UBS Global Asset Management (Americas) Inc.
1285 Avenue of the Americas
New York NY 10019
Tel. +1-212-821 3000

www.ubs.com

September 16, 2013

VIA ELECTRONIC SUBMISSION

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

RE: Money Market Fund Reform; Amendments to Form PF (the "Proposal")
File Number S7-03-13

Dear Ms. Murphy:

UBS Global Asset Management (Americas) Inc. ("UBS Global AM")[1] appreciates the opportunity to comment on the Proposal. The Proposal included two key alternative approaches to reform the regulation of money market funds ("money funds" or "funds") (to be adopted separately or combined) – (i) requiring "institutional" money funds to operate with a floating net asset value ("NAV"), rounded to the fourth decimal place (*e.g.*, $1.0000) ("Alternative 1") or (ii) requiring money funds (other than "government" money funds) to impose a 2% liquidity fee during times of stress and allowing them temporarily to suspend redemptions using "redemption gates" during such times ("Alternative 2").

For the reasons set forth below, we strongly oppose Alternative 1 and believe that all money funds that meet the requirements of Rule 2a-7 under the Investment Company Act of 1940, as amended ("1940 Act"), should be allowed to continue to maintain a stable NAV per share. We also have concerns regarding Alternative 2 and recommend that, if the US Securities and Exchange Commission ("SEC" or "Commission") determines to adopt Alternative 2, it should provide money fund boards with broad discretion to tailor the specific terms of any liquidity fees and/or redemption gates to the circumstances of a

---

1 UBS Global AM is an indirect, wholly owned subsidiary of UBS AG. UBS AG and its affiliated companies include a leading global wealth manager, a top tier investment banking and securities firm, and one of the largest global asset managers. UBS Global AM had approximately $155 billion in assets under management as of June 30, 2013. UBS Global AM is a member of the UBS Global Asset Management Division, which had approximately $621 billion in assets under management worldwide as of the same date. UBS Global AM provides a variety of investment solutions for its clients and serves as manager, advisor or subadvisor to over 80 funds registered with the US Securities and Exchange Commission (the "SEC" or the "Commission"), including over two dozen money market funds. UBS Global AM's predecessors began managing money market funds in 1978, and we have experienced firsthand the challenges and opportunities inherent in the transformation of the money markets over the years.

particular money fund, its investors and the market events, without imposing an automatic weekly liquid assets trigger for such fees or gates. Finally, we strongly oppose the removal from Rule 2a-7 of the exemption that allows the use of the amortized cost method of valuation.

We support changes to money funds that facilitate the orderly and equitable management of redemptions from funds experiencing significant redemption activity. As detailed below, we support the following approaches:

- granting fund boards enhanced authority to impose liquidity fees and suspend or gate redemptions, tailored as necessary to address a fund's particular circumstances prevailing at the time of the situation;
- enhancing website, prospectus and marketing disclosures; and
- enhancing money fund diversification requirements.

Based on consultations with our clients, we believe that the Proposal would significantly decrease demand for money funds, substantially impacting competition, efficiency and capital formation in the economy. In particular, the Proposal would impose considerable costs on all money funds, which would be borne by money fund investors through higher expenses, resulting in lower yields. Additionally, if the Proposal is adopted, money funds would no longer be able to provide the key benefits to investors of offering same day and intra-day liquidity.

We supported the amendments to Rule 2a-7 and other related rules under the 1940 Act adopted by the SEC in 2010, which strengthened the transparency and regulation of money funds (the "2010 Amendments"). We believe that time will show that the 2010 Amendments struck the correct balance between the protection of investors and the promotion of efficiency, competition and capital formation in the US economy.

The money fund business has played an important role in meeting the financing needs of American banks and businesses, as well as those of state and local governmental entities and federal agencies, including the U.S. Treasury. Money funds have been very well received by the market and are valued by investors as providing a liquid, relatively safe investment for cash positions. Before adopting any amendments to Rule 2a-7 that would fundamentally alter the nature of money funds, we believe that the SEC needs to accurately quantify the impact of such changes on the overall financial system and confirm that the costs of reform do not outweigh the benefits derived from the proposed amendments.

