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

Submitted electronically through <http://www.sec.gov>

**Re: Comments on Proposed Money Market Fund Reform; Amendments to Form PF
(Release No. 33-9408, IA-3616, IC-30551, File No. S7-03-13)**

Fidelity Investments ("Fidelity")¹ appreciates the opportunity to provide comments to the Securities and Exchange Commission ("SEC" or "Commission") on its proposed rule "Money Market Fund Reform; Amendments to Form PF" (the "Proposed Rules").²

Fidelity is the largest money market mutual fund ("MMF") provider in the world, with more than \$425 billion in MMF assets under management. Funds we manage represent more than 16 percent of MMF assets in the United States and more than 9 percent of MMF assets worldwide.³ In addition, Fidelity is the number one provider of workplace retirement savings plans and IRAs, the largest manager of 401(k) plan and defined contribution plan assets, and a leading premium discount brokerage firm that offers superior cash management and online planning products. More than 11 million customers, who include retirees, parents saving for college and active investors, use Fidelity's MMFs as a brokerage core account, a retirement savings account, or a cash investment vehicle.

Fidelity has been engaged actively in discussions regarding potential MMF reform for several years, and we believe that the SEC, the primary regulator for MMFs, is the appropriate agency to proceed with additional reform for MMFs. We support the SEC's efforts in drafting a

¹ Fidelity was founded in 1946 in the United States and is one of the world's largest providers of financial services, with assets under administration of over \$4.3 trillion, including managed assets of over \$1.8 trillion. Fidelity provides investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and many other financial products and services to more than 20 million individuals and institutions, as well as through 5,000 financial intermediary firms.

² Money Market Fund Reform; Amendments to Form PF, 78 Fed. Reg. 36834 (June 19, 2013), *available at* <http://www.gpo.gov/fdsys/pkg/FR-2013-06-19/pdf/2013-13687.pdf>.

³ Asset percentages as of July 31, 2013 and March 31, 2013, respectively.

thoughtful proposal, which recognizes that not all types of MMFs are the same, and we appreciate the SEC's attempt to craft narrowly tailored reforms targeted at the limited set of MMFs proven to be susceptible to runs.⁴

Appropriately, the SEC has excluded both Treasury and government MMFs from the proposed fundamental structural changes, recognizing that there is no evidence to support such reform.⁵ However, we firmly believe that the SEC also should exclude tax-exempt MMFs from the floating net asset value ("NAV") and fees and gates proposals. The SEC provides no basis in the Proposed Rules release for including tax-exempt MMFs. In fact, the SEC's 2012 study on MMFs demonstrates that tax-exempt MMFs have strong liquidity positions and are not vulnerable to or likely to experience significant shareholder redemptions.⁶ Moreover, tax-exempt MMFs provide a critical source of low cost financing for state and local governments that will be significantly more expensive if these funds shrink dramatically following SEC reforms that make MMFs an investment vehicle that is no longer useful and attractive.

As part of its targeted approach, the SEC's stated policy objective for a floating NAV proposal is to limit its application to "institutional" MMFs. We support the SEC's attempt to preserve the stable NAV for retail MMF shareholders who "historically have behaved differently from institutional investors in a crisis, being much less likely to make large redemptions quickly in response to the first sign of market stress."⁷ However, the SEC's proposed retail MMF definition, which would limit a shareholder's daily redemptions to \$1 million, does not achieve the Commission's policy goal. Unfortunately, the proposed definition would exclude a significant portion of what the MMF industry defines as retail assets. In response to a question from Chair White at the SEC's open meeting on the Proposed Rules release, the Staff indicated that the floating NAV proposal would apply only to institutional prime MMFs and, therefore, the Staff estimated that only 30 percent of all MMF assets would be subject to a floating NAV if adopted by the SEC.⁸ The SEC grossly underestimated the industry assets that would be impacted, which we estimate to be closer to 65% of all MMF assets. Therefore, we offer an

⁴ We note that the SEC Commissioners and Staff used the words "targeted" or "target" nine times during the Open Meeting for the Proposed Rules release. Commissioner Gallagher also referred to the importance of having "a proposal that is tailored to the real facts about money market funds." See SEC Open Meeting on Money Market Reform; Amendments to Form PF ("SEC MMF Open Meeting Webcast") (June 5, 2013), available at <http://www.sec.gov/news/openmeetings/2013/060513openmeeting.shtml>.

⁵ Proposed Rules at 36855 and 36878.

⁶ See generally "Response to Questions Posed by Commissioners Aguilar, Paredes, and Gallagher," issued by the staff of the SEC's Division of Risk, Strategy, and Financial Innovation (Nov. 30, 2012), available at <http://www.sec.gov/news/studies/2012/money-market-funds-memo-2012.pdf>.

⁷ Proposed Rules at 36856.

⁸ See SEC MMF Open Meeting Webcast.

alternative definition that will permit the SEC to achieve its intended policy objective of targeting institutional MMFs under the floating NAV proposal.

As discussed in greater detail in the remainder of this letter, we have organized our comments on the Proposed Rules release as follows:

I. Types of MMFs to be Excluded from Structural Reform

- A. The SEC should treat tax-exempt MMFs the same as Treasury and government MMFs and exclude all tax-exempt MMFs from the floating NAV and fees and gates proposals.
- B. The proposed definition of a retail fund will not work as intended and we propose an alternative definition based on Social Security number account registrations.

II. Structural Reforms

- A. The liquidity fees and redemption gates proposal is a more effective means to achieve the SEC's goals than the floating NAV proposal. The SEC should adopt a fees and gates approach for institutional prime funds, with certain modifications.
- B. The floating NAV proposal is not an effective means to achieve the SEC's stated goal of stemming rapid and significant redemptions, which could be achieved through disclosure. The SEC should not adopt a floating NAV for MMFs.
- C. The SEC should not combine, or offer a choice between, the liquidity fees and redemption gates proposal and floating NAV proposal.

III. Diversification, Stress Testing, and Disclosure Changes

- A. We support the SEC's efforts to enhance MMF portfolio construction and recommend some alternative options with respect to the proposed diversification changes.
- B. We offer some changes to the proposed MMF stress testing requirements that would meet the objective of creating a uniform standard across the industry.
- C. We recommend some modifications to the SEC's proposed disclosure changes.

IV. The costs for Fidelity to implement the floating NAV proposal, the fees and gates proposal, the definition of a "retail" MMF, and disclosure changes are estimated to be \$37 million.

Background

MMFs are subject already to extensive oversight and regulation in the United States under the Investment Company Act of 1940, together with the rules promulgated thereunder. These comprehensive regulations and rules include portfolio construction constraints, investor protections, extensive disclosure requirements, and broad financial reporting and recordkeeping requirements. In 2010, the SEC significantly strengthened Rule 2a-7, which governs MMFs, by imposing more stringent constraints on fund maturity, liquidity, and quality, as well as new requirements on fund disclosure, operations, and oversight.⁹ In addition, mutual fund investors are afforded protections under state law and other federal statutes, such as the Investment Advisers Act of 1940, the Securities Act of 1933 and the Securities Exchange Act of 1934.

For decades, MMFs have been attractive investment vehicles for shareholder capital, due to their convenience, high credit quality, and liquidity. MMFs seek to provide a stable, constant NAV and daily access to money, with a competitive yield versus bank deposits and direct investments. MMFs are utilized by a broad spectrum of investors, from small, individual investors, to large, institutional investors. As the SEC recognizes, “[t]he combination of principal stability, liquidity, and short-term yields offered by money market funds . . . has made money market funds popular cash management vehicles for both retail and institutional investors. . . .”¹⁰

The SEC must identify clearly and evaluate robustly the costs and benefits of additional reforms. The SEC’s goal of targeting reform at institutional prime MMFs strikes the proper balance.

⁹ In particular, the 2010 changes include the following:

- Minimum portfolio liquidity requirements (10 percent invested in daily liquid assets – except for tax-exempt MMFs - and 30 percent invested in weekly liquid assets) now enable funds to handle better large, unexpected redemptions in the rare instances when they do occur;
- Disclosure requirements now serve as a powerful governor on MMFs, as demonstrated in the summer of 2011, when investors, regulators, financial journalists, and other market observers were able to monitor fund holdings frequently;
- A reduced maximum allowable portfolio weighted average maturity of 60 days now limits the amount of both interest rate risk and credit risk in a MMF;
- A new maximum allowable portfolio weighted average life of 120 days now limits price volatility in a MMF (owing specifically to a change in credit spreads or to a dislocation in benchmark interest rates) by implicitly constraining holdings in floating rate securities; and
- Wind-down procedures now allow a MMF’s board of trustees to suspend redemptions, thereby facilitating orderly liquidation of the fund and avoiding the need for forced asset sales in times of market stress.

¹⁰ Proposed Rules at 36837.

I. Types of MMFs to be Excluded From Structural Reform

There are four primary categories of MMFs: Treasury, government, tax-exempt, and prime. The following chart provides a description of the instruments each of these funds typically holds.

MMF Type	Typical Instruments Held
Treasury	U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities.
Government	U.S. Treasury securities, other government securities and repurchase agreements collateralized by U.S. Treasury or other government securities.
Tax-Exempt	Tax-exempt securities issued by state and local governments and non-profit entities.
Prime	Any eligible money market instruments as defined by SEC Rule 2a-7, including all types listed above, as well as commercial paper, certificates of deposit, corporate notes and other private instruments.

A. The SEC Should Exclude All Tax-Exempt MMFs from Structural Reforms

To achieve the SEC's stated goal of targeted reform that preserves MMF options for investors, any rulemaking must begin with an examination of how types of MMFs vary. Exploring the data across different types of funds helps reveal whether any structural reform results in an appropriate balance of costs against benefits. Furthermore, the federal securities laws require the SEC to consider in any rulemaking whether the action will protect investors and will promote efficiency, competition, and capital formation.¹¹ We believe that the SEC has failed to satisfy this statutory obligation with respect to tax-exempt MMFs in the Proposed Rules release. Moreover, applying the proposed structural reform to tax-exempt MMFs would prevent the SEC from achieving its goal of preserving a stable NAV product for tax-sensitive investors.

As stated above, the 2010 SEC reforms have made all types of MMFs more resilient. Nevertheless, as the SEC and other regulators have noted, there are differences in portfolio composition, liquidity, and risk profiles across the different types of MMFs. We agree with the

¹¹ The Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Company of 1940 each require that: "Whenever pursuant to this title the Commission is engaged in rulemaking and is required to consider or determine whether an action is consistent with the public interest, the Commission shall also consider, in addition to the protection of investors, whether the action will promote efficiency, competition, and capital formation." 15 U.S.C. § 77b(b), 15 U.S.C. § 78c(f), and 15 U.S.C. § 80a-2(c).

SEC's decision not to apply structural reforms to Treasury and government MMFs. We disagree, however, with the SEC's decision to subject tax-exempt MMFs to reforms, as any perceived benefits are outweighed by the costs imposed. Accordingly, we recommend that the SEC exclude tax-exempt MMFs from a floating NAV or fees and gates structure in its final rulemaking.

The Proposed Rules release suggests that there is no need for an explicit exemption for tax-exempt MMFs from the floating NAV alternative "because the tax advantages of those securities are only applicable to individual investors, and accordingly, a retail exemption would likely result in most such funds seeking to qualify for the proposed exemption."¹² Additionally, in her statement at the open meeting on the Proposed Rules release, Chair White suggested that one of the SEC's goals is to "preserve the stable value fund product for those retail investors who have found it to be convenient and beneficial."¹³ Given the limited discussion of tax-exempt MMFs in the Proposed Rules release, we can only assume that the SEC believes that it would achieve its goal of targeted reform by treating all tax-exempt MMFs as retail funds, which would not be subject to the floating NAV.

Unfortunately, however, the Proposed Rules release does not achieve the SEC's policy goal of allowing investors in tax-exempt MMFs to continue to enjoy the benefits of these funds. Our customer data show that many shareholders with high account balances use tax-exempt MMFs for core brokerage account purposes and engage in periodic transactions exceeding the proposed redemption cap, which would fall outside the proposed retail fund exemption. Under the Proposed Rules, the SEC would force these individual investors into a fund that either has a floating NAV or is subject to redemption fees and/or gates. After evaluating the significant costs associated with making existing tax-exempt MMFs compliant with the SEC's proposed retail definition, Fidelity has reluctantly concluded that we are unlikely to offer tax-exempt MMFs with a daily redemption limit as currently proposed.

The SEC does not discuss the basis on which it decided to subject tax-exempt MMFs to structural reforms. In fact, the Proposed Rules release barely discusses tax-exempt MMFs over the course of nearly 700-pages. The SEC offers not much more than the conclusory statements that municipal securities "do not generally share the same credit and liquidity traits as U.S. government securities"¹⁴ and that "municipal securities typically present greater credit and liquidity risk than government securities and thus could come under pressure in times of stress."¹⁵ No data quantify or support these broad assertions.

¹² Proposed Rules at 36860.

¹³ *Opening Statement at the SEC Open Meeting*, by Chairman Mary Jo White, U.S. Securities and Exchange Commission, Washington, D.C. (June 5, 2013), available at <http://www.sec.gov/News/Speech/Detail/Speech/1365171575546#.UhdWypKmj4I>.

¹⁴ Proposed Rules at 36855.

¹⁵ *Id.* at 36891.

In the following pages, we will examine the available data and facts to help shed light on the fundamental characteristics of tax-exempt MMFs, and we will compare the securities held in those funds to government MMFs and prime MMFs. Although tax-exempt MMFs have certain attributes in common with both government and prime MMFs, the evidence clearly supports the conclusion that tax-exempt MMFs are more similar to government MMFs than to prime MMFs. Imposing structural reforms on tax-exempt MMFs will result in negative consequences for capital formation and economic growth, which outweigh any potential benefits that would result from structural changes to tax-exempt MMFs. We begin our analysis by exploring the overall systemic significance of tax-exempt MMFs as well as the portfolio construction of these funds. Next we examine the increased financing costs that state and local issuers would face if the SEC adopts either or both of the floating NAV or liquidity fees and gates proposals.

1. Tax-Exempt MMFs Are Not Susceptible to Destabilizing Runs and Do Not Pose Systemic Risk

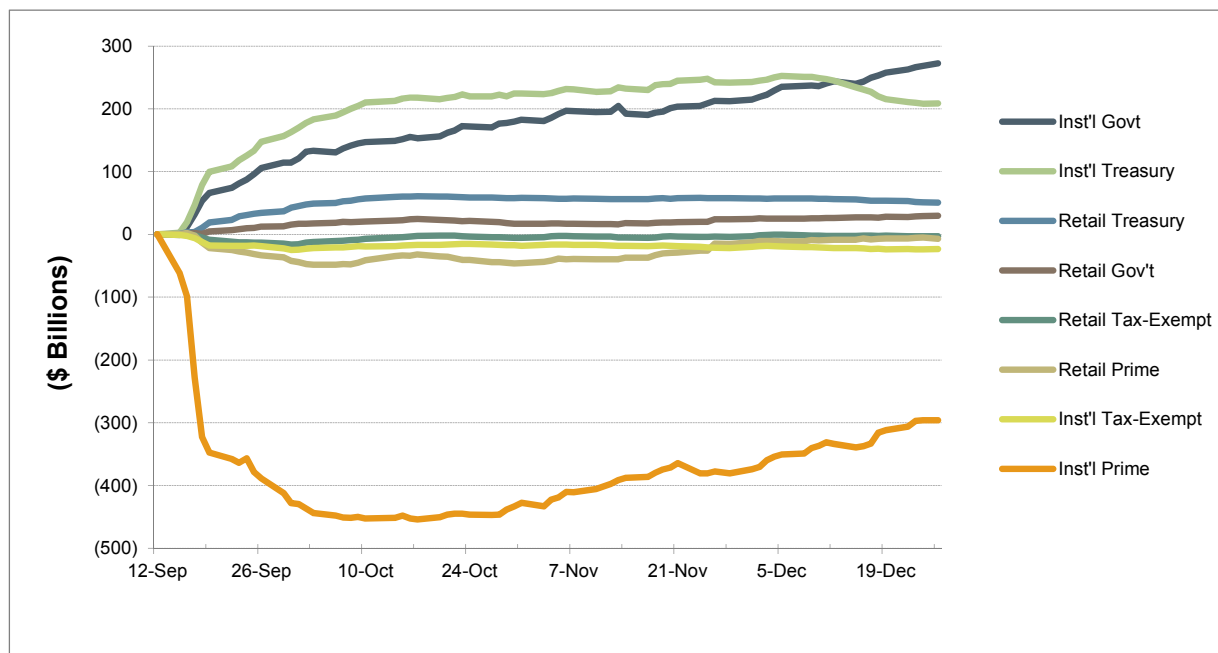
There is no evidence that tax-exempt MMFs present any systemic risk. In fact, the SEC has not provided any data or analysis to suggest that tax-exempt MMFs are vulnerable to significant redemptions. The SEC merely asserts that:

“Money market funds’ size and significance in the short-term markets, together with their features that can create an incentive to redeem . . . have led us to concerns that money market funds may contribute to systemic risk. Heavy redemptions from money market funds during periods of financial stress can remove liquidity from the financial system, potentially disrupting the secondary market.”¹⁶

Yet, the evidence amply demonstrates that tax-exempt MMF shareholders have not exhibited any type of heavy redemption pattern, even during times of great stress in the financial markets. For example, as the following charts illustrate, there were two periods of market stress in recent history (in 2008 and 2011) during which tax-exempt MMFs behaved very differently from prime MMFs. Retail and institutional tax-exempt MMFs had very moderate flows during these periods and it was only institutional prime MMFs that experienced significant outflows.

