

September 12, 2013

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

Re: Securities and Exchange Commission’s Money Market Fund Reform; Amendments to Form PF (the “Proposal”), SEC File No. S7-03-13, 78 FR 36833, June 5, 2013.

I am writing on behalf of the 12 Federal Reserve Bank Presidents, all of whom are signatories to this comment letter. We appreciate the opportunity to provide comments on the Securities and Exchange Commission’s (“SEC”) Money Market Fund Reform; Amendments to Form PF release (the “Proposal”) issued on June 5, 2013.¹ The SEC took a very important step towards Money Market Mutual Fund (“MMMMF”) reform by issuing this Proposal, which includes two principal reform alternatives: (i) a floating net asset value per share (“NAV”) requirement for prime institutional MMMFs, and (ii) stand-by liquidity fees and temporary redemption gates for non-government MMMFs that breach a pre-determined trigger.²

We applaud the SEC Commissioners’ and staff’s continued efforts in this area. We believe the SEC is well-positioned to implement meaningful reforms that not only better protect investors but also address the risks to financial stability posed by MMMFs. In our previous comment letter to the Financial Stability Oversight Council (“FSOC”), we noted that more than one of the FSOC’s proposed alternatives could address these risks.³ Accordingly, we welcome the inclusion of the floating NAV alternative in the current Proposal. We strongly support this alternative, especially if certain enhancements are undertaken. However, we do not support the stand-by liquidity fees and temporary redemption gates alternative, as these mechanisms do not meaningfully reduce the risks that MMMFs pose to financial stability.

We briefly discuss the risks to financial stability posed by MMMFs, particularly prime MMMFs, in Section I.⁴ Section II offers observations on the floating NAV alternative, including several suggestions for increasing its effectiveness. Section III outlines our concerns with the stand-by liquidity fees and temporary redemption gates alternative. Finally, Section IV discusses the proposed enhancements to portfolio disclosure and diversification requirements.

¹ The views expressed in this letter are ours and do not necessarily reflect those of the Board of Governors of the Federal Reserve System.

² On page 69 of the Proposal, the SEC noted that the “retail” exemption from the floating NAV alternative would likely cover most tax-exempt MMMFs, because the tax benefits offered by such funds are “only enjoyed by individuals.” On page 198 of the Proposal, the SEC noted that a government MMMF may choose to impose a liquidity fee or temporary redemption gate, if its ability to impose such measures was previously disclosed in its prospectus.

³ Federal Reserve Bank Presidents’ Comment Letter to the FSOC submitted on February 12, 2013. The FSOC proposed three reform alternatives: (i) a floating NAV requirement, (ii) NAV buffer of up to 1 percent and a Minimum Balance at Risk, and (iii) Risk-based NAV buffer of 3 percent and other measures. See FSOC, “Proposed Recommendations Regarding Money Market Mutual Fund Reform,” November 2012.

⁴ Prime MMMFs invest primarily in non-government debt instruments such as commercial paper, certificates of deposit, time deposits, and floating rate instruments. As of June 30, these instruments accounted for approximately 75 percent of prime MMMFs’ assets. Based on data from iMoneyNet.

Section I Risks to Financial Stability Posed by MMMFs

MMMFs serve an important function in the short-term credit markets by acting as intermediaries between investors seeking a highly liquid, diversified fixed income investment, and a variety of corporate and government entities seeking short-term funding. As a result, disruptions in MMMFs' ability to function as credit intermediaries can have a significant negative impact on the broader financial system.

On numerous occasions over the past few years, government officials and academics have discussed the risks that MMMFs pose to financial stability.⁵ These risks were also highlighted in the FSOC's 2013 annual report. As currently structured, MMMFs permit redemptions and purchases at a constant NAV (generally \$1.00), take credit risk, and have no mechanism to absorb losses.⁶ Investors therefore have an incentive to "run" from a fund when they perceive its market-based NAV to be less than its transaction (or reported) NAV. The risks associated with this structure were evident in September 2008, when investors fled from prime MMMFs into government MMMFs, exacerbating disruptions in the short-term credit markets.⁷ The U.S. Government used multiple approaches to restore liquidity to credit markets, some of which targeted MMMFs directly and many of which indirectly helped to restore MMMFs to normal functioning.⁸

In 2010, the SEC amended Rule 2a-7, enacting several new or enhanced requirements aimed at strengthening the stability of MMMFs.⁹ Despite these important changes, MMMFs remain a significant risk to financial stability. Indeed, a November 2012 study by SEC staff found that the Commission's 2010 reforms were "not sufficient to address the incentive to redeem when credit losses are expected to cause funds' portfolios to lose value or when the short-term financing markets ... come under stress."¹⁰ As such, we strongly urge the SEC to proceed with additional reforms.