I. ALTERNATIVE 1

Under Alternative 1, money funds (other than "government" and "retail" money funds)[2] would be required to convert to a floating NAV, calculating their market-based NAV per share to the nearest basis point. Government money funds and retail money funds, as defined in the Proposal, would be exempt from the requirement to convert to a floating NAV and could continue to use the penny rounding method to price their shares. However, under Alternative 1, all money funds would no longer be permitted to use the amortized cost method of valuation, except with respect to valuing securities that mature in 60 days or less.[3]

A. General Response to the Floating NAV Proposal

Mandating that institutional money funds operate with a floating NAV per share would remove much of the incentive for institutional investors to invest in shares of those funds and may well diminish substantially the overall size of the money fund industry. Historically, money funds have offered both retail and institutional investors a means of achieving a market rate of return on a short-term investment without having to sacrifice stability of principal. The stable NAV per share also allows investors the convenience of not having to track immaterial gains and losses on a short-term investment and facilitates investment processes, such as sweep account arrangements at broker-dealers and banks, helping to make sure that investors' cash balances are fully invested. However, the $1.00 NAV per share does <u>not</u> and has never constituted or reflected a guarantee of the amount of the investment. The absence of a government guarantee and the fact that an investor may lose money by investing in a money fund are prominently displayed in fund disclosures and some money funds include such disclosure on the cover page of their prospectuses.[4] Surveys also show that investors understand that money funds may lose money.[5]

---

2 For the purposes of this letter, we refer to such money funds as "institutional money funds," which would include institutional prime money funds and institutional municipal (or tax-exempt) money funds ("municipal money funds") that do not qualify as "retail" money funds under Alternative 1. However, as discussed below, we believe that municipal funds should be exempted in a similar manner as "government" money funds for the purposes of Alternative 1, if adopted.

3 Under the Proposal, a money fund would still be permitted to use amortized cost valuation to the same extent that other mutual funds are able to do so – where the fund's board determines, in good faith, that the fair value of debt securities with remaining maturities of 60 days or less is their amortized cost — unless particular circumstances, such as the impairment of the creditworthiness of an issuer or other factors, warrant otherwise. *See* Valuation of Debt Instruments by Money Market Funds and Certain Other Open-End Investment Companies, Investment Company Act Release No. 9786 (May 31, 1977). *See* Proposal at Section III.A.

4 Form N-1A, Item 4(b)(1)(ii). 17 C.F.R. § 274.11A. Prior to the amendments to Form N-1A effective in 1998, the form required that disclosure relating to these risks be placed on a

In the Proposal, the SEC postulated that requiring institutional money funds to use floating NAVs could address the so-called "first mover advantage" by making investors less likely to redeem when faced with the prospect of even modest losses by eliminating the apprehension that if they delay such redemptions their MMF will "break the buck" and they will receive less than $1.00 for their shares. However, it is important to note that not all prime money funds experienced mass redemptions after the Reserve Primary Fund broke the dollar share price in September 2008. In fact, there were many individual prime funds that experienced weekly net purchases that exceeded 5 and 10 percent of fund assets during the period from September 2, 2008 to October 7, 2008.[6]

In our experience, we have found that floating NAV short-term funds managed by UBS Global Asset Management were not less susceptible to redemption pressures than stable NAV money funds.[7] Moreover, according to a study conducted by the Investment Company Institute, floating NAV ultra-short bond funds experienced outflows in excess of 60 percent during the 2008 financial crisis from their peaks.[8] Finally, the Proposal stated that "it is not possible to state with certainty what would have happened if money market funds had operated with a floating NAV" during 2008.[9] Our experience and the experience of floating NAV ultra-short bond funds suggests strongly that redemption levels in 2008 would have been comparable whether or not money funds operated with a floating NAV.

The Proposal suggested that regular fluctuations in money funds' NAVs likely would cause investors to become accustomed to, and more tolerant of, fluctuations in NAVs. Money fund investments do not ordinarily fluctuate in value on a day-to-day basis, certainly not to an extent that would cause investors to become accustomed to fluctuations. Given the

---

money fund's prospectus cover page. As a result, some money funds continue to place this disclosure on the cover page of their prospectuses, but they are not required to do so.

5 *See, e.g.,* Letter from Scott Goebel, Senior Vice President and General Counsel, FMR Co., to Elizabeth Murphy RE: File No. 4-619; Release No. IC-29497 *President's Working Group Report on Money Market Fund Reform* (Feb. 3, 2013) available at http://www.sec.gov/comments/4-619/4619-116.pdf.