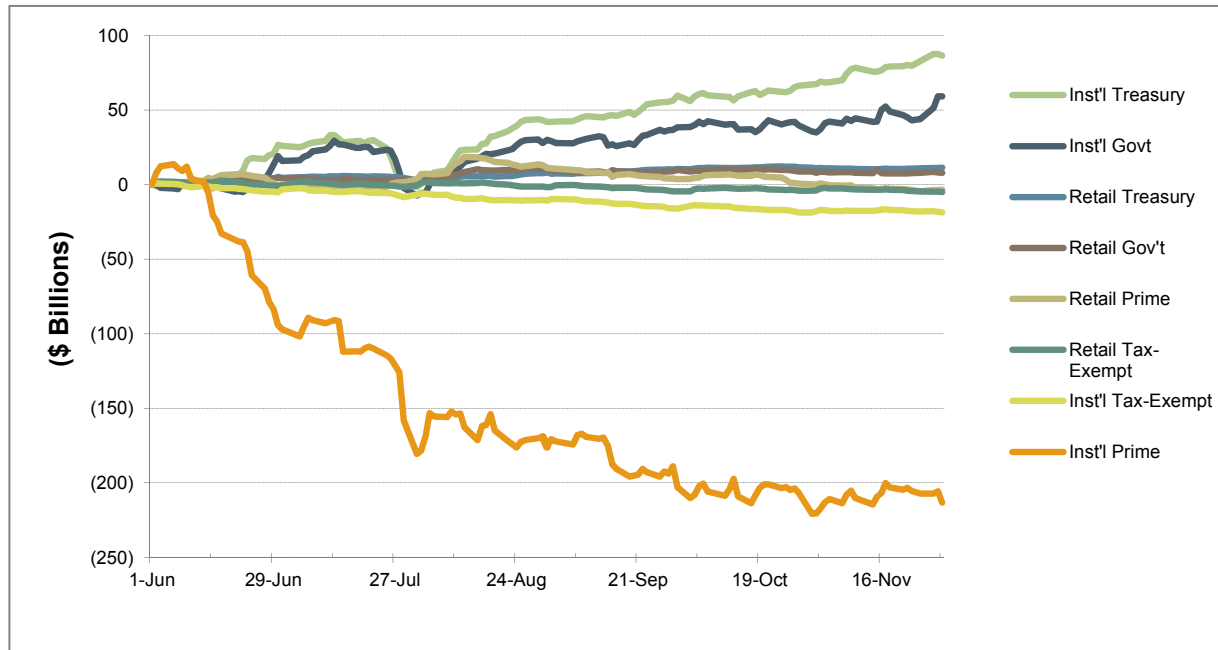
¹⁶ *Id.* at 36843.

2008 MMF Industry Asset Flows



Source: iMoneyNet

2011 MMF Industry Asset Flows



Source: iMoneyNet

In addition, the SEC has not provided any data or analysis to justify its concern that tax-exempt MMFs pose the systemic risk to the financial markets. Among the factors that may be

relevant when determining that an entity or industry is significantly important is its size.¹⁷ Tax-exempt MMFs represent only approximately 10 percent of total MMF industry assets, with approximately \$260 billion in total assets.¹⁸ Moreover, this \$260 billion in assets is dispersed across a large number of funds and fund sponsors with geographically varied holdings.¹⁹

2. Tax-Exempt MMFs Have Resilient Portfolio Construction and Adding a 10% Daily Liquid Asset Requirement will Make Tax-Exempt MMFs Even Stronger

Tax-exempt MMFs' typical portfolio construction makes the risks of these funds more similar to government MMFs than to prime MMFs. The three primary risks in MMFs are liquidity, interest rate, and credit risk. On all three fronts, tax-exempt MMFs are much more aligned with government MMFs than prime MMFs.

a) Tax-Exempt MMFs Have High Levels of Liquidity

The SEC's 2010 amendments to Rule 2a-7 effectively reduced the liquidity risk in MMFs by imposing minimum weekly liquid asset levels. The SEC acknowledges that government MMFs "are highly liquid in even the most stressful market scenario."²⁰ Like government MMFs, tax-exempt MMFs hold enormous liquidity. Recent data indicates that, as of December 31, 2012, 77 percent of the assets held by the industry's tax-exempt MMFs are liquid within seven days, which is more than double the 30 percent weekly minimum required following the SEC's 2010 reforms.²¹ As the SEC recognizes, this high level of liquidity provides great protection against the risk of credit deterioration and helps "funds withstand high redemptions during times of market illiquidity."²²

Despite the very high levels of weekly liquid assets in tax-exempt MMFs, the SEC notes in the Proposed Rules release that these funds, unlike prime and government MMFs, do not have a 10 percent minimum daily liquid asset level requirement. The SEC expresses concern that there may be greater liquidity risk in tax-exempt MMFs due to the lack of a minimum daily

¹⁷ Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), Pub. L. No. 111-203, 124 Stat. 1376 (2010). See § 113(a).

¹⁸ Investment Company Institute, Money Market Mutual Fund Assets as of July 31, 2013 (Aug. 15, 2013), available at http://ici.org/research/stats/mm/mf_08_15_13.

¹⁹ The Investment Company Institute reported 180 tax-exempt MMFs as of December 31, 2012. *2013 Investment Company Fact Book*, at 179, available at http://ici.org/pdf/2013_factbook.pdf.

²⁰ Proposed Rules at 36854.

²¹ Investment Company Institute, *Narrowing the Focus to Prime Money Market Funds* (Mar. 25, 2013) available at http://www.ici.org/viewpoints/view_13_mmfs_reid_prime.

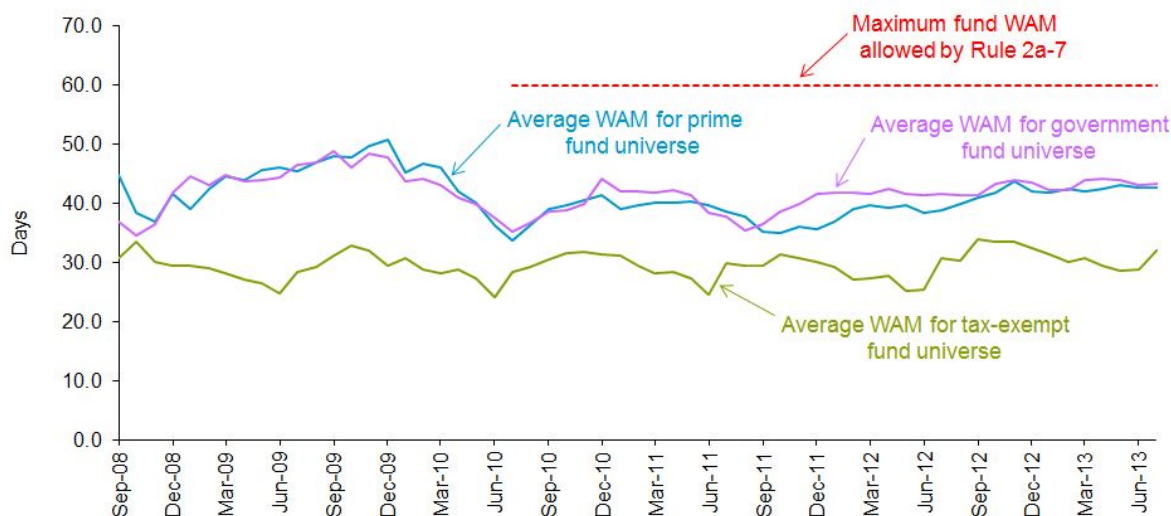
²² Proposed Rules at 36845.

liquid asset requirement.²³ The SEC recognizes that more than half of tax-exempt MMFs maintain daily liquid assets over 10 percent and seeks comment on whether to apply this requirement to tax-exempt MMFs if they are not subject to a floating NAV.²⁴ We believe that maintaining a 10 percent daily liquidity level is a good practice for all MMFs and we recommend that the SEC amend Rule 2a-7 to impose the 10 percent daily liquid assets test on tax-exempt MMFs. This should address the SEC's concern regarding tax-exempt MMF's liquidity and establish an even more convincing case that these funds do not need either a floating NAV or redemption restrictions in the form of fees and/or gates.

b) Tax-Exempt MMFs Have Low Interest Rate Risk

In addition to their high level of liquidity, tax-exempt MMFs have very low interest rate risk, as demonstrated by their low portfolio weighted average maturity ("WAM"). The SEC's 2010 enhancements reduced the maximum allowable WAM of any MMF to 60 days, which limits the amount of interest rate risk. As the following chart shows, tax-exempt MMFs have had WAMs well below the 60 day maximum for the past several years and have WAMs consistently below those of prime and government MMFs. With average WAMs under 35 days, tax-exempt MMFs have a low susceptibility to fluctuating interest rates.

Historical Industry Average WAM for Tax-Exempt, Government, and Prime MMFs



Note: Represents the nominal average of all tax-exempt MMFs as of the first business day of the month. Prior to June 2010, the maximum allowable fund WAM was 90 days.

Source: iMoneyNet as of 07/01/13

²³ *Id.* at 36860.

²⁴ *Id.*

c) Tax-Exempt MMFs Have Low Credit Risk

Rule 2a-7 requires tax-exempt MMFs, like all other MMFs, to invest only in securities that present minimal credit risk.²⁵ Broadly speaking, tax-exempt MMFs have two types of credit exposure: municipal and bank. The municipal credit exposure comes from direct holdings of fixed rate notes, variable rate demand notes (“VRDNs”), or commercial paper issued by or on behalf of tax-exempt entities, which include (i) state, city and local governments, (ii) their instrumentalities such as water and sewer authorities, and (iii) certain universities, hospitals, and other non-profit entities. The bank credit exposure results from securities that have an underlying longer-term municipal security that includes credit or liquidity support from a bank that represents minimal credit risk. These bank credit and liquidity-enhanced securities are eligible investments for MMFs because they have a variable rate of interest that generally resets every seven days. If the reset rate is not acceptable to the MMF, the fund generally has the right to tender, or put, the security back to the bank at purchase price.

As noted above, in its explanation for excluding tax-exempt MMFs from the exemption to the proposed structural reform alternatives, the SEC focuses on these risks, but offers no evidence or analysis of the credit risk of short-term municipal securities.²⁶ A recent study by Moody’s Investor Service (“Moody’s”) compared and contrasted the credit risk in municipal securities to the credit risk in corporate securities, which are typical securities held by institutional prime MMFs.²⁷ This study showed that the risks are significantly different, which supports the argument that tax-exempt MMFs should not be treated the same as prime MMFs.

In its study, Moody’s compared the one-year rating transition rates of securities from an investment grade rating to default over the period from 1970-2011.²⁸ Moody’s concluded that “[m]unicipal ratings were more stable, and defaulted and withdrew less frequently, than did their corporate counterparts.”²⁹ In fact, corporate securities were 17 times more likely to migrate from an investment grade rating to a non-investment grade rating.³⁰ Similarly, after evaluating 40 years of data, Moody’s concluded that the risk of default for municipal securities is significantly lower than for corporate securities: “In every rating category, the one-year average default rates for municipal debts are substantially below those for corporate issuers. Moreover, the default rate for investment-grade municipal debts is virtually zero.”³¹ The SEC offers no data or

²⁵ 17 C.F. R. 270.2a-7(c)(3).

²⁶ Proposed Rules at 36891.

²⁷ Moody’s Investors Service, “U.S. Municipal Bond Defaults and Recoveries, 1970-2011” (March 7, 2012), available at <http://www.nhhefa.com/documents/moodysMunicipalDefaultStudy1970-2011.pdf>.

²⁸ *Id.* at 4.

²⁹ *Id.*

³⁰ *Id.*

³¹ *Id.*

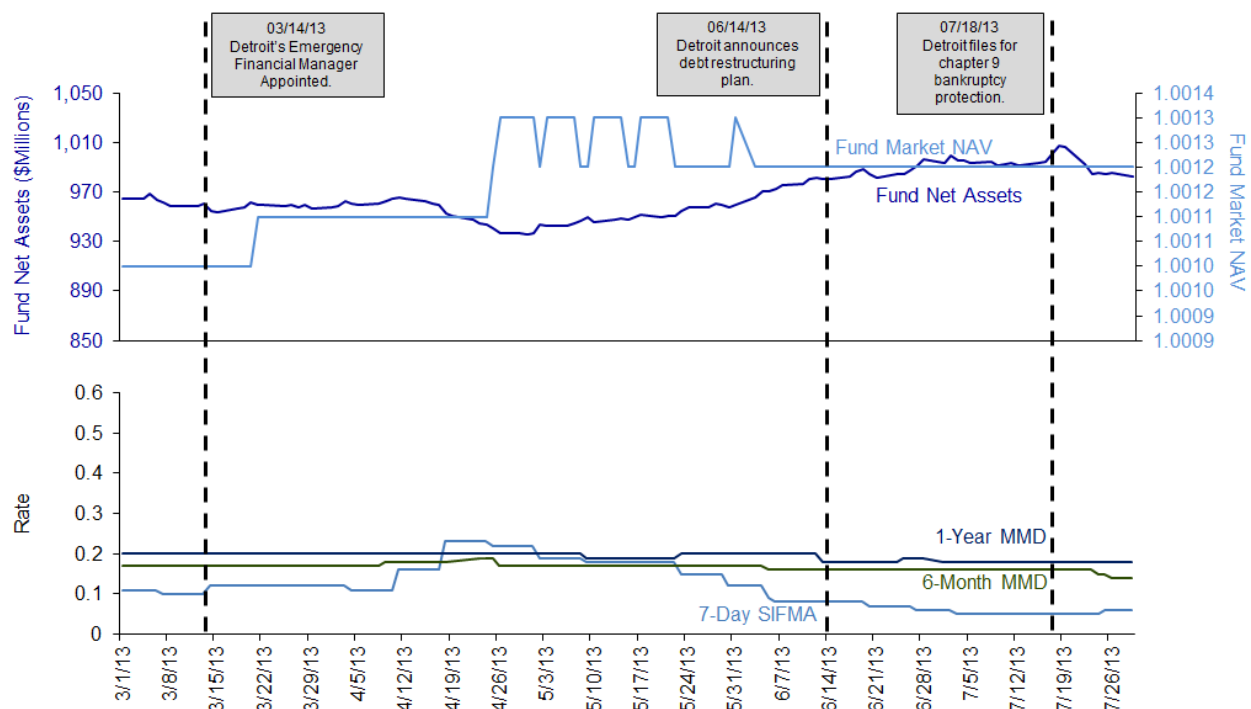
evidence in the Proposed Rules release to refute this notion or to support its proposal to apply structural reform to tax-exempt MMFs.

Of course, there have been a small number of municipal credits that have defaulted over time, and recently the City of Detroit filed the largest ever municipal bankruptcy.³² In considering whether it is appropriate or necessary to apply structural reform to tax-exempt MMFs, it is helpful to examine how MMFs responded as Detroit approached, and ultimately filed for, bankruptcy. Fidelity's Michigan Municipal Money Market Fund is a MMF focused on seeking income that is exempt from federal income tax and Michigan personal income tax. As a result, the fund primarily purchases securities from issuers across the state of Michigan. The fund has not, however, had any direct or indirect exposure in recent years to securities issued by the City of Detroit, as Detroit unenhanced general obligation debt has not been an eligible investment for MMFs for years. Similarly, we are not aware of any MMF with direct exposure to Detroit. Thus, MMFs were able to avoid impact from the bankruptcy because of the existing strict credit standards under Rule 2a-7.

Many people followed the Detroit bankruptcy to see whether it would lead to contagion or if shareholders would make significant redemptions out of Michigan MMFs in fear that securities from other issuers near Detroit might experience credit problems. However, as the following chart tracks the NAV and shareholder flows of the Fidelity Michigan Municipal Money Market Fund demonstrates, there was no shareholder outflow activity resulting from the Detroit bankruptcy filing and no deterioration in NAV. Furthermore, short-term market rates, which provide the basis for the prices for municipal money market securities, did not change noticeably following the events in Detroit. Thus, the largest municipal bankruptcy ever had no discernible impact on MMFs. These facts argue against the conclusion that tax-exempt MMFs need structural reform.

³² *Record Bankruptcy for Detroit*, The Wall Street Journal (July 19, 2013), available at <http://online.wsj.com/article/SB10001424127887323993804578614144173709204.html>.

Detroit Events Did Not Destabilize Tax-Exempt MMFs



Sources: Top chart, FMR as of 07/26/13; bottom chart, Thompson Municipal Market Data as of 07/26/13; Fund data shows Fidelity Michigan Municipal Money Market Fund

A review of bank credit exposure in tax-exempt MMFs is equally compelling and leads to the same conclusion: tax-exempt MMFs do not merit either a floating NAV or redemption restrictions. Tax-exempt MMFs typically hold municipal securities, such as VRDNs and tender option bonds (“TOBs”), that benefit from external credit enhancement and/or liquidity support that highly rated banks or financial institutions provide through contractual arrangements. For example, VRDNs often have long-dated maturities of 20 or 30 years, but carry a coupon that generally resets every 1 to 7 days, with a put option provided by a bank or financial institution. The weekly put feature makes these instruments eligible securities for MMFs to purchase under Rule 2a-7. Under normal market circumstances, these instruments trade readily in the secondary market. However, in the absence of a secondary market, funds can exercise the put option, which contractually obligates the bank or financial institution to provide liquidity.³³ In addition,

³³ It is important to understand the differences between VRDNs and auction rate securities (“ARS”), which collapsed during the 2008 financial crisis. VRDNs carry a put feature provided by a highly rated financial institution supported by a credit and/or liquidity facility that enhances liquidity for the security. In contrast, ARS are municipal bonds that reset periodically and are sold through a Dutch auction competitive bidding process. Unlike VRDNs, ARS rely exclusively on a functioning market for liquidity and do not have support from a third-party liquidity provider. Furthermore, ARS are not permissible investments for MMFs because of the maturity and quality requirements under Rule 2a-7 and, therefore, did not have an impact on MMFs during the financial crisis.

MMF advisers perform credit analyses on both the municipal issuer and the bank or financial institution being relied upon to provide credit and/or liquidity support. The banks providing the puts represent minimal credit risk and the municipal obligor underlying the bank facility also is subject to minimum credit quality requirements under Rule 2a-7. Furthermore, if a bank's credit begins to deteriorate, a municipal issuer has the option to substitute the bank providing the liquidity put.³⁴

VRDNs and TOBs performed well during the financial crisis from 2007 to 2009, and the banks providing credit support for these securities are even stronger today. In effect, the crisis served as a real-life stress test that afforded MMFs and banks the opportunity to test the operational and legal functioning of the credit support facilities as many tax-exempt MMFs exercised a put option for the first time to draw upon bank credit support. In addition, new regulatory requirements under Basel III require that banks have high-quality liquid assets set aside against stressed cash outflows over a 30-day time period.³⁵ Under the revised standard released in January 2013, banks will be required to cover 10 percent of the credit support and 30 percent of the liquidity support that they provide to municipal money market securities. Although this liquidity coverage ratio requirement does not take full effect for several years, a review of the financial position of banks that provide credit support to VRDNs and TOBs shows that the banks are prepared to handle even severe market conditions that might result in the broad exercise of municipal money market securities' put options. For example, based on Fidelity's market surveillance, the largest provider of credit and liquidity enhancement for VRDNs and TOBs has cash and cash equivalents on its corporate parent's balance sheet that are greater than six times the total credit and liquidity enhancement that the bank provides to VRDNs and TOBs. Beyond cash and cash equivalents, that bank has significant holdings of unencumbered liquid securities. Other banks in the VRDN and TOB market have similar cash and liquidity positions that far exceed their credit and liquidity enhancement obligations. Whether considering municipal or bank credit, tax-exempt MMFs do not pose a risk that merits structural changes.

