWG") on Financial Markets dated December 2020 (the "PWG Report").[2]

We have long sought to communicate, as both investors and issuers in the capital markets, the importance of prime and tax-exempt money market funds ("non-government MMFs"). Non-government MMFs enable state governments to both earn higher, market returns on cash and reduce short-term borrowing costs.

For example, then Idaho state Treasurer Ron Crane testified before a hearing of the Securities, Insurance and Investment Subcommittee of the Senate Banking Committee on May 19, 2016 in support of S. 1802, sponsored by Senators Pat Toomey, Bob Menendez, Mike Crapo and Joe Manchin, which would have restored a stable share price for all MMFs. Treasurer Crane's testimony, and SFOF's statement for the record, are attached to this letter.[3]

It is instructive to now review Treasurer Crane's testimony – given before the 2016 implementation of the SEC's 2014 Amendments – in light of both subsequent events and today's PWG Report.[4]

First, Treasurer Crane pointed to an independent study (attached to his testimony) documenting that at least 40% of the, then, over $250 billion in assets of tax-exempt MMFs

[1] To learn about the State Financial Officers Foundation or our members, please see our website at https://sfof.com/ .

[2] Request for Comment on Potential Money Market Fund Reform Measures in President's Working Group Report, Investment Company Act Release 34188 (Feb.4, 2021), *available at* https://www.sec.gov/rules/other/2021/ic-34188.pdf.

were invested by non-natural persons and would depart as a result of the SEC's 2014 Amendments. This, in fact, happened exactly as Treasurer Crane predicted. Tax-exempt MMF assets, which were at $255 billion at the end of 2015 (just before the implementation of the 2014 Amendments), dropped to $130 billion by year-end 2016, where they have remained. Tax-exempt MMFs were actually very stable during the March 2020 shut down of the economy. Redemption were only $8 billion.[5]

Further, Treasurer Crane predicted that at least $400 billion of prime MMF assets would move to government MMFs because of the SEC's 2014 Amendments. Again, Treasurer Crane's assessment was accurate, just too low. In fact, contrary to the PWG Report's portrayal of a "recovery" of prime MMF assets, prime MMF assets have dropped from $1.273 trillion at the

---

[3] *See Improving Communities' and Businesses' Access to Capital and Economic Development: Hearing Before the Secs., Ins., and Inv. Subcomm. of the S. Banking Comm.*, 114th Cong. (May 19, 2016), https://www.banking.senate.gov/hearings/sii-improving-communities-and-businesses-access-to-capital-and-economic-development

[4] The rule changes, adopted on July 23, 2014, did not take effect until October 14, 2016.

[5] MMF asset data is sourced from Investment Co. Institute, *Money Market Mutual Fund Assets*, *available at* https://ici.org/research/stats/mmf .

end of 2015 to $774 billion at year-end 2019; a reduction of $499 billion.

The increase in prime MMF assets that did occur over the three years from 2016 to 2019 (from $376 billion to $774 billion) as some investors sought any available yield, was disproportionately lower than the increase in cash in the system during that time. Total MMF assets (both government and non-government) grew from $2.755 trillion at the end of 2015 to $3.632 trillion at year-end 2019. Non-government MMF assets, as a percent of the total, dropped from 55% to 25%.

During this time frame (2016-2019), the assets of government MMFs grew by approximately $1.5 trillion. In the wake of the floating NAV imposed by the 2014 Amendments, broker-related sweeps of cash to FDIC-insured bank deposits grew by $462 billion (more, by itself, than the increase in prime MMF assets).[6]

As well as disagreeing with the PWG's assertion of a recovery of prime MMF assets after the 2014 Amendments, we disagree with the PWG Report's assertion of a "run" from prime MMFs in March 2020.

The large flows into government MMFs during the March crisis were clearly not a "run" from prime MMFs. Even if you assume the redemptions from prime MMFs of approximately $120 billion were entirely re-invested in government MMFs (which they were not), what we have in terms of the totality of the cash in the system is $120 billion flowing out of prime MMFs versus nearly $2 trillion ($1.978 trillion) flowing into government MMFs and bank deposits. The inflows dwarf the outflows. If, as the PWG asserts, extraordinary redemptions from prime MMFs alongside extraordinary purchases into government MMFs show the "structural vulnerability" of prime MMFs, this data proves too much. Ninety-four percent of the flows into government MMFs and bank deposits were "running" from something other than prime MMFs.

In fact, we believe the flows out of prime MMFs were a matter of each organization's (non-natural person) individual circumstances; such as simply needing to pay their bills, or moving their funds into bank accounts in order to be prepared to pay bills in the face of an unprecedented shut down of the economy. Just one indicator of this is that, during the March crisis, uninsured bank deposits grew by $733 billion. That money was seeking the liquidity of bank transaction accounts. Another indicator of the flight to liquidity is that bank commercial and industrial loans grew by $340 billion during the March 2020 shut-down, nearly three times the redemptions from prime MMFs.

[6] Bank deposit data is sourced from Federal Deposit Insurance Corporation, *The Deposit Insurance Fund*, *available at* https://www.fdic.gov/deposit/insurance/ . A detailed analysis is available upon request.

SFOF disagrees with the PWG Report's assertion that the redemptions from prime MMFs present any unique "systemic risk." First, because of the loss of non-government MMF assets in the wake of the 2014 Amendments, prime MMF assets were a small portion of short-term credit markets. Prime MMF assets were only 21% of total MMF assets and 5% of M3 (the broad measure of U.S. money supply) as of year-end 2019. Second, most cash in the system is already fully guaranteed by the U.S. government (directly or indirectly). Insured bank deposits are now over $8 trillion and government MMF assets are nearly $4 trillion compared to approximately $700 billion in prime MMFs.

In the March crisis, regulators permitted the FDIC to drop below its statutory level of reserves of 1.35% as set by the Dodd-Frank Act (now standing at 1.29%). While this may seem small, it effectively created $387 billion of new deposit insurance capacity (at taxpayer risk) – which is more than three times the redemptions from prime MMFs. In addition, the Basel III Supplementary Leverage Ratio (SLF) was relaxed, and the waiver was granted for a full year. Technically, this allowed banks deemed to be systemically important (GSIBs) to exclude reserve balances and holdings of government securities from their leverage calculation, freeing up well over $1 trillion of balance sheet capacity from the regulatory hurdle at just a handful of banks. Money funds were not accorded similar flexibility.

Today's true systemic risk is the current level of unemployment and under-employment in the economy. SFOF believes a key to restoring a healthy and growing, job-sustaining economy is to restore the independent functioning of healthy capital markets; and in particular, credit markets. Here, we reiterate the value of MMFs to the economy as articulated by Treasurer Crane in his 2016 testimony.

The central issue for the PWG is how MMFs can return as a funding pipeline from the credit markets into the real economy? The only answer will be to learn from the experience of the 2014 Amendments and restore the utility of the product to the investor.

Short of the two most extreme market crises in modern history, MMFs have withstood market stress and functioned smoothly for over 45 years as a simple, safe and highly effective vehicle for gathering cash and investing it in the economy. One reason for this success is that MMFs invest in the highest quality and shortest maturity credits in the markets. All MMFs need for their success is liquidity in the high-quality, short term credit markets.

Before the 2014 Amendments, there were three basic types of stable NAV MMFs – government, prime and tax-exempt, each open to all investors. The 2014 amendments to Rule 2a-7 changed the MMF from a simple, clean, straightforward cash management tool that provided daily liquidity at par and a market return for all investors to: (1) business as usual (stable share price and no mandatory liquidity fees) for all investors in MMFs investing primarily in U.S. government securities; (2) mandatory liquidity fees (but a stable share price) for any prime or tax-exempt MMFs whose shareholders are limited to natural persons; and (3) a floating share price and mandatory liquidity fees for any prime or tax-exempt MMFs whose shareholders are not so limited.

