J.P.Morgan
Asset Management

September 17, 2013

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

Re: Securities and Exchange Commission File Number S7-03-13, Release No. IC-30551, *Money Market Fund Reform; Amendments to Form PF* (the "Release")

Dear Ms. Murphy:

J.P. Morgan Asset Management ("JPMAM")[1] appreciates the opportunity to comment on various aspects of the Securities and Exchange Commission's (the "SEC" or the "Commission") proposal to enhance the regulatory framework of money market funds ("MMFs"). JPMAM is one of the largest MMF managers in the world with fund assets under management of approximately $471 billion.[2] Domestically, JPMAM provides investment management services for 13 MMFs registered under the Investment Company Act of 1940 (the "1940 Act") with assets totaling approximately $248 billion, including the JPMorgan Prime Money Market Fund, the industry's largest MMF, with assets of approximately $108 billion.[2]

JPMAM strongly supports the SEC's goal to reduce potential systemic risk and increase the transparency of the risks presented by MMFs while preserving their benefits. We believe the SEC's proposal (the "Proposal") and the Release present a thoughtful and well-balanced analysis and appropriately identify significant issues that need to be considered, including the importance of the continued use and viability of MMFs to investors and the financial markets.

Executive Summary

JPMAM believes that in achieving the optimal balance of reducing systemic risk and preserving MMFs as an efficient and viable tool for investors and the financial markets, it is important to bear in mind that the reform of MMFs has been under discussion since the early days of the 2008 financial crisis. In the ensuing five years, the SEC has enacted effective reforms that have helped to reduce risk, improve liquidity and disclosure and ensure the stability of the short-term fixed income markets. In addition, the JPMAM-advised MMFs and other MMFs have taken certain

[1] J.P. Morgan Asset Management is a marketing name for the investment management subsidiaries of JPMorgan
[2] JPMAM, as of August 31, 2013.

elective steps to strengthen investor awareness by voluntarily providing important information to investors, most notably daily disclosure of market-based net asset values ("NAVs") calculated to four decimal places and daily and weekly liquidity thresholds, as applicable.[3] In considering the next steps in money market reform, it is useful to take into account these recent advances and the experiences of MMFs since the implementation of the 2010 reforms.

As set out in more detail below, we have undertaken a careful assessment of the benefits and the impact on the continued utility of MMFs presented under the alternatives set forth in the Proposal.[4] We believe that the best option for achieving the SEC's objectives is a variation of the fees and gates alternative under the Proposal ("Alternative 2") in which a board, in its discretion, may impose a gate, and potentially thereafter, a liquidity fee, among other options. We believe that a gate is the only way to effectively stop mass redemptions ("runs"). We believe that boards should determine the appropriate threshold for imposing a gate. A specific trigger that requires board action may cause investors to redeem as a MMF gets close to the trigger, which may accelerate the run that gates and liquidity fees are designed to prevent. We also believe that the proposed 30-day period for gating would be unacceptable for investors, as they could be denied liquidity during a crisis when it is most needed, and could be destabilizing to the short-term liquidity markets and during a period of market stress. We believe that authorizing a board to gate for up to ten (10) calendar days, using a similar standard to the standard under which a board is permitted to halt redemptions in connection with liquidation under Rule 22e-3, would prevent a run and provide the board with a sufficient timeframe to consider and respond to a problem. Ten (10) calendar days should also provide MMFs an opportunity to rebuild significant amounts of liquidity since the 2010 amendments to Rule 2a-7 require MMFs to invest at least 30% of their portfolios in assets that can provide weekly liquidity. Further, we believe that a MMF board should have the discretion to address a problem by imposing a liquidity fee of up to 2% following the lifting of a gate for up to thirty (30) days. Alternatively, a MMF board may elect to liquidate the MMF or re-open the MMF with a floating NAV.