6 *See* Response to Questions Posed by Commissioners Aguilar, Paredes, and Gallagher, Division of Risk, Strategy, and Financial Innovation, U.S. Securities and Exchange Commission (Nov. 30, 2012), available at *http://www.sec.gov/news/studies/2012/money-market-funds-memo-2012.pdf.*

7 This excludes certain core European variable NAV funds that did not experience similar redemption pressures.

8 *See* Report of the Money Market Working Group submitted to the Board of Governors of the Investment Company Institute, pg. 105 (March 17, 2009), available at *http://www.ici.org/pdf/ppr_09_mmwg.pdf*.

9 *See* Proposal at Section III.A.

minimal fluctuations in NAV, money fund shares would likely continue to trade near a $1.00 NAV per share.

While the benefits to be derived from Alternative 1 are somewhat speculative, Alternative 1 would impose significantly higher costs on money fund shareholders. Requiring the reorganization of money funds into separate "retail" and "institutional" money funds would be extremely expensive. In addition, the conversion of an institutional money fund from a stable to a floating NAV would require cost-prohibitive operational changes that would likely cause many sponsors to exit the business, reducing competition and efficiency in the marketplace. Converting to a floating NAV presents settlement issues, as floating NAV money funds may no longer be able to pay redemptions on a same day or intraday basis. Alternative 1 would require costly systems changes and would reduce the appeal to many investors, including corporate treasurers that value very highly the same day settlement feature. Finally, floating NAV money funds would not be offered on sweep programs operated by broker-dealers.

As discussed in more detail below, we suggest that a better approach to reduce any "first mover advantage" would be to empower a money fund's board to impose redemption gating or other restrictions as necessary to protect the interests of all investors in the fund.

B. Retail Money Fund Exemption

1. Overview

Under the Proposal, retail money funds would be exempt from the requirement to convert to a floating NAV. The Proposal would define a retail money fund as a money fund that "does not permit any shareholder of record to redeem more than $1,000,000 of redeemable securities on any one business day." The Proposal noted that retail investors historically have been less likely to redeem money fund shares during times of financial stress.

We agree that retail shareholders are less likely to redeem their shares during times of financial stress, because there are some fundamental differences between retail and institutional shareholders. First, retail investors often use their money fund investments as a temporary investment in anticipation of making other investments or other financial decisions. These other investments can include other open-end investment companies ("mutual funds"), stocks or bonds. In addition, these other investments may include certain large transactions, such as investing in a small business or purchasing a home. Second, retail investors often invest through financial intermediaries that hold omnibus accounts on the records of the money fund rather than holding shares directly on the books of the money fund or the money fund's transfer agent. Taking into account these two characteristics, we believe there are certain issues that would arise with the application of the retail money fund exemption.

2. $1 Million Daily Redemption Limit

Although we disagree with attempting to define "retail" funds through using a daily redemption limit, in the event the Commission determines to use this approach, we believe the $1 million daily redemption limit is too low. We have reviewed redemption transactions by individual shareholders in the money funds (other than "government" money funds) that UBS Global AM manages and we have found that redemptions of $1 million or more per day occur quite frequently per month.

The frequency of these redemptions in amounts of $1 million or more reflects the fact that retail shareholders often invest their cash in money funds on a temporary basis in anticipation of making other investments, such as investments in homes, businesses, other mutual funds and transitioning maturing bond investments/portfolios. To deprive individual shareholders of the ability to redeem their shares in money funds in the full amount needed to finance these other investments would reduce the attractiveness of money funds to those individual investors. Therefore, we believe that, if the SEC adopts a retail money fund exemption as part of Alternative 1 (which we do not support), it should increase the daily redemption limit from $1 million to $5 million. Based on our review of individual shareholder transactions, this higher limit will accommodate most retail shareholders' daily cash needs and, thus, allow prime money funds to remain a viable short term investment option for retail investors. This limit is also significantly lower than the amounts that a true "institutional" investor may seek to redeem, which, based on our review of money fund redemptions, may be in excess of $100 million or more per day.

3. Omnibus Accounts

The SEC correctly noted that many retail investors hold shares of money funds through omnibus accounts and that most money funds are not able to look through such accounts to determine underlying investors' redemptions. For money funds managed by UBS Global AM, the percentage of shares held by omnibus accounts varies from fund-to-fund. However, regardless of the amount of shares held by omnibus accounts, it can be difficult to gather information regarding beneficial shareholders.

