



September 16, 2013

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

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

Dear Ms. Murphy,

U.S. Bancorp Asset Management, Inc. is a registered investment advisor with more than \$50 billion in assets under management as of August 31, 2013. We are primarily focused on short-term fixed income strategies for institutional investors. As the advisor to the First American Funds family of money market mutual funds, established in 1982, we have been watching the money market mutual fund ("MMF") debate evolve over the past three years. We would like to share our viewpoint on the meaningful potential changes our industry may face as a result of the SEC's 2013 reform proposals.

I. Effects and Effectiveness of the Proposals

We would like to acknowledge the substantial work that went into both this release and the 2010 reforms. We recognize and support the changes that were implemented in 2010 and believe they have been very successful in improving liquidity, stability and confidence in MMFs. As the Commission itself pointed out in the 2013 proposing release, the additional Rule 2a-7 framework put in place in 2010 allowed MMFs to successfully navigate the European debt crisis and the 2011 United States debt ceiling issue. We feel strongly that the 2010 reforms have proven effective in times of market stress and mitigated market volatility for MMF investors. In light of these observations, we believe no fundamental changes need to be made to current regulations as they allow MMFs to operate with reduced portfolio risk while enabling investors to achieve their primary investment objectives of principal preservation and daily liquidity.

The SEC's stated goals in proposing additional MMF reforms are:

- 1) Address funds' susceptibility to heavy redemptions and improve funds' ability to manage and mitigate potential contagion from such redemptions ("**run risk**")
- 2) Increase transparency of risks ("**increase transparency**")
- 3) Preserve, as much as possible, the benefits of money market funds ("**preserve the benefits**")

In reviewing the SEC's reform proposals, we considered whether the proposed reform would meet the stated goals and have provided our comments regarding each proposal below. Additionally, one of the overall concerns expressed by the Commissioners in public comments has been to ensure that non-redeeming and slower-to-redeem MMF shareholders are treated equitably relative to quick-to-redeem MMF shareholders in times of stress (i.e. curbing "**first mover advantage**"). We have included our thoughts on this objective for the three main proposals as well.

Proposal: Gating

Gating is the suspension of redemptions for up to 30 days in any 90-day period should a fund's weekly liquidity fall to 15% – half of the currently required minimum of 30%. The SEC also proposes that each fund's board of directors be allowed to determine whether the implementation of a gate is in the best interest of the shareholders. Gating, as it is being proposed, allows a fund's investors to interact normally with a fund in all but the most extreme market conditions.

Do we believe gating meets the SEC's stated goals?

- **Run risk** - We do believe that the gating proposal would be the most effective option in addressing run risk. A fund that has halted redemptions cannot be faced with heavy redemptions, while the ability of MMFs to gate can stem contagion. As such, this would seem to be an elegant solution to the first goal. However, gating a fund may appear to shareholders to be analogous to "breaking the buck." Because of this possible perception, we do foresee risk of a fund experiencing heavy redemptions both when the gate is removed and as a fund's weekly liquidity nears 15%.
- **Increase transparency** – As a solution unto itself, gating does not increase fund transparency in a meaningful way. The trigger for gating is a reduction in weekly liquid assets to 15%. Our fund family is in the company of many others already making weekly liquid asset percentages publicly available online. To the extent a fund is not currently in that cohort – and the SEC mandates a daily or weekly public declaration – transparency for shareholders would be improved regardless of gating.
- **Preserve the benefits** – In theory, if implemented in isolation, gating preserves the features of MMFs in all but the most extreme market conditions. Shareholders would continue to transact at a stable Net Asset Value ("NAV") with limited liquidity interruption. However, private polling and anecdotal evidence of investor sentiment suggest that any liquidity restrictions placed on MMFs would meaningfully reduce the perceived benefit of MMFs for investors.
- **First mover advantage** – Gating does improve a fund's ability to mitigate a decrease in its NAV caused by having to sell its more liquid assets first during a period of market stress. Nonetheless, shareholders who redeemed prior to the 15% liquidity trigger being tripped would already be out of the fund while the remaining shareholders would be the ones to experience the hardship of suspended redemptions.

Proposal: Standby liquidity fees

Standby liquidity fees would entail implementing a 2% fee on shareholder redemptions should a fund reach 15% weekly liquidity. In the proposal, standby liquidity fees are paired with gating and the SEC is asking for comments on whether they would best be implemented independently or in tandem. Indeed, the two ideas share many of the same concerns from an investment manager perspective. Given the possibility that each proposal may be adopted independently, we have chosen to isolate our responses in this comment letter.