⁵ See, e.g., Eric Rosengren, "[Money Market Mutual Funds and Financial Stability](#)," April 2012; William Dudley, "[Fixing Wholesale Funding to Build a More Stable Financial System](#)," February 2013; Squam Lake Group, "[Reforming Money Market Funds](#)," January 2011; Sheila Bair, "[Statement by the Systemic Risk Council on Money Market Fund Reform](#)," July 2012; International Monetary Fund, "[April 2013 Global Financial Stability Report](#)," April 2013; Daniel Tarullo, "[Financial Stability Regulation](#)," October 2012; Sallie Krawcheck's FSOC Comment Letter; Mary Schapiro, "[Remarks at the Financial Stability Oversight Council Meeting](#)," November 2012; Patrick McCabe, Marco Cipriani, Michael Holscher, Antoine Martin, "[The Minimum Balance at Risk: A Proposal to Mitigate the Systemic Risks Posed by Money Market Funds](#)," July 2012; Henry Paulson's [PWG Comment Letter](#); International Organization of Securities Commissions, "[Money Market Fund Systemic Risk Analysis and Reform Options](#)," April 2012.

⁶ Different categories of MMMFs take varying levels of credit risk. We focus on prime MMMFs, where the greatest credit risk can be taken and where the risks to financial stability appear to be the greatest. For more on credit risk in prime MMMFs, See Eric Rosengren, "[Money Market Mutual Funds and Financial Stability](#)," April 2012.

⁷ In the week after the Reserve Primary Fund broke the buck on September 15, 2008, investors redeemed approximately \$321 billion or 16 percent of assets from prime MMMFs. Based on iMoneyNet data.

⁸ The Asset Backed Commercial Paper Money Market Mutual Fund Liquidity Facility ("AMLF") and Temporary Guarantee Program ("TGP") directly benefitted MMMFs. Other government programs, such as the Commercial Paper Funding Facility ("CPFF"), indirectly benefitted MMMFs. Specifically, the AMLF, announced on September 19, 2008 by the Federal Reserve Board, "...was designed to provide a market for ABCP that MMMFs sought to sell." The CPFF, announced on October 7, 2008 by the Federal Reserve Board, provided a liquidity backstop to domestic issuers of commercial paper. For more on these Federal Reserve Programs, See Board of Governors of the Federal Reserve System, [Regulatory Reform Facilities and Programs](#), 2008. The TGP, announced on September 19, 2008 by the U.S. Department of Treasury, guaranteed the NAV per share of eligible MMMFs. For more on the TGP, refer to U.S. Department of Treasury, [Treasury Announces Temporary Guarantee Program for Money Market Funds](#), September 2008.

⁹ 2010's amendments to Rule 2a-7 tightened weighted average maturity limits; enacted new Daily Liquid Assets ("DLA"), Weekly Liquid Assets ("WLA"), and weighted average life requirements; enhanced holdings disclosure requirements; introduced new Rule 22e-3, which permits a MMMF to suspend redemptions and postpone payment of proceeds in order to facilitate an orderly liquidation; and introduced "know your customer" and stress testing requirements, among other changes. SEC, "[Money Market Reforms; Final Rules](#)," Investment Company Act Release No. IC-29132, May 2010.

¹⁰ Division of Risk, Strategy, and Financial Innovation, "[Response to Questions Posed by Commissioners Aguilar, Paredes, and Gallagher](#)," SEC, November 2012. The quotation is from page 44 of the SEC's Proposal.

Section II Observations on Alternative 1: Floating NAV Requirement

Under this alternative, prime institutional MMMFs would be required to process purchases and redemptions based on the current market-based value of the securities in their portfolios, rounded to the nearest 1/100th of a percent.¹¹ These funds would continue to be limited to investing in short-term, high quality, dollar denominated instruments. Government and retail MMMFs are exempt from this alternative.