Under Alternative 1, retail money funds would not be required to impose the $1 million daily redemption limit on shareholders of record that are omnibus account holders, provided that the fund has put into place policies and procedures reasonably designed to allow the conclusion to be drawn that the omnibus account holder does not permit any beneficial owner to "directly or indirectly" redeem more than $1,000,000 in a single day. The restriction on "direct or indirect" redemptions relates to the possible chains of intermediaries that may exist before reaching the beneficial shareholder. If a retail money fund cannot be reasonably certain that such a redemption limit would be enforced by an intermediary, it would be required to limit redemptions by that intermediary's omnibus account to $1,000,000 per day.

To ensure compliance with the omnibus account exemption, a retail money fund would need to either (i) review and, potentially, enter into revised agreements with each financial intermediary that holds an omnibus account on the books of the fund or (ii) seek certifications from those omnibus account holders. Either action would be costly and time-consuming, and any costs ultimately could be borne by shareholders.

While the SEC stated that other requirements under the 1940 Act require mutual funds to "look through" omnibus accounts, such as the requirements under Rule 22c-2, we note that those requirements do not currently apply to money funds. Therefore, money funds could not rely on existing systems, but would be required to create systems and processes to comply with the omnibus exemption, which would be very costly. We believe that the SEC should consider these costs of compliance against any benefit of moving to a floating NAV for institutional money funds.

C. Municipal Money Funds

In the Proposal, the SEC did not specifically exempt municipal money funds from the floating NAV requirement on the theory that such funds *should* be able to qualify under the retail money fund exemption. While the SEC is correct that most municipal money fund shareholders are individual investors as opposed to institutions, these funds would not be able to remain viable if there is a limit on redemptions, because individual shareholders who invest in municipal money funds typically have larger holdings in such funds than shareholders of other types of money funds.

We have reviewed redemption transactions by individual shareholders in the municipal money funds that UBS Global AM manages and have found that, over a given month, individual shareholders quite often redeem in excess of a $1 million (or even a $5 million) limit per day. In addition, during the 2008 crisis, no municipal money funds, to our knowledge, experienced unusually large redemptions levels. Therefore, based on the reasons set forth above, we believe that, if the SEC adopts a floating NAV requirement, the SEC should specifically exempt municipal money funds from that requirement.

D. Operational Changes that Would Be Necessary if Institutional Money Funds Were Required to Move to a Floating NAV

While the 2010 Amendments require money funds to be able to conduct share transactions at a price other than $1.00, conversion to a floating NAV could require funds to discontinue or modify many features that investors rely upon, such as same day payment of redemptions and sweep investment arrangements. Money funds that would not be able to qualify as "retail" or "government" money funds are sold to shareholders who invest through "sweep" arrangements with broker-dealers and banks. Under these arrangements, uninvested cash in a customer's account is automatically invested in money fund shares on a daily or weekly basis. Changing to a floating NAV would likely require extensive and costly modifications to sweep arrangements to comply with a floating NAV per share.

We understand that many financial intermediaries may not accommodate floating NAV money funds and would use other investment vehicles, such as bank deposits, for their sweep programs. Further, due to bond indentures, regulatory and other legal requirements, many clients who prefer money funds as short-term investments would be unable to continue to invest in a money fund that converted to a floating NAV. Overall, we believe that requiring a conversion to a floating NAV would lead to further concentration of assets in bank deposits, which could have significant negative effects on (i) investors who prefer money funds and (ii) the short-term debt markets. It also may lead to more investments being directed to unregulated alternatives, which would increase systemic risk to the financial system.

E. Proposal to Require Institutional Money Funds to Change their Share Price to $1.0000 per Share

The Proposal also contemplated requiring a change in how institutional money funds price their shares from $1.00 per share to $1.0000 per share. A $1.0000 share price requirement would actually hold institutional money funds to a considerably higher standard of pricing materiality than is applied to any other mutual fund. The SEC has long taken the view that mutual funds that do not operate as money funds must calculate their NAVs to an accuracy of 1/10th of one percent, or one cent on a share price of $10.00.[10] By requiring institutional money funds to change their share price to $1.0000 per share, the Proposal would require such money funds to calculate their NAVs to an accuracy ten times greater than required for other mutual funds and 100 times more precise than the penny rounding method.