If the SEC pursues the floating NAV alternative under the Proposal ("Alternative 1"), we believe that the SEC should not distinguish between retail and institutional investors. In addition, we have identified a number of significant operational and transitional challenges that a transition to a floating NAV would pose to investors, the industry and the financial markets, as set forth in more detail in Appendix A. In

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[3] Under Rule 2a-7, a taxable MMF may not acquire any security other than a "daily liquid asset" unless, immediately following such purchase, at least 10% of its total assets would be invested in daily liquid assets and no MMF may acquire any security other than a "weekly liquid asset" unless, immediately following such purchase, at least 30% of its total assets would be invested in weekly liquid assets.

[4] In previous discussions with global regulators, including the Commission, we have advocated for a capital-based approach that is flexible in its source, model-based and available as a first-loss reserve as a useful tool to mitigate systemic risk associated with MMFs. While we have not addressed capital herein, we would be happy to continue these discussions with regulators.

particular, we do not believe that MMFs should be placed in an unfair position via the share price reporting mechanism (i.e., the ability to use a $1.000 share price transacted to three decimal places or $10.00 transacted to two decimal places) that all other funds registered under the 1940 Act enjoy through a requirement to transact at a greater level of precision. Further, we request that any discussion of a timeline to convert to a floating NAV not begin until critical tax and accounting issues have been resolved.

To the extent that the challenges to implementing a floating NAV cannot be sufficiently addressed, we note that one of the key objectives of Alternative 1, improving the accuracy of investors' perception of the risks presented by MMFs, may also be achieved through a requirement of greater transparency. We believe that frequent disclosure of key MMF information (i.e., market-based NAVs, daily and weekly liquidity levels and portfolio holdings) work to both reduce risk and aid investors' understanding of the true nature and risk of their investment. While a floating NAV also provides an incremental benefit of reducing the likelihood of inequitable treatment to shareholders by requiring MMFs to sell and redeem shares based on the current market-based value of the securities in their underlying portfolios rounded to the fourth decimal place (e.g., $1.0000), as discussed in more detail below, we believe that this benefit can be achieved by providing MMF boards with discretionary gating powers and the power to impose a liquidity fee, tools which they can use to protect against such inequities in times of stress.

Further, we believe that tax-exempt MMFs should be excluded under both Alternative 1 and Alternative 2 in the same way that government MMFs are excluded. Additionally, we believe that the proposal to eliminate the "twenty-five percent basket" ("the basket") for guarantees and demand features from a single entity should be modified to more effectively reduce risk.

Our views are informed by our experience in the market as well as through engagement with MMF investors and financial intermediaries who have expressed concerns about various aspects of the Proposal. Specifically, MMF investors have indicated concern about changes to the basic tenets of money funds -- stability of principal and daily liquidity. Both Alternatives 1 and 2 have the potential to significantly reduce these key benefits that MMFs provide today and the adoption of either alternative will reduce the use of MMFs. The extent of the impact appears to be dependent upon the details of the reforms adopted. The majority of these investors have stated that they would look to utilize bank deposits, direct money market securities, government MMFs and possibly look to outsource more internal investments to outside managers. Nearly all investors have expressed significant concerns with a rule that combines both alternatives.

Gates and Liquidity Fees

Gates and liquidity fees can be powerful tools for MMF boards to use to provide shareholders with stability and equitable treatment in times of stress.[5] Of all the proposals currently under discussion, a gate is the only alternative that allows a MMF to effectively and definitively stop a run. Once a board utilizes a gate to stop a run, a liquidity fee can be an option (among others described below), available for use by a MMF's board.

If a run on a MMF has begun, or there is a risk that a run is imminent, we believe that a board should have discretion to impose a gate for up to ten (10) calendar days to provide an opportunity to address the situation. To the extent that the applicable issue cannot be resolved, a board should then have the option to impose a liquidity fee for up to thirty (30) days. A liquidity fee can act to adjust investor behavior by providing investors with a choice based on economics. As stated in the Release, the goal of a liquidity fee is to cause investors to "…re-asses[s] their redemption decisions because they [will be] required to pay for the costs of their redemptions."[6] Additionally, the Release states, "regardless of the incentive to redeem, a liquidity fee would make redeeming investors pay for the costs of liquidity."[7] Because facts and circumstances will vary depending on the specific situation, we believe that a MMF's board should be permitted to determine the size of the liquidity fee (subject to a 2% maximum). The board should also have the option to re-open the MMF with a floating NAV[8] or liquidate the MMF.