We agree with the SEC's position that a floating NAV requirement, if properly implemented, could recalibrate investors' perceptions of the risks inherent in a fund by "making gains and losses a more regularly observable occurrence."¹² Because a constant NAV MMMF generally draws risk-averse investors, it is likely that given an appropriate transition period, the investor base would either change or become more tolerant of NAV fluctuations, lowering the risk of destabilizing runs. Indeed, a floating NAV fund may actually attract investors seeking a higher yield for their cash investment during times of broad financial market stress.¹³

Further, the floating NAV alternative reduces investors' incentives to redeem by tempering the "cliff effect" associated with a fund "breaking the buck." The first mover advantage is reduced because redemptions would be processed at a NAV reflective of the market-based value of the fund's underlying securities.

Section II.A Issues to be Addressed to Further Enhance the Floating NAV Alternative

While we are supportive of this alternative, we have identified several issues that should be addressed to further enhance its efficacy.

Proper Valuation of Money Market Instruments is Critical

The effectiveness of a floating NAV option depends on funds' ability to properly value money market instruments. To the extent that investors believe that a fund's "true" market-based NAV is below its reported NAV, they will be incented to redeem before other investors.

One often-mentioned challenge to valuing non-government related money market instruments is the infrequency of secondary market transactions for such instruments.¹⁴ Even under the current fixed NAV regime, however, funds are able to value such instruments using a combination of matrix pricing and model-based valuation methodologies.¹⁵ As such, MMMFs subject to the floating NAV requirement would also be able to value their portfolio securities on a daily basis for the purposes of computing a

¹¹ As discussed below, MMMFs subject to the floating NAV requirement would be permitted to apply the SEC's 1977 Valuation guidance, under which securities with remaining or final maturities of no more than 60 days can be valued at amortized cost, in circumstances where the amortized cost accurately reflects the securities' fair value, as determined using market factors. See Footnote 18.

¹² Page 53 of the Proposal. Separately, as noted in our FSOC Comment Letter (Footnote 3) MMMF sponsor support may reduce investors' awareness of the risks in MMMFs by creating a perception of stability.

¹³ As noted in our Comment Letter to the FSOC (Footnote 3). Others have made similar observations, See, e.g., Thrivent Financial's FSOC Comment Letter, in which they argued that a FNAV potentially offers higher returns in a rising rate environment, during times of weak market liquidity, and in the face of credit events.

¹⁴ See, e.g., John Hawke, Jr., "Economic Consequences of Proposals to Require Money Market Mutual Funds to "Float" Their NAV," November 2012; and Samuel Hanson, David Scharfstein, and Adi Sunderam, "An Evaluation of Money Market Fund Reform Proposals," Harvard University, December 2012.

¹⁵ See, generally Footnote 14; Joan Swirsky, "The Guide to Rule 2a-7. A Map Through the Maze for the Money Market Professional," May 2008.

transaction NAV.¹⁶ While the resulting prices may serve as a natural starting point for market-based NAV computations required under this alternative, we encourage the SEC to continue its efforts to increase the transparency of fixed income markets to further enhance price discovery.¹⁷

MMMFs subject to the floating NAV alternative would be permitted to apply the SEC's 1977 valuation guidance, under which securities with remaining or final maturities of 60 days or less can be valued at amortized cost, in circumstances where the amortized cost accurately reflects the securities' fair value as determined using market factors.¹⁸ Because MMMFs are required to maintain a weighted average maturity of 60 days or less under current rules, it is likely that a fund would be permitted to apply this guidance to a majority of its portfolio assets.¹⁹ As such, any uncertainty in applying the guidance could have a significant impact on a fund's overall valuation. We urge the SEC to continue monitoring funds' procedures for determining that amortized cost accurately reflects fair value, as inappropriate valuation procedures could reduce the efficacy of the floating NAV alternative both in reducing run risk and in recalibrating prime MMMF investors' risk expectations.