Given the historic absence of volatility in the market prices of the instruments in which money funds invest, this requirement is unjustifiable. Money funds would be treated more harshly than other funds, including funds that invest in much more speculative and volatile securities. Moreover, this proposal would result in any immaterial pricing error having an impact on the fund's share price. Such a requirement could result in institutional money funds being required to re-price transactions in fund shares under their error correction policies. Other types of funds would not be required to engage in such re-pricing, even if they held the same securities in the same proportion. Such re-pricing could be costly and would serve no investor protection purpose. Finally, and most significantly, a $1.0000 requirement under Alternative 1 would impose an enormous burden on the operations and tax/accounting systems of institutional money funds and investors, adding significant costs that would be borne by investors investing in money funds, assuming that such funds would even continue to be economically viable.

---

[10] *See* 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).

The SEC's stated purpose for proposing a $1.0000 share price is to emphasize to investors that their shares may change in value. This purpose could be more easily achieved in a cost efficient manner by requiring enhanced disclosure of the risk of loss on money fund websites and in prospectuses and marketing materials.

II. ALTERNATIVE 2

Under Alternative 2, when a money fund's "weekly liquid assets" fall below 15% of total assets, the fund would be required to impose a 2% liquidity fee on all redemptions, unless the fund's board determines that imposing such a fee would not be in the fund's best interests. Moreover, under these circumstances, a money fund's board also would be permitted to temporarily suspend redemptions for a limited period of time. The Proposal stated the Commission's belief that, had these tools been available, money funds "would have been able to better manage the heavy redemptions that occurred [during the financial crisis] and to limit the spread of contagion."

We agree that liquidity fees and gates would help money funds address heavy redemptions in an effective manner and limit the spread of contagion in a much better and cost effective manner than the floating NAV requirement under Alternative 1. However, we believe strongly that the triggering of liquidity fees or gates during periods of heavy redemptions should be left to the discretion of a money fund's board, without the 15% weekly liquid asset trigger. The circumstances under which a money fund may be called upon to impose liquidity fees or redemption gates may not be easily determinable beforehand and are best assessed by the fund's board.

Authorizing a money fund's board to have broad discretion to impose redemption gates would allow the board to tailor these restrictions to the circumstances of the particular fund, its investors and the market events. Under the tailored approach that we are suggesting, a money fund board could place greater restrictions on investors seeking to redeem large amounts during periods of market turmoil, thus addressing the "first mover advantage," while avoiding harm to smaller investors.

In a crisis, the absence of time to deal with issues can lead to poor decision-making and complicate matters beyond repair. By empowering money fund boards to temporarily suspend or pro rate redemptions in the face of a crisis or potential crisis, the SEC would be ensuring that money funds will have the time necessary to protect the interests of all fund investors. Moreover, the ability to suspend or pro rate redemptions would effectively address the possibility of a run by closing it down. The ability to suspend payment of redemption proceeds would similarly allow a fund the time to make sure the redemption price is correct, as well as the time to raise money to pay redemptions in an orderly manner.

The discretionary authority to impose fees and/or gates would not be exercised by boards lightly and, as set forth in the Proposal, there should be a requirement to notify the SEC if the authority is used. The ability of an investor to redeem shares at any time is rightly considered to be among the most important rights of fund shareholders. The requirement to notify the SEC if the authority is used, combined with the realities of the marketplace, would ensure that the suspension of redemptions would be undertaken only as a last resort in the face of a real crisis.

Prominent prospectus disclosure of a board's powers and flexibility in this area would serve to further emphasize the nature of money funds as investments subject to risks. As set forth in the Proposal, there should be a maximum time period during which the liquidity fee or gate could be imposed, after which the money fund would be required to either reopen or liquidate.

The danger of favored investors being tipped off that a fund may be suspending redemptions could be dealt with through active enforcement by the SEC of existing law. The SEC has pursued several enforcement actions over the past few years against individuals and institutions that have tipped investors off about pending changes in a fund's valuation of portfolio securities. The same theory easily could be applied to this situation. The SEC could publicly announce its policy in this regard and could require money fund sponsors to have in place specific compliance procedures designed to ensure that such information is kept confidential within the organization.[11] Such announcement and procedures, combined with the requirement to notify the SEC, would effectively address the possibility of investors being tipped off.