Here is the crucial point: the 2014 Amendments were, in and of themselves, a fascinating experiment in basic economics and capital formation in free markets. The 2014 Amendments tested what happens when the government dictates the terms and conditions of a financial product to investors, instead of the financial services industry being market driven to offer products that respond to investors' needs and wants.

The starting point was a simple, unleveraged financial product that had been, for decades, highly successful in gathering and pooling trillions of dollars to invest in private, high quality, short-term funding markets.[7] After the Lehman Brothers debacle in 2008, the PWG set out to "reform" MMFs. The SEC changed MMFs into the three types above with, remarkably, one type (government MMF) preserving the original, highly successful but allegedly "vulnerable" structure intact; AND investors able to choose whether to instead invest in the other two, new types of MMFs now reformed in the name of "official intervention" and "taxpayer support." The SEC's 2014 rulemaking process left only government MMFs (entirely taxpayer supported) in a position to provide true daily liquidity at par. Would investors, particularly non-natural persons, continue to invest in prime and tax-exempt MMFs? Treasurer Crane gave an entirely accurate prediction of the answer before the Senate Banking Committee.

The SEC's market experiment of the 2014 Amendments holds the answer to the question of how to evaluate the PWG's potential policy measures against its "overarching goals for MMF reform." Namely, does a proposed reform restore, or further diminish and defeat, the utility of the product to investors? If a reform further reduces the utility of the MMF to investors, beyond the crushing blows of the 2014 Amendments, the remaining shareholders and assets in non-government MMFs will leave, even further reducing the financing capacity and liquidity of private, high quality, short-term credit markets and increasing the need for the Federal Reserve to create facilities to purchase these instruments in both primary and secondary markets. If a reform strengthens the MMF by restoring its utility to investors, the PWG enables the flow of real cash into private markets where it will be directly and entirely invested in the real economy. It's that simple.

Likewise, do the potential policy measures strengthen or weaken investor choice? The ability of investors to choose among multiple options, and the resulting competition, strengthens markets.

---

[7] *See* ICI President Paul Stevens, *Comment Letter on the President's Working Group Report on Money Market Fund Reform* 19-22 (January 10, 2011), https://www.sec.gov/comments/4-619/4619-49.pdf ("The regulation of money market funds is one of the greatest success stories in the history of financial services regulation. The flexible and resilient regulatory structure created by the Investment Company Act has been critical in allowing this product to achieve its full potential. Indeed, since this structure was put into place in 1983, $330 trillion—almost one-third of a quadrillion dollars—have flowed in and out of money market funds.").

SFOF appreciates the opportunity to comment and your consideration of these views. Please feel free to contact me if there is any additional information or assistance that the Commission might find useful.

Sincerely,

Derek Kreifels, President
State Financial Officers Foundation

Ron Crane
Retired, Idaho State Treasurer

STATEMENT OF THE HONORABLE RON G. CRANE
IDAHO STATE TREASURER
HEARING ON IMPROVING COMMUNITIES AND BUSINESSES ACCESS TO CAPITAL AND ECONOMIC DEVELOPMENT
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
SUBCOMMITTEE ON SECURITIES, INSURANCE AND INVESTMENT
MAY 19, 2016

Chairman Crapo, Ranking Member Warner and members of the Subcommittee, I appreciate the opportunity to provide testimony on legislative proposals to improve access to capital and economic development for communities and businesses.

As the statewide-elected Treasurer of Idaho since 1998, I am responsible for the state's debt management, including the issuance of both short term debt, such as Tax Anticipation Notes, and bonds. My office oversees a number of debt management programs that support public infrastructure investment, including the Idaho Bond Bank Authority, the Idaho School Bond Guaranty Program, and Tax Anticipation Notes. Also established in statute are the Idaho Health Facilities Authority, which provides financing to nonprofit health care providers; the Idaho Housing and Finance Association, which issues revenue bonds to finance affordable housing; and the Idaho State Building Authority, which functions as the capital financing arm of the State.

Also, on the cash management side, I am responsible for investing all general account and pooled agency cash, as well as managing Idaho's $3.2 billion local government investment pool ("LGIP").

I direct receipt of all state monies, and the accounting and disbursement of public funds.

In particular, I want to focus my comments today on S. 1802, the Consumer Financial Choice and Capital Markets Protection Act.

This bipartisan legislation is important to protecting the financing and investment options of governments, businesses and communities in Idaho and throughout the country. I want to express my gratitude to Senators Toomey and Menendez, as well as to you, Mr. Chairman, for your sponsorship of that legislation.

Background

The Securities and Exchange Commission (SEC) has taken important actions since the financial crisis of 2008 to strengthen the resiliency of money market funds, reduce systemic risk, and protect investors. In 2010, the SEC imposed new liquidity and transparency requirements on money market mutual funds that have proven successful through several market stresses, including the European debt crisis of 2011, the U.S. debt ceiling impasse and concerns about the downgrading of U.S. debt that same year, and the debt-ceiling standoff in 2013.

Then in July 2014, the SEC adopted additional obligations on money market funds, including enhanced disclosures, stress testing, and increased portfolio diversification requirements, among other things. Like the 2010 reforms, these are welcome changes that have strengthened the ability of money market funds to safely meet the cash management and short-term investment needs of businesses, state and local governments, and other institutions.

However, as part of the July 2014 amendments to Rule 2a-7, the SEC also adopted a requirement, effective on October 14 of this year, which in effect eliminates the utility of any money market fund to investors who are not "natural persons" (in the terminology of the Rule) unless the fund invests exclusively in U.S. government securities.

Under this new requirement, any tax-exempt or prime money market fund accepting any investor other than a "natural person" will no longer be able to offer and redeem shares based on amortized cost valuation of its portfolio to produce a stable, $1 net asset value (NAV). Instead, such funds will have to apply a fluctuating or "floating" NAV using market-based estimated values. Simply, again, the floating NAV goes beyond regulation of the money market fund to just kill it as a cash management tool. I do not believe cash investors, such as myself, want, or will use, a floating NAV fund for cash investments.

Thus, by October 14, all investors other than "natural persons" are forced to leave any stable value, dollar per share, prime or tax-exempt money market fund. Since these investors are managing cash, they will be looking to move to a different, stable-value cash management vehicle. As a practical matter, this means most will either put their cash in a money market fund investing exclusively in U.S. government securities or deposit their cash in the bank.

In either case, that money will no longer be available in the portfolio of a prime or tax-exempt fund to loan to businesses or invest in tax-exempt notes and bonds of Idaho, other state and local governments, and other nongovernment issuers such as hospitals and universities.

Treasury Strategies Survey

Attached as an Appendix to this Statement is a survey and analysis of the extent to which the assets of tax-exempt money market funds are from "non-natural persons" performed by Treasury Strategies, an economic consulting firm, for The Coalition for Investor Choice.

Treasury Strategies' work to document the impact of the SEC's new requirement forcing out "non-natural" person investors provides accurate data to underlie your support of S. 1802. To my knowledge, no one else has undertaken to discern this impact, including the SEC.[1]

How S. 1802 Supports Economic Development

Treasury Strategies has concluded that this one SEC requirement, by itself, will reduce the assets in tax-exempt money market funds by at least 40 percent.

Further, as Treasury Strategies' Report shows, in anticipation of this loss of assets, many funds lose viability and are simply liquidating, in total, now. Those who are not liquidating, but remain uncertain as to the extent of the loss of assets they will experience by October, are actively shortening their portfolio maturities.