Retail Exemption Poses Challenges

The SEC proposes to exempt prime retail MMMFs, defined as those with a daily shareholder redemption limit of \$1 million or less, from the floating NAV requirement. The SEC supports this exemption by inferring that retail investors are less likely to run during times of financial market stress than institutional investors. While it is true that in aggregate, retail MMMFs did not experience large-scale redemptions during the financial crisis, some individual retail funds did experience redemptions above historical norms during the week that the Reserve Primary Fund broke the buck.²⁰ Although one may speculate that these heightened redemptions could have become a more widespread run, this possibility was forestalled by Government intervention that supported the MMMF market. Government intervention notwithstanding, some retail MMMF sponsors' actions during the financial crisis suggest that they were concerned about runs. Certain sponsors chose to support their retail MMMFs, presumably to forestall runs that could occur if investors feared that a fund would "break the buck."²¹ Also, some retail funds participated in the

¹⁶ Indeed, earlier this year, some large MMMF complexes (voluntarily) began daily reporting of the market-based NAV per share of their MMMFs. See, e.g., announcements from: [Goldman Sachs Asset Management](#); [Fidelity Investments](#); and [JP Morgan Asset Management](#).

¹⁷ As noted in our FSOC Comment Letter (Footnote 3), we agree with those who have pointed out that certain money market instruments lack an active secondary market. However, primary markets may also provide useful information to enhance price discovery. More generally, we encourage the SEC to continue its efforts to enhance transparency in the fixed income markets, inclusive of markets for money market instruments. Recent efforts include the SEC's April 16, 2013 Fixed Income Roundtable, in which a panel discussed "...potential ways to improve the transparency and efficiency of fixed income markets." SEC's [Fixed Income Roundtable Release](#). In addition, the SEC issued a [Report on the Municipal Securities Market](#) on July 2012, which provided recommendations for potential consideration aimed at improving the municipal securities market.

¹⁸ SEC, [Valuation of Debt Instruments by Money Market Funds and Certain Other Open-End Investment Companies](#), Investment Company Act Release No. 9786, May 1977.

¹⁹ As of month end June 30, prime MMMFs allocated 55 percent of their portfolios to securities with a final maturity of 60 days or less. Prime institutional MMMFs allocated 56 percent of their portfolios to such securities. Based on data from Crane Data.

²⁰ Figure 3 from Lawrence Schmidt, Allan Timmermann, and Russ Wermers, "[Runs on Money Market Mutual Funds](#)," January 2, 2013. Also, in its FSOC [Comment Letter](#), JP Morgan notes, "Although it is evident that runs are slower to hit retail funds than institutional MM[M]Fs, retail funds are not immune to a run on their assets, and so should be subject to the same regulatory protections."

²¹ In reviewing the *direct* (i.e., cash contributions or an outright purchase of distressed securities) sponsor support instances from 2007 to 2010, we find that of the 78 distinct prime MMMFs that received support, no less than 30 were classified as "retail" MMMFs. Based on category classifications reported on iMoneyNet from January 2008 through January 2012. Direct sponsor support instances were obtained from: Steffanie Brady, Ken Anadu, and Nathaniel Cooper, "[The Stability of Prime Money Market Mutual Funds: Sponsor Support from 2007 to 2011](#)," Federal Reserve Bank of Boston, August 2012.

AMLF, which was introduced to help MMMFs holding asset-backed commercial paper meet investors' redemption demands.²²

More broadly, a structural incentive would remain for investors in retail MMMFs that are exempt from the floating NAV requirement to be the first to redeem during times of stress. While retail investors did not *en masse* act on this incentive during the crisis, it seems imprudent to assume that their behavior in the future will be the same as in the past.²³ Accordingly, we find it appropriate that all prime MMMFs, including those characterized as “retail,” be subject to the floating NAV requirement.

We are also concerned that the \$1 million redemption threshold may not fully exclude institutional investors from retail funds, as services might emerge to spread large cash balances across numerous MMMFs eligible for the retail exemption.²⁴ The entry of institutional investors into “retail” funds would likely increase the run risk to which the retail investors are exposed.

Risk Profile of Government MMMFs May Change

The SEC proposes an exemption to the floating NAV requirement for MMMFs with at least 80 percent of total assets in cash or U.S. government-related securities (including repurchase agreements collateralized by U.S. government-related securities). Although such a threshold is consistent with current rules defining government MMMFs (including Treasury-only MMMFs), we are concerned that using this same threshold for the purposes of a floating NAV exemption may fundamentally alter the actual risk profile of such funds.²⁵ It is noteworthy that despite the possibility of holding up to 20 percent of their portfolio in non-government-related securities, government MMMFs' actual allocation to such securities was significantly less. Specifically, as of month-end June 2013, each of the ten largest government MMMFs held more than 99 percent of its portfolio in U.S. government-related securities.²⁶

Given a new opportunity to attract investors willing to take on credit risk but seeking a stable NAV MMMF, portfolio managers may increase their allocation to non-government-related securities. They may also select individual corporate securities with a higher risk profile – resulting in heightened risk for this class of funds. In order to avoid such unintended consequences, we encourage the SEC to consider more stringent requirements for the “government” exemption. For example, the SEC could consider tightening the diversification requirements for government MMMFs or could increase the minimum percentage of U.S. government-related securities required to claim the exemption.