MMF boards should be permitted to adopt a gate when they deem it to be in the best interest of a MMF to respond to extraordinary circumstances. Specifically, a MMF board should have such powers in the event that the board determines that not imposing a gate may result in material dilution or other unfair results to investors or existing shareholders. The decision to adopt a gate should not be linked to a specific trigger such as a specified level of liquidity or market-based NAV, since the event of a MMF approaching said threshold could in itself accelerate the run that it is designed to prevent. The discretionary nature of a board-initiated gate would mitigate the risk of any such pre-emptive run occurring and would allow the board to react, where necessary, even in the circumstance where such action may be warranted even if weekly liquid asset levels remain above 15% or any other stated threshold.

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[5] As the SEC states in the Release, noting the experiences of a Florida local government investment pool and certain European enhanced cash funds, "Liquidity fees and gates are known to be able to reduce incentives to redeem, and they have been used successfully in the past by certain non-money market fund cash management pools to stem redemptions during times of stress." Release at P.162-163.

[6] Release at P.154.

[7] Release at P.155.

[8] A move to a floating NAV would present the concerns described in Appendix A for that particular MMF which the board would need to consider in selecting this option.

We believe that implementation of gates should only be permitted for relatively short periods of time. The potential of total loss of access to liquidity for up to thirty (30) days will be a concern for investors, and could exacerbate a pre-emptive run. Further, we are concerned that imposing a gate on liquidity for up to thirty (30) days, which would restrict market liquidity during a period of market stress, could be destabilizing to the short-term liquidity markets and exacerbate a stressed environment. We believe that ten (10) calendar days would halt a potential run on the MMF while also providing a board with sufficient time to consider the source of the risk and determine a proper course of action. To the extent that the board believes that a liquidity fee would be effective in further protecting investors, the board, in its discretion, should further be permitted to impose a liquidity fee of up to 2% for up to thirty (30) days. Alternatively, the board may re-open the MMF with a floating NAV or elect to liquidate under Rule 22e-3. Ten (10) calendar days should provide MMFs an opportunity to rebuild significant amounts of liquidity since the 2010 amendments to Rule 2a-7 require MMFs to invest at least 30% of their portfolios in assets that can provide weekly liquidity.

It should be recognized that a single MMF imposing a gate, and potentially a liquidity fee, alone would most likely be forced to liquidate, as investors would choose to move to a MMF that had not had a reason to impose a gate or liquidity fee. However, in a systemic crisis where many MMFs might be faced with heavy shareholder redemptions, MMFs may have a greater likelihood of avoiding liquidation after the systemic crisis subsided. Also, it would be useful for a board to have the ability to gate a MMF for a short period of time while options are considered and then potentially re-open the MMF. Ultimately, because the facts and circumstances will vary in each situation in which a MMF is stressed, the flexibility provided to MMF boards by permitting them to suspend redemptions for up to ten (10) calendar days and then impose a liquidity fee for up to thirty (30) days, float the MMF's NAV or liquidate the MMF in their discretion best allows them to assess and respond to each situation presented.

As discussed below, to the extent that *not* adopting a floating NAV raises concerns regarding inequitable treatment between slow- and fast-redeeming shareholders, discretionary gating powers followed by the ability to impose a liquidity fee provide a MMF's board with tools, consistent with their responsibilities under the 1940 Act, to seek to protect against such inequities in times of stress.

Investor reactions to gates and liquidity fees

Over the last five years, we have engaged in a continuing dialogue with investors on the topic of regulatory reform. This dialogue has taken the forms of one-on-one conversations, small group round tables, webcasts and investor forums. Over that time, we have discussed the benefits and concerns of many facets of the Proposal and other proposals.

For some direct investors, after an intial evaluation of the Proposal, an alternative of liquidity fees and gates was deemed less problematic since they felt it will provide them with a stable NAV MMF. However, after they evaluated the complications associated with the potential implementation of fees and/or gates, many of these same investors determined that MMFs would no longer serve as a viable investment alternative. A lack of liquidity during times of market stress or an unforeseen need for liquidity is a significant concern with this option.