Given the high liquidity levels, low interest rate risk, and high credit quality of municipal securities within tax-exempt MMFs, we believe that the SEC should exempt these funds from any structural MMF reforms, including the two proposed alternatives.

³⁴ We note that stability of these financial institutions will be enhanced further under the new liquidity coverage ratio standard that the Basel Committee on Banking Supervision has developed. This new standard, which will be implemented in phases between January 1, 2015 and January 1, 2019, establishes a minimum level of high quality liquid assets that banks must hold in order to meet liquidity needs over a 30 day period. See Basel Committee on Banking Supervision Report, Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools, available at <http://www.bis.org/publ/bcbs238.pdf>.

³⁵ *Id.*

3. Tax-Exempt MMFs Serve as an Important Source of Funding to State and Local Governments and to Non-Profit Organizations

Subjecting tax-exempt MMFs to structural reforms will result in significantly increased borrowing costs for tax-exempt issuers. Determining the extent of those costs requires an evaluation of several variables. First, it is necessary to understand the role that tax-exempt MMFs play in providing low-cost financing for short-term municipal securities. Second, one must examine the data on how shareholders are likely to react to a floating NAV or redemption restrictions on tax-exempt MMFs. Looking at how municipal issuers are likely to react to a reduced demand for short-term municipal securities completes this analysis.

We explore the complexities of calculating these costs over the next few pages, but the overall story is simple. If the SEC removes the attractive features of tax-exempt MMFs by applying structural reform, the product will be significantly less popular with investors. That will lead to tax-exempt MMFs purchasing far fewer short-term municipal securities from tax-exempt issuers. To finance debt, those issuers will need to raise the yield offered on short-term municipal securities to attract new investors – especially because tax-exempt MMFs purchase nearly 65% of all short-term municipal securities today.³⁶ As a result, state and local governments -- as well as non-profit issuers, such as schools and hospitals -- will find it much more expensive to finance their operations. Our model, as described later in this section, estimates that cost at more than \$5 billion per year. Given that the SEC did not engage in an analysis of these impacts, we think it is important to examine in detail the methodology that allows us to reach these conclusions.

As noted above, the first step is to examine the role that tax-exempt MMFs play in the short-term municipal market. The data clearly show that tax-exempt MMFs have significant holdings of short-term municipal debt and provide an efficient means for state and local governments to obtain financing to pay employees and for a variety of capital projects and operational needs. Tax-exempt MMFs consistently have held approximately two-thirds of short-term municipal debt securities. When prime MMFs are included, MMF holdings of short-term municipal securities are almost 80 percent.³⁷ Our market intelligence indicates that most of the remaining 20 percent of buyers of short-term municipal securities are bond funds, private funds, bank trusts, insurance companies, and other corporations. These purchasers always have been a significant minority and have never demonstrated a capacity to provide funding anywhere close to the same level that MMFs provide today. Reduction in the size of tax-exempt MMFs will have considerable impact on the market for short-term municipal securities.

³⁶ Based on data provided to Fidelity by market participants and compiled on Bloomberg as well as SIFMA's US Municipal VRDO and FRN Update, June 2013, available at <http://www.sifma.org/research/item.aspx?id=8589944355>.

³⁷ *Id.*

The next step is to understand how tax-exempt MMF shareholders will respond to the proposed changes from the SEC. Fidelity's MMF investors have told us consistently that they will exit MMFs for other alternatives if the SEC imposes a floating NAV or redemption restrictions.³⁸ Thus, it is clear that if the SEC ultimately adopts any of its proposed structural reforms, the result will be significantly smaller tax-exempt MMFs. That, in turn, will mean far less demand for short-term municipal securities. When demand is lower, prices will fall. Lower prices in the context of short-term municipal securities mean that issuers will have to pay a higher yield to attract investors. That higher yield forces state and local governments, as well as universities, hospitals and other governmental authorities, to pay more in annual debt service costs. This will result in some or all of the following:

- Higher taxes and government fees (to generate more revenue to cover the increased interest costs);
- Fewer government services and lower public employment (as states have to direct more revenue towards paying higher debt service);
- Reduced public infrastructure and development spending (as each new school, firehouse, road construction or bridge repair project will be more expensive); and
- Less opportunity for communities to grow and prosper (as large local employers such as schools and hospitals will limit their capital spending and cultural institutions, such as museums and sports facilities, will find development more difficult).

The SEC recognizes that changing the structure of these funds “could cause a decline in demand for . . . municipal debt, reducing these . . . municipalities’ access to capital from money market funds and potentially creating shortages of short-term financing for such . . . municipalities.”³⁹ However, a passing reference is no substitute for careful analysis. The proposed structural changes would have significant negative impacts on municipal issuers because of the expected decline in tax-exempt MMF assets. The SEC fails to analyze and consider properly these consequences.

Given that the evidence shows that tax-exempt MMFs constitute most of the short-term municipal securities market and that the proposed structural changes will shrink the funds dramatically, the final step is to evaluate how issuers will respond. It is helpful to begin by noting that the short-term municipal market generally includes two broad types of securities: fixed rate notes and variable rate securities. Short-term fixed rate notes are typically offered by a state or local government to meet a financing need within a year.

³⁸ Letter from Scott C. Goebel, Senior Vice President and General Counsel, on behalf of Fidelity Investments, to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, (Feb. 3, 2012) at 4 (“Fidelity 2011 Survey”), available at <http://www.sec.gov/comments/4-619/4619-116.pdf>. Fidelity recently surveyed its customers again in September 2013 and the results were similar to prior surveys conducted in 2009, 2010, and 2011.

³⁹ Proposed Rules at 36922.

Variable rate securities, such as VRDNs and TOBs, are generally municipal securities that have a longer final maturity, such as 20 years, and become eligible investments for MMFs when the security includes a maturity shortening feature such as a daily or weekly tender right. Because these securities typically reset their interest rates every seven days, issuers pay significantly lower interest costs than if the issuer were to pay a fixed long-term interest rate. This will be true as long as the municipal yield curve has an upward slope – meaning that investors will demand a higher yield for securities that mature longer into the future.⁴⁰

As demand for short-term municipal securities drops, there will be market impacts across the short-term and long-term municipal security markets. The best way to calculate the impact on the municipal market – and increased cost to tax-exempt issuers – is to develop a model that determines how much yields will have to increase across the municipal yield curve as issuance patterns shift. This approach recognizes that such a significant loss of investor demand in the short-term part of the municipal yield curve will have consequences for longer-term municipal securities as well. In the immediate aftermath of potential structural changes to tax-exempt MMFs, the most likely purchasers of short-term municipal securities will be taxable MMFs, such as prime MMFs. In evaluating whether to purchase short-term municipal securities, these funds will compare the yields of municipal securities with taxable securities that are available in the market. Historically, municipal securities have a lower yield because investors holding such securities do not have to pay federal income tax on interest received. On average, the ratio of short-term taxable yields to municipal yields has been approximately 73 percent. This means that a one-year taxable money market security will yield one percent, while a comparable municipal security with the same maturity will yield 0.73 percent. An investor paying an effective federal income tax rate of 27 percent will have the same amount of after-tax income by holding a fixed amount of either security.⁴¹

Because taxable MMFs are not seeking to generate tax-exempt income, absolute yields are the most important determinant in whether taxable MMFs are competitive. To attract taxable MMFs as purchasers of short-term municipal securities, tax-exempt issuers will have to raise yields to at least 100 percent of taxable rates.⁴² At any lower rate, there is no reason for a taxable MMF to purchase a lower-yielding municipal security of comparable quality to a security that trades in the taxable market. Assuming that debt financing needs of issuers continue at the same level as today, that change in relationship between the taxable and tax-exempt rate will result in

⁴⁰ The yield curve is a graphical representation showing the relationship between the level of interest rate (cost of borrowing) and the time to maturity of debt instruments traded in a given market.

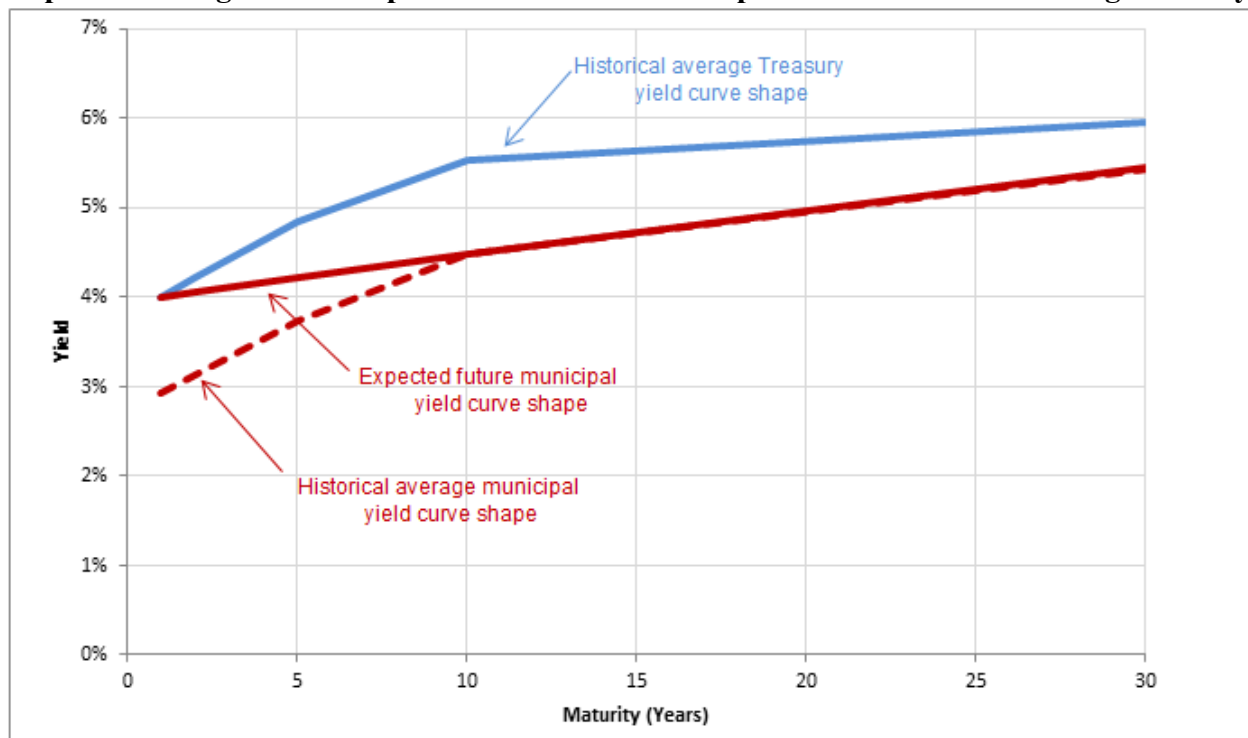
⁴¹ If the investor held \$10,000 in each security, the federal after tax result is \$73 for each. The taxable security will pay \$100 ($\$10,000 \times 1.00\%$), but the investor will be subject to \$27 dollars in tax at an effective rate of 27% ($\$100 - \$27 = \$73$). The municipal security will pay \$73 ($\$10,000 \times 0.73\%$) and the investor will keep all of interest as such income is federally tax-exempt.

⁴² Rates for short-term municipal securities may need to be even higher than comparable taxable securities given the sheer number of issuers that would require new credit research and surveillance. Over the past 10 years, there have been nearly 14,000 short-term municipal securities issued.

an additional \$4.75 billion in annual interest costs as the higher rate impacts all short-term municipal securities, both fixed rate and variable rate. In particular, we estimate that, in a normalized rate environment, the increase in the one-year part of the yield curve will be more than 100 basis points (as the historical relationship to taxable rates moves from 73 percent to 100 percent).

However, an analysis of the total impact does not stop there. Because the shortest part of the municipal yield curve is expected to rise dramatically, we would expect that there will be impacts on the intermediate-term portion of the curve as well, as shown in the following chart. This is logical because yields on intermediate-term securities will need to rise to incentivize buyers to purchase longer-maturity securities as short-term rates rise. For example, if the one-year municipal rate were significantly higher than the five-year municipal rate, many buyers would be unlikely to take five years of credit exposure to the same issuer when they could receive a much higher yield for taking such exposure over one year. We estimate the additional cost to municipal issuers that results from higher intermediate-term yields to be approximately \$250 million.

Expected Change in Municipal Yield Curve if Municipal MMF Assets Decline Significantly



Note: Hypothetical Treasury yield curve was constructed by fixing 1-year yield at 4% (which the Federal Reserve has described as a “normalized” rate) and using historical average yield spreads at 2-, 5-, 10-, and 30-year maturities. Original municipal yield curve was constructed using historical yield ratios between municipal and Treasury yields.

Source: Tradeweb, Thomson Municipal Market Data, Fidelity Investments

Examination of a specific issuer helps illustrate the impact. Tax-exempt issuers in the State of California have outstanding debt in the market with maturities ranging from 2013 through 2043, with yield differentials that increase with the length of the maturity date. By our estimates, the decreased demand in short-term municipal debt resulting from structural reforms to tax-exempt MMFs would increase substantially municipal financing costs for those California issuers by over \$673 million per year.

Given the size of tax-exempt MMFs' short-term debt holdings, contracting this market could have a chilling effect on critical public sector projects, a concern that many municipalities and public entities have expressed in recent letters to the SEC regarding potential MMF reform.⁴³ These entities would be forced to turn to banks for financing, which is more costly and more difficult to obtain.

B. The Proposed Definition of a “Retail” Fund Does Not Achieve the SEC’s Intended Policy Objectives and Fidelity Recommends a Definition Based on Social Security Number Account Registrations

As part of its approach to targeting reform at that portion of the MMF industry that has been shown to be susceptible to runs, the SEC recognizes the importance of distinguishing between retail and institutional MMFs to preserve stable NAV MMFs for individual investors. The SEC proposed to define a retail MMF as a MMF that does “not permit a shareholder to redeem more than \$1 million in a single business day.”⁴⁴ We do not support this definition.

A daily redemption limit, in essence an “always on” redemption restriction, is a fundamental change to an open-end mutual fund. Today, there is no MMF that imposes a cap on daily redemptions. Imposing such a restriction on MMFs that today the industry classifies as retail will lead to a significant reallocation of assets out of retail MMFs. Many individuals use MMFs as a brokerage core account and the proposed redemption limit is fundamentally incompatible with such use as a transaction account. These individuals will not stay in funds with a daily redemption limit and investment advisers may choose not to offer such MMFs. Moreover, the costs to implement a permanent, daily redemption limit are significant.

⁴³ See, e.g., Letter from Stephen J. Acquario, Executive Director, New York State Association of Counties, to SEC, available at <http://www.sec.gov/comments/s7-03-13/s70313-96.pdf>, Letter from Gina M. Raimondo, General Treasurer, State of Rhode Island, to SEC, available at <http://www.sec.gov/comments/s7-03-13/s70313-95.pdf>, Letter from William G. Dressel, Jr., Executive Director, New Jersey League of Municipalities, to SEC, available at <http://www.sec.gov/comments/s7-03-13/s70313-75.pdf>, Letter from Chad A. Harpole, Vice President, Government Affairs, Kentucky Chamber of Commerce, to SEC, available at <http://www.sec.gov/comments/s7-03-13/s70313-59.pdf>, Letter from Scott Smith, President, The United States Conference of Mayors, to SEC, available at <http://www.sec.gov/comments/s7-03-13/s70313-30.pdf>, Letter from Nancy McFarlane, Chair and Mayor, City of Raleigh, and Jill Swain, Vice-Chair and Mayor, City of Huntersville, North Carolina Metropolitan Mayors Coalition, available at <http://www.sec.gov/comments/s7-03-13/s70313-42.pdf>.

⁴⁴ Proposed Rules at 36856.

We urge the SEC to adopt a retail fund definition that is based on Social Security number registrations. We believe that this definition better achieves the SEC's intended goal of "preserving the benefits of stable share price money market funds for the widest range of investors and the availability of short-term financing for issuers"⁴⁵ and also strikes the appropriate balance between costs and benefits. Although the SEC only proposes to exempt retail funds from the floating NAV alternative, we recommend that the SEC exclude retail funds from the fees and gates alternative as well.

1. The Proposed Retail Fund Definition Does Not Achieve the SEC's Stated Objectives

The SEC has noted that the experience of institutional prime MMF shareholders during the 2008 financial crisis and the 2011 turbulent market differed from that of all other types of MMFs, including prime MMFs owned by individual investors. The Proposed Rules release notes that "institutional investors redeemed shares more heavily than retail investors from prime money market funds in both September 2008 and June 2011."⁴⁶ These different redemption patterns result from significant differences in the nature of the shareholders (*e.g.*, corporations as opposed to individuals) as well as to how these different types of shareholders use MMFs. For example, many institutional shareholders are corporations that use MMFs as a liquidity management vehicle for their operating cash to meet short-term business needs. On the other hand, most individuals use MMFs primarily as a trade settlement vehicle within a brokerage account or as a conservative component of a balanced investment portfolio (such as within a 401(k) or IRA account).

We recognize that no regulatory classification of funds as institutional or retail currently exists. Today, market participants rely on an industry market data vendor to characterize whether a particular fund is retail or institutional. Therefore, an important step toward creating properly tailored reform to preserve stable NAV MMFs for individual investors is to establish an appropriate definition of a retail MMF. However, the SEC's proposed definition does not achieve the Commission's goal, because a significant portion of what the MMF industry currently defines as retail assets would fall outside the definition. In response to a question from Chair White at the SEC's open meeting on the Proposed Rules release, the Staff indicated that since the floating NAV proposal only applied to institutional prime funds, it estimated that only 30 percent of MMF assets would be required to have a floating NAV.⁴⁷ To calculate this estimate, we believe that the SEC relied on iMoneyNet data that classify approximately 35 percent of industry assets as institutional prime MMFs.⁴⁸

⁴⁵ *Id.* at 36879.