Section II.B Some Concerns Associated with a Floating NAV Requirement Abated

We acknowledge certain concerns raised by industry participants related to this option. However, the design of the actual Proposal as well as recent steps taken by the IRS may have eliminated the most significant of these concerns.

²² Of the 189 MMMFs that participated in the AMLF, no less than 44 (approximately 23 percent) were classified as retail MMMFs. Based on data from iMoneyNet, SEC filings, and the Federal Reserve Board's [List](#) of AMLF participants. The “retail” classification is based on category classifications reported on iMoneyNet from January 2008 through January 2012. Refer to Footnote 8 for more information on the AMLF.

²³ The SEC made a similar observation in page 75 of the Proposal.

²⁴ The SEC made a similar observation in page 78 of the Proposal. *See, also*, BlackRock's [FSOC Comment Letter](#).

²⁵ SEC, [Investment Company Names; Final Rule](#), Investment Company Act Release No. IC-24828, March 2001.

²⁶ The funds reviewed were the 10 largest publicly available government MMMFs, which accounted for approximately 34 percent of total government MMMF assets as of month-end June 2013. Based on data from iMoneyNet, and fund companies' monthly holdings report.

Tax Consequences Minimized

Some have voiced concern that under a floating NAV, investors who actively use their MMMFs as a transaction account could incur significant tax compliance burdens related to the tracking of capital gains and losses.²⁷ However, the Proposal notes that mutual funds that do not transact at a stable NAV (or their intermediaries) are already required to provide information on gains and losses to most shareholders, and these information reporting requirements would extend to floating NAV MMMFs.²⁸ As most MMMF sponsors also offer other (non-MMMF) mutual funds for which they already perform such tracking, the ability to leverage existing infrastructure would likely reduce the costs of extending such activities to MMMFs.²⁹ Additionally, the Internal Revenue Service (“IRS”) recently prescribed circumstances under which an investor’s realized losses from the sale of shares of a floating NAV MMMF would be exempt from the wash-sale rule, thereby minimizing the cost of compliance associated with this rule.³⁰

Government MMMFs Remain an Option for CNAV Investors

The simplicity afforded by a constant NAV is often cited to suggest that investors may discontinue using MMMFs if the constant NAV feature is eliminated.³¹ However, investors preferring a constant NAV MMMF may continue to invest in such vehicles by purchasing shares of government MMMFs, which would not be subject to the floating NAV requirement.³² For those investors whose investment policy statements (“IPS”) prohibit investments in a variable NAV MMMF, the two-year compliance period may provide sufficient time to re-evaluate their cash management needs.³³ Such investors would have the option of either amending their IPS to permit investments in a variable NAV fund or migrating to a fixed-NAV government MMMF.

Section III Observations on Alternative 2: Liquidity Fees and Temporary Redemption Gates

Under this alternative, non-government MMMFs would be permitted to “transact at a stable share price under normal market conditions,” but would be required to impose a stand-by liquidity fee of no more than two percent³⁴ on all redemptions if a fund’s Weekly Liquid Assets (“WLA”) were to fall below 15 percent of total assets, unless the fund’s directors (including a majority of the fund’s independent directors) determined that such action was not in the best interest of the fund. In addition, the fund’s directors (including a majority of the fund’s independent directors) may opt to “gate” the fund upon breaching the WLA threshold, if they determine that such action is in the best interest of the fund.

²⁷ See, generally, Treasury Strategies’ [FSOC Comment Letter](#); the Investment Company Institute’s [FSOC Comment Letter](#); UBS Global Asset Management, Inc.’s [FSOC Comment Letter](#).

²⁸ Page 117 of the Proposal further notes that the U.S. Treasury Department and the IRS are considering other possible relief such as allowing summary income tax reporting by shareholders. The Proposal also requested comment (page 119) on mutual funds’ tax reporting practices for shareholders exempt from information reporting – contemplating whether funds can use existing infrastructure to facilitate such reporting for exempt shareholders in a floating NAV MMMF.