III. OTHER ISSUES UNDER ALTERNATIVE 1 AND ALTERNATIVE 2

A. Elimination of the Amortized Cost Method of Valuation

Under Alternatives 1 and 2, the Commission proposed the removal of the amortized cost method of valuation exemption that is currently relied upon by money funds under Rule 2a-7 under the 1940 Act. We strongly oppose this proposal.

By their very nature as short-term investments of the highest credit quality, a money fund's investments do not ordinarily fluctuate in value on a day-to-day basis. Given the minimal fluctuations in NAV, the difference between a money fund's market-based NAV and its NAV calculated using amortized cost is minimal.

Based on our experience of managing money funds, the normal trading activities of money funds usually result in realized gains and losses offsetting each other and any net amount is usually immaterial. Under relevant tax regulations, any net realized gains are distributed annually, which prevents any significant deviations between a money fund's market-based NAV and its NAV calculated using amortized cost. With respect to any net realized losses,

---

[11] We note that Section 204A of the Investment Advisers Act of 1940, as amended, requires every investment adviser to establish, maintain and enforce written policies and procedures that are reasonably designed to prevent the misuse of material, nonpublic information.

under the Registered Investment Company Modernization Act of 2010, any realized losses can offset any realized gains without limitation, which helps to protect the NAV calculated using amortized cost from moving significantly below the market-based NAV.

We also note that there is no exchange or other organized market where short-term securities are traded, and there may not always be a robust and transparent trading market for certain types of short-term securities in which a money fund may invest. As a result, most money funds will continue to use pricing services to furnish pricing information about their portfolio securities. Such pricing information may not always be more accurate than amortized cost, due to market anomalies and pricing service errors. Money fund boards (or their delegates) and advisers would be required to carefully review and confirm pricing service prices in order to determine the value of these securities. Based on the foregoing, we believe that amortized cost continues to be an appropriate method of valuation for money funds.

The amortized cost method of valuation exemption is particularly important to money fund investors, because it allows money funds to be able to execute intra-day settlements of transactions in fund shares in a cost-effective manner. Currently, a money fund is able to offer investors intra-day settlements, because the money fund can quickly calculate its NAV using amortized cost, absent a material credit event or other event that could cause the money fund's market-based NAV to move below $0.9950 or above $1.0050. If the amortized cost method of valuation is no longer available, a money fund would be required to obtain market prices for each portfolio security from its pricing vendor and calculate its price before intra-day settlements can be effected. It is our understanding that pricing vendors may not be able to provide prices for all portfolio securities throughout the day. Moreover, even if they are able to do so, we understand that pricing vendors will impose additional charges on money funds, which ultimately would be borne by shareholders. After receiving prices from a pricing vendor, a money fund (or its designee) may be required to carefully review that data to search for anomalies and errors in an attempt to confirm those prices and prevent the inclusion of inaccurate data in NAV calculations.

Taking all of these additional steps into account, money funds may not be able to offer intra-day settlement to investors, which would severely reduce the utility of money funds for investors. As noted above, we believe that this would lead to further concentration of assets in bank deposits, which could have significant negative effects on (i) investors who prefer money funds and (ii) the short-term debt markets. It also may lead to more investments in unregulated alternatives, which increase systemic risk to the financial system. For these reasons, we oppose the removal of the amortized cost method of valuation exemption currently available to money funds.

B. Impact on Private Money Funds under Rule 12d1-1

We have reviewed the Proposal and believe that it could impact unregistered money funds ("private money funds") that serve as underlying investments to mutual funds relying on

Rule 12d1-1. Section 12(d)(1) of the 1940 Act restricts the ability of a mutual fund to purchase shares of another fund above certain percentage limitations. In 2006, the SEC adopted several Rules under Section 12(d)(1) to broaden the ability of a mutual fund to invest in shares of another fund. In particular, Rule 12d1-1 allows mutual funds to invest in shares of money funds in excess of limits of Section 12(d)(1). Rule 12d1-1(b)(2) provides that a mutual fund may invest in a private fund if the acquiring mutual fund reasonably believes that the private fund, among other things, operates in compliance with Rule 2a-7 (except for having a board).

Because these private money funds must comply with most of the substantive provisions of Rule 2a-7 in order to be investments for other mutual funds under Rule 12d1-1, the Proposal could dramatically impact their ability to serve as underlying investments to mutual funds. In particular, certain aspects of the Proposal are ill-fitted for these private money funds. As such, the Commission should include in any final rulemaking appropriate amendments to Rule 12d1-1.