As with the floating NAV proposal, based on conversations with financial intermediaries, MMF distributors have concerns regarding the operational changes to systems that would be required, the costs associated with and the time that would be required to build and test the systems to support a gate/liquidity fee structure, leading some to state that the additional requirements would likely lead them to only make available those MMFs that do not carry this additional burden. This decision appears to relate to their belief that this structure makes MMFs a significantly less viable investment for their business and that the cost, time and energy required with system enhancements to accommodate the new requirements are not justified.

In line with distributors' concerns regarding the floating NAV option, many distributors have concerns regarding the ability of third-party service provider platforms to meet the potential new requirements relating to the implementation of a liquidity fee.

We believe that the modifications to Alternative 2 described above, including the shorter gating period coupled with providing greater flexibility to boards, would alleviate some of the concerns expressed to us by investors regarding Alternative 2.

Floating NAV

If a floating NAV is adopted, we believe that the SEC should carefully consider the significant operational and transitional challenges that a transition to a floating NAV would pose to investors, the industry and the financial markets. These include increased and onerous tax reporting and accounting issues that will need to be addressed, limited ability to settle transactions, elimination of certain sweep and omnibus capabilities and a difficult transition from a stable NAV to a floating NAV (see Appendix A). If the challenges can be resolved and a floating NAV is adopted, we believe that the floating NAV should be applied equally to all prime MMFs regardless of their investor bases (i.e., retail or institutional). To the extent that the challenges to implementing a floating NAV cannot be successfully addressed, we note that disclosure can provide one of the key benefits of a floating NAV, improving the accuracy of investors' perceptions of the risks presented by MMFs.

Applicability of a floating NAV to retail MMFs

We strongly believe that any reforms relating to a floating NAV should be applied equally to all prime MMFs regardless of their investor base. Any distinction between retail and institutional is arbitrary. If the SEC concludes that the floating NAV is the preferable approach, its goals should not be hampered by a partial implementation. Our view is based upon the following considerations:

1. While institutional investors were quick to run in 2008, there is no evidence to support the proposition that retail investors would not have also run absent the implementation of the U.S. Treasury Department's temporary guarantee program for the MMF industry.
2. Retail prime MMFs (however defined) invest in the same types of investments as institutional prime MMFs. A liquidity crisis or a default that affects the market value of securities in an institutional portfolio will similarly affect the market value of the securities in a retail portfolio. While an institutional MMF would be able to transact at a lower NAV of, for example, $0.9949, a retail MMF would "break the buck."
3. The SEC has stated that a floating NAV will result in more equitable treatment of shareholders by ensuring that redeeming shareholders receive the fair value of their shares and that the value of remaining shareholders' shares is not diluted. These protections should also apply to retail investors, as institutional investors should not receive greater protections than retail investors.
4. We are also concerned that any distinction between retail and institutional investors could cause institutional investors to invest in retail stable NAV MMFs to some extent. For example, under the current proposal, an institutional investor with $10 million may simply invest $1 million in ten (10) different MMFs. Assuming that only institutional investors are likely to run in times of stress, this investor (together with all other institutional investors who have invested similarly) will redeem from the retail MMFs. The cumulative result of all these institutional investors redeeming would cause those retail MMFs to experience a liquidity drain and NAV reduction to the detriment of their retail shareholders.

Disclosure of MMF-specific data provides many of the same benefits as a floating NAV

We support the SEC's policy objective under Alternative 1 for a floating NAV to recalibrate investors' perceptions of the risks inherent in a MMF by making changes in a MMF's market-based NAV a regularly observable occurrence. Increased transparency serves to both reduce risk and aid investors' understanding of the true nature and risk of their investments. A stated goal of Alternative 1 is to "improve the transparency of pricing associated with money market funds"[9] and reduce incentives of MMF investors to redeem shares in times of MMF and market stress. As stated by former Commissioner Troy Paredes, "The floating NAV alternative is designed to make the risks of money market funds more transparent."[10]

Separately, the Release contemplates requirements to provide increased disclosure of a number of items to investors, including daily and historical disclosure of daily and weekly liquid asset levels, daily and historical disclosure of current market-based NAV, net daily asset flows, prompt disclosure of the occurrence of various designated material events, more frequent disclosure of portfolio holdings and disclosure of support provided to a MMF.