²⁹ Of the ten largest MMMF sponsors as of year-end 2012, each managed assets in non-2a-7 mutual funds. Others have made similar observations, *for, e.g.*, in its FSOC Comment Letter, Thrivent Financial (See Footnote 13) notes: “Non-money market mutual funds must already report the basis and holding period of redeemed shares. Expanding this to cover money market funds will require effort, but the operational apparatus exists.”

³⁰ See IRS [Notice 2013-48](#). Some industry participants have noted that such an exemption “would be necessary to retain the operational effectiveness of the product and reduce the cost of compliance,” JP Morgan’s FSOC Comment Letter, See Footnote 20.

³¹ See, generally, Fidelity Investments’ [FSOC Comment Letter](#); U.S. Chamber of Commerce’s [FSOC Comment Letter](#); The Greater Pittsburgh Chamber of Commerce’s [SEC Comment Letter](#).

³² The SEC made a similar observation on page 67 of the Proposal.

³³ The SEC made a similar observation on page 499 of the Proposal.

³⁴ Two percent is referred to as the “default option.” The Proposal noted that a fund’s directors may also determine that a lower fee would be in the best interest of the fund. Page 174 of the Proposal.

Stand-by liquidity fees and temporary redemption gates do not meaningfully address the risks to financial stability posed by MMMFs.³⁵ This option does not eliminate run risk as investors could have an incentive to redeem *before* their fund breaches the WLA threshold (similar to the incentive to run under the *status quo* as described in Section I).³⁶ Because investors are unable to predict how other investors would react once a fund's WLA level begins to deteriorate, their safest option may be to run in advance of the fund breaching the trigger. Further, because of the relative homogeneity in many MMMFs' holdings,³⁷ the imposition of a liquidity fee or redemption gate on one fund may incite runs on other funds which are not subject to such measures.

Another relevant consideration is the degree of investor concentration in some MMMFs. For example, of the five largest prime institutional MMMFs as of month-end June 2013, three had at least two shareholders each with a 5 percent or greater stake in the fund (across all share classes).³⁸ Such investor concentration may result in an otherwise sound fund approaching or breaching the 15 percent WLA threshold if one or two large investors redeem for idiosyncratic reasons unrelated to the fund itself. Other investors in that fund may run if they are concerned about the potential imposition of fees or gates. Investors in other MMMFs may in turn run if they perceive that their funds are similar (e.g., similar portfolio composition, similar maturity profile, similar investor concentration) to the fund that experienced the initial run. The result could be a broader MMMF run that takes place absent initial distress at any particular fund.³⁹ As this represents a new run mechanism that does not exist under the *status quo*, the fees-and-gates alternative may actually increase run risk relative to not enacting further reform.

Lastly, we are concerned with the potential loss of liquidity (for up to 30 days) associated with the imposition of temporary redemption gates, as both households and businesses use MMMFs extensively as transaction accounts.⁴⁰

Section IV Observations on Other Reforms Proposed

In addition to the two principal alternatives, the SEC proposes other enhancements, such as new and more frequent disclosures, and tightened diversification requirements. We support these additional reform elements and briefly discuss them below.

We strongly support the enhanced disclosure requirements contained in the Proposal. As proposed, MMMFs would be required to disclose current and historical instances of sponsor financial support; Daily Liquid Assets ("DLA") and WLA levels; current NAV rounded to the fourth decimal place; and daily net flows.⁴¹ The SEC also proposes to require MMMFs to promptly file (within one business day) a new

³⁵ Liquidity fees and temporary redemption gates notwithstanding, we recognize the importance of maintaining a fund board's ability to suspend redemptions in order to liquidate a fund – as specified in 2010's amendments to Rule 2a-7. Refer to Footnote 9 for more on 2010's amendments to Rule 2a-7.

³⁶ The Proposal acknowledges this shortcoming but identifies other benefits of the liquidity fees and temporary redemption gates alternative (Page 166 of the Proposal). We believe, however, that this shortcoming is substantial and outweighs the perceived benefits identified.