[1] In its Release adopting the 2014 amendments to Rule 2a-7, the SEC asserted that "institutional" investors likely held less than 15 percent of tax-exempt money market fund assets. *Money Market Fund Reform; Amendments to Form PF*, www.sec.gov/rules/final/2014/33-9616.pdf at p. 244; 79 Fed. Reg. 47736 (Aug. 14, 2014). However, the SEC was relying on data differentiating "institutional" and "retail" funds by criteria such as minimum account size; not the distinction in its rule of "natural" vs. "non-natural" persons. In addition, the SEC asserted that such data overstated "institutional" assets because omnibus accounts likely consisted of retail investors. Thus, the SEC assumed, without comparable data or performing its own study, that its action would not significantly impact the assets of tax-exempt money market funds. The present impact is an unintended consequence.
.

At the end of 2015, tax-exempt money market funds held about $263 billion in assets.[2] That is about 6.5% of the total tax-exempt debt market. But it's about two-thirds of the short-term municipal debt market, and that has varied between two-thirds and 80 percent over the past five years.

This is all money that is invested in funding state and local government. The Treasury Strategies' Report shows you how those investments span the country, both in absolute and per capita terms. While states such as New York, Massachusetts, Illinois, Pennsylvania, New Jersey, Indiana, and Ohio[3] stand out as among the largest ten issuers in absolute dollar terms, the impact on Idaho is very significant on a per capita basis, along with every other state, including Virginia, Rhode Island, Montana, Tennessee, Louisiana, South Carolina, Nebraska and Kansas.

We in Idaho, including both state and local government directly, as well as other Idaho issuers, benefit from over $600 million of money market fund investments. If tax-exempt money market funds lose, at a minimum, half of their assets because "non natural persons" are no longer permitted to invest in them, that implies that Idaho could lose at least $300 million of its present financing from this source at the present rates.

What, then, will my choices be for an alternative funding source? There will be two options. First, I will likely have to pay higher interest rates in order to place my debt. This is the most basic principle of supply and demand in the auction process of the market. When the assets available for investment go down, but the demand does not, the cost will go up.

This impact is occurring right now. For example, each year I take approximately $500 million in Tax Anticipation Notes to market, and these notes have always been purchased by an array of different tax-exempt money market funds. There are substantially fewer bidders this year, and I've already been told my cost is going up.

---

[2] https://www.sec.gov/divisions/investment/mmf-statistics/mmf-statistics-2016-3.pdf

[3] Many supporters of S. 1802, in addition to myself, have acknowledged their support or made their letters available to the Coalition for Investor Choice. See www.protectinvestorchoice.com. For example: Letter of Massachusetts Treasurer Deborah B. Goldberg to Senator Warren (February 26, 2016); Letter of Carole Brown, Chief Financial Officer, City of Chicago to Senator Kirk (April 13, 2016); Letter of David J. Gray, Treasurer, Penn State University to Senator Toomey (December 14, 2015); Letter of Ann M. Cannon, President, New Jersey Association of Counties, to Senators Menendez and Booker; Letter of David Bottoroff of Association of Indiana Counties and Nancy Marsh, Indiana County Treasurers' Association, to Senator Donnelly (June 5, 2015); and Letter of Matthew A. Szollossi, Executive Director, Affiliated Construction Trades of Ohio, to Senator Brown (October 24, 2015).

All issuers of municipal debt and non-government conduit borrowers are already beginning to feel the impact of the shrinkage in tax-exempt money market fund assets as a result of the floating NAV requirement. According to statistics released on April 20 by the SEC, gross yields on tax-exempt money market funds increased from eight basis points in February to 35 basis points in March.[4] This is not good news for state and local governments, school districts, port authorities, hospitals, universities and others that have to pay more for working capital or to finance infrastructure and economic development projects that support local businesses, including contractors and engineering firms.

My second option is to borrow the money in a different form, or from a different source, than a money market fund. For example, I can go seek a loan from a bank.

Short-term borrowing in the capital markets has always been the lowest cost form of funding. This is the fundamental notion of the yield curve: short-term borrowing costs less than long-term borrowing. I would add that tax-exempt borrowing is normally less expensive than taxable loans. Thus, borrowing in the capital markets, such as from money market funds, costs less than borrowing from a bank.

For a state or local government with a good credit rating, its financing authorities could expect to pay approximately 110 basis points more to borrow from a bank than to issue debt held by a money market fund. This would be at prevailing rates of LIBOR plus 40 to 50 basis points. For example, an entity that regularly borrows $10 million short-term through the issuance of Tax Anticipation Notes (TANs) would see its borrowing costs rise more than $100,000 per year if the debt could not be placed with money market funds and bank credit was needed as an alternative. Other, less credit worthy borrowers who need credit enhancement could see their cost of debt increase 200 to 300 basis points.

These disruptions to financing by money market funds are occurring on top of other regulatory actions that are impacting liquidity and cost for municipal borrowing, including the Basel III bank capital rules and the SEC's proposed liquidity standards for bond mutual funds.

[4] https://www.sec.gov/divisions/investment/mmf-statistics/mmf-statistics-2016-3.pdf

I would note that total tax-exempt assets held by money market funds were over $500 billion as recently as 2009 and, through October of last year, most of that decline was the result of the Fed's zero interest rate policy.

As an aside, to return to my point that cash investors do not want a floating NAV money market fund:

At a time when money market funds are offering annual yields of only a handful of basis points to invest on a dollar in-dollar out basis, the stable value is a big reason why money market funds continue to hold, and attract, nearly $2.6 trillion in assets. Again, as the Treasury Strategies' Report shows, regulators cannot force investors to invest in floating NAV funds and the Fund Sponsors themselves are not anticipating that investors will stay. Fund Sponsors are simply liquidating their tax-exempt funds, and converting the prime funds, and expecting those assets to move to government funds or elsewhere.

Now, back to the $500 billion peak. It would be fair to assume that, absent the floating NAV requirement, once short-term rates begin to rise again, investors would flood back into tax-exempt money market funds and assets could exceed $500 billion again. That's a lot of potential liquidity for building and maintaining hospitals, schools, roads, public transportation systems, airports and other infrastructure projects. This implies that ample, low-cost funding would remain available to Idaho issuers, and your States' issuers, from tax-exempt money market funds.

There's an indirect negative consequence of the floating NAV that will also be averted by enactment of S. 1802. As funding options become more limited, the credit ratings of states and municipalities will come under pressure and potentially lead to additional costs. Rating agencies use access to capital as an important variable. When tax-exempt money market funds close and municipalities have fewer buyers for their debt, it becomes a risk factor that could lead to ratings downgrades and even higher borrowing costs.

Although I am responsible for the investment and financing activities of the Idaho State Government, I think it is also important to mention the fact that money market funds do more than just support public infrastructure investment in our State. Prime money market funds currently invest in billions of dollars of short-term commercial paper issued by Idaho businesses to finance their payrolls and inventories, as well as the purchase of new equipment. J.P. Morgan Chase estimates that, as a result of the SEC's 2014 actions, at least $400 billion in prime money market fund assets will be converted to funds the invest solely in U.S. Government securities.[5] The net result will be to reduce the Federal Government's borrowing costs at the expense of main street businesses that are the backbone of our local economies.

Local Government Investment Pools

As Idaho State Treasurer, I am both a manager of, and investor in, money market funds, as well as being a borrower from them.

First, here is how the SEC floating NAV requirement impacted me as the manager, in Idaho, of an investment pool that is equivalent to a prime money market fund.

I am responsible for the management of our LGIP, which we offer to Idaho municipalities and other local government subdivisions for their cash management. It has a daily balance in excess of $3.2 billion. LGIPs use amortized cost valuation to operate similarly to money market funds and offer their participants a stable, $1 unit price.

Although LGIPs are exempt from registration under the Investment Company Act, and therefore not directly subject to Rule 2a-7, they are still subject to Government Accounting Standards Board (GASB) accounting principles. GASB sets accounting and financial reporting standards for external investment pools and pool participants. Until recently, GASB principles required LGIPs to follow 2a-7 like procedures. Thus, when the SEC said that "non-natural persons", such as Idaho local governments, can no longer benefit from amortized cost, our Idaho LGIP was faced with the prospect of not being able to comply with the GASB accounting principle.