⁴⁶ *Id.* at 36850.

⁴⁷ See SEC MMF Open Meeting Webcast.

⁴⁸ Based on iMoneyNet data as of June 28, 2013.

To reach this conclusion, the SEC assumed that 20 percent of industry assets in retail prime MMFs and the 10 percent of assets in tax-exempt MMFs would remain in those funds even if such funds imposed a daily redemption cap.⁴⁹ This assumption is incorrect. The daily redemption cap is incompatible with how individuals use MMFs. To avoid this restriction on redemptions, individuals would leave these funds to find alternative products. Similarly, investment advisers may determine not to offer funds with a daily redemption limit. Investment advisers would need to determine whether the costs of implementing such redemption limits are costs worth incurring, especially since the funds' remaining assets could be significantly less after imposing the cap.⁵⁰

In narrowly tailoring any potential reform, the SEC should consider carefully the differences in redemption patterns between "institutional" and "retail" investors and how these investors might be classified. We recognize that the SEC's proposed daily redemption limit definition would achieve the goal of precluding large institutional shareholders from investing in stable NAV retail funds. Conversely, this definition also would punish unfairly a significant segment of individuals that have come to rely on the use of both tax-exempt and prime MMFs to settle brokerage transactions, to reduce investment portfolio market risk, and to maximize income earned on cash balances.

The SEC's proposed definition fails to contemplate that many individuals in retail MMFs hold relatively high account balances and may trade actively in transactions exceeding the cap. Such high-balance individuals own a substantial portion of MMF shares and make important contributions to the domestic economy and capital formation by investing regularly in a variety of assets, including financial instruments, real estate, and small businesses. We expect that these investors will have little tolerance for a daily redemption limit that directly impairs their intended use for the funds and likely will shift their assets out of MMFs that the industry currently classifies as retail. The unintended consequences of such a shift in assets, however, include a reduced demand for the debt instruments that prime and tax-exempt MMFs typically purchase. This outcome runs counter to the SEC's goal of exempting retail MMFs in order to maintain a robust, low-cost supply of short-term funding for state and local governments, non-profit organizations, and corporations. Outflows from these funds potentially would lead fund advisers to exit the retail prime and tax-exempt MMF business, which would create significant economic burdens for issuers of short-term debt.

In addition to the increased pressure on funding costs for private and municipal issuers, the proposed redemption limit would impose substantial initial and ongoing costs associated with implementing this limit, many of which ultimately may be borne by individuals. For example, tracking and monitoring a daily redemption limit would require significant and costly enhancements to the systems funds utilize to process shareholder transactions. In addition,

⁴⁹ *Id.*

⁵⁰ The percentage of assets redeemed year-to-date (through June 30, 2013) from Fidelity's retail prime and retail tax-exempt MMFs in transactions exceeding \$1 million was approximately 26 percent and 50 percent, respectively.

implementing this change would complicate the processing of transactions and require careful coordination and communication among MMFs, transfer agents, and shareholders. Fidelity estimates the total cost of these enhancements to our own systems would be approximately \$8 million. Although such costs will vary across the industry, we anticipate that some fund advisers, including Fidelity, could determine that the costs associated with building new systems outweigh the benefits of offering a MMF product that may no longer be in demand as a result of its new redemption constraints, particularly among high-balance individuals. Accordingly, many fund advisers may elect not to offer retail MMFs, as the SEC defines them in the Proposed Rules release.

Yet another source of complexity would be the enhancements necessary to track any unsettled account activity that could cause a shareholder's total redemption in a single day to exceed the limit. Examples of concurrent unsettled account activities that could result in this scenario include pending security trades that may have different settlement dates, issued checks that have not yet been cashed, electronic funds transfers, wire transfers, and direct redemption requests.

Another major concern is the inability to aggregate accounts across platforms. Our research indicates that this is an issue for which there is no technology solution, reinforcing the point that fund advisers may not offer retail prime MMFs if the SEC adopts its proposed definition. At the same time, if accounts were not required to be aggregated then an opportunity for significant "gaming" would occur as large, institutional investors seeking a stable NAV would open multiple accounts to avoid the redemption cap.

2. The SEC's Proposed Retail Fund Definition Would Have Negative Impacts on Brokerage Accounts and Retirement Plans

We caution the SEC to consider the unintended consequences that the proposed definition of a retail MMF would have on individual investors that access MMFs through (i) broker-dealer sweep programs offered in connection with brokerage accounts and (ii) retirement plans. The proposed definition would have a direct and significant negative impact on the natural persons investing through these accounts and plans, the very people whom the SEC is seeking to protect. For example, as of March 31, 2013, IRA accounts and defined contribution plans ("DC plans") held more than \$368 billion in MMFs (or approximately 3.3 percent of IRA and DC plan assets).⁵¹ Although the SEC states that it "anticipate[s] that the limit would not constrain how most retail investors typically use money market funds," the examples of brokerage accounts and retirement plans illustrate the contrary for a large percentage of individuals that own MMFs.

⁵¹ Investment Company Institute, "The U.S. Retirement Market, First Quarter 2013," Tables 1 and 19, (June 2013), available at http://www.ici.org/info/ret_13_q1_data.xls. The ICI categories of IRAs and DC plans include IRAs, 401(k) plans, 403(b) plans, 457 plans, Keogh plans, and other DC plans without 401(k) features (profit-sharing, thrift-savings, stock bonus, and money purchase).

The SEC does not anticipate that the proposed definition would have an impact on individual investors. However, the reasoning behind this conclusion is unclear because the SEC provides no data or empirical information to support its proposed definition.

3. Fidelity Proposes a Definition of a Retail MMF for Individual Investors Based on Accounts Registered under a Social Security Number

To achieve the SEC's goal of preserving a stable NAV MMF for individuals it is essential to identify accurately that universe of investors. As we discuss in section I.A. of our letter, we believe that, like Treasury and government MMFs, tax-exempt MMFs should be excluded from any structural reforms, including the floating NAV and liquidity fees and redemption gates. This leaves prime MMFs as the remaining group of funds to consider. As the charts on page 8 of industry asset flows during the 2008 financial crisis and 2011 volatile markets illustrate, retail prime MMFs had very moderate flows. It was only institutional prime MMFs that experienced significant outflows.

Fidelity proposes an alternative definition of a retail prime MMF that we believe would meet the SEC's policy objective, cause the least amount of market disruption, most accurately identify individual investors, and incur very low overall costs. We recommend that the SEC explicitly incorporate into Rule 2a-7 the criteria that a MMF must satisfy to qualify as a retail fund. Specifically, a MMF would qualify as a retail fund only if all registered owners and beneficial owners of the fund provide a Social Security number. This would ensure that the fund was held by individuals or natural persons, rather than by institutions. This definition would appropriately include individual investors that open accounts as well as 401(k) and other participant-directed defined contribution plans that are "individual account plans" as defined under ERISA.⁵²

This alternative definition of a retail fund has important advantages over the SEC's proposed daily redemption limit. First, we believe that this proposal would result in minimal economic impact because it relies on existing attributes of MMF accounts. This proposed definition focuses on monitoring the identity of shareholders on their way into a MMF as opposed to on their way out of the fund. All MMFs and broker-dealers already are required legally to obtain certain identification criteria from individuals opening accounts, including Social Security numbers, where applicable.⁵³ Building upon this pre-existing regulatory

⁵² These accounts include: (i) tax-advantaged accounts (*e.g.*, traditional IRA, Roth IRA, SIMPLE IRA, SEP IRA, or Health Savings Accounts) and (ii) retirement plan sponsors on behalf of natural persons (*e.g.*, 401(k), 403(b), and 457 plans, or Keogh accounts). This definition would also include education savings accounts (*e.g.*, 529 plans or Coverdell Education Savings Accounts). *See also* 29 U.S.C. 1002(34) for the definition of an "Individual Account Plan" under ERISA.

⁵³ The Currency and Foreign Transactions Reporting Act of 1970 (commonly referred to as the Bank Secrecy Act) requires all mutual funds and registered broker-dealers to obtain customer identification information, including Social Security numbers for natural persons, prior to opening an account for a customer. 31 C.F.R. §§ 1023.220 and 1024.220, available at <http://www.gpo.gov/fdsys/pkg/CFR-2011-title31-vol3/xml/CFR-2011-title31-vol3-sec1023-220.xml> and <http://www.gpo.gov/fdsys/pkg/CFR-2012-title31-vol3/xml/CFR-2012-title31-vol3-sec1024-220.xml>.

framework to define a retail MMF is a more efficient and effective method of formulating a definition.

In contrast, the SEC's proposed definition would require new permanent controls that would monitor immaterial shareholder redemptions on a continuous basis. Although both approaches may give rise to one-time costs associated with reorganizing MMFs into pure retail and institutional categories, the SEC's proposal clearly would require substantial and costly modifications to transaction processing systems, whereas the alternative proposal would not. The SEC's proposed definition would introduce significant new costs that far outweigh any perceived benefits. Conversely, a definition based on readily available Social Security number account registration information would add minimal incremental cost while providing a simple, straightforward approach that protects individual investors and treats all shareholders in a fund fairly.

Second, we agree with the SEC's objective of targeted reform, and Fidelity's proposed retail fund definition represents more accurately the broader individual shareholder universe that the SEC intended to capture under its definition. Preserving a stable NAV for this broader population of individuals would minimize the shift of assets to other products that structural reforms might cause.⁵⁴ As a result, retail MMFs ultimately would support greater demand for short-term instruments that corporations issue to finance a variety of projects.

Finally, we believe that this alternative definition satisfies the SEC's goal of developing a simple definition that is easy for shareholders to understand and for MMFs to describe.⁵⁵ It relies solely on the concept of a Social Security number – a well understood and clear term – and treats all shareholders and all transactions in a single fund identically. There is no exception based on type of shareholder, type of transaction, or type of account registration and this definition is inexpensive to implement and easy to enforce.

⁵⁴ We note that our proposed retail MMF definition would exclude defined benefit plans and non-U.S. investors, who may or may not be eligible to purchase U.S. MMFs. This definition would include trusts formed for the benefit of individuals.

⁵⁵ The SEC expresses concern in the Proposed Rules release that "social security numbers do not necessarily correlate to an individual." Proposed Rules at 36864. We do not believe that there is any cause for this concern. Our understanding is that other than individuals, the only owners of Social Security numbers are: (i) revocable savings trusts (where the grantor is the trustee); (ii) so-called trust accounts that are not legal or valid trusts under state law; (iii) sole proprietorships or disregarded entities owned by an individual; and (iv) certain grantor trusts. In each of these examples, the IRS, for tax reporting purposes, disregards the entity and looks through to the natural person or individual and requires that returns filed for the entity appear on the individual's personal income tax return. These entities do not represent the types of shareholders that the SEC has identified as a target for reform. Nevertheless, the SEC could explicitly provide that one or more of these entities is not eligible to invest in a retail MMF.

4. The “Retail” Definition Should Apply at the Fund Level

Fidelity recommends that if the SEC ultimately adopts a retail definition, it require MMFs to apply the definition at the fund level. It is essential to treat all shareholders in a fund identically for purposes of the retail definition and we do not support any definition that would allow a hybrid structure in which certain shareholders, share classes, or transactions in a single fund are treated differently. For example, individuals that own a MMF as a sweep option in a brokerage account or as part of a diversified portfolio investment option through different account types, such as a 401(k) plan or a brokerage account, should all be treated the same.

In the Proposed Rules release, the SEC questions whether certain account types, such as ERISA accounts, or certain transactions, such as redemptions in excess of the cap where advance notice is provided, should be exempt from the criteria used to define a retail MMF. The concept of *per se* exclusions from the criteria used for the definition creates confusion, inequity, and disparate treatment. In other words, a redemption from a MMF held in a 401(k) account should not be treated differently from a redemption out of a MMF held in a brokerage account. Similarly, a redemption order that is placed with several days’ notice should not be treated differently from a redemption placed during the settlement cycle.

In addition to the inequity and confusion that such a structure would impose on shareholders within a single fund, the operational complexities and costs to accommodate such a structure far outweigh any benefits. Accordingly, we urge the SEC to avoid a shareholder, transaction type, or share class definition for purposes of any MMF structural reforms.

II. Structural Reforms

Section I of our letter sought to identify the universe of MMFs that the SEC should target with any structural reforms. As the data support, we believe that any reforms should apply to institutional prime MMFs only. Section II of the letter focuses on identifying the structure that would achieve the SEC’s goals most effectively with respect to institutional prime MMFs.

A. The Liquidity Fees and Redemption Gates Proposal Is a More Effective Means to Achieve the SEC’s Goals

Fidelity believes that objectively-triggered standby liquidity fees and redemption gates present the most effective means to achieve the SEC’s ultimate goal of stopping significant redemptions during times of unusual market stress, and at the same time preserve the fundamental characteristics of MMFs, including the stable NAV structure. We reiterate our recommendation that, in addition to exempting Treasury and government MMFs, the SEC should exclude all tax-exempt MMFs from the floating NAV or fees and gates proposal. As shown in the chart of industry asset flows during the 2008 financial crisis on page 8, only institutional prime MMFs experienced significant outflows and, therefore, the SEC should impose the fees and gates proposal only on institutional prime MMFs.

Under to the SEC's proposal, in the event a MMF's weekly liquidity level falls below 15 percent, "the fund must impose a liquidity fee of 2% on all redemptions unless the board . . . determines that imposing such a fee would not be in the best interest of the fund."⁵⁶ The proposal also provides fund boards with "the ability to impose a temporary suspension of redemptions . . . for a limited period of time. . ."⁵⁷ We believe that the primary benefit of this proposal, as opposed to the floating NAV alternative, is that, under normal market circumstances, it achieves the SEC's goal of "preserving the benefits of stable share price money market funds for the widest range of investors and the availability of short-term financing for issuers."⁵⁸

The SEC has requested comment on whether a fund's board should have the discretion to impose a fee or gate at liquidity levels above the 15 percent weekly liquidity level. We believe that the criteria for imposing fees or gates should be objective and do not support providing a fund's board with discretion to impose fees or gates at higher thresholds because it would reduce predictability which shareholders have told us is important. We also favor using the weekly liquid asset level as the measure because it is the best indicator of liquidity and is less susceptible to extraneous factors. In addition, the weekly liquidity structure reflects daily liquidity within its calculation.

We estimate the costs of implementing the liquidity fees and gates proposal will be approximately \$11 million, which exceeds the SEC's estimates. These are largely one-time costs for the necessary systems and public disclosure modifications.

We believe that a liquidity fee and redemption gate proposal is the most effective means of achieving the Commission's objective of discouraging and ultimately halting significant redemptions from institutional prime MMFs. This proposal is preferable to a floating NAV, which would be in effect at all times and would eliminate the fundamental stable NAV feature that makes MMFs so attractive to shareholders. We offer some modifications to the SEC's proposal that we believe would increase the effectiveness of this structure.

⁵⁶ Proposed Rules at 36878. We note that there is a discrepancy between the instruction to proposed Form N-CR Item E.4 for Alternative 2 and proposed Rule 2a-7(c)(2)(i). The instruction in proposed Form N-CR suggests that the board has discretion on whether to impose or not impose the fee and must disclose a "[s]hort discussion of the board of directors' analysis supporting its decision that imposing a liquidity fee . . . (or not imposing such a liquidity fee) would be in the best interest of the Fund." *Id.* at 37022. However, proposed Rule 2a-7(c)(2)(i) suggests that the fee must be imposed by default, with board discretion to impose a lower fee or no fee at all: ". . . the fund must institute a liquidity fee, effective as of the next business day, . . . , unless the fund's board of directors, . . . , determines that imposing the fee is not in the best interest of the fund." *Id.* at 37008. We recommend that the SEC clarify the instruction in Form N-CR to be consistent with the objective default fee in the proposed Rule.

⁵⁷ *Id.* at 36878.

⁵⁸ *Id.* at 36879.

1. The SEC Should Reduce the Liquidity Fee Rate

As the SEC recognizes, liquidity fees help “offset the costs of the liquidity provided to redeeming shareholders, and any excess could . . . [be] used to repair the NAV of the fund, if necessary.”⁵⁹ Yet, the SEC offers no data to support a fee at two percent. Although we agree that a liquidity fee will cover the liquidation costs associated with selling securities necessary to meet redemptions, the SEC’s proposed default fee of 2 percent far exceeds these costs. We have examined the liquidation costs for our MMFs that sold securities during the period immediately following the bankruptcy of Lehman Brothers and determined that the highest liquidation cost was less than 50 basis points of face value. Recognizing that liquidation costs in a future market stress scenario may be greater, we think it is reasonable to set a liquidation fee at 100 basis points or one percent. We are concerned that the proposed liquidity fee rate will be unnecessarily punitive on MMF shareholders who are willing to pay a fee in order to redeem their shares. Accordingly, we urge the SEC to reduce the liquidity fee rate to one percent, which will suffice to deter mass redemptions and pay for any liquidation costs.

2. Fidelity Opposes “Partial” Gates

The SEC requests comment on a variation to the liquidity fees and redemption gates proposal that would permit MMFs to impose partial gates during times of market stress. Under this structure, once a MMF falls below the 15 percent weekly liquidity threshold, the fund’s board could “limit redemptions by any particular shareholder to a certain percentage of their shareholdings, to a certain percentage of the fund’s outstanding shares, or to a certain dollar amount per day. Those limited redemptions would not be charged a liquidity fee.”⁶⁰

Fidelity urges the SEC not to adopt a partial gate structure for MMFs. Although the concept is appealing because it allows shareholders access to at least some of their MMF assets, we believe that the challenges and costs associated with such a structure outweigh the benefits. The systems enhancements necessary to track holdings for purposes of determining each shareholder’s redemption limit would be more complicated, cumbersome, and costly than the changes required to implement the full gate. In addition, we believe that this complicated structure lends itself to arbitrary or inconsistent application across the industry and potential inequitable treatment among shareholders.