UBS Global AM currently advises private money funds that may serve as a cash management vehicle (including for the reinvestment of securities lending collateral) for other mutual funds in the fund complex. These private money funds are valuable tools that allow the acquiring mutual funds to efficiently manage daily inflows and outflows of cash.

If Alternative 1 is adopted, a private money fund would be required to either limit redemptions to $1 million per day for a single investing mutual fund or adopt a floating NAV. As a cash management tool, a mutual fund would not invest in a private money fund if such limitations were imposed and, thus, Alternative 1 would effectively eliminate the private fund as a cash management tool for mutual funds.

Because at least one of the private prime funds that UBS Global AM advises does not have a board, we believe that Alternative 2 would also be problematic under Rule 12d1-1. While Rule 12d1-1 permits the adviser of a private fund to perform the function of a board for the purposes of complying with Rule 2a-7, if Alternative 2 is adopted, the adviser would be called upon to make decisions about liquidity fees and gates, which could create a potential conflict of interest when the adviser also manages an affiliated mutual fund that invests in the private fund.

We believe that the proposed restrictions under Alternatives 1 and 2 should not be applied to private money funds because those funds do not present the concerns the Alternatives aim to address. Private money funds that serve as underlying investments for mutual funds do not present the systemic risks at which the Proposal is aimed. Private money funds are often created solely for investment by the investing mutual funds and we do not believe that the concerns of unforeseeable large scale redemptions or runs on private funds exist. We therefore suggest that, if the Commission adopts Alternatives 1 and/or 2, it should amend Rule 12d1-1 to exempt private money funds from these Alternatives.

C. Impact on Master-Feeder Money Funds

Certain money funds managed by UBS Global AM operate under a master-feeder structure pursuant to Section 12(d)(E) of the 1940 Act. The Proposal did not address the impact of Alternatives 1 and 2 on such master-feeder money funds and, as a result, if the SEC adopts either (or both) Alternatives, the Commission should carefully consider and address the issues for master-feeder money funds.

In particular, we believe that, under Alternative 1, feeder funds should not be limited to $1 million in redemptions per day under the retail exemption and, under Alternative 2, boards should be permitted to impose liquidity fees and/or redemption gates on either or both a master and feeder fund(s). Furthermore, the SEC should consider the fact that the Proposal could have serious implications for master-feeder money funds, including causing such funds to de-spoke, which could incur significant costs on shareholders and implicate the viability of certain of such funds which may not have sufficient assets to be economically sufficient on a stand-alone basis but only as feeder portfolios.

IV. COMBINATION OF ALTERNATIVE 1 AND ALTERNATIVE 2

In the Proposal, the Commission sought comment on the potential combination of Alternatives 1 and 2. As noted above, we do not support Alternative 1 and do not support money funds being required to operate under both Alternatives.

V. DISCLOSURE REQUIREMENTS

A. Definition of Financial Support

Under the Proposal, "financial support" to a money fund would include, but not be limited to: (i) any capital contribution; (ii) the purchase of a security from the fund in reliance on Rule 17a-9; (iii) the purchase of any defaulted or devalued security at par; (iv) purchase of fund shares; (v) the execution of a letter of credit or letter of indemnity; (vi) a capital support agreement (whether or not the fund ultimately received support); (vii) performance guarantees; or (viii) any other similar action to increase the value of the fund's portfolio or otherwise support the fund during times of stress. We believe that this definition is too broad and should exclude transactions that are immaterial as well as those that would not signal any financial distress at the fund.

For example, we believe that there could be legitimate business purposes for an adviser or its affiliates to purchase money fund shares. Affiliates of UBS Global AM regularly hold money fund shares in record name on behalf of their customers. UBS Global AM or its affiliates may also purchase money fund shares in the ordinary course of business. We do not believe that such purchases should be deemed to be the provision of "financial support." Like most money fund managers, UBS Global AM may also voluntarily waive its fees, particularly in periods of low interest rates, which could unnecessarily trigger disclosure of "financial support." Further, it is unclear what "other similar action to increase the value of the fund's portfolio or otherwise support the fund during times of stress" would include.

Therefore, we urge the Commission to clarify the actions that would be deemed financial support. In particular, the Commission should clearly state that any actions that are taken in the ordinary course of business or for any other legitimate business purpose should not be deemed to be the provision of financial support to the fund.