Do we believe standby liquidity fees meet the SEC's stated goals?

- **Run risk** – We do not believe a standby liquidity fee would deter shareholders from redeeming their shares in a time of extreme market stress. Shareholders may give additional consideration to whether they want to pay the 2% penalty, but if what they truly fear is a "break the buck" scenario, we believe investors will choose to pay the 2% now rather than

wait for the wind-down of a fund to be completed. For the same reason, we do not believe the 2% penalty would effectively prevent contagion. We also do not believe a standby liquidity fee would improve a fund's liquidity and NAV to the necessary extent in a time of stress. Again, with this proposal, we also have concerns the implementation of the fee could be considered by shareholders as a warning sign the fund may be about to "break the buck" and thus hasten redemptions.

- **Increase transparency** – As with gating, we do not believe standby liquidity fees increase fund transparency for the reasons stated under that heading.
- **Preserve the benefits** – Standby liquidity fees would generally preserve the benefits of MMFs to shareholders, unless they require access to their funds at full par value during a period fees are being charged. From the MMF provider perspective, the effect on the industry would be more substantial. Programming costs to implement the fees on MMFs would be significant despite the infrequency with which funds would likely make use of the functionality in the transfer agent systems. However as with gating, private polling and anecdotal evidence of investor sentiment suggest that any liquidity restrictions placed on MMFs would meaningfully reduce the perceived benefit of MMFs for investors.
- **First mover advantage** – Similar to the gating comments, the shareholders who are redeeming prior to the 15% trigger would not pay fees for their redemptions. Because of this, the idea of standby liquidity fees actually creates an incentive to be among the first shareholders out in times of market stress. The shareholders who redeem after the 15% liquidity hurdle is reached are the ones harmed by this proposal. We do acknowledge that once the fees are in play first mover advantage is effectively addressed.

By basing the implementation of gating or a standby liquidity fee on reaching 15% weekly liquidity, we believe there is an increased probability investors will consider redeeming fund shares once a MMF publishes a weekly liquidity value under 30%. A specific implementation value creates a decision point for investors and it stands to reason that a fund would be open to additional run risk whether or not the liquidity is truly impaired.

In a gating or standby liquidity fee environment, we would staunchly support allowing each fund's board of directors to determine whether a gate and/or fee is in the best interest of the shareholders. Each board is privy to the composition of the fund's shareholder base, historical and expected flows and liquidity profile, making its decision far superior to an indiscriminate liquidity trigger.

Proposal: Floating the NAV

Floating the NAV would entail pricing a fund's assets at the market value, rather than amortized cost and require shareholders to purchase and redeem shares at a floating NAV. A floating NAV, as proposed, would apply only to institutional prime and tax exempt MMFs.

Do we believe floating the NAV meets the SEC's stated goals?

- **Run risk** - We believe floating the NAV completely fails to address MMF run risk. Given that MMFs in the United States have not utilized floating NAVs, one can only speculate how investors would react the first time a fund's NAV went above or below \$1.0000. Any deviation to the downside may cause investors to sell because of the potential for the NAV to be even lower the next day. Any deviation to the upside may cause speculative investors to take their gains. Ultra-short bond funds, public investment pools and floating NAV European money market funds have taught us that a floating NAV does not curb investor desire to redeem in times of crisis. Furthermore, in a stable NAV environment, liquidity and credit risk

are the major concerns for MMF stability. Under a floating NAV larger economic events, such as an interest rate hike, create unknown impacts on investor behavior.

- **Increase transparency** – Many funds already make market NAVs available publicly on a weekly basis. Floating the NAV would only increase transparency because of the need to publish a daily market NAV, something that could be easily accomplished within the current stable NAV environment. We already disclose the market NAV for our prime fund daily and would support daily disclosure of the market NAV industry-wide for the purpose of increasing transparency. We feel improving MMF transparency can be achieved most beneficially for shareholders through daily disclosure of the market NAV, while continuing to allow shareholders to transact at amortized cost (stable NAV).
- **Preserve the benefits** – Floating the NAV simply does not preserve the benefits of MMFs for shareholders, short term debt issuers or the money market fund industry, as indicated by the public statements made by numerous MMF investors and short fixed income issuers.
- **First mover advantage** – In a normal market environment, floating the NAV does address first mover advantage for shareholders in institutional MMFs simply because they would be required to transact at the then-current NAV. However, in times of crisis, shareholders in a floating NAV fund would likely perceive a first mover advantage exists and seek to withdraw assets before a crisis deepens and a fund's NAV begins to show stress. So, while all shareholders are technically treated fairly, there is still some incentive to be among the first shareholders out of a fund that is not transacting at a stable NAV.

