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

12 September 2013

Money Market Fund Reform; Amendments to Form PF (Release No. 33-9408) Commission File No. S7-03-13

Dear Ms. Murphy,

Ernst & Young LLP is pleased to comment on the Securities and Exchange Commission's (SEC or the Commission) proposed rule *Money Market Fund Reform; Amendments to Form PFI* (the proposal). The proposal includes two alternatives, which also could be adopted in combination, for amending rules that govern money market funds under the Investment Company Act of 1940. The first alternative would require prime institutional funds to use a floating net asset value (NAV). The second alternative would allow a liquidity fee to be assessed if a money market fund's liquidity level falls below a specified threshold and permit redemptions to be temporarily suspended (i.e., fees and gates). The proposal also would add other reporting and disclosure requirements related to money market funds.

Many of the issues on which the SEC is seeking comment relate to the impact the proposed rules might have on investors and registrants that hold investments in money market funds. Our comments are limited to the possible accounting and auditing implications of the proposed alternatives.

General

Current US GAAP¹ explicitly states that money market funds are commonly considered cash equivalents. The main characteristics for an investment to be classified as a cash equivalent is that it is short term, highly liquid, "readily convertible to known amounts of cash" and presents "insignificant risk of changes in value because of changes in interest rates."

Accounting implications under the floating NAV alternative

We agree with the Commission that investments in money market funds with a floating NAV under amended Rule 2a-7 would continue to meet the definition of a cash equivalent because the fluctuations in value would be expected to be insignificant. We also concur with the Commission that the evaluation of whether an investment in a money market fund meets the requirements of a cash equivalent should be performed periodically.

¹ ASC 230-10-20 and ASC 305-10-20

Accounting implications under the fees and gates alternative

We agree with the Commission that investments in money market funds with both a floating NAV and fees and gates under the proposed amendments would continue to meet the definition of a cash equivalent. We concur that the potential suspension of redemptions for up to 30 days in contingent circumstances would not violate the requirement that a cash equivalent be “readily convertible to known amounts of cash.” We also concur that the potential imposition of a liquidity fee of up to 2% in contingent circumstances would not violate the requirement that a cash equivalent present “insignificant risk of changes in value.”

Financial support by sponsors

The proposal requests comment on whether sponsors of money market funds should be required to publicly disclose their financial statements in order to permit an evaluation of the sponsor’s capacity to provide support. The Commission has existing rules and practices that address the provision of financial statements when a guarantee or explicit credit enhancement exists. When there is merely implied or potential financial support, we see no reason to require financial statements of the sponsor unless it is required to consolidate the money market fund as a variable interest entity under US GAAP. Otherwise, requiring sponsors to provide financial statements would not appear to be cost-justified when their financial support is not legally enforceable.

Finally, we understand that certain practice-related questions have been raised by preparers, auditors and financial statement users on the cash equivalent status topic. For example, would an unexpected deterioration in the value or liquidity of a money market investment after the balance sheet date be treated as a non-recognized subsequent event? Would the occurrence of an event triggering fees and gates preclude the continued classification of an investment in a money market fund as a cash equivalent? We suggest that these and other questions be inventoried and that the SEC staff and the FASB consider whether the issuance of incremental guidance, perhaps through the EITF, might be appropriate.

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We would be pleased to discuss our comments with the Commission or its staff at your convenience.

Yours sincerely,