The SEC has suggested that there are a number of benefits that are derived from these additional disclosures.[11] In particular, the SEC states that the purpose of such requirements would be to "… provide greater transparency regarding money market funds, so that investors have an opportunity to better evaluate the risks of investing in a particular fund and that the Commission and other financial regulators obtain important information needed to administer their regulatory programs."[12] We believe that making information publicly available on a frequent basis facilitates self-governance in the management of MMFs and provides investors with a greater understanding of the MMFs in which they invest.

Disclosure, including current market-based NAVs, provides the same level of transparency regarding MMFs to investors that would be provided by a floating NAV. For instance, each provides increased investor awareness of MMF risks by making gains and losses more regular observable occurrences,[13] both impose discipline by encouraging managers to manage MMFs carefully, which may decrease portfolio risk and promote stability,[14] both allow shareholders to understand and assess the effect of market events and their impact on liquidity and the NAV[15] and both prevent month end "window dressing."[16]

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[9] Release at P.47.

[10] *Statement at Open Meeting Regarding a Rule Proposal on Money Market Fund Reform*, Former Commissioner Troy A. Paredes, July 5, 2013.

[11] The SEC notes that disclosure may further help to reduce run risk, stating, "More frequent portfolio holdings disclosure also could assist investors, particularly during times of stress, in differentiating between money market funds based on the quality and stability of their investments, potentially limiting the incentive to run." Release at P.344.

[12] Release at P.314.

[13] The Release states, "Whether we adopt either of the proposed reform alternatives, we believe that daily disclosure of money market funds' current NAV per share would increase money market funds' transparency and permit investors to better understand money market funds' risks." Release at P.335

[14] The Release states, "This enhanced disclosure also could impose external market discipline on portfolio managers consistent with their investment objective, as well as the stability of short-term financing markets generally." Release at P.336.

[15] The Release states, "Public disclosure of money market funds' daily current NAV per share also could decrease funds' susceptibility to runs, as shareholders might be less likely to sell fund shares during the occurrence of

Disclosure, such as daily disclosure of shadow prices on MMF websites, could accomplish the SEC's goal of transparency for Alternative 1 without eliminating the stable share price at which MMF investors purchase and redeem shares. Beginning in January of this year, the JPMAM-advised MMFs and a number of other MMFs undertook to voluntarily disclose on a daily basis their market-based NAVs.[17] Additionally, the daily and weekly liquid asset levels of JPMAM-advised MMFs, as applicable, are now disclosed daily on the MMFs' website, and the JPMAM-advised MMFs currently make available portfolio holdings on a next-day basis upon request. The availability of this information, particularly market-based NAVs calculated to four decimal places, makes clear to investors the extent of deviations of a MMF's NAV from $1.0000 to the same degree as floating the NAV. Through such regular public disclosure of market-based NAVs, investors are presented with valuable information about the risks presented by MMFs and the potential for loss.

However, a floating NAV provides the incremental benefit of reducing the likelihood of inequitable treatment to shareholders based on valuation and pricing methods (i.e., by requiring MMFs to sell and redeem shares based on the current market-based value of the securities in their underlying portfolios, rounded to the fourth decimal place, e.g., $1.0000). As discussed in more detail above, we believe that this benefit can also be achieved by providing MMF boards with discretionary gating powers and the power to impose a liquidity fee, tools which they can use to protect against such inequities in times of stress.

Investor reactions to floating NAV

In our ongoing dialogue with investors, direct MMF investors have expressed concerns with a floating NAV. Many of these investors, based on their organizations' objectives and investment guidelines, will not consider investing in a MMF with a floating NAV. A number of these investors have stated that before they invest in a floating NAV MMF, they might first consider investing in a fund that takes on additional risk but has the opportunity to provide a higher return (e.g., an ultra short-term bond fund). Additionally, many of these investors have expressed concerns regarding how a floating NAV fund might have greater limitations on redemptions (i.e., timing of MMF closes and same-day settlement, as discussed in Appendix A).

