

DAVENPORT & COMPANY

SINCE 1863

September 13, 2013

The Honorable Mary Jo White
Chairman, Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Money Market Fund Reform; Amendments to Form PF
Release No. IC-30551; File No. S7-03-13

Dear Chairman White:

Davenport & Company LLC is pleased to submit these comments on the proposed rulemaking notice of the Securities and Exchange Commission (the "Commission") on Money Market Fund Reform ("Proposed MMF Amendments").¹

Davenport & Company is registered with the Commission as a securities broker-dealer and investment advisor, and is a member firm of FINRA. Davenport distributes over \$20 billion of money market mutual funds ("MMFs") each year, holds over \$1.5 billion in customer balances in MMFs, and processes more than 2.5 million MMF transactions a year. We have found that MMFs are highly efficient short-term investments and cash management vehicles for our clients. We are therefore concerned that certain of the changes proposed by the Commission will make MMFs less useful to us and to our clients, and that the proposed new rules will raise the cost, reduce the availability and lower the efficiency of MMFs.

We believe that the 2010 amendments to Rule 2a-7 are working. The November 2012 SEC Staff analysis prepared in response to questions from Commissioners Aguilar, Gallagher and Paredes demonstrates this conclusion, documenting dramatically enhanced MMF liquidity and a substantial decrease in the likelihood of a MMF breaking a dollar. It is not clear at this time that any additional changes to MMF regulation are warranted. We have concerns that the proposed reforms would have far-reaching adverse consequences not only for MMFs, but also for our clients and the countless other businesses that have come to rely on MMFs as central to their cash management activities. Respectfully, we urge the Commission to refrain from implementing fundamental changes to the regulation of MMFs at this time. If, however, the Commission believes it must adopt one of the alternatives presented in the proposal, we believe

¹ SEC Rel. No. IC-30551, File No. S7-03-13 RIN 3235-AK61, 78 Fed. Reg. 36834 (June 19, 2013).

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Alternative 2 would do less damage to MMFs as a cash management tool and has the potential to be more effective in protecting investors if a situation arises in which there is extraordinary redemption pressure on a MMF.

Alternative 1 of the proposal would require the use of a variable net asset value (“VNAV”) for all MMFs other than government MMFs and retail MMFs, and ban the use of amortized cost accounting for other MMFs, which could use penny rounding after pricing the portfolio. Alternative 2 would impose a 2% redemption fee on MMFs if weekly portfolio liquidity drops below 15% of assets, unless a MMF board determined that the fee was not in the best interest of the fund. It also would allow a MMF board to temporarily gate redemptions for up to 30 days if weekly portfolio liquidity drops below 15% of assets. The Proposed MMF Amendments would also increase MMF disclosure and reporting requirements. The Commission states that it may adopt either Alternative 1 or Alternative 2, or may adopt both Alternative 1 and Alternative 2.

Accordingly, we urge the Commission not to adopt Alternative 1 given the clear costs and uncertain benefits of instituting a VNAV for prime institutional MMFs. We do not believe that a VNAV will significantly reduce runs on MMFs during times of market stress, but a VNAV will clearly reduce the usefulness of prime institutional MMFs to our clients and impose significant costs on the industry as the Commission acknowledges with the proposed 2-year compliance period. We also have concerns that the distinction between retail and institutional MMFs in the proposed rule will be difficult to implement. As the Commission stated in the release proposing the alternative rules, the operational challenges with providing an exemption for retail MMFs are “numerous and complex” and, in our opinion, would likely consume far more resources to overcome than the VNAV rule would be worth.

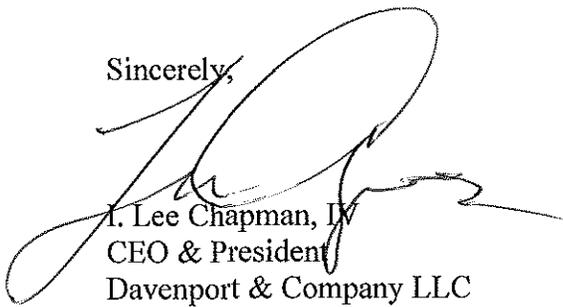
If the goal is to limit runs on MMFs, we believe Alternative 2 is the better solution. Because its restrictions will apply only when needed – on the very rare occasion when 7-day liquidity drops below a threshold amount- Alternative 2 has the benefit of preserving the essential characteristics of MMFs, while also giving MMF boards the tools to stop a run if necessary. This back-stop, combined with the very large increase in liquidity driven by the 2010 amendments to rule 2a-7, largely mitigates run risk, while preserving the core functionalities of MMFs- a stable \$1/share price and prompt intra-day processing of transactions.

Lastly, we would note that we make a range of MMFs available to our clients, including prime MMFs, government securities MMFs and municipal securities MMFs. Our clients that invest in municipal securities MMFs are not limited to retail investors. We do not believe our client base is unique in this regard. As a result, the Commission should not assume that the “retail” fund exemption from mandatory VNAV will generally be available to all municipal securities MMFs.

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The Commission's regulation and oversight of MMFs has been robust and successful, and the 2010 amendments to Rule 2a-7 appear to have been highly effective in enabling MMFs to weather periods of unusual redemptions in 2011. We do not believe further changes to the Commission's program of regulation of MMFs are needed at this time; however, between the two Alternative proposals for changes to MMF structure, we urge the Commission not to adopt the first Alternative, and instead continue to permit MMFs to use a stable net asset value and amortized cost accounting in establishing share prices.

Sincerely,



I. Lee Chapman, IV
CEO & President
Davenport & Company LLC