B. Form N-MFP

The Proposal would eliminate the 60-day delay, making information publicly available immediately upon filing. There are practical difficulties with making Form N-MFP filings under the current filing requirements and, without the 60-day delay in publication, there would be a greater likelihood of human error, resulting in inaccurate data being included in public information. The 60-day delay allows money funds to conduct a more thorough review of their Form N-MFP filings to confirm their accuracy and file any amendments to correct data before it is made available to the public.

There are also new reporting requirements to Form N-MFP, including, but not limited to: (i) weekly reporting of NAV; (ii) new information with respect to each portfolio holding; (iii) disclosure about the amount of cash the money fund holds; (iv) the fund's daily and weekly liquid assets; (v) whether a portfolio security is considered a daily or weekly liquid asset; (vi) whether any person paid for or waived all or part of the fund's operating expenses or management fees; and (vii) the total percentage of shares outstanding held by the 20 largest shareholders of record. The costs of implementing these reporting requirements would be excessive. These costs would be borne by money fund shareholders. In addition to the costs, we believe that the requirement to provide this information within five business days after the end of each and every month is unreasonable – especially given the number of data points involved when being supplied over dozens of money funds holding hundreds of securities. We suggest changes to the proposed filing requirements to allow money funds more time to ensure the accuracy of their filings.

In the Proposal, the Commission asked whether money funds should be required to make Form N-MFP filings weekly. We strongly oppose requiring money funds to make Form N-MFP filings weekly or more frequently than monthly. Complying with a weekly filing requirement would be very costly and these costs would be borne by fund shareholders. We also note the potential for human error and the public dissemination of incorrect information would be multiplied if more frequent filings are required.

C. Website Disclosure

The Proposal would require the following new disclosure items to be posted on a money fund's website: (i) the percentage of the fund's total assets that are invested in daily and weekly liquid assets as of the end of the previous business day; (ii) the fund's net inflows and outflows as of the end of the previous day; and (iii) the fund's daily market-based NAV per share, rounded to the fourth decimal place in the case of a fund with a $1.00 share price, as of the end of the previous business day (current NAV). We support these requirements.

The Proposal also would require a money fund to display and maintain a schedule, chart, graph or other depiction on its website showing the historical information about its investments in daily and weekly liquid assets, the fund's net inflows or outflows and daily current NAV for the previous six months, and would require the fund to update this historical information each business day as of the end of the preceding business day. We do not support these changes, because they would require a significant restructuring of the money funds' websites, which would be expensive to complete and maintain.

The SEC also proposed additional information regarding the posting of: (i) the categories of a money fund's portfolio securities; (ii) maturity date information for each of the fund's portfolio securities; and (iii) market-based values of the fund's portfolio securities at the same time as this information becomes publicly available on Form N-MFP. We believe this information is too detailed to be useful to most investors and would be cost prohibitive to provide.

Complying with these new website disclosure requirements would add notable costs for each money fund that UBS Global AM advises. We urge the SEC to consider these costs when determining whether the costs of such disclosures outweigh any benefits.

VI. PROPOSED COMPLIANCE DATE

The SEC proposed a compliance period of two years for Alternative 1, one year for Alternative 2 and nine months for the other proposed amendments that are not specifically related to either Alternative. We believe that these compliance periods would be too short.

Based on the operational issues associated with implementing the changes contemplated under the Proposal, we believe that a more reasonable compliance period would be three years for Alternative 1, two years for Alternative 2 and two years for the other proposed amendments that are not specifically related to either Alternative. UBS Global AM and its affiliates have reviewed their pipeline of proposed technology changes and note that the pipeline is already full due to the need to comply with other regulatory changes, as well as other scheduled upgrades.

* * * * *

We understand the difficulties facing the Commission as it tries to address the issues confronting the money fund industry in a manner that will both preserve the benefits of money funds for investors and the short-term debt markets and be justifiable in terms of the cost-benefit analysis. We appreciate the thoughtful and careful approach being taken by the Commission, as well as the opportunity to provide our thoughts on the Proposal.

We would be happy to meet with the Commissioners or members of the Commission staff to discuss our comments or any aspects of the Proposal.

Respectfully submitted,

UBS Global Asset Management (Americas) Inc.

By

/s/ Robert Sabatino
Robert Sabatino
Managing Director
Head of US Taxable Money Markets

/s/ Keith A. Weller
Keith A. Weller
Executive Director &
Senior Associate General Counsel