This past December, GASB acted to restore amortized cost to LGIPs by issuing accounting statement No. 79.[6] It requires LGIPs to meet many of the requirements of Rule 2a-7, such as portfolio duration and maturity, quality of portfolio assets, diversification of investments, and

---

[5] See "The $400 Billion Money-Fund Exodus With Banks in Its Crosshairs," Bloomberg Business, Feb. 23, 2016.
[6] http://www.gasb.org/cs/ContentServer?c=Pronouncement_C&pagename=GASB%2FPronouncement_C%2FGASBSummaryPage&cid=1176167863852

portfolio liquidity, but “de-links” from Rule 2a-7 to permit LGIPs to continue to use amortized cost valuation and penny rounding, and thereby transact with participants at a stable NAV per unit or share.

Your enactment of S.1802 restores the stable, $1 per share of the money market fund by enabling any money market fund to elect to continue to use the amortized cost method of valuing its portfolio.

How S. 1802 Supports Liquidity Management

Although, thanks to GASB, our LGIP is not subject to the pending floating NAV requirement of the SEC’s Rule 2a-7, we are still impacted by that requirement. Like in other states, apart from LGIPs, we also invest public cash in financial instruments that meet the investment policies of our state code, as well our investment objective priorities of safety, liquidity and yield. Eligible instruments include Treasuries, U.S. Government agency securities, and stable value government and prime money market funds.

Safety of principal is the foremost objective of our investment program. That is why, in addition to Idaho’s LGIP, state agencies and local municipalities also use money market funds where appropriate for specialized cash management applications. For example, at any point in time, Idaho agencies and public entities will have between $300 and $500 million invested in prime money market funds.

If stable value prime money market funds are no longer a permitted investment option, Treasurers will have limited choices for using pooled investment vehicles to invest in financial instruments that meet the needs of their investment programs. Further, with over $400 billion in prime money market fund assets converting to government funds, rates on U.S. Treasuries are being driven even lower.

Even in the absence of the SEC’s floating NAV requirement, liquidity management is an enormous challenge for state and local government entities. This makes enactment of S. 1802 doubly important. It will allow our liquidity management programs to continue to hold money markets funds in their portfolios that invest in assets other than U.S. Government securities. In addition to capital preservation, it will allow us to earn market rates of return throughout budgetary and economic cycles, which benefits our citizens.

Conclusion

S. 1802 will do much to preserve Idaho's access to capital and economic development for our communities and businesses. It will preserve stable value money market funds as a safe, liquid, market-rate investment for our state's cash management needs, and as a source of capital for public infrastructure investment and businesses growth. At the same time, this legislation protects the positive changes adopted by the SEC in 2010 and 2014 that have mitigated risk in, and strengthened the resilience of, money market funds without disturbing the authority of the SEC to regulate money market funds in its discretion. In S. 1802, Congress properly exercises its discretion to draw the policy line between regulating money market funds and killing them by imposing a floating NAV requirement.

I appreciate your leadership on this issue, Mr. Chairman, and encourage the full Senate to support S. 1802 and protect the liquidity and investment options of state and local governments and all other investors.

The Power of Experience®

Maintaining Public Sector Funding Access:

The Importance of Preserving Money Market Mutual Funds (MMFs)

New MMF regulations, taking effect in October of this year, are having major negative consequences for issuers and borrowers of debt held by money market funds. Specifically, Tax-Exempt MMFs (TE MMFs) are closing and assets are leaving. This is drying up a very important municipal financing conduit.

As TE MMF funds close (or shorten their maturities), municipalities have fewer buyers for their debt. Even when they are able to place issues with the remaining TE funds, due to the shortened maturity structure, they are less able to lock in rates and more subject to weekly rate resets. This increases volatility and adds to their borrowing costs. If they are not able to place their issues with TE MMFs, only two options are available. They must turn to other lenders that have higher transaction costs or charge higher rates or they must defer or cancel infrastructure, educational/healthcare facilities or other municipal projects.

This paper will show the following, all of which demonstrate the negative impacts on municipal financing of new MMF regulation:

- Tax-Exempt MMFs are closing
- Remaining TE funds are shortening maturities
- Managers that use TE funds on behalf of their customers are exiting those funds

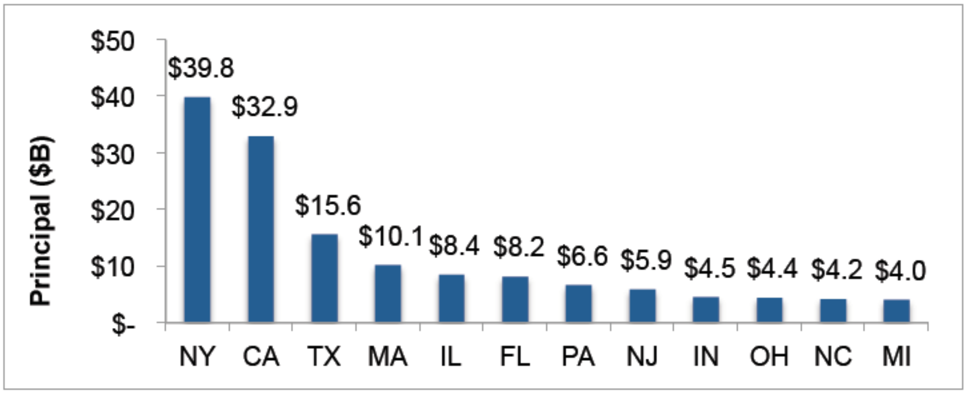
We estimate specifically that 30 - 50% of these assets, which is the portion originating from non-retail investors, are likely to run off. This level of run-off will profoundly reduce the short-term market for municipal debt. They will snowball into more fund closures and further tighten the municipal short-term debt market. Without Tax-Exempt MMFs, municipalities will be forced to seek higher cost borrowing like bank credit, or reduce their short-term capital consumption. Projects in infrastructure, healthcare, education and government services will be impacted.

I. Background

MMFs have historically been an important holder of short-term municipal debt. As of December 2015, they provided nearly $250 billion of short-term funding to municipalities by purchasing their short-term debt instruments.

Figure 1 shows the large Tax-Exempt MMF investments in municipal debt of highly populated industrial and economic centers including New York, California, Texas, Massachusetts, Illinois, and Florida.

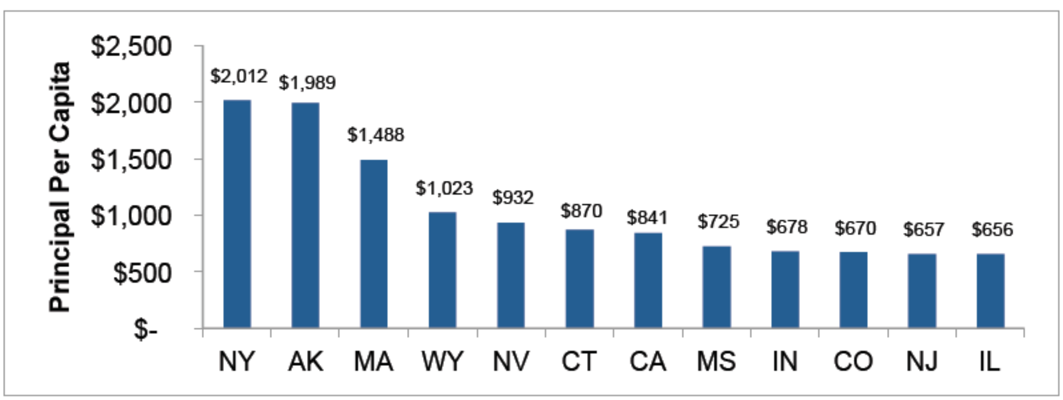
Figure 1. Tax-Exempt Money Fund Holdings of Short-Term Municipal Debt – Top 12 States ($B), Source: CraneData.com, December 2015



The reach of TE MMFs is even more striking when viewed in light of population. These funds represent over $700 for every man, woman and child in the U.S. That's up to $2,000 per household that will be lost if these funds shrink or disappear.