3. The SEC Should Consider the Tax and Accounting Implications of the Liquidity Fees and Gates Proposal

As the SEC recognizes, “liquidity fees may have certain tax implications for money market funds and their shareholders.”⁶¹ In determining the appropriate compliance period for the

⁵⁹ *Id.* at 36878-36879.

⁶⁰ *Id.* at 36899.

⁶¹ *Id.* at 36893.

liquidity fee and redemption gate proposal it is critical that the SEC consider the significant tax-related operational and reporting obligations that are involved under this structure. The Internal Revenue Code does not require registered investment companies to recognize gains or losses resulting from redemption fees under Rule 22c-2.⁶² We believe that the U.S. Treasury Department (“Treasury Department”) and the Internal Revenue Service (“IRS”) should apply the same treatment to the SEC’s proposed liquidity fees by issuing guidance to this effect, should the SEC ultimately adopt the liquidity fees and gates proposal. Moreover, any final rulemaking should confirm that implementation of the liquidity fees and gates proposal would not preclude shareholders from classifying a MMF as a “cash equivalent” under Generally Accepted Accounting Principles (“GAAP”) that Financial Accounting Standards Board (“FASB”) established.⁶³ A MMF with the SEC’s proposed redemption restrictions meets the definition of a cash equivalent because its stable \$1.00 NAV makes it readily convertible to known amounts of cash. Furthermore, MMFs are identified as an example of a cash equivalent in FASB guidance.⁶⁴ It is unclear whether a MMF that imposes a redemption gate would meet the cash equivalent criterion of being “readily convertible” because shareholders would not know exactly when the gate would be lifted.

The SEC states in the Proposed Rules release that it expects “the value of floating NAV funds with liquidity fees and gates would be substantially stable and should continue to be treated as a cash equivalent under GAAP.”⁶⁵ Based on our conversations with the SEC Staff, we understand that the SEC did not intend for the Proposed Rules to prevent shareholders from continuing to classify MMFs as a cash equivalent under GAAP. We agree that imposing a temporary redemption gate should not prohibit shareholders from classifying a MMF as a cash equivalent on their balance sheets. Although shareholders would be unable to redeem shares while a fund has a gate in place, the fund’s value would remain subject to minimal risk of a significant change and the fund’s portfolio would continue to hold the same types of investments, which typically are “readily convertible to cash.” Accordingly, we urge the SEC to clarify this intent in any final rulemaking and to encourage FASB and the Governmental Accounting Standards Board (“GASB”) to issue guidance that even with the proposed redemption restrictions, MMFs would continue to meet the definition of a cash equivalent.

⁶² 17 C.F.R. §270.22c-2.

⁶³ FASB Accounting Standards Codification 305-10-20 defines “cash equivalents” as “short-term, highly liquid investments that have both of the following characteristics:

- a. Readily convertible to known amounts of cash, and
- b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.”

⁶⁴ *Id.* (Stating that MMFs are “[e]xamples of items commonly considered to be cash equivalents. . .”)

⁶⁵ Proposed Rules at 36904.

We understand that certain industry trade groups, including the Investment Company Institute, address the tax implications of the liquidity fees and gates proposal in greater detail in their letters and we urge the SEC to evaluate these issues in its final rulemaking process.

4. The SEC Should Extend the Compliance Period for the Liquidity Fees and Gates Proposal

We urge the SEC to extend the compliance period for implementing the standby liquidity fees and gates proposal, should it ultimately adopt this structure. Under the Proposed Rules, the compliance period is one year following the effective date of a final rule. As the SEC acknowledges, in addition to the requisite systems modifications that fund sponsors and service providers must implement, many fund sponsors may need “to restructure or establish new money market funds if they chose to rely on any exemptions available.”⁶⁶ The process of launching new MMFs or potentially seeking board and shareholder approval to restructure existing funds is a lengthy one.

We recommend extending the compliance period for the liquidity fees and gates proposal to three years following the effective date of a final rule.

B. The Floating NAV Proposal Is Not an Effective Means to Achieve the SEC’s Goals

The floating NAV proposal does not provide an effective means to achieve the Commission’s stated goals because not only does it fail to prevent massive redemptions from institutional prime MMFs during times of market turmoil, but the extent of the structural changes actually could cause significant redemptions from MMFs, disrupt the financial marketplace, and increase systemic risk by increasing concentration of short-term assets in the banking system.

The SEC has not provided, nor are we aware of, empirical evidence to support the idea that in a period of market turmoil, funds with floating NAVs would be at lower risk of significant redemptions from shareholders. To the contrary, floating NAV funds in Europe experienced similar redemption pressures during the 2008 financial crisis as stable NAV MMFs.⁶⁷

We note that in his remarks at the open meeting to propose the SEC’s MMF reforms, then Commissioner Troy Paredes stated that, “[i]f, in fact, floating the NAV does not stave off heavy redemptions, then one has to question whether abandoning the stable NAV is justified given the significant costs and burdens that investors and issuers would have to bear if a floating

⁶⁶ *Id.* at 36975.

⁶⁷ See Stephen Jank and Michael Wedow, *Sturm und Drang in Money Market Funds: When Money Market Funds Cease to Be Narrow*, Deutsche Bundesbank Discussion Paper, Series 2: Banking and Financial Studies, No. 20/2008, available at, http://www.bundesbank.de/Redaktion/EN/Downloads/Publications/Discussion_Paper_2/2008/2008_12_30_dkp_20.pdf?__blob=publicationFile.

NAV undercuts the usefulness of money market funds as a cash management vehicle.”⁶⁸ We urge the SEC to take this under consideration before determining whether to adopt a floating NAV. If the SEC ultimately chooses to adopt a floating NAV for institutional prime MMFs, we urge the Commission to consider and address some of the negative consequences a floating NAV presents.

1. The SEC Must Consider the Tax and Accounting Implications of a Floating NAV

The floating NAV proposal would create new tax, accounting, and record-keeping requirements for investors unless regulators provide additional administrative relief. The SEC recognizes that, from a tax perspective, shareholders of floating NAV MMFs “would be required to track the timing and price of purchase and sale transactions to determine the amounts of gains and losses realized.”⁶⁹ In addition, these shareholders “would no longer be excluded from the information reporting requirements currently applicable to mutual funds and intermediaries.”⁷⁰ For fund advisers, additional burdens would include obligations to track the costs of each shareholder’s shares and to determine how to match each shareholder’s purchases and redemptions for purposes of calculating gains and losses, all of which would require building new reporting systems at great costs. From a financial reporting perspective, shareholders of floating NAV MMFs may feel compelled to reclassify these funds as short-term investments or another line item, rather than as cash, absent any further guidance.

The SEC states “that the Treasury Department and the IRS are considering alternatives for modifying forms and guidance.”⁷¹ These vague assurances are no comfort for MMF shareholders or sponsors, as the Treasury Department and the IRS may conclude that they lack the regulatory authority required to provide a meaningful solution, and any alternative solutions may be insufficient. Unless regulators provide such relief from a tax perspective and treat a floating NAV MMF as a cash equivalent for accounting purposes, it is impractical for the SEC to adopt a floating NAV proposal.

a) A Floating NAV MMF Would Have Significant Tax Implications

The IRS generally requires mutual funds and brokers to report the proceeds paid to shareholders upon redemption of such shares.⁷² This reporting is filed on IRS Form 1099-B

⁶⁸ *Statement at Open Meeting Regarding a Rule Proposal on Money Market Fund Reform*, by Commissioner Troy A. Paredes, U.S. Securities and Exchange Commission, Washington, D.C. (June 5, 2013), available at <http://www.sec.gov/News/Speech/Detail/Speech/1365171575570#.UgJtD5KmilU>.

⁶⁹ Proposed Rules at 36868.

⁷⁰ *Id.*

⁷¹ *Id.*

⁷² With respect to mutual fund shares that shareholders hold directly (*i.e.*, not in a brokerage account), the mutual fund is considered the tax reporting agent for information reporting purposes. With respect to mutual fund shares that shareholders hold in a brokerage account, the broker is considered the tax reporting agent.

(“1099-B”), which shareholders and the IRS use to compute the taxable gain or loss generated upon redemption. Each redemption is reported as a separate tax event, regardless of whether multiple aggregate redemptions result in gains and losses that offset during the year.

For mutual fund shares acquired in 2012 and later, mutual funds and brokers also must report on the 1099-B the shareholder’s cost basis in the shares redeemed. The reported cost basis reflects adjustments required under the “wash sale” rule (but only for wash sales in identical shares in the same account).⁷³ It is highly unlikely that the drafters of the wash sale statute anticipated a future in which functional cash equivalents would be subject to the wash sale statute currently in place. As written, however, the wash sale statute indeed would apply to loss redemptions of shares in floating NAV MMFs.

Because redemption of shares in a fund with a stable NAV of \$1.00 cannot generate taxable gain or loss, such redemptions are not subject to 1099-B reporting. However, redemptions by taxable shareholders in floating NAV MMFs would generate taxable gain or loss. As a result, such redemptions would be taxable events subject to 1099-B reporting and to the wash sale rules. Moreover, each redemption would be accounted for as a separate taxable event, with its own line item on 1099-B and its own gain/loss calculation. Conceptually, it may seem straightforward to apply the same tax requirements to a floating NAV MMF that are applied to all other floating NAV funds. However, shareholders do not invest in long-term mutual funds for cash management purposes and, accordingly, typically make fewer purchases and redemptions in these funds. Unfortunately, applying current tax rules to floating NAV MMFs would result in substantial complexity and increased administrative costs and burdens for the funds, broker dealers, and shareholders. These burdens far outweigh the little revenue that the IRS will receive as a result of the new reporting requirement and tax payment obligation.

Unfortunately, the wash sale statute does not expressly authorize the IRS to create exceptions for specified types of securities or transactions. As a result, any relief that the IRS

⁷³ Under section 1091 of the Internal Revenue Code, a taxpayer cannot deduct losses from sales or other dispositions of stock or securities in a wash sale. A wash sale occurs when a taxpayer sells or disposes of stock or securities at a loss and within 30 days before or after the sale the taxpayer:

- Acquires by purchase substantially identical stock or securities;
- Acquires by an exchange (on which the entire amount of gain or loss was recognized) substantially identical stock or securities; or
- Enters into a contract or option to acquire substantially identical stock or securities. 26 U.S.C. § 1091(a).

In addition, we note that 1099-B reporting is not required for shareholders that the IRS has designated as “exempt recipients” for purposes of 1099-B reporting. Exempt recipients include tax-exempt investors holding their fund shares in retirement accounts, but exempt recipients for 1099-B purposes also include so-called “C” corporations, banks, and broker dealers. Recipients that are *not* exempt from 1099-B reporting include so-called “S” corporations, partnerships, and individuals. Each investor is required to calculate and report taxable gains and losses on its tax return, regardless of whether a taxable investor is exempt from 1099-B reporting or the 1099-B form reflects all required adjustments.

grants is limited to its interpretation of the statute currently in place. Recently, the IRS issued a Proposed Revenue Procedure that includes a very narrow *de minimis* exception under the wash sale rule in the event the SEC adopts a floating NAV structure for MMFs.⁷⁴ The IRS proposes that redemptions generating a *de minimis* amount of loss would not trigger the wash sales rule. A current loss on the redemption of a share in a floating NAV MMF would be permitted (and, therefore, would not require subsequent tracking or basis adjustments) if the loss is no more than 0.5 percent of the taxpayer's basis in that share. However, the Proposed Revenue Procedure does not mitigate the operational burdens associated with monitoring transactions to determine whether they satisfy the *de minimis* exception. Fund sponsors, intermediaries, and shareholders would need to make significant investments in modifying and creating systems to track and apply the *de minimis* rule.⁷⁵ Each share redeemed at a loss would require a determination of whether the *de minimis* exception applies, which would require coordination with shareholder's chosen cost basis method. Furthermore, for shareholders, the benefit of avoiding wash sale treatment may not be worth the time and effort required to apply the *de minimis* rule.

The tax challenges that would result for MMFs under a floating NAV structure cannot be solved under existing and currently proposed tax guidance. Unless the Treasury Department and IRS provide significant modifications to the existing rules governing 1099-B and wash sale reporting, we believe that the floating NAV proposal is highly impractical and costly.

b) A Floating NAV MMF Could Have Significant Accounting Implications

As discussed in the liquidity fees and gates section above, from a financial reporting perspective, a MMF with a stable \$1.00 NAV qualifies as a "cash equivalent" under GAAP that FASB established.⁷⁶ It meets the definition of a cash equivalent because it is "readily convertible to known amounts of cash" with its stable \$1.00 NAV and is called out specifically in the FASB guidance as an example of a cash equivalent.⁷⁷ The SEC states in the Proposed Rules release that it "believes that an investment in a money market fund with a floating NAV would meet the definition of a 'cash equivalent'"⁷⁸ and that "adoption of a floating NAV alone would not preclude shareholders from classifying their investments in money market funds as cash equivalents"⁷⁹ under GAAP. We support the Commission's interpretation because we do not

⁷⁴ Internal Revenue Service Proposed Revenue Procedure, "Application of Wash Sale Rules to Money Market Fund Shares," Notice 2013-48 (July 3, 2013), available at <http://www.irs.gov/pub/irs-drop/n-13-48.pdf>.

⁷⁵ See Center for Capital Markets Competitiveness, "Operations Implications of a Floating NAV Across Money Market Fund Key Stakeholders," (Summer 2013) at 14-15, available at http://www.centerforcapitalmarkets.com/wp-content/uploads/2010/04/020831_CCMC_FloatingNAV_Final_8.2.13.pdf.

⁷⁶ FASB Accounting Standards Codification 305-10-20.

⁷⁷ *Id.*

⁷⁸ Proposed Rules at 36869.

⁷⁹ *Id.*

anticipate that the daily movements in the NAV of a MMF would be significant and, therefore, shares still would be readily convertible to known amounts of cash in all material respects.

We anticipate that SEC registrants would be assured by such statements, including the SEC's basis and rationale for such statements, in any final rule release. However, many entities that invest in MMFs are not registered with the SEC and, therefore, may not be assured by the SEC's position on how to determine balance sheet classifications. Most of these entities are subject to GAAP as set forth by FASB and, in certain circumstances, these entities may be subject to accounting principles other than those issued by FASB, such as those issued by GASB.

Without comments from the SEC in an adopting release that support MMFs as cash equivalents and affirming statements from accounting regulatory bodies, such as FASB and GASB, we are concerned that shareholders, particularly corporate investors, and their auditors may interpret any ambiguity on this issue to require reclassifying MMFs from cash to short-term investments on their balance sheets. This confusion may result in inconsistent treatment of MMFs across industry balance sheets. In addition, shareholders may want to avoid any ambiguity and the potential loss of cash equivalent classification, which may lead to significant outflows from floating NAV MMFs into other cash vehicles at the end of a reporting period in order to avoid potential balance sheet issues. To avoid lingering uncertainty surrounding the accounting implications of a floating NAV, we believe the SEC should only adopt this proposal in conjunction with definitive guidance from the FASB and other accounting bodies on this topic.

c) A Floating NAV MMF Would Have Significant Operational Implications and Costs

Moving to a floating NAV also would require extensive modifications to automated accounting and settlement systems throughout the financial system. Amortized cost accounting and a stable \$1.00 NAV simplify cash management policies for investors and allow corporations, broker dealers, and banks to invest in shares of MMFs as cash "sweep" vehicles for any uninvested customer cash balances. In addition, broker dealers offer clients a variety of features that are available generally only to accounts with a stable NAV, including ATM access, check writing, and ACH and fed wire transfers. A floating NAV would force MMFs that offer same day settlement on shares redeemed through wire transfers to shift to next day settlement or require fund advisers to modify their systems to accommodate floating NAV MMFs. Fidelity estimates the initial cost of modifying our systems and public disclosures to support a floating NAV to be approximately \$28 million.

2. The SEC Must Consider the Impact a Floating NAV Would Have on Brokerage Accounts and Retirement Plans

In order to understand the magnitude of the impact that the SEC's proposed definition would have on brokerage accounts and retirement plans, we offer some background on how MMFs are utilized.

a) Brokerage Accounts

Brokerage accounts typically allow customers to “sweep” uninvested cash or funds held pending settlement of securities transactions. This service is often referred to as a “sweep program.” MMFs are used commonly as an investment option for sweep program positions.

Broker-dealers utilize MMFs as a sweep option because the funds are all stable (due to the stable NAV) and liquid (because they offer unlimited access to cash the next day). These are both important characteristics that satisfy the need to know with certainty that a sufficient amount of money will be available to settle a securities transaction at the end of the settlement period. Many investment advisers and intermediaries may conclude that adapting sweep program systems to provide for a floating NAV is not worth the cost.

Broker-dealers also would wrestle with potential suitability concerns arising under FINRA Rule 2111 if MMFs no longer had a stable NAV and/or imposed liquidity fees and redemption gates. Under this rule, if a broker-dealer is viewed as having made a recommendation of the sweep program’s investment option, the firm would need to assess whether MMFs remain suitable sweep products. Although the SEC indicated in the Proposed Rules release that it would view a MMF under either of its proposed structural reforms as a “cash equivalent” under GAAP, we urge the Commission to clarify further (or request that FINRA clarify) that it would deem MMFs as suitable investment options for sweep programs following any of the proposed changes.

Should broker-dealers conclude that MMFs are no longer appropriate investment options for sweep programs as a result of any structural reforms, firms may need to take a number of potentially disruptive steps in order to move customers out of MMFs and into alternative investment options (particularly following recent revisions to Rule 15c3-3 as well as FINRA’s rules governing bulk transfers). Accordingly, we urge the SEC to consider these potential impacts in its final rulemaking.

b) Retirement Plans

Employee benefit plans use MMFs in various ways. Like other large institutional investors, investment managers of defined contribution plans and large welfare benefit plans use MMFs to hold plan assets in a stable and liquid investment. This may be done temporarily until the investment manager is ready to invest plan contributions. The plan also may use MMFs to provide liquidity for benefits payments.