Floating the NAV requires valuing securities at market value rather than amortized cost. It is asking shareholders to be exposed to realized losses daily rather than only when a fund has “broken the buck.” Amortized cost accounting has allowed MMFs to maintain stable NAVs in all but two instances in the industry’s 40-year history. It is our opinion that the investors in our funds and other MMFs understand there is a chance that their investment in a MMF may not return \$1.00 in all conceivable circumstances, and also understand the risks inherent in MMFs as an investment vehicle. We have conducted an informal survey of our prime fund investors and in excess of 80% reported a floating NAV would cause them to stop using prime funds altogether and seek other investment alternatives for their cash. There is simply not enough return premium in this market environment for investors to assume a floating NAV.

One of the consequences of floating the NAV in prime funds is that government MMFs would become the default investment for shareholders requiring a stable NAV. A significant problem with this alternative is that available government fund investment alternatives are becoming harder to find at yields that allow positive returns for MMF investors. A mass movement of investors from prime into government MMFs would increase the pressure on these limited investment options on the short end of the curve, further compressing yields in the government fund space and potentially reducing capacity to accept shareholder subscriptions. We also envision this prime fund exodus creating a decreased demand for short-term corporate and municipal debt, thereby creating an unintended consequence of increasing the cost of funding for these issuers.

Much of the work that went into the 2010 MMF reform had stabilizing effects on MMFs and strengthened the larger financial system. If investors move out of prime MMFs and into other cash management vehicles, this work will be negated as dollars would likely move into products with more limited disclosure requirements. In addition, these alternate investment vehicles are often beyond the regulatory scope of the SEC, effectively limiting the dollar amount of market funding within the stricter 2a-7 regulations, unintentionally limiting the effectiveness of any new regulations.

We support retail funds maintaining amortized cost accounting and a stable NAV for the same reasons we support both for institutional funds. We also feel strongly that the advantages of retaining a stable NAV should not apply to retail MMFs only. Creating designated “retail” vs. “institutional” funds will force the

industry to implement additional screening to ensure shareholders are self-selecting the correct type of fund and that institutional investors are not creating ways around the screening rules in order to remain invested in a “retail” stable NAV fund.

Operational concern under floating NAV: Pricing

Practical implementation of pricing under the floating NAV proposal brings forth a number of concerns:

- The floating NAV proposal calls for MMF NAVs to be calculated to four decimal places, a hundred-fold increase in precision from the currently standard two places. Additionally, daily market prices would be utilized for portfolio securities rather than the currently standard amortized cost. Increased decimal precision combined with daily market pricing puts significant additional pressure on pricing services and investment advisors to accurately price securities within a very short time window to maintain the industry’s current same day settlement practice. No longer allowing a fund to value securities at amortized cost means shareholders could potentially be exposed to an incorrect NAV while a price is being challenged or ushered through fair-value procedures. We believe inaccurate prices could be the cause of shareholders transacting at incorrect NAVs, the threat of which opens up a whole new set of risks.
- In an environment where daily market prices are required to calculate the NAV, in order for shareholders to get redemption proceeds same day – currently the standard – we believe funds would need to strike multiple NAVs daily or close earlier to give all parties in the processing and distribution chain enough time to price the funds and process the shareholder activity. All of this activity would need to be completed prior to the Fed closing each day, putting pressure on shareholders to make investment decisions earlier in the day than has been customary.
- Historically, in times of compromised liquidity or market stress, secondary market trading of securities has often been reduced making market prices more difficult to obtain. Failure to price securities in a fund could lead a fund to delay its NAV determination, directly impacting shareholder ability to trade fund shares at a time when liquidity is most prized. Under today’s amortized cost pricing convention, this is not an issue.

Floating the NAV is extraordinarily onerous from the investment manager perspective as the costs associated with preparing systems to handle a floating NAV are substantial and investor appetite is extremely limited. Moreover, as we discussed above, we believe strongly that the proposal misses the mark on the SEC’s stated goals.