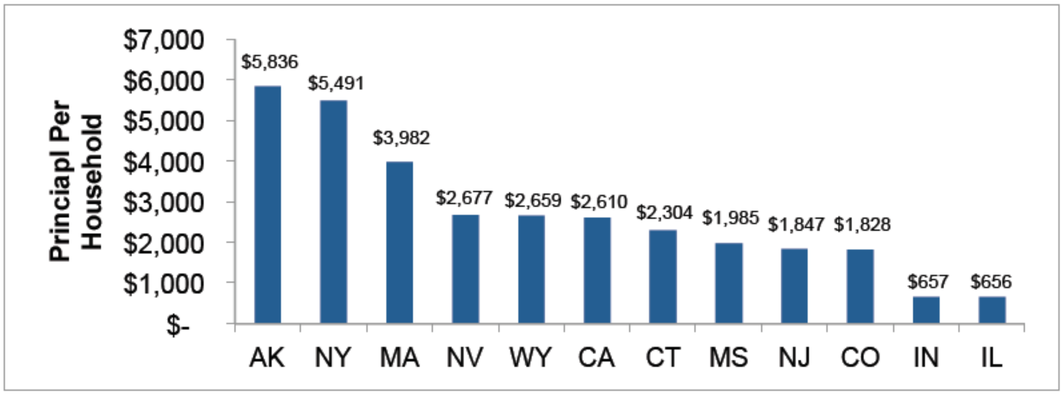
The impact is geographically diverse. The per capita effects are just as pronounced in Nevada, Wyoming, and Colorado as they are in New York and California.

Figure 2. Tax-Exempt Money Fund Holdings of Short-Term Municipal Debt – Top 12 States by Assets Per Capita, Source: CraneData.com (December 2015), U.S. Census



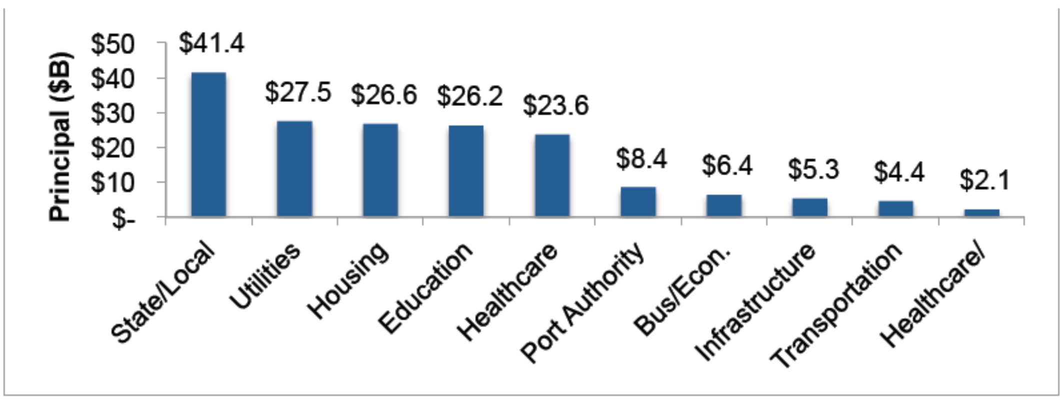
Treasury Strategies
The Power of Experience®

Figure 3. Tax-Exempt Money Fund Holdings of Short-Term Municipal Debt – Top 12 States by Assets Per Occupied Housing Unit, Source: CraneData.com (December 2015), U.S. Census, ACS



As Figure 4 illustrates, these funds help finance a wide variety of important public activities. Healthcare, housing, education, and utilities each have over $20B held by TE MMFs. If TE MMFs disappear or shrink, funding for all these sectors is at risk.

Figure 4. Tax-Exempt Money Fund Holdings of Short-Term Municipal Debt –Top 10 Sectors, Source: CraneData.com, December 2015 ($B)



Treasury Strategies
The Power of Experience®

Figure 5, using Idaho as an example, illustrates the broad cross section of municipal issuers. As the table shows, TE MMFs support Idaho based healthcare, housing, industrial development, infrastructure and state and local governments. These issuers are at risk should funds continue to shrink or close.

Figure 5. Tax-Exempt Money Fund Idaho-based issuers, Source: CraneData.com, December 2015 ($B)

IDAHO		
Holding (12/31/15)	**Principal**	**Issuer Type**
IDAHO HEALTH FACILITIES AUTHORITY REVHOSPITAL (TRINITY HEALTH CREDITGROUP) SERIES 2013ID, 0.13%	10,100,000	Healthcare
Idaho Health Facilities Authority, (Series 2013ID) , TOBs , (Trinity Healthcare Credit Group) , 0.130%	22,805,000	Healthcare
IDAHO HOUSING & FIN ASSN	15,575,000	Housing
Idaho Housing & Finance Association Single Family Mortgage Revenue VRDO	7,615,000	Housing
IDAHO HOUSING AND FINANCE ASSOCIAT	5,850,000	Housing
IDAHO HSG & FIN ASSN NONPROFIT FAC	17,180,000	Housing
IDAHO ST HSG & FIN ASSN SF MTGE	8,935,000	Housing
IDAHO ST HSG & FIN ASSN SF MTGE REVENUE	21,295,000	Housing
Lenexa Multi-family Hsg. Rev. (Meadows Apts. Proj.) Series A, LOCFannie Mae VRDN	13,865,000	Housing
CASSIA CNTY IDAHO INDL DEV CORP REVIDB & PCR (EAST VALLEY CATTLE LLC)SERIES 2006 (LOC: COOPERATIEVECENTRALE RAIFFEISEN-BOERENLEENBANKBA), 0.05%	7,000,000	Industrial
CASSIA CNTY IDAHO INDL DEV CORP REVIDB & PCR (OAK VALLEY HEIFERS LLC)SERIES 2007 (LOC: COOPERATIEVECENTRALE RAIFFEISEN-BOERENLEENBANKBA), 0.05%	1,800,000	Industrial
Idaho Eagle Industrial Development Corps.	1,830,000	Industrial
Power County, ID IDC (J. R. Simplot Co.) , (Series 2012) Weekly VRDNs,(Rabobank Nederland NV, UtrechtLOC), 0.050%	35,000,000	Industrial
Ammon Idaho Urban Renewal Agy Var-Tax Increment-Se	1,145,000	Infrastructure
Idaho Building Authority Revenue (Prison Facilities Project) VRDO	31,215,000	Infrastructure
IDAHO ST BLDG AUTH BLDG REV	7,370,000	Infrastructure
COEUR D ALENE IDAHO	10,000,000	State / Local
IDAHO ST	180,000,000	State / Local
Idaho St Tans	15,550,000	State / Local
IDAHO ST TAX ANTICIPATION NOTE	19,000,000	State / Local
IDAHO STATE OF GO Tax Anticipation NoteSERIES 2015, 2.00%	75,000,000	State / Local
Idaho TAN	60,000,000	State / Local
State of Idaho	37,200,000	State / Local
GRAND TOTAL:	**605,330,000**	

Treasury Strategies
The Power of Experience®

II. Tax-Exempt MMFs have been closing at an increasing rate

Since the announcement of the final rule in 2014 with a target implementation of October 2016, 40 Tax-Exempt MMFs have closed or announced they will close. That process has a double impact. The pace of closures is accelerating. These funds are no longer in a position to buy new municipal debt, thereby shrinking the market and also putting upward pressure on borrowing costs.