Many participant-directed defined contribution plans commonly make MMFs available on the plan’s investment menu as a way to help satisfy the requirements of section 404(c) of the Employee Retirement Income Security Act of 1974 (“ERISA”). This section provides relief for fiduciaries of participant-directed plans who offer at least three investment alternatives, which in the aggregate enable a participant to achieve a portfolio with aggregate risk and return

characteristics at any point normally within the range appropriate for the participant.⁸⁰ This generally is interpreted to mean that participant-directed 404(c) plans must offer at least one safe investment alternative to participants. MMFs often serve that role.⁸¹

ERISA requires that every plan appoint one or more fiduciaries with the authority to invest the plan's assets.⁸² ERISA section 404(a)(1)(B) requires that a fiduciary discharge his or her duties "with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims."⁸³

If the SEC adopts the proposed structural reforms for MMFs, each plan fiduciary will need to consider whether it can continue to use MMFs within its plans consistent with the duties that ERISA imposes on plan fiduciaries. Plan fiduciaries will need to reevaluate MMFs as modified in light of the risks that the fund presents, the purposes to which the fund is being used in the plan's overall portfolio, the anticipated return associated with the investment, and the liquidity needs of the plan.⁸⁴ Before selecting MMFs as investment options, plan fiduciaries likely will look to the Department of Labor and the IRS, among others, to help provide guidance on these issues. Ultimately, millions of people who invest in MMFs through retirement plans may suffer from the implications of the SEC's proposals if the Commission does not consider certain modifications to preserve a stable NAV product for these shareholders.

3. Fidelity Opposes the SEC's Proposed Basis Point Rounding Proposal

The SEC's floating NAV proposal would require all institutional prime and municipal MMFs to price and transact their shares at their market value, which would fluctuate with the value of the underlying portfolio, consistent with the valuation methodology applicable to other mutual funds. However, the proposal would require MMFs to price and transact their shares to one hundredth of one percent (*i.e.*, \$1.0000 for shares with a target NAV of \$1.00 and \$10.000

⁸⁰ See 29 C.F.R. §2550.404c-1(b)(3)(i)(B).

⁸¹ See PROFIT SHARING COUNCIL OF AMERICA, 55th ANNUAL SURVEY 38 (2012) (more than half of all plans offer a cash equivalent (CD/Money Market) investment option); Deloitte et al., Annual 401(k) Benchmarking Survey 54 (2011), *available at* https://deloitte.com/assets/DComUnitedStates/local%20Assets/Documents/us_consulting_Deloitte%20401k%20Survey_2011%edition_12082011.pdf (53% of plans currently offer a MMF).

⁸² See ERISA sections 402(c)(3) and 403(a).

⁸³ ERISA section 404(a)(1)(B).

⁸⁴ For example, to the extent a MMF is used for liquidity, a plan fiduciary would need to take into account, in evaluating the investment, rules that require distributions or other actions by a particular deadline. Certain proposed modifications, such as the imposition of a floating NAV, could make a MMF ineligible to serve as a temporary qualified default investment alternative (QDIA) in accordance with regulations prescribed by the Department of Labor (DOL), requiring the DOL to either amend the regulation or issue guidance the interpret the regulation to mean that a floating NAV MMF qualifies as a temporary QDIA.

for shares with a target NAV of \$10.00). Currently, other mutual funds with a floating NAV must price and transact to one tenth of one percent (*i.e.*, to \$1.000 on a \$1.00 NAV or to \$10.00 on a \$10.00 NAV). The SEC's proposed pricing standard for MMFs is *ten times* more precise than the method used by other mutual funds that typically hold securities with greater risk characteristics than MMFs.

If the SEC adopts a floating NAV structure for certain MMFs, we urge the Commission to change the required pricing standard from the proposed one hundredth of one percent (*i.e.*, one basis point rounding, or \$1.0000 for shares with a target NAV of \$1.00) to one tenth of one percent (*i.e.*, 10 basis point rounding, or \$1.000 for funds with a target NAV of \$1.00), which is the standard method required for other floating NAV funds. Although we agree with the SEC's statement that rounding to one hundredth of one percent would increase price fluctuations and demonstrate to shareholders "that some money market funds may experience greater price volatility than others, and thus that there are variations in the risk profiles of different money market funds,"⁸⁵ we believe that this increased precision greatly exaggerates the risks of investing in a MMF as compared to other types of floating NAV mutual funds.

For example, bond funds may purchase securities that carry significantly greater liquidity, interest rate, and credit risk than the securities that are eligible for purchase by MMFs. However, the NAV differences that result from using different pricing standards for MMFs versus bond funds could suggest erroneously that the MMF has greater risk than the bond fund. Under the current mutual fund pricing standard of one tenth of one percent, a bond fund can absorb five basis points of market value fluctuation before the fund's NAV moves. In contrast, a floating NAV MMF using the SEC's proposed pricing standard of one hundredth of one percent can only absorb one half of a basis point of market value fluctuation before the fund's NAV moves due to the added precision of the calculation. Consider an example where the portfolio of a very conservative bond fund might be *identical* to that of a MMF. However, applying two different valuation calculations would suggest that the MMF is somehow more volatile than the bond fund. We believe that requiring that MMFs use a more precise method for NAV calculation would mislead shareholders.

To further illustrate this point, the following table considers the impact of a four basis point market depreciation in the value of underlying securities to a shareholder with an initial account value of \$1 million in a bond fund and MMF with identical portfolios. The initial NAV of the bond fund is \$10.00 and the floating NAV MMF is \$1.0000.

⁸⁵ Proposed Rules at 36854.

	Bond Fund	Floating NAV MMF
Initial Net Assets of Fund	\$50,000,000.00	\$50,000,000.00
Funds Experience 4 Basis Point Depreciation		
Net Assets of Fund	\$49,980,000.00	\$49,980,000.00
NAV Per Share	\$10.00	\$0.9996
Number of Shares Owned by Shareholder	100,000	1,000,000
Shareholder Account Value	\$1,000,000.00	\$999,600.00

This example demonstrates the non-intuitive, unequal treatment that floating NAV MMF shareholders would receive relative to other floating NAV mutual fund shareholders, even if the portfolios hold the same securities. Although both funds experienced the same fluctuation in market value, the added precision of 1 basis point rounding for the MMF would result in a \$400 decrease in value for the MMF shareholder, but no change in value for the shareholder in the identical bond fund, which applies 10 basis point rounding. The added sensitivity of calculating the NAV using 1 basis point rounding overemphasizes the risks and volatility of a MMF. Accordingly, we urge the SEC to apply the same valuation requirements to MMFs that it applies to other mutual funds if it chooses to adopt a floating NAV structure.

In addition, we believe that the pricing precision used to calculate the NAV for transactions should be identical to the NAV that a fund discloses. Accordingly, we recommend that the SEC also adjust the NAV disclosure requirement to be at the same level of precision at which shareholders would transact. Specifically, we recommend that the SEC require funds to transact and disclose their NAVs using 10 basis point rounding (*i.e.*, \$1.000 for funds with a \$1.00 target NAV). If shareholders were to transact at a \$1.000, disclosing a per share value to \$1.0000 would provide shareholders with an opportunity to take advantage of buying or selling the fund at more or less than its value. This opportunity does not exist for other floating NAV funds today because NAV disclosures only reflect the transactional NAV. In order to avoid an arbitrage opportunity based on asymmetry of information, we recommend that if the SEC ultimately adopts a floating NAV structure for MMFs with a 10 basis point rounding requirement, that it adopt a corresponding NAV disclosure requirement.

Related to this matter, we also recommend that the SEC consider issuing guidance or relief with respect to the NAV disclosure requirements for those MMFs that may ultimately transition to a floating NAV structure. Current Form N-MFP requires a MMF to disclose its

market value NAV using a one basis point rounding method (*i.e.*, \$1.0000).⁸⁶ Many fund firms, including Fidelity, voluntarily disclose this data daily on their websites. Our concern is that knowledge of the market value NAV in advance of the transition date may create the arbitrage opportunity similar to the one we describe in the preceding paragraph. With market value NAV data available to the public, both existing and prospective shareholders will have a sense of what the initial NAV on the transition date to a floating NAV. MMFs with NAVs below \$1.0000 could experience significant outflows leading up to the transition date as shareholders redeem at the transactional \$1.00 NAV in advance of the NAV falling to less than \$1.00 after the transition date. Such redemptions could lead to a rapid decline in the NAV before the transition date. Conversely, MMFs with market value NAVs above \$1.0000 could experience significant inflows before the transition date, as investors seek to take advantage of buying a fund at \$1.00 and experiencing appreciation of the NAV above \$1.00 on the transition date. We urge the SEC to consider seriously these potential consequences resulting from its basis point rounding proposal and any transition period.

4. Fidelity Opposes Eliminating Amortized Cost Accounting for MMFs

Pursuant to Accounting Series Release 219, registered investment companies can value securities using amortized cost, provided the securities have maturities of 60 days or less.⁸⁷ Rule 2a-7, however, currently permits MMFs to use amortized cost to value all of their securities, regardless of maturity.⁸⁸ Using amortized cost accounting allows MMFs to provide same day settlement capabilities for shareholders. Requiring MMFs to value their assets using market values may limit or prevent the same day settlement transactions upon which many shareholders have come to rely. To accommodate same day settlement, MMFs will be forced to impose deadlines for redemption orders early in the day, which may not be workable for shareholders. We urge the SEC to preserve in its final rulemaking the ability for MMFs to value their assets using amortized cost, regardless of the securities' maturities.

5. The SEC's Floating NAV Proposal Will Shift MMF Assets to Other Products

Fidelity has demonstrated that the SEC's floating NAV proposal would be unpopular with the millions of retail and institutional MMF shareholders and therefore could result in significant fund outflows. Moving to a floating NAV would limit the number of available stable NAV investment product options, potentially resulting in higher costs and lower returns for investors. This would decrease choices for short-term savers and limit their opportunity for market returns on cash. Our research shows that a significant percentage of MMF shareholders,

⁸⁶ Form N-MFP, Item 18a, available at <http://www.sec.gov/about/forms/formn-mfp.pdf>.

⁸⁷ Valuation of Debt Instruments by Money Market Funds and Certain Other Open-End Investment Companies, Accounting Series Release No. 219, Investment Company Act Release No. 9786 (May 31, 1977).

⁸⁸ 17 C.F.R. 270.2a-7(c)

particularly institutional shareholders, would redeem holdings in these funds if regulators eliminated the stable NAV.⁸⁹

Our research also indicates that fundamental changes to the stable NAV structure of MMFs will cause a significant number of individual and institutional investors to shift assets out of MMFs into banks and other short-term investment vehicles.⁹⁰ We anticipate that this even greater concentration of deposits in banks would increase strain on an already overextended federal guarantee system. Beyond bank deposit products, investors would be forced to look at other investment instruments that have greater risk and do not provide the same transparency and comprehensive regulatory protection as MMFs. These alternatives include investing directly in short-term instruments: short-term investors would have non-professionally managed portfolios that would be less diversified, less liquid, less regulated, and poorly optimized as compared to MMFs. Additionally, the risk that assets will shift from more regulated jurisdictions, companies, and products to those that are less regulated is widely acknowledged. For example, in his statement regarding his decision not to support Chairman Schapiro's reform proposals in the summer of 2012, SEC Commissioner Luis Aguilar noted his concern "that the Chairman's proposal will be a catalyst for investors moving significant dollars from the regulated, transparent money market fund market into the dark, opaque, unregulated market."⁹¹

6. The SEC's Floating NAV Proposal Would Have a Negative Impact on Short-Term Financing

MMFs also serve as a reliable source of direct short-term financing for the U.S. Government, domestic and foreign banks, financial and non-financial corporations and municipal issuers (including state and local governments as well as universities, hospitals, and utilities). The decrease in investor demand for MMFs likely to result from moving to a floating NAV would significantly limit the availability of this important source of short-term funding for businesses as well as federal, state, and local governments. This will result in potentially meaningful increases in borrowing costs that will ultimately be passed through to taxpayers and consumers, leading to negative impacts across the U.S. and global economies.

⁸⁹ Fidelity 2011 Survey.

⁹⁰ Fidelity 2011 Survey at 4.

⁹¹ See *Statement Regarding Money Market Funds*, by Commissioner Luis A. Aguilar, U.S. Securities and Exchange Commission, Washington, D.C. (Aug. 23, 2012), available at <http://sec.gov/news/speech/2012/spch082312laa.htm>. In December 2012, Commissioner Aguilar reiterated his concern regarding the potential impact of structural change to MMFs, stating that "it remains a concern that assets could flow to unregulated, opaque funds." *Statement on Money Market Funds as to Recent Developments*, by Commissioner Luis A. Aguilar, (Dec. 5, 2012), available at <http://www.sec.gov/news/speech/2012/spch120512laa.htm>.

7. The SEC's Floating NAV Proposal Conflicts with State and Local Laws and Corporate Guidelines

Under many state laws and regulations, municipalities, and insurance companies are authorized to invest in MMFs only if the funds maintain a stable NAV and, in some cases, only in funds managed pursuant to Rule 2a-7.⁹² Sponsors of retirement plans that are subject to fiduciary obligations also may be reluctant to include floating NAV MMFs as a cash investment option in group retirement plans. Corporations also may be subject to internal investment guidelines that limit their cash management investments to products that seek to maintain a stable NAV.⁹³

8. The SEC Should Extend the Compliance Period for the Floating NAV Proposal

Under the Proposed Rules, the compliance period is two years following the effective date of a final rule. As we described, the complexity of the systems enhancements necessary to implement a floating NAV for MMFs is significant and extensive. Furthermore, resolution of the tax and accounting issues in advance of an effective date is critical. This will require action by the Treasury Department, IRS, and FASB and time for them to issue necessary guidance. Accordingly, if the SEC ultimately adopts a floating NAV, we urge the Commission to extend the compliance period to three years, which would allow MMFs and intermediaries sufficient time to implement this structure.

C. Fidelity Does Not Support a Combination of, Or Choice Between, Standby Liquidity Fees and Gates and Floating NAV

The SEC requests comment on a third MMF structural reform alternative, which would combine standby liquidity fees and redemption gates with a floating NAV. Fidelity does not support a combined structure. As discussed throughout our letter, each of the SEC's proposed alternatives presents its own challenges and disadvantages from an economic and operational perspective. A combined structure would impose excessive costs and burdens on the MMF industry, MMF shareholders, and the financial markets generally, and result in an extremely complex and confusing product. More importantly, we believe that a combined approach would drive the greatest number of shareholders and fund providers out of MMFs. In addition, we do not support providing MMFs the option of choosing which of the two alternatives to follow. It is

⁹² See Letter from Michael A. Egerton, Senior Vice President, Government Relations, The New Jersey State Chamber of Commerce, to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission (Aug. 23, 2013), available at <http://www.sec.gov/comments/s7-03-13/s70313-69.pdf> (stating that “[m]any companies are required, by law or by investment policy, to invest cash only in products offering a stable value.”)

⁹³ See Letter from Joseph C. Meekand and Denise Laussade, on behalf of Association for Financial Professionals, to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission (Jan. 10, 2011) at 2, available at <http://www.sec.gov/comments/4-619/4619-17.pdf> (stating that “many corporate investors will either be precluded from investing in MMFs, or will be required to modify their investment policies to allow for the flexibility to invest in instruments that fluctuate in value.”).

important to establish a uniform structure for similar funds in order to avoid any confusion or interference with shareholders' ability to compare their MMF options.

III. Diversification, Stress Testing, and Disclosure Changes

A. Fidelity Recommends Modifications to the Proposed Diversification Changes

Fidelity supports the SEC's efforts to reduce further any potential risk exposure in MMFs and we agree with many of the clarifying amendments. Similarly, we also generally support the proposed diversification changes, which we believe will ensure a more consistent application of these standards across MMFs. However, we offer the following enhancements to the Proposed Rules that we believe would make these amendments more effective.

1. Fidelity Recommends Expressly Excluding Tender Option Bonds from the Proposed Diversification Changes Relating to Asset-Backed Securities

The SEC's proposed changes to the diversification limits include a requirement for MMFs to treat sponsors of special purpose entities ("SPEs") that issue asset-backed securities ("ABS") as guarantors, subject to the existing 10 percent diversification limit.⁹⁴ Fidelity recognizes the SEC's concerns with respect to MMFs' potential reliance on sponsors of asset-backed commercial paper ("ABCP") and agrees that the proposed amendments would be an effective means of minimizing risk by limiting a MMF's exposure to sponsors of ABCP and certain other ABS. Although we appreciate the SEC's efforts, the characteristics of certain types of ABS do not present the risks that the SEC aims to address through its proposed changes. Accordingly, we recommend that the Commission expressly exclude TOB securities from these proposed changes, particularly because holdings of these securities are subject already to current diversification limits on issuers and demand feature and guarantee providers.

A TOB is a financing arrangement pursuant to which a special purpose trust is created to hold high-quality municipal securities. The trust, in turn, issues a short-term variable rate security that is accompanied by a demand feature. TOBs generally have both short-term ratings (based on the credit rating of the liquidity provider) and long-term ratings (based on the ratings of the underlying municipal securities) that satisfy the criteria under Rule 2a-7 to be eligible investments for tax-exempt MMFs.

The SEC identifies certain concerns that it seeks to address by requiring inclusion of SPE sponsors under the 10 percent diversification limit that do not apply to TOBs. For example, the SEC states that "the support that ABS sponsors provide, implicitly or explicitly, typically does not meet the rule's definition of a 'guarantee' or 'demand feature.'"⁹⁵ In the case of TOBs, however, this statement is not true. The liquidity facility support on a TOB program meets the

⁹⁴ Proposed Rule 2a-7(d)(3)(iii).

⁹⁵ Proposed Rules at 36959.

definition of a demand feature under Rule 2a-7.⁹⁶ Accordingly, MMFs currently track the exposure to the provider of liquidity support for purposes of demand feature diversification testing. Therefore, the diversification changes related to ABS sponsors provide no additional benefit in light of the current demand feature diversification limits.

The SEC also raises a concern related to the cash flow mismatch resulting from the longer-term maturities of the SPE's underlying securities relative to the short-term ABCP.⁹⁷ However, this cash flow mismatch does not apply to TOBs, where principal and interest payments on the TOB security are paid from, and generally are timed to match, the principal and interest payments on the underlying municipal bonds.

Furthermore, the SEC indicates that among the reasons it proposes changes to the ABS requirement is that ABCP investors "analyze the structure of the ABCP programs and the financial wherewithal of their support providers more than asset-level information about the assets owned by the SPEs issuing the ABCP."⁹⁸ In contrast, due to the pass through of cash flow from the municipal securities, described in the preceding paragraph, the creditworthiness of the underlying issuer is critical to the minimal credit risk determination for TOBs. In fact, the underlying security in a TOB must meet the quality requirements that Rule 2a-7 currently dictates.⁹⁹ These requirements eliminate the SEC's concern that investors do not take into account the creditworthiness of the underlying assets in ABS.