As a whole, all of the proposals – gating, standby liquidity fees and floating the NAV – increase the costs of providing MMFs as effective investment vehicles for our shareholders and create angst for investors as they will be forced to think about whether a redemption will be accepted by a fund before the fee kicks in, the gate closes or the market NAV falls. There are two primary investment objectives MMF shareholders have when choosing MMFs as an investment vehicle: daily liquidity and a stable NAV. We ask the SEC to consider that none of the proposals put forth would allow the MMF industry to continue meeting both of these needs for MMF shareholders.

II. Proposed Disclosure and Reporting Amendments

The second half of the release discusses amendments to disclosure and reporting requirements for MMFs, all designed to support the goal of increasing transparency for shareholders and regulators. By and large, we find these proposals acceptable but would like to comment on a few of them specifically.

Proposal: Disclosure of financial support provided to MMFs

We oppose a requirement to disclose in a fund's SAI all historical instances of sponsor support. Our opposition is due to our belief that many investors would extrapolate such disclosure as an implied guarantee of future support by the sponsor of the fund. As no sponsor will explicitly or implicitly guarantee any aspect of one of its MMFs, we believe such disclosure would be misleading to many investors. The SEC's proposal seems to suggest that such disclosure would permit investors to assess the sponsor's past ability and willingness to provide financial support to a fund. We strongly believe investors should focus on the merits of the individual fund and its holdings rather than any perceived sponsor support which is certainly not a given, a point conceded in the proposal. We would also suggest that information on sponsor support can easily be provided to regulators through different formats which would not lead investors to believe a fund may have implied sponsor support.

Proposal: Daily website disclosure of market NAV, liquidity and shareholder flows, holdings amendments

Our firm currently discloses daily and weekly liquidity, as well as fund holdings on a weekly basis for our MMFs. We are in support of this practice being mandated industry-wide, as we feel more frequent website posting of the daily and weekly liquidity numbers offers increased transparency with respect to a fund's liquidity position. In our opinion, these liquidity metrics are the best indicator of whether a fund is positioned to meet redemptions. This is especially the case compared to the proposal for daily disclosure of fund shareholder subscriptions and redemptions, which we do not support. Shareholder trading information is not relevant if a fund's liquidity is sufficient to support it. For example, as a primarily institutional manager, our funds can see large subscriptions and redemptions on any given day, which we are able to meet within the normal course of business because of the liquidity buffer we maintain as well as the communication we receive from our shareholders. False interpretation of large redemption activity could raise concern for other shareholders in the fund, even if the daily and weekly liquidity metrics are still being met.

We are also in support of adding the market value to the weekly holdings report and requiring funds to display the market NAV on a daily basis, while still allowing shareholders the stability that comes from transacting with the fund at the amortized cost (stable) NAV. A daily market NAV is already published for our prime fund and we are of the opinion that this more frequent and timely dissemination of the market NAV increases transparency for shareholders. The addition of the market value to the weekly holdings report would allow shareholders to monitor the market fluctuation of portfolio securities if that is of interest to them.

Proposal: Immediate release, increased periodicity and additional information on Form N-MFP

Form N-MFP was adopted with the 2010 MMF reforms. Under the 2013 proposal, the question is whether to publicly release the form immediately vs. waiting the currently required 60 days, and also whether the form should be filed weekly. We are in full support of immediate release of a monthly Form N-MFP, but feel weekly filing of the form is onerous and provides no additional benefit to shareholders. We are of the opinion that providing daily market NAV, daily publication of both daily and weekly liquidity and weekly

holdings provide sufficient information and transparency for shareholders to make informed decisions with respect to their trading of fund shares.

Proposal: Portfolio diversification of issuers and guarantors

We strongly support the proposal to aggregate issuers and their affiliates in determining the 5% portfolio issuer limit. We also believe it would be appropriate to consolidate issuers and their sponsored asset-backed commercial paper programs for diversification purposes. Eliminating the 25% basket for guarantors would be an appropriate step to further reduce concentration risk in MMFs. In addition, we are of the opinion that these changes are in line with current fund management practices and any impact on investor yields and capital markets efficiency would be minimal.

Proposal: Issuer transparency

As related to municipals and Variable Rate Demand Notes (“VRDNs”), we believe the current Rule 2a-7(c)(3)(iii) – which provides that a security that is subject to a Guarantee may be determined to be an Eligible Security or a First Tier Security based solely on whether the Guarantee is an Eligible Security or First Tier Security as the case may be – is appropriate for determining both credit quality and concentration limitations.