The funds that are closing have a wide reach as shown in Figure 6:

- They account for approximately $14.4B in short-term municipal debt holdings.
- The pace of closures is increasing as implementation nears; almost twice as many funds closed in first quarter 2016 as in all of 2015.
- Many closed funds were state-specific. This means the impact of their closing is concentrated in states with multiple and large municipal debt issuers.
- Several major managers, including Deutsche Bank, Goldman Sachs and JP Morgan Chase, have significantly scaled back or exited the Tax-Exempt MMF business altogether.

Figure 6. Funds Closed in 2015-2016 or Closing in 2016

Fund Closures (Oct 2015 – Apr 2016)		
Fund	**Principal ($B)**	**Year Closed**
BofA T-E Reserves	3.70	2016
UBS RMA Tax-Free Fund	2.91	2016
UBS Select Tax-Free Capital Fund	1.54	2016
RBC T-F MMF	1.06	2016
BofA Municipal Reserves	1.05	2016
UBS RMA California Municipal Money Fund	1.02	2016
Putnam Tax-Exempt Fund	0.90	2016
UBS RMA New York Municipal Money Fund	0.75	2016
Reich & Tang CA Daily T-F	0.71	2015
Reich & Tang DIF Muni	0.63	2015
Western Asset Inst AMTFree Muni	0.62	2015
PNC Tax Exempt Money Market Fund	0.57	2016
Dreyfus NY AMT-Free Muni MMF	0.41	2015
BofA CA Tax-Exempt Reserves	0.40	2016
BofA NY Tax-Exempt Reserves	0.29	2016
State Street Instit T-F MMF	0.20	2015
Goldman Sachs FS Tax-Exempt CA	0.18	2016
Touchstone OH T-F MMF	0.17	2015
Alpine Municipal MMF	0.12	2015

BofA MA Muni Reserves	0.11	2016
Goldman Sachs FS Tax-Exempt NY	0.09	2016
Dreyfus BASIC NY Muni MMF	0.09	2015
Dreyfus NY AMT-Free MuniCashMgt	0.09	2015
Dreyfus BASIC Muni MMF	0.07	2015
BofA CT Muni Reserves	0.05	2016
BlackRock NC Muni MMP	0.05	2015
Putnam Tax-Exempt Money Market Fund	0.04	2016
Deutsche NY Tax Free Money Fund	0.03	2016
Touchstone T-F MMF	0.03	2015
BlackRock NJ Muni MMP	0.02	2015
BlackRock VA Muni MMP	0.02	2015
Western Asset CT Muni MMF	0.02	2015

Figure 7 highlights the impacts on individual issuers embedded in these TE MMF closings. For example:

- The Illinois Finance Authority and New York State Dormitory Authority are large issuers that provide low-cost financing to public agencies and non-profits. Each has issued $200M+ in debt that is being held by TE MMFs that are closing.

Figure 7. Largest Individual Issuers of Short-Term Municipal Debt Impacted by 2016 Fund Closings ($M)

Issuer	Principal ($M)
Illinois Finance Authority	267
New York State Dormitory Authority	219
New York City, NY Municipal Water Finance Authority	163
California Health Facilities Financing Authority	156
New York State Housing Finance Agency	154
City of Rochester, MN	145
California Statewide Communities Development Authority	142
City & County of Denver, CO	129
Missouri State Health & Educational Facilities Authority	113
New York City, NY Housing Development Corp.	109

Figure 8 highlights the impacts on specific states embedded in these TE MMF closings.

- New York, California, and Texas each have $1B+ in issues held in funds that are closing

Figure 8. States Most Impacted by 2016 Fund Closings – Top 12 States ($B) Source: CraneData.com, December 2015 ($B)

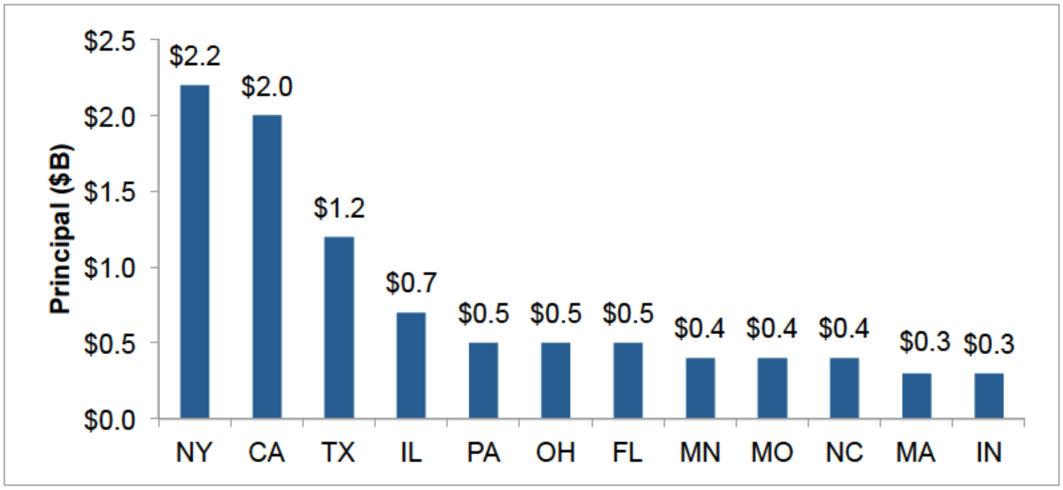
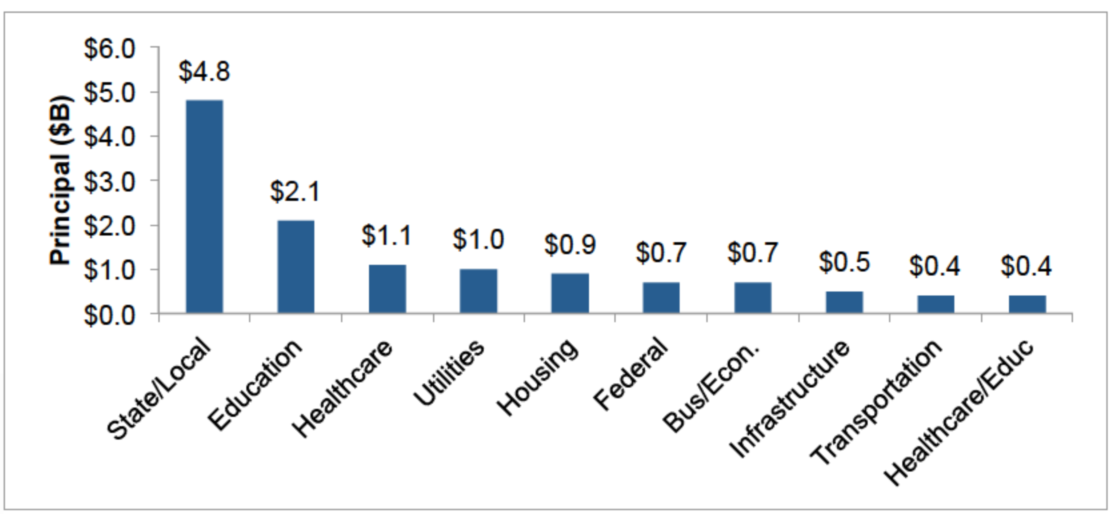


Figure 9 highlights the impacts on the sectors embedded in these TE MMF closings.