Generally, direct investors who stated that they might consider investing in a floating NAV MMF felt strongly that they would need the MMF to be designated as a cash equivalent and that the tax concerns described below would need to be addressed.

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negative market events if they could ascertain that their investment was not affected by such events on a near real-time basis." Release at P.335-336.

[16] Release at P.336.

[17] Market-based NAVs are disclosed each business day for the prior business day.

Based on our conversations with financial intermediaries, MMF distributors have concerns regarding the operational changes to systems that would be required, the costs associated with these changes and the time that would be required to build and test systems to support a floating NAV.

Some of these MMF distributors have stated that the additional requirements would likely lead them to only make available those MMFs that do not have to meet the new regulatory requirements. This decision appears to be twofold: they are of the belief that additional reform makes MMFs a significantly less viable investment for their business and that the cost, time and energy required to enhance their systems to accommodate the new requirements are not justified.

An important factor to be considered is that many distributors utilize third-party service provider platforms (e.g., transfer agents, recordkeepers and broker-dealer systems) to support their businesses. Distributors have concerns regarding those firms' ability to meet the potential new requirements.

In addition, certain retail platforms and distributors have expressed a concern regarding the complexities involved in implementing a $1 million daily redemption limit, in particular, with regard to systems monitoring and enforcement of limits.

Institutional servicing banks and platforms have expressed significant concerns regarding a change to a floating NAV requirement. Investment guidelines of many corporate investors require cash to be invested exclusively in vehicles that are likely to provide stability of principal. We understand that these investors would no longer consider a MMF an eligible investment.

Additionally, in speaking with exchanges and futures commission merchants, they are concerned as to whether or not prime MMFs would be considered an eligible investment for cash collateral monies as interpreted by the U.S. Commodity Futures Trading Commission.

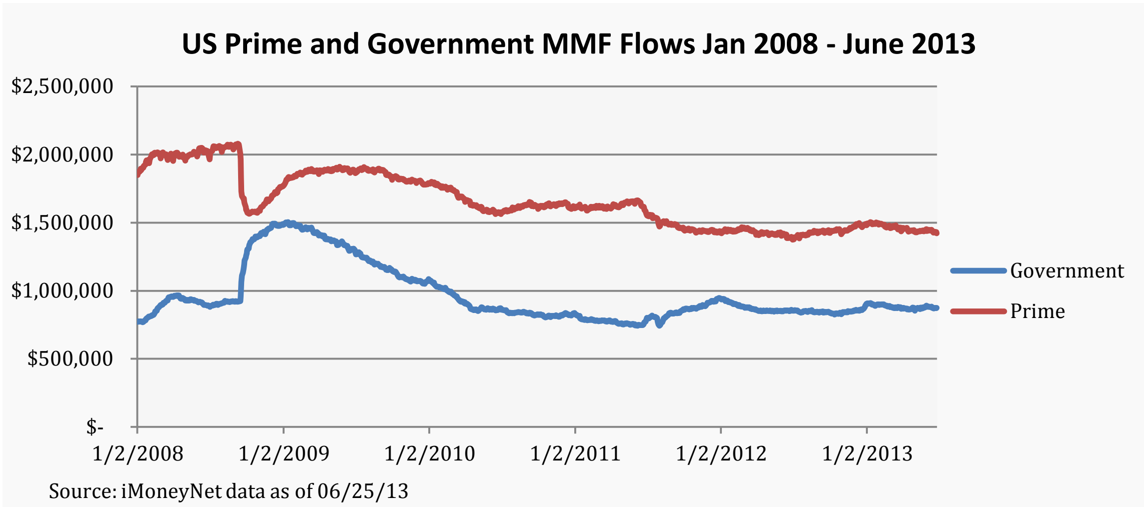
Additional Issues Under Each Alternative

Exemption of certain types of MMFs is appropriate

We agree with the SEC that government MMFs should be exempt under both Alternative 1 and Alternative 2, as they do not pose systemic risk. Due to the nature of their investments, government MMFs present lower credit risk than prime MMFs. As the graph below shows, and as noted in the SEC study of November 2012,[18] only