³⁷ As of month-end June 2013, the twenty largest corporate issuers accounted for approximately 44 percent of prime MMMFs' assets under management. Based on data from SEC Form N-MFP. As there are few large corporate issuers in which MMMFs invest, it is unavoidable that there will be significant overlap across different funds' portfolios.

³⁸ Of these three funds, the three largest investors accounted for no less than 15 percent of combined assets across all share classes. We excluded affiliated investors from this analysis because (to the extent that such investors have full discretion over such investments) they may opt not to redeem fearing such action may destabilize the fund. Based on data from fund companies' Statement of Additional Information ("SAI").

³⁹ As the Proposal notes, fund managers could reduce this risk by holding additional liquidity commensurate with their degree of investor concentration. However, this may not be a practical option for all funds.

⁴⁰ It is likely that such restricted access to MMMF investments would come at a time when liquidity needs are greatest.

⁴¹ Some fund complexes have voluntarily begun reporting daily market based NAV (Footnote 16) and daily DLA and WLA levels (*See, e.g.*, JP Morgan's daily DLA and WLA disclosure [announcement](#)), and some report portfolio holdings more frequently than monthly.

Form N-CR when certain significant events occur, and to eliminate Form N-MFP's 60-day public dissemination delay.⁴²

We encourage the SEC to implement additional steps to enhance disclosure such as requiring weekly or even daily disclosures of portfolio holdings. During times of stress, uncertainty regarding portfolio composition could cause a MMMF's investors to redeem if they believe the fund could be exposed to distressed assets. More frequent disclosure alleviates this uncertainty.

In addition, we suggest that the SEC consider requiring MMMFs to publicly disclose their ten largest investors on a weekly or monthly basis.⁴³ Such disclosure would allow investors to better assess the shareholder concentration risk in the fund. A fund with a small number of large investors is more likely to experience large redemptions, and is thus more exposed to liquidity risk compared to a less concentrated fund.

Finally, we support the SEC's proposal to reduce issuer concentration risk by requiring MMMFs to consider the aggregate exposure of affiliated issuers for the purposes of the 5 percent issuer diversification requirement. As noted in the Proposal, a MMMF could be in compliance with the current requirement even if its aggregate exposure to affiliated entities exceeds the 5 percent limit. We suggest that the SEC consider if even tighter diversification limits and/or sector diversification requirements are necessary to reduce issuer concentration risk.

Conclusion

On November 19, 2012, the FSOC presented three reform alternatives as part of its Proposed Recommendations Regarding Money Market Mutual Fund Reform. In a comment letter submitted to the FSOC on behalf of the Presidents of the 12 Federal Reserve Banks on February 12, 2013, we noted that all three alternatives had "the potential to increase the resiliency of MMFs and reduce their susceptibility to runs." Of these three presented alternatives, the SEC has chosen to present the floating NAV alternative in their current proposal. Accordingly, we continue to fully support this alternative and urge the SEC to pursue this option and consider ways in which the benefits of a floating NAV could be enhanced, such as continuing to monitor funds' procedures for determining that amortized cost accurately reflects fair value and eliminating the "retail" exemption.

We continue to believe that the liquidity fees and temporary redemption gates alternative does not constitute meaningful reform and that this alternative bears many similarities to the status quo. Investors will still have an incentive to be the first to redeem and the price of those early redemptions (before the trigger is breached) may still be inaccurate and unfair to remaining shareholders if such redemptions occur under a fixed NAV regime.

We understand that among the many comment letters the SEC will receive on this Proposal, our position supporting the floating NAV alternative may well be in the minority, as it has been throughout this important debate. Indeed, to the extent that the fees and gates alternative resembles the status quo, it would be an attractive option if the only goal were to minimize the costs of adjustment within the MMMF

⁴² Significant events would include: a portfolio security default or insolvency, sponsor support, and WLA levels falling below 15 percent (under the liquidity fees and temporary redemption gates alternative).

⁴³ We note that the identity of individual shareholders need not be disclosed, but rather the size of their investment in the fund. Under current requirements, all mutual funds disclose shareholders that own 5 percent or more of the outstanding shares of a class of funds. This information is reported annually in mutual funds' SAI with significant lag.

industry. From a financial stability perspective, however, we believe that the floating NAV is the far better choice.

We are grateful for the opportunity to comment on this Proposal and, again, applaud the SEC Commissioners and staff for moving forward with this initiative. We welcome the opportunity to elaborate on or further discuss any aspect of this letter.

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