We recognize that the SEC's proposed changes for MMFs investing in ABS include an exception "if the money market fund's board of directors (or its delegate) determines that the fund is not relying on the ABS sponsor's financial strength or its ability or willingness to provide liquidity, credit or other support to determine the ABS's quality or liquidity."¹⁰⁰ However, we believe that the structure of TOBs protects against the concerns the SEC raises with respect to other types of ABS, specifically ABCP. Requiring a MMF's board to create these exceptions for TOBs would be burdensome and unnecessary. As we described, TOBs do not share sufficient structural commonalities with traditional ABS to merit inclusion in the proposed changes to the ABS diversification requirements. We believe that tax-exempt MMFs would suffer if the SEC imposes these changes on TOBs because it would restrict further a MMF's ability to hold these

⁹⁶ 17 C.F.R. § 270.2a-7(c)(4)(iii).

⁹⁷ Proposed Rules at 36959.

⁹⁸ *Id.*

⁹⁹ 17 C.F.R. § 270.2a-7(c)(3)(iv)(C).

¹⁰⁰ Proposed Rules at 36960.

securities, while not providing any offsetting risk reduction. We urge the SEC to expressly exclude this structure from the proposed rule changes.¹⁰¹

2. Fidelity Proposes an Alternative to Eliminating the 25 Percent Basket

Rule 2a-7 requires that MMFs, other than single-state funds, limit their investment in any one issuer of a first tier security (other than government securities) to no more than five percent of fund assets.¹⁰² In addition, with respect to all but 25 percent of fund assets (the “25 percent basket”), investments in securities subject to a demand feature or guarantee are limited to no more than 10 percent of fund assets from any one provider.¹⁰³

¹⁰¹ We recommend the following changes to the SEC’s proposed amendments related to ABS sponsor guarantees (new language underlined; deleted language [bracketed]):

1. *Definition of Tender Option Bond To Be Added under Rule 2a-7(a):*

() Tender option bond means an Asset Backed Security (i) with respect to which the qualifying assets relate to Conduit Securities or securities issued by a Municipal Issuer; and (ii) that is subject to a Demand Feature or Guarantee.

2. *Revision to the Second Clause of the “Guarantee” Definition under Proposed Rule 2a-7(a)(16)(ii):*

(ii) The sponsor of a special purpose entity with respect to an asset-backed security other than a tender option bond shall be deemed to have provided a guarantee with respect to the entire principal amount of the asset-backed security for purposes of this section, except paragraphs (a)(11)(iii) (definition of eligible security), (d)(2)(iii) (credit substitution), (d)(3)(iv)(A) (fractional guarantees) and (e) (guarantees not relied on) of this section, unless the money market fund’s board of directors has determined that the fund is not relying on the sponsor’s financial strength or its ability or willingness to provide liquidity, credit or other support to determine the quality (pursuant to paragraph (d)(2) of this section) or liquidity (pursuant to paragraph (d)(4) of this section) of the asset-backed security, and maintains a record of this determination (pursuant to paragraphs (g)(6) and (h)(6) of this section).

3. *Revision to the Second Clause of the “Guarantee issued by a non-controlled person” Definition under Proposed Rule 2a-7(a)(17)(ii):*

(ii) A sponsor of a special purpose entity with respect to an asset-backed security, other than a tender option bond, if the money market fund’s board of directors has made the findings described in paragraph (g)(6) of this section.

4. *Revision to “Asset-Backed Securities Not Subject to Guarantees” under Proposed Rule 2a-7(g)(6):*

(6) *Asset-backed securities not subject to guarantees.* With reference to paragraph (a)(16) hereof, [I]n the case of an asset-backed security (other than a tender option bond) for which the fund’s board of directors has determined that the fund is not relying on the sponsor’s financial strength or its ability or willingness to provide liquidity, credit or other support in connection with the asset-backed security to determine the quality (pursuant to paragraph (d)(2) of this section) or liquidity (pursuant to paragraph (d)(4) of this section) of the asset-backed security, written procedures must require periodic evaluation of such determination.

¹⁰² 17 C.F.R. § 270.2a-7(c)(4)(i).

¹⁰³ 17 C.F.R. § 270.2a-7(c)(4)(iii).

As part of the proposed changes to the MMF diversification requirements, the SEC also seeks to eliminate the 25 percent basket. Eliminating the basket would negatively impact the tax-exempt MMF market, in particular, which would experience even greater supply constraints. We estimate that as of June 2013, compliance with the SEC's proposed change would require Fidelity's tax-exempt MMFs to reallocate or sell \$2.6 billion in MMF securities.

Although Fidelity does not support removing the 25 percent basket, we recognize the SEC's goal and offer an alternative recommendation. We urge the SEC to consider preserving the basket, but at the reduced size of 15 percent. Our experience shows that a 15 percent basket achieves the objective of balancing diversification and flexibility, while reducing the potential for unintended consequences. While bank participation in this line of business is driven by a diverse set of considerations (*e.g.*, business strategy, sector, credit quality, and region), select markets typically are dominated by a few participants. Maintaining an exempt basket at 15 percent would balance reasonably the goals of diversification and risk management with investment flexibility. The 15 percent limit also would reflect the reality of certain MMFs' use of the basket. We note that nine of the top ten largest tax-exempt MMFs use the basket and these funds represent approximately 40% of tax-exempt MMF assets.¹⁰⁴ Of those nine funds, only one was over 15%, which supports our recommendation that a 15% basket is appropriate.¹⁰⁵

Finally, our analysis indicates that the SEC's proposed nine-month implementation period for modifying the 25 percent basket would cause significant market disruption, including higher financing costs for municipal issuers whose securities are enhanced by certain demand feature and guarantee providers that are dominant in the market. Accordingly, Fidelity urges the SEC to consider extending the implementation period to three years. This longer implementation period would be more feasible, given that many letters of credit and liquidity facilities represent three- to five-year commitments by the provider. The additional time for transition would allow municipal issuers to substitute the providers of these facilities at the end of the existing commitment without incurring higher funding costs as a result of efforts to comply with the proposed changes.

3. Fidelity Recommends Expressly Excluding Supranationals and Sovereigns from the Proposed Aggregation of Affiliates Changes

Fidelity generally supports the SEC's proposed amendments requiring MMFs to aggregate affiliates for purposes of the diversification limits. However, we request that the SEC clarify the intended scope of the proposed changes to encompass supranational issuers, which, if included, would require aggregating such issuers with their sovereign owners.

¹⁰⁴ Based on a review of Form N-MFP data as of May 31, 2013.

¹⁰⁵ We note that the SEC states that only 19% of all funds made use of the 25% basket. Proposed Rules at 36962. We believe an asset-weighted focus on tax-exempt MMFs is a more appropriate data set for consideration in evaluating the proper size for the diversification basket.

In general, supranational issuers meet the ownership criteria that would require aggregation under the Proposed Rules, as drafted. We believe that the SEC should make a distinction in the aggregation requirements in the case of supranational issuers that looks beyond ownership and considers the standalone creditworthiness of the supranational. If the entity does not rely on the sovereign owner to satisfy the minimal credit risk requirement, then there is no reason to aggregate the entity with the sovereign. This would be analogous to having a disregarded guaranty, which would not require aggregation.

Without an express exclusion for supranationals and their sovereign owners, we are concerned that another unintended consequence of the proposed changes would be to limit a MMF's ability to invest in high quality issuers. Depending on market and regulatory developments, these types of issuers may gain increasing prominence in the future and imposing unnecessary restrictions on the ability for MMFs to acquire exposure to them is detrimental to shareholders in the long run. We suspect that the SEC did not intend the scope of the Proposed Rules to have this negative result. Accordingly, we recommend that the SEC expressly exclude supranationals and sovereigns from the proposed changes requiring aggregation of affiliates.

B. Fidelity Recommends Modifications to the Proposed Stress Testing Changes

The Proposed Rules would require, regardless of whether the SEC adopts a floating NAV or fees and gates, each government fund and retail MMF to stress test its ability to avoid having its weekly liquid assets fall below 15 percent of its total assets *and* its ability to maintain a stable share price.¹⁰⁶ If the SEC adopts the floating NAV proposal, each floating NAV MMF would be required to stress test its weekly liquid assets, but would *not* be required to test for its ability to maintain a stable NAV.¹⁰⁷

Fidelity does not believe that exempting floating NAV MMFs from the NAV stability test is appropriate and encourages the SEC to revise the Proposed Rules to provide for uniform treatment across all MMFs. Every MMF currently is, and would continue to be regardless of which proposal the SEC adopts, a product that operates within well defined boundaries and that is designed to provide liquidity to its shareholders. Additionally, in times of market stress, market dynamics are unpredictable and could lead to either (i) less price stability, resulting either from a decline in liquidity or from an attempt to maintain adequate liquidity; or (ii) less liquidity, resulting either from a decline in price stability or from an attempt to maintain price stability. Fidelity believes that every MMF should strive to maintain both a stable NAV and adequate liquidity and, as a result, a floating NAV MMF should not be exempt from stress testing its NAV stability.

The Proposed Rules require each fund to stress test to specific, defined thresholds. For example, a government or a retail MMF would be required to test its ability to avoid having its

¹⁰⁶ *Id.* at 36967 and 36970.

¹⁰⁷ *Id.* at 36967.

(i) weekly liquid assets fall below 15 percent and (ii) NAV fall below \$0.9950. Fidelity believes that stress tests would be more useful to a MMF's board if the testing is not linked so narrowly to those thresholds. For example, if an exogenous event (*e.g.*, a change in the general level of short-term interest rates) is not of sufficient magnitude to cause the MMF to violate either of the two thresholds, it would not be a required component of the MMF's stress testing. However, that event could be useful to a MMF's fund board in managing risk in the fund.

Fidelity believes that stress tests would be more useful to MMF boards if the SEC were to define clearly a sufficiently broad range of hypothetical scenarios for each MMF to consider without necessarily linking the events to the two thresholds. The scenarios would include large, but conceivable, ranges for events, including redemptions, changes in interest rates, changes in sector yield spreads, and changes in issuer credit quality. The impact of these events to the MMF's NAV and weekly liquid assets would be analyzed, but would not necessarily be linked directly to the thresholds mentioned above. These tests would provide MMF boards with important information on how the MMFs they oversee react to various events, even if the impact of these events is not sufficient to cause a stable NAV MMF to break the buck or require a MMF to impose a redemption fee or gate.

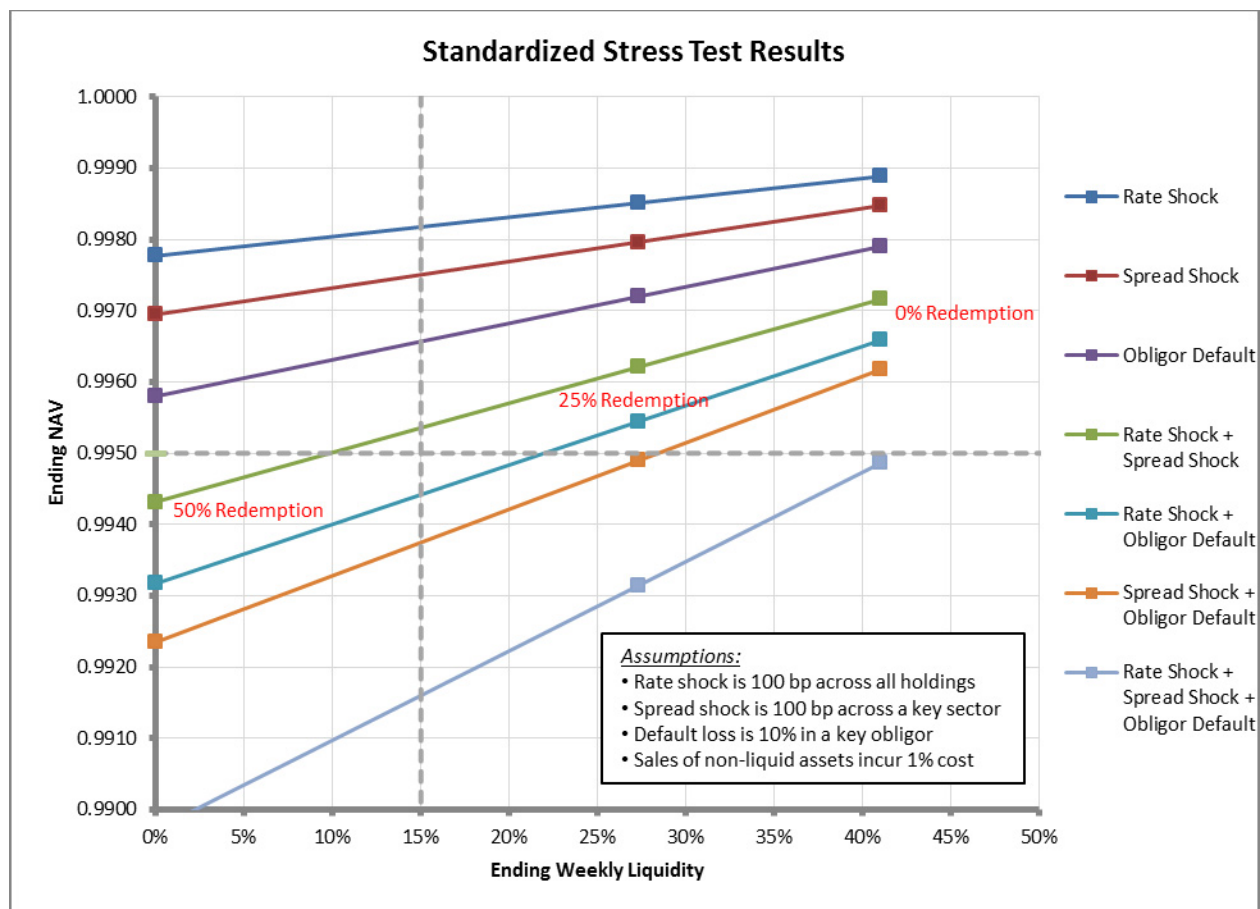
In particular, Fidelity encourages the SEC to adopt the specific standardized stress tests set forth in the following table as minimum requirements for each MMF. The table includes seven scenarios, derived by using seven unique combinations of three distinct types of market events (parallel shifts in the yield curve, shifts in yield spreads in a typical portfolio sector, and loss in value on the holdings of a typical obligor). Each of the seven scenarios is paired further with three sub-scenarios to address possible concurrent shareholder actions, ranging from no redemptions to redemptions constituting 50 percent of the fund's portfolio.¹⁰⁸

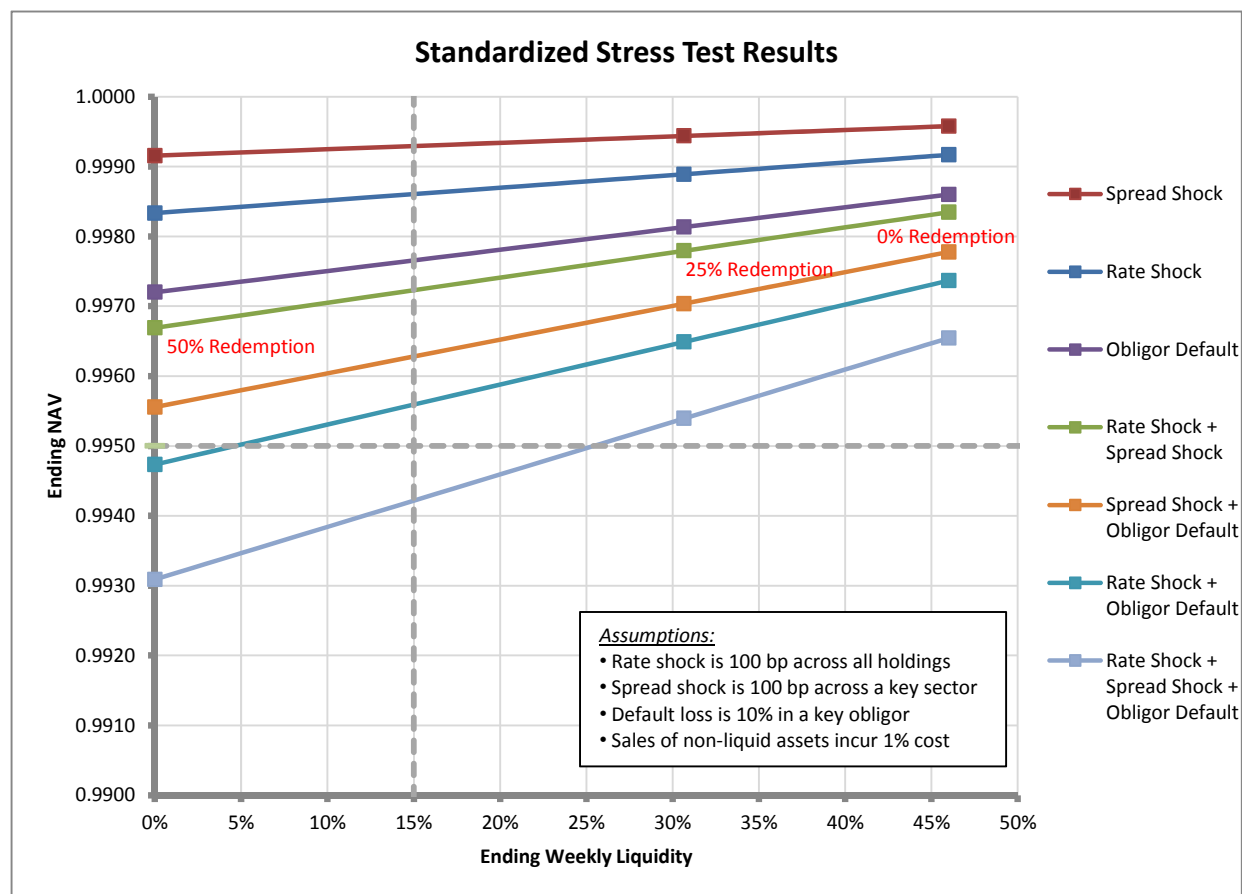
Scenario ID	Interest Rate Shift	Yield Spread Shift	Credit Event Loss	Shareholder Redemptions
1	100 bp	0 bp	0%	0%, 25%, 50%
2	0 bp	100 bp	0%	0%, 25%, 50%
3	100 bp	100 bp	0%	0%, 25%, 50%
4	0 bp	0 bp	10%	0%, 25%, 50%

¹⁰⁸ For purposes of these tests, we consider (i) a "typical sector" to be a sector (*i.e.*, a logically related subset of holdings) representing the median exposure (defined by contribution to the fund's WAL) in the portfolio among all defined sectors and (ii) a "typical obligor" to be one representing the median exposure (defined by portfolio weight) among all obligors held.