[18] *Response to Questions Posed by Commissioners Aguilar, Paredes, and Gallagher*, a report by staff of the Division of Risk, Strategy, and Financial Innovation (November 30, 2012).

prime MMFs suffered systemic runs on their assets and posed a systemic risk to the wider markets during the 2008 crisis. Government and treasury MMFs were a safe haven for investors leaving prime MMFs during the 2008 crisis, and government and treasury debt enjoyed excellent liquidity across the term spectrum. These factors differentiate prime MMFs from all other MMFs. As a result, we agree with the SEC that government MMFs should be permitted to retain a stable NAV.



Tax-exempt MMFs should also be exempt

We believe that tax-exempt MMFs should be given the same treatment as government MMFs under both alternatives. At approximately $260 billion in total assets,[19] the tax-exempt MMF asset class is too small to introduce systemic risk across the broader financial system. Application of the Proposal to tax-exempt MMFs risks eliminating an important source of funding for municipal entities. Additionally, certain institutional investors invest in tax-exempt MMFs and, as a result, it should not be assumed that tax-exempt MMFs would be exempt under Alternative 1 due to exclusive investment by retail investors.

In addition, similar to government MMFs, the structure of the investments of tax-exempt MMFs ordinarily ensures that these MMFs are highly liquid. A significant majority of municipal investments typically are in one- and seven-day demand notes. These notes provide one-day to one-week liquidity and comprise an industry average of approximately 77%[20] of total tax-exempt MMF holdings, a liquidity profile that serves to help to mitigate run risk.

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[19] iMoneynet data as of June 25, 2013.
[20] Crane Data, Crane Tax Exempt Institutional Index as of July 16, 2013.

Municipal Issues

We believe that the proposal to eliminate the basket for guarantees and demand features from a single entity can be modified to more effectively reduce risk. While we agree that investment exposure to guarantees and/or demand features from a single entity that represents 25% of a portfolio is too high, we agree with the SEC that there are few MMFs that employ the basket in that fashion.[21] Rather, certain MMFs use the basket to hold positions in amounts below 15% in credit exposures that they deem to be the best available.

Banking industry consolidation has substantially reduced the pool of high-quality demand feature and guarantee providers, and increased regulatory capital requirements will likely further reduce the number of available providers in the coming years. Removing the basket could force MMFs to replace highly-liquid, high-quality investments with longer-dated, lower-quality securities.

We would suggest that, instead of eliminating the basket, the SEC mandate a maximum guarantee and/or demand feature exposure that can be held within the basket in any one entity (e.g., a 15% cap). This would allow MMFs to include positions larger than 10% in stronger credits while further limiting concentration levels.

Conclusion

JPMAM welcomes the opportunity to comment on the Proposal and appreciates the SEC's significant efforts to analyze and define a set of solutions to ensure the stability of the MMF industry and the broader financial system, while preserving the viability of this industry for investors and the short-term capital markets.

As discussed above, JPMAM believes that the best option for achieving the SEC's objectives is a variation of the fees and gates alternative under the Proposal in which a MMF board, in its discretion, may impose a gate, and potentially thereafter, a liquidity fee, among other options. If the SEC pursues the floating NAV alternative under the Proposal, we believe that the SEC should not distinguish between retail and institutional investors. Finally, we also have highlighted issues which would need to be addressed in connection with any transition to a floating NAV.

We would be pleased to provide any further information or respond to any questions that the SEC may have.

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[21] The SEC noted in the Release that, as of February 28, 2013, the 109 MMFs that utilized the basket, on average, invested 3.9% of their assets in excess of the 10% diversification limitation. Release at P.450.