- Education, healthcare, utilities and housing sectors all have over $1B+ of issues in funds that are closing, nationwide

Figure 9. Industry Sectors Most Impacted by 2016 Fund Closings – Top 10 Sectors ($B) Source: CraneData.com, December 2015 ($B)



Treasury Strategies. The Power of Experience®

III. TE MMFs are shortening portfolio maturities

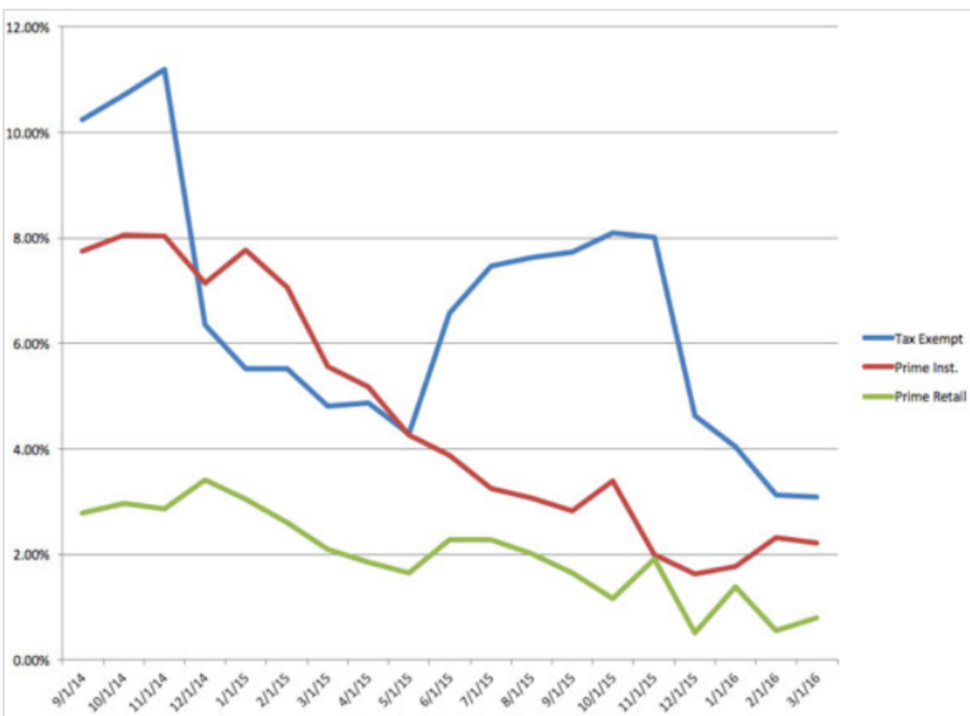
Fund companies are anticipating further investor redemptions as they approach the October 2016 rule implementation. To prepare for asset run-off, they are scaling back buying municipal debt in the all important six- to twelve-month maturity range.

In our consulting practice, we have encountered municipalities that have struggled to issue debt with longer than six-month maturity. Our direct experience includes a school district and a bridge commission. This supports the notion that funds want more liquidity on hand to redeem investors expected to exit Tax-Exempt MMFs as October 2016 approaches.

Portfolio holding data confirms the anecdotal evidence. Tax-Exempt MMF managers are shortening their portfolios around the implementation date. In March 2016, six-month or longer securities in TE MMFs were less than a third of September 2014 levels (3% vs. 10%).

This is more pointed when compared to Prime Retail or Prime Institutional funds, especially over the most recent four months. Not surprisingly, Prime Institutional funds, which are also impacted by the rules, saw a similar decline. Prime Retail funds – those least impacted by the new regulations – declined the least of these fund types.

Figure 10. Portion of MMF Portfolio Holdings with Six-Month or Longer Maturity



The Power of Experience®

IV. Managers using TE funds on behalf of their customers are exiting

As they formulated the new MMF rules, regulators believed Tax-Exempt MMFs were held almost exclusively by retail investors. This was important, because the new rules were aimed at what are commonly called institutional funds – those used by corporates, institutions and trusts (called non-natural persons). [1]

The thinking was that if these non-natural persons did not invest in Tax-Exempt MMFs, then TE funds would see little impact, and municipal finance would be unharmed. However, this key assumption is incorrect. Not only are **significant portions of Tax-Exempt MMFs held by non-natural persons**, but the business is already adjusting in ways that will hurt municipal borrowers.

To delve into this issue, we conducted a two-part examination:

- First, we had discussions with managers from six of the largest U.S. tax-exempt fund companies that collectively represent 60% of all such assets.
- Second, to validate those findings, we surveyed 21 financial intermediaries that invest in TE MMFs, including nine of the 50 largest U.S. banks.

Fund Managers

From discussions with fund managers, we have estimated that non-natural persons hold a material portion – at least 30% to 50% – of TE MMF assets. Only one manager thought its fund had less than 30% institutional ownership.

Fund managers tell us they expect that virtually all such non-natural person investors in Tax-Exempt funds to leave. Reasons given range from operational difficulties to investment policy restrictions, driven primarily by the new regulations. As the new rules force such investors to exit, Tax-Exempt MMF asset levels will shrink and many funds will close.

Figure 11. Estimated TE MMF Assets Held by Institutional Investors, Source: Treasury Strategies Interviews of Top Fund Managers, February 2016

Fund Manager	Estimated % of TE MMF Assets Owned by Institutional Investors
# 1	30%
# 2	35%
# 3	15%
# 4	45%
# 5	50%
# 6	30%

[1] Non-natural persons include entities such as partnerships, LLCs, irrevocable trusts, corporations, and institutions

Financial Intermediaries
Information from Financial Intermediaries (FIs), who direct customer investments into Tax-Exempt MMFs, also paints a troubling picture for the future of these funds. Tax-Exempt MMF usage by FIs is likely to plummet.

According to FIs, non-natural persons account for almost two-thirds of the assets that they place in Tax-Exempt MMFs. Many FIs plan to cease offering Tax-Exempt Funds to any client, due to the complexity, difficulty and risk of determining which clients are natural versus non-natural investors. For others, the new rules make it impossible to continue offering Tax-Exempt funds to customers as an option on their sweep platforms. Accordingly, FIs will fully or substantially eliminate their use of Tax-Exempt MMFs on behalf of their customers.

This is a double-edged sword for municipal finance. First, lower investment in Tax-Exempt MMFs translates directly to reduced outlets for municipal borrowing. Secondly, at these significant levels of asset reduction, many TE funds will fall below efficient operating levels, and will close entirely – a trend we have already noted is underway.

V. Conclusion

New SEC rules that change how MMFs function are having many unintended consequences. One such consequence now manifesting itself is a material reduction in the short-term credit available to municipal borrowers whose debt is held by Tax-Exempt MMFs.

As recently as mid-2015, Tax-Exempt MMF assets exceeded $250B. As market participants prepare for new regulations to become effective, TE funds are closing at an increasing rate, Financial Intermediaries are pulling customers out of TE funds, and sweep products are eliminating TE funds as an investment option.

30 - 50% of these assets, which is the portion originating from non-retail investors, are likely to run off. This level of run-off will profoundly reduce the short-term market for municipal debt. They will snowball into more fund closures and further tighten the municipal short-term debt market. Without Tax-Exempt MMFs, municipalities will be forced to seek higher cost borrowing like bank credit, or reduce their short-term capital consumption.

Statement of the State Financial Officers Foundation

Submitted to the

U.S. SENATE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
SUBCOMMITTEE ON SECURITIES, INSURANCE AND INVESTMENT

For

HEARING ON IMPROVING COMMUNITIES' AND BUSINESSES' ACCESS TO CAPITAL AND ECONOMIC DEVELOPMENT

Submitted by

DEREK KREIFELS, PRESIDENT OF THE STATE FINANCIAL OFFICERS FOUNDATION

May 19, 2016

We appreciate the opportunity to submit this Statement for the Subcommittee's Hearing to explore improving communities' and businesses' access to capital and economic development. The State Financial Officers Foundation ("SFOF") supports the remarks of The Honorable Ron G. Crane, Idaho State Treasurer, and Treasurer Crane's Statement.[1] We make this Statement to reiterate both (1) the importance of the efficient access to capital markets' funding provided to state and local government, as well as the business community, by money market funds; and (2) the need for the nongovernment money market fund as a simple, convenient and safe tool for SFOF members, and all state and local government finance officials, to prudently seek and obtain the highest market returns on cash in their management of public money.