Scenario ID	Interest Rate Shift	Yield Spread Shift	Credit Event Loss	Shareholder Redemptions
5	100 bp	0 bp	10%	0%, 25%, 50%
6	0 bp	100 bp	10%	0%, 25%, 50%
7	100 bp	100 bp	10%	0%, 25%, 50%

The following two charts depict the results of applying these seven stress test scenarios to two differently structured, hypothetical prime MMFs. The first chart shows the results for a fund that has generally larger exposures to rate shifts, spread shifts, and credit losses, and that has both a lower initial NAV and lower initial liquidity. The notable upward shifts and gentler slopes displayed in the second chart provide a clear visual indication that the second fund responds more robustly under stress.





In the Proposed Rules release, the SEC recommends several enhancements to the stress tests currently required under Rule 2a-7. For example, the Proposed Rules would require MMFs to test for (i) non-parallel shifts in the yield curve, (ii) correlations between events, and (iii) concurrent events. The testing of non-parallel yield curve shifts is not necessary because, for any given non-parallel shift, one can always find a corresponding parallel shift that is at least as stressful at every point on the yield curve, and which, therefore, serves to bound the impact of the original non-parallel shift. Changes in the slope of yield curves historically have not been an important component leading to deterioration in a MMF's NAV. Moreover, the impact of a non-parallel shift in the yield curve can be approximated closely by a carefully chosen parallel shift. Evaluating the impact of non-parallel shifts requires significantly more effort and analysis and adds needless complexity for little benefit. Fidelity's proposed standard stress tests incorporate many of the enhancements the SEC seeks, including correlation of holdings (accomplished through the creation of portfolio sectors, such that all holdings within a sector are assumed perfectly correlated during a crisis) and concurrence of events (accomplished directly through scenario construction by combining various types of market events and shareholder actions).

In the Proposed Rules release, the SEC requests general comment on the methodologies the SEC should consider when applying stress test requirements to MMFs with greater than \$10

billion in total consolidated assets, as required by section 165(i)(2) of the Dodd-Frank Act.¹⁰⁹ The SEC also asks whether the scenarios published by the Federal Reserve are appropriate for MMFs.¹¹⁰ Fidelity believes that the scenarios published by the Federal Reserve are not an effective means for stress testing MMF portfolios. Many of the scenarios do not have a direct causal link to foreseeable changes in a MMF. Instead, the impact of many of the scenarios, such as changes in the unemployment rate, mortgage rates, the housing price index and the commercial real estate price index, among others, would be indirect at best, depending on how markets respond.

We believe that the stress test scenarios we propose above are a more effective means of evaluating risk in a MMF because they are more closely and directly related to risk in a MMF portfolio. Our proposal could serve as the “severely adverse” conditions required by Section 165(i)(2)(C)(ii) of the Dodd-Frank Act and could be supplemented with tests in which the three market events we describe occur with less magnitude, which could serve as the “baseline” and “adverse” conditions.¹¹¹

C. Fidelity Recommends Modifications to the Proposed Disclosure Changes

Fidelity believes that, in general, disclosure is an effective way to provide both the SEC and shareholders with the ability to monitor and analyze MMF holdings and performance. There are, however, a few areas of the SEC’s proposed enhancements that we believe could benefit from further consideration and clarification.

1. Fidelity Opposes New Disclosure at Lot Level for Purchased and Sold Securities on Form N-MFP

The SEC has proposed that MMFs disclose security-level information on Form N-MFP for each “lot” purchased and sold during the relevant period, including the purchase price, total principal amount, purchase dates, yield at purchase, and yield.¹¹² Fidelity does not believe, though, that the proposed disclosure of lot information for purchased securities will, as the SEC hopes, facilitate “price discovery and . . . enable the Commission and others to evaluate pricing consistency across funds.”¹¹³ Reporting lot level information will increase greatly the amount of data provided, making these reports overwhelming. For example, the July 2013 monthly holdings report for Fidelity Cash Reserves contains 336 lines at the CUSIP level. Under the proposed lot level requirements, this report would have contained instead over 2,100 lines at the CUSIP level. Of these CUSIPs, only 15 were purchased at different yields, and the majority of

¹⁰⁹ Proposed Rules at 36969.

¹¹⁰ *Id.* at 36970.

¹¹¹ Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010). *See* § 165(i)(2).

¹¹² Proposed Rules at 36942.

¹¹³ *Id.*

those (11) were Treasury securities. It is also not clear that lot purchase data would provide benefits above and beyond the data already provided on Form N-MFP, such as CUSIP level yield, coupon, and market value information. This information can be used to review price information across funds at the CUSIP level, without the added cost and confusion of lot level disclosures. Therefore, we do not believe the information required by Item C.17 will provide greater transparency with respect to securities issued by corporate or financial service industry issuers.

Further, we believe that shareholders may instead be overwhelmed and confused by the unnecessary information. Public disclosure of this data could inadvertently take focus away from information that is more relevant to a shareholder's investment analysis.

In addition, it would be operationally intensive for Fidelity to produce and deliver the large volume of lot purchase information. Many internal groups would need to increase staffing and enhance their production and validation processes. Also, many MMFs rely on third party vendors, which could presents challenges in implementation and would add significant cost. The increase in resources that would be required to produce lot purchase data does not seem to be substantiated by the questionable potential benefits.

Fidelity does, however, recognize that the proposed requirement of lot level data on sales of securities may provide some small incremental value to the SEC, although we question whether the benefit is meaningful when weighed against the aforementioned cost of disclosing lot level information in general. Lot sale information is proprietary in nature, though, and current disclosure may be detrimental to a firm's competitive advantage in seeking the best execution for its trades. Although we would prefer not to disclose publicly lot sale information, to the extent that the Commission believes that this data should be disclosed, we recommend that it be disclosed with a 60 day lag.

2. Fidelity Recommends Certain Modifications to the SEC's Proposed Daily Disclosure of Daily and Weekly Liquid Assets on Form N-MFP

Fidelity supports the SEC's proposal to require MMFs to disclose certain information prominently on their websites and updated on a daily basis. This information includes "a schedule, chart, graph, or other depiction showing the percentage of the fund's total assets that are invested in daily and weekly liquid assets, as well as the fund's net inflows or outflows, as of the end of each business day during the preceding six months."¹¹⁴ As the SEC states in the Proposed Rules release, "[t]hese amendments would promote transparency to investors of money market funds' risks and risk management...",¹¹⁵ which ultimately may lead shareholders to make more informed investment decisions. However, we recommend that the SEC amend the Form N-MFP disclosure requirement, which currently requires disclosing liquidity levels as a dollar amount, to align with the proposed website requirement, which would be percentage-based.

¹¹⁴ *Id.* at 36979.

¹¹⁵ *Id.*

3. Fidelity Recommends Certain Modifications to the SEC's Proposed Investment Categorization on Form N-MFP

Fidelity also believes that shareholders would benefit if some changes were made to the investment categorizations recommended within the proposal. The SEC sets forth new investment categories, such as "Other Asset-Backed Security," "Non-Financial Company Commercial Paper," and "Non-U.S. Sovereign Debt," and amends the definitions of existing categories, such as now including time deposits in "Certificate of Deposit."¹¹⁶ Fidelity does not believe that the proposed categories provide consistent granularity of the various investment types that MMFs purchase. Instead, these classifications apply a U.S./Non-U.S. element to certain categories when a more comprehensive review of how a country is disclosed should be explored.

For example, the SEC's proposal would require additional disclosure about certain types of securities held by the fund and states that "a fund should only designate a security as a 'U.S. Treasury Repurchase Agreement' or 'Government Agency Repurchase Agreement' when the underlying collateral is 100% Treasuries or Government Agencies, respectively; otherwise a fund should use the 'Other Repurchase Agreement' category."¹¹⁷ This statement seems at odds with the requirements of Item C.6 of proposed Form N-MFP, which states that that a fund should "indicate the category that most closely identifies the instrument."¹¹⁸ As stated, eligible collateral for a government agency repurchase transaction, which could include a combination of government agency securities, treasury securities, and cash, would need to be classified as "Other." We do not believe that this categorization accurately represents the collateral supporting the transaction, nor does it portray the quality of the underlying assets. Grouping a repurchase transaction collateralized by government securities with all other repurchase transactions effectively ranks such a transaction at the same level as a repurchase transaction collateralized by corporate bonds, which is inconsistent with the treatment of government securities elsewhere in Rule 2a-7.

We propose clarifying the investment categories relating to repurchase agreements as follows:

- U.S. Treasury Repurchase Agreement: If collateral comprises solely Treasury securities and/or cash;
- Agency Repurchase Agreement: If collateral comprises solely government agency securities and/or Treasury securities and/or cash; and

¹¹⁶ *Id.* at 36944, n. 779.

¹¹⁷ *Id.*

¹¹⁸ *Id.* at 37018.

- Other Repurchase Agreement: If collateral includes securities that fall outside Treasury, government agencies and cash.

The categories for repurchase agreements are just a few of the investment categories that should be changed to better reflect MMF investments. Therefore, Fidelity believes that the SEC should not move forward with the proposed changes at this time. The SEC instead should work with industry firms to review the current investment categories in aggregate and determine a more streamlined structure that will more accurately reflect the various investment types that are actually purchased by MMFs.

4. Fidelity Opposes Filing Form N-MFP More Frequently

The SEC has requested comment on whether to increase the frequency of filing form N-MFP from monthly to weekly.¹¹⁹ Fidelity does not support changing the filing frequency for Form N-MFP. Fidelity currently discloses a significant amount of data on a monthly basis through Form N-MFP and makes additional data available to shareholders on a daily basis via our website. We believe the increase in frequency is unnecessary and could cause shareholder confusion by overwhelming them with information. In addition, the operational costs to update systems, vendor costs, processes and hire additional resources to handle this change would be approximately \$1 million, of which \$625,000 is an annually recurring cost. We do not see any shareholder benefit that would support these additional costs, which are significantly higher than the SEC's estimates.

5. Fidelity Proposes Extending the Implementation Period for N-MFP Changes

The SEC has proposed a nine month implementation period, following a final rule, for all firms to complete the implementation of any operational changes necessary to ensure compliance with the proposed disclosure requirements. Based on the extensive changes that will be required to be made in order to comply with the new proposed disclosure changes, as well the dependencies on vendor enhancements, Fidelity believes that this timeframe should be extended to 18 months.

6. The SEC Should Define “Financial Support” More Clearly for Form N-CR

The SEC has proposed to require that MMFs file form N-CR if the fund sponsor, or another affiliated person, promoter or principal underwriter of the MMF, or an affiliated person of such a person provides any form of financial support to the fund.¹²⁰ The term “financial support”, as proposed, “includes, but is not limited to, (i) any capital contribution, (ii) purchase of a security from the fund in reliance on rule 17a-9, (iii) purchase of any defaulted or devalued security at par, (iv) purchase of fund shares, (v) execution of letter of credit or letter of indemnity, (vi) capital support agreement (whether or not the fund ultimately received support),

¹¹⁹ *Id.* at 36946.

¹²⁰ *Id.* at 36934-36935.

(vii) performance guarantee, or (viii) any other similar action to increase the value of the fund's portfolio or otherwise support the fund during times of stress.”¹²¹ The SEC's stated objectives with respect to such disclosure include (i) that such support “could signal circumstances that may require Commission action or analysis, and that may affect an investor's decisions to purchase shares of the fund or remain invested in the fund,”¹²² and (ii) its intention is to “receive notification of other kinds of financial support (which could affect a fund as significantly as a security purchase pursuant to rule 17a-9).”¹²³

Fidelity believes that “financial support” needs to be defined more narrowly or specifically in order to capture only events of significance that could alert the Commission or any investor to new factors that could impact the risk profile of a MMF. The current definition may be interpreted to include many types of support that were not necessarily intended to be included. For example, “(i) any capital contribution” could be interpreted to include a reimbursement of error, as a MMF adviser or sponsor may reimburse a MMF for an error that occurred whether part of investment operations, investment activity or other services provided by a service provider to the funds. A “(iv) purchase of fund shares” may be interpreted to include a sponsor's investment of seed money to launch a new fund and investment by affiliated funds or transfer agents on behalf of either funds using MMFs as an overnight cash sweep or central funds investing pursuant to the terms of an exemptive order. The last part of the definition, “(viii) any other similar action to increase the value of the fund's portfolio or otherwise support the fund during times of stress,” could be interpreted to include many events such as expense waivers, expense caps, inter-fund lending, loans and overdrafts due to settlement timing issues, and credits that service providers of a MMF may give as a result of cash held at the service provider. Many of these examples of possible support are used by funds on a regular basis, are not significant events, and do not signify that a fund is in distress. Fidelity believes that constant reporting stream of such events could lead to confusion about their significance and distract shareholders away from the potentially important disclosures that might occur. We believe that the definition of financial support should include an exception for transactions that occur in the ordinary course of business.

Further, all of the events listed above are generally reported in the financial statements of a MMF to the extent they are considered material, with additional details in the notes to the financial statements. The financial statements are available at regular intervals to shareholders. Affiliate transactions, as well as lending and borrowing transactions, are also subject to restrictions in the Investment Company Act and subject to disclosure in the fund's prospectus and/or statement of additional Information.

¹²¹ *Id.* at 36935.

¹²² *Id.*

¹²³ *Id.* at 36936.

7. The SEC Should Not Require MMF Sponsors to Disclose Their Financial Statements

The SEC requests comment on whether it should “require funds sponsors to publicly disclose their financial statements, in order to permit non-shareholders to evaluate the sponsor’s capacity to provide support.”¹²⁴ We do not support imposing such a requirement. Every mutual fund, including each MMF, is financially and legally independent from its sponsor and fund sponsors have no duty to provide financial support to funds. Requiring sponsors to disclose their financial statements may lead shareholders to believe mistakenly that financially strong sponsors will provide support to a fund. Furthermore, as the SEC recognizes, requiring disclosure of a sponsor’s financial statements “would provide less straightforward information to investors, and would be costlier for funds to implement than the proposed SAI disclosure requirement.”¹²⁵

8. Fidelity Recommends Modifications to the Timing and Disclosure Requirements of Form N-CR

The Proposed Rules would require Form N-CR to be filed with the SEC and posted to the MMF’s website one business day after a significant event has occurred. A second filing with greater details of the event and the actions taken by the MMF would need to be submitted four business days later.¹²⁶

Fidelity has concerns with these new form N-CR disclosure requirements. It would be difficult for MMFs to produce validated data ready for public dissemination within one business day, particularly for items such as B.5, C.4, C.9, and C.10.¹²⁷ Providing quantitative data within one business day would not only call for the coordination of information and its sources, but also its review and verification to ensure accuracy and completeness. Accordingly, we do not believe that this strict filing deadline is operationally feasible. Further, providing data within a short timeframe would come at an estimated cost of \$300,000-\$500,000, without factoring in the costs of ongoing compliance and filing, all of which greatly exceeds the SEC’s estimated cost of \$1,700 and five hours to prepare and review information.¹²⁸

Instead, we propose that the SEC simplify the filing requirements for the first business day following the event to focus on shareholder notification of the event and key quantitative data items of proposed Form N-CR. Providing the remaining qualitative information (Items B.5, C.4, C.9, C.10, D.3, E.3, E.4, F.3, and F.4 of proposed Form N-CR) on the second filing will

¹²⁴ *Id.* at 36925.

¹²⁵ *Id.*

¹²⁶ *Id.* at 36935.

¹²⁷ *Id.* at 37018.

¹²⁸ *Id.* at 36983.

allow the company to focus on the triggering event and shareholders' best interests while also ensuring accurate data reporting and clear communication to shareholders.

IV. Fidelity's Estimated Costs to Implement the SEC's Proposed Structural Reforms

As discussed, the costs to implement the proposed structural reforms are extensive, requiring significant changes to systems, operational processes, shareholder communications, and disclosures. Fidelity's estimated costs, as summarized in the following table, far exceed the estimates that the SEC provides in the Proposed Rules release. We believe that these costs, when coupled with the negative consequences to shareholders and municipal financing, far outweigh the benefits of further structural reforms, as proposed.

<u>Alternative 1</u>	
Enable a 4-decimal floating NAV:	\$18M
Enable a \$1 million redemption cap:	\$8M
<u>Change required disclosures:</u>	<u>\$2M</u>
<u>Fidelity total cost of Alternative 1:</u>	<u>\$28M</u>
<u>Alternative 2</u>	
Enable liquidity fees and redemption gates:	\$9M
<u>Change required disclosures:</u>	<u>\$2M</u>
<u>Fidelity total cost of Alternative 2:</u>	<u>\$11M</u>
<u>Alternative 3 (combination of 1 & 2)</u>	
Enable a 4-decimal floating NAV:	\$18M
Enable a \$1 million redemption cap:	\$8M
Enable liquidity fees and redemption gates:	\$9M
<u>Change required disclosures:</u>	<u>\$2M</u>
<u>Fidelity total cost of Alternative 3:</u>	<u>\$37M</u>

* * * * *

We appreciate the opportunity to comment on the Proposed Rules release. Fidelity would be pleased to provide any further information or respond to any questions that the SEC staff may have.

Sincerely,

A handwritten signature in dark ink, appearing to read "Scott C. Brubaker". The signature is fluid and cursive, with the first name "Scott" and last name "Brubaker" clearly distinguishable.

cc: The Honorable Mary Jo White, Chairman
The Honorable Luis A. Aguilar, Commissioner
The Honorable Daniel M. Gallagher, Commissioner
The Honorable Kara M. Stein, Commissioner
The Honorable Michael S. Piwowar, Commissioner

Norm Champ, Director, Division of Investment Management
Craig M. Lewis, Director and Chief Economist, Division of Economic and Risk Analysis