Specifically, with respect to VRDNs, MMF holdings of VRDNs that carry an irrevocable, direct-pay letter of credit (“LOC”) from a First Tier bank are essentially exposure to the LOC bank regardless of the underlying issuer. The effectiveness of the LOC can be determined through a careful analysis of the readily available program documents. Therefore, we believe there would be little additional value added to fund credit quality vs. the economic costs of requiring a fund to obtain financial data on the underlying VRDN issuer. These economic costs include reduced capital access and higher funding costs for municipal issuers and reduced availability of acceptable VRDNs for investors. Because of the nature of VRDNs backed by insurance, stand-by purchase agreements or liquidity facilities, the underlying municipal entity should be subjected to a full credit underwriting and approval process. We believe this standard comports with current industry practice.

We are supportive of the SEC obtaining greater authority in requiring municipal issuers to provide the market with better and more timely information. However, we believe it would be difficult to codify the required information a MMF must obtain for underwriting purposes. With the thousands of issuers in the municipal sector, we also believe it would be difficult to oversee and regulate such disclosures. We believe the proper forum for determining the appropriate amount of issuer financial disclosure should reside with the manager of the fund, who must make a minimal credit risk determination of the issuer during the credit underwriting process.

We are supportive of requirements limiting the exposure of an underlying issuer, regardless of the presence of some form of guarantee, to 5% of fund assets. While the underlying credit exposure for the fund is to the issuer guarantor, we believe it would be prudent for funds to diversify issuers and not allow any individual issuer to accumulate excess concentration within a single or multiple guarantors.

Proposal: Clarifying amendments

We support each of the proposed amendments as an improvement in defining the direction and intent of Rule 2a-7. It is our belief that these proposed clarifying amendments agree with current fund practices, that there would be no costs to funds that may not conform to these proposed amendments and there would be little to no effect on market efficiency, competition or capital formation.



Asset Management, Inc.

Finally, we encourage the SEC to consider requiring standardization of firm responses for any adopted disclosure or reporting enhancements, as such standardization would make comparisons between funds easier for shareholders.

Concluding thoughts

While this comment letter has discussed our thoughts in detail, in closing, we'd like to highlight the three points we feel best represent our position:

- The 2010 reforms were meaningful and improved not only MMFs but the larger financial system. The Rule 2a-7 structure has proven to be extremely effective in preserving MMF stability in times of market stress.
- Our firm is generally comfortable with most aspects of the enhanced diversification proposals outlined in the 2013 release. We see them as additive to MMF stability and standardization. In addition to strengthening the industry, they are constructive tools in allowing shareholders to easily assess differences between funds.
- In considering the 2013 proposals against the SEC's intended goals, we believe none of the three major proposals (gating, standby liquidity fees, floating NAV) concurrently address run risk while increasing transparency and preserving the benefits of MMFs. In terms of preserving the benefits of MMFs, any alternative that reduces an investor's access to their cash or reduces value severely limits the perceived utility of MMFs and may ultimately realize the unintended consequence of driving shareholders out of MMFs and into less regulated cash management vehicles. Given these significant reservations, we believe gating to be the least destructive of the three proposals to shareholder value and utility. Properly managed at the board of directors' level, gating could potentially be effectively utilized as an additional tool to manage portfolios in adverse market conditions. If ultimately adopted, gating should be available to all classes of funds, not limited to institutional prime and tax exempt MMFs.

Money market funds carry certain risks, as does every other investment vehicle. As investment managers, it is incumbent upon us and our peers to manage our funds in a manner consistent with the governing fund documents and the regulations to which funds and advisors are subject. We believe MMF shareholders understand these risks and choose to invest in our funds because they have historically offered – and continue to offer – an acceptable risk/return tradeoff.

We respectfully request that our comments and those of other fund sponsors, investors and issuers be given their due weight as the SEC moves forward in this process.

Sincerely,

Joseph M. Ulrey III
CEO, U.S. Bancorp Asset Management, Inc.
President, First American Funds

Cc: The Honorable Mary Jo White, U.S. Securities and Exchange Commission
The Honorable Luis Aguilar, U.S. Securities and Exchange Commission
The Honorable Daniel Gallagher, U.S. Securities and Exchange Commission
The Honorable Michael Piwowar, U.S. Securities and Exchange Commission
The Honorable Kara Stein, U.S. Securities and Exchange Commission