We support policies that build strong, growing and liquid capital markets. We seek an entrepreneurial and competitive financial services industry that, along with healthy and efficient capital markets, rewards conservative, fiscally responsible public management with the freedom to make borrowing and investment choices among

[1] SFOF is a 501(c)(3) non-partisan organization which operates to promote free market and free enterprise principles and educate the public on the vital role state financial officers play in the operation of state government.

financial instruments, products and services that provide the lowest possible borrowing costs and highest available market returns in the management of public funds.

About SFOF.

SFOF provides a select group of state financial leaders a forum to partner with each other, and the private sector and academia, to develop, implement and promote conservative, fiscally responsible ("pro-growth") public policy. Although united in purpose, and sharing many challenges and opportunities, SFOF financial officers span the nation, geographically, in states from north to south and east to west; from heavily to sparsely populated; from low growth to high growth economies; and range in every other dimension.

In addition to Idaho Treasurer Crane, SFOF membership includes the highest financial officers of Arizona, Arkansas, Colorado, Florida, Georgia, Indiana, Kansas, Kentucky, Maine, Mississippi, Nebraska, Nevada, North Dakota, Ohio, South Carolina, South Dakota and Wyoming.

Money Market Funds provide critical, low-cost funding to state and local government.

Whether viewed in terms of the absolute dollar amounts, or on a per capita basis, the funding presently being provided directly to state and local government, as well as to other non-government, community organizations through the issuance of tax-exempt debt purchased by tax-exempt money market funds, is substantial.

The key point is that all of state and local government, regardless of size, will be seriously impacted and hurt by the loss of efficient, low cost financing from money market funds. The following table provides a breakdown of the aggregate amount, as of December 31, 2015, for the states of SFOF financial officers.

Figure 1.
Funding from Tax-Exempt Money Market Fund Assets
of States Represented in SFOF.[2]

State	Funding from TE MMFs ($M)	Population	Per Capita ($)
Arizona	1,945	6,828,065	285
Arkansas	122	2,978,204	41
Colorado	3,653	5,456,574	670
Florida	8,174	20,271,272	403
Georgia	3,517	10,214,860	344
Idaho	605	1,654,930	366
Indiana	4,490	6,619,680	678
Kansas	715	2,911,641	246
Kentucky	1,411	4,425,092	319
Maine	263	1,329,328	198
Mississippi	2,168	2,992,333	725
Nebraska	1,017	2,992,333	536
Nevada	2,693	2,890,845	932
North Dakota	473	756,927	626
Ohio	4,288	11,613,423	376
South Carolina	1,655	4,896,146	338
South Dakota	325	858,469	379
Wyoming	600	586,107	1,023
Total	**38,114**	**90,276,229**	**422**

2 Source: Crane Data, U.S. Census Bureau

Figure 2.

Funding from Tax-Exempt Money Market Fund Assets of States Represented by Members of the Senate Banking Securities Subcommittee[3]

State	Funding from TE MMFs ($M)	Population	Per Capita ($)
Idaho	605	1,654,930	366
Illinois	8,439	12,859,995	656
Indiana	4,490	6,619,680	678
Kansas	715	2,911,641	246
Louisiana	2,705	4,670,724	579
Massachusetts	10,109	6,794,422	1,488
Montana	152	1,032,949	148
Nebraska	1,017	2,992,333	536
Nevada	2,693	2,890,845	932
New Jersey	5,888	8,958,013	657
New York	39,837	19,795,791	2,012
Pennsylvania	6,593	12,802,503	515
Rhode Island	455	1,056,298	431
Tennessee	2,779	6,600,299	421
Virginia	2,891	8,382,993	345
Total	**89,368**	**100,023,416**	**894**

We believe, along with Treasurer Crane, that the record is extensive and clear that most cash investors do not want, and will not use, a floating net asset value ("NAV") for cash investments. Without "non-natural person" investors in stable NAV money market funds, the assets available for funding of state and local government, and businesses, will substantially diminish.

[3] Source: Crane Data, U.S. Census Bureau

Money Market Funds are a critical cash management tool for state and local government.

For more than four decades, money market funds have been used for investment and cash management by millions of investors – individuals, businesses, and governments – who have relied upon them for liquidity, stability, efficiency, and returns.

Therefore, it is difficult to understand why the Securities and Exchange Commission ("SEC") acted to, in effect, completely bar any "non-natural person" investor from the stable value prime money market fund, as well as from the stable value tax-exempt money market fund. As just illustrated for tax-exempt funds, the impact of the outflows from tax-exempt will shrink the market for municipal debt and raise borrowing costs for government and community issuers. Indeed, the repercussions of this rule change are already being felt.

This means that, at the same time that borrowing costs for state and local government are increasing, government is also impacted by yields on cash going down. By banning state and local government investors from using stable value prime money market funds for cash management, we are deprived of a simple, convenient and effective tool for achieving higher yields on cash. We will be required to instead use government money market funds, bank deposits, invest directly in individual securities, or invest in less transparent, less regulated alternative cash management vehicles to the extent permissible under state law.

The utility of the money market fund for cash management – the stable share price – is based on its use of amortized cost accounting to offer investors a stable net asset value ("NAV") or $1 price per share – which a money fund may offer only if it abides by strict risk-limiting requirements of SEC rules. Because these funds are restricted to investing in high-quality, short-term investments and must hold large amounts of cash to meet redemptions, the difference between their estimated "market-based" value and the stable $1 per share at which they are offered is generally within a hundredth of a penny.

Clearly, the SEC did not decide to prohibit amortized cost valuation for money market funds accepting "non-natural persons" because amortized cost is inappropriate for a money market fund's portfolio holdings. Otherwise, how could the SEC still permit amortized cost to be used for "retail" prime and tax-exempt money market funds, as well as for U.S. government funds? The SEC's decision to disallow amortized cost was based on the type of investor in the fund, which, of course, has nothing to do with the value of a fund's holdings.

Then, after the SEC's 2014 rule changes, the Governmental Accounting Standards Board ("GASB")[4] chose to act to continue to permit stable NAV structures, amortized cost valuation, and penny rounding by local government investment pools (" LGIPs") for local government investments (with aggregate assets of $200 billion at 2011) notwithstanding the SEC's new floating NAV requirement.[5] Thus, state Treasurers are in the anomalous position of being able to offer a stable value LGIP to their local government constituents; but not, themselves, to invest in a prime money market fund.

As Treasurer Crane indicates, virtually all units and agencies of state and local government continue to rely, to a significant extent, on money market funds for cash management in addition to using a state-sponsored LGIP, if available. We would add that not all states, for various reasons, sponsor and offer LGIPs. Without the ability to use either an LGIP or a prime money market fund for cash management, local governments in those states are left with no ability to access prime money market instruments through a pooled investment vehicle.

---

[4] GASB sets accounting standards for state and local governments. GASB shares office location with the Financial Accounting Standards Board, which sets U.S. generally accepted accounting principles ("GAAP").

[5] iMoney, December 2011.

Conclusion.

In conclusion, we believe all can agree that money market funds have been a safe and sound investment for institutional and individual investors and "that MMFs historically have been a paragon of stability" (Comments of Fund Democracy and the Consumer Federation of America to the SEC (Sept. 8, 2009))[6]. This is largely a result of prudent regulation: the successful product of decades of cautious oversight by SEC over the development of a safe and reliable means for investors to obtain market rates of return on their cash investments through the application of very conservative rules for money market fund's structure, operations and assets.

There is no justification for impairing such a critical element of the U.S. financial system. The SEC's new requirement, to impose a floating NAV on "non-natural person" investors, will have the effects of both eliminating a substantial portion of the short-term, capital markets financing and impairing the ability to maximize investment returns on invested cash for state and local government finance officers.

[6] Available at http://www.sec.gov/comments/s7-11-09/s71109-79.pdf