Sincerely,

John T. Donohue
Chief Investment Officer and Head of Global Liquidity
J.P. Morgan Investment Management Inc.

cc: The Honorable Mary Jo White
The Honorable Luis A. Aguilar
The Honorable Daniel M. Gallagher
The Honorable Michael S. Piwowar
The Honorable Kara M. Stein
Norm Champ, Director, Division of Investment Management

J.P.Morgan
Asset Management

Appendix A

Floating NAV Operational and Transitional Considerations

Tax considerations

One of the many reasons for the success of MMFs is the limited tax burden experienced by their investors. To the extent that MMF shares are purchased and redeemed at a $1.00 NAV, tax issues such as tracking of gains and losses and "wash sale rules," simply do not apply. Investors only need to report dividend income.

If regulations are not changed, a move to a floating NAV will increase the tax burdens of investors in MMFs. MMFs will need to track the cost basis of investors' shares and report gains and losses. Investors will have to report these gains and losses on their tax returns. Each transaction will be subject to wash sale rules where the high frequency trading of many investors will require complicated tracking and adjusting of the cost basis of such investors' MMF holdings.

To reduce the tax compliance burden under Alternative 1, the Release discusses that the U.S. Treasury Department and the Internal Revenue Service ("IRS") are considering alternatives to allow MMFs to net realized gains and losses from redemptions for information reporting purposes and to allow summary income tax reporting by shareholders. Such changes would be necessary to minimize the compliance burden for potentially immaterial amounts.

Subsequent to the publication of the Release, the IRS proposed rules excluding certain losses from the wash sale rules. Generally, *de minimis* losses not exceeding one half of 1% of the cost of the shares are not subject to the wash sale rules. Unfortunately, determining if the loss is *de minimis* will require investors to continue to conduct the same burdensome tracking and adjusting of cost basis that is currently required under the wash sale rules.

When compared against the current taxation of MMFs, the Proposal significantly increases the tax compliance burden to MMFs and shareholders. We believe that it is necessary for regulators to address, and provide guidance on, the impact of the final rules, so as to limit the tax impact and help maintain the utility of MMFs as a liquid asset with limited tax compliance burdens. Finally, we request that any discussion of a timeline to convert to floating NAV not begin until the IRS has passed the necessary rules to retain the tax efficiency which MMFs enjoy today.

Accounting considerations

MMFs, due to their nature, have historically been classified as cash equivalents. The Financial Accounting Standards Board's ("FASB") Generally Accepted Accounting

Principles ("GAAP") Codification[22] defines cash equivalents as short-term, highly-liquid investments that have both of the following characteristics:

- Are readily convertible to a known amount of cash, and
- Are so near their maturity that they present insignificant risk of value changes due to interest rate changes

Within ASC 305, the FASB provides a list of examples of cash equivalents, which includes treasury bills, commercial paper and MMFs.

This definition has leant itself to the inclusion of investments in MMFs owned by commercial entities as cash equivalents. The historical treatment of these funds as cash equivalents is a well-understood and a critically-important attribute of the product. As cash equivalents, MMF assets are appropriately considered in net leverage ratios, which are important metrics used in lending arrangements and therefore affect the availability and cost of financing, as well as compliance with any debt covenants. Additionally, during times of recession or a slowing business cycle, the ability for a corporation to show a highly-liquid balance sheet is very important to equity investors and ratings agencies.

The introduction of a floating NAV regime may create uncertainty for businesses, both large and small, and their accountants with respect to the appropriate balance sheet classification for MMFs going forward.

The Release states that the adoption of a floating NAV alone would not preclude shareholders from classifying their investments in MMFs as cash equivalents because MMFs are not likely to experience significant fluctuations in value. However, with the removal of the amortized cost exemption to value MMFs' securities with remaining maturities greater than sixty (60) days, the value of portfolios will likely fluctuate, thereby creating uncertainty as to whether the floating NAV MMF is convertible to a known amount of cash. This could cause floating NAV MMFs to fail to meet the definition of a cash equivalent and require investors to classify them as a trading security or available-for-sale security.[23] This would have the effect of reducing the reported amount of liquid cash equivalents on a corporation's balance sheet.

We believe that the SEC should provide a specific exemption for MMFs in the definition, e.g., define what is meant by "known amount of cash," so that there is certainty that a floating NAV MMF may be classified as a cash equivalent under GAAP. This exemption could take many forms; the easiest might be to simply state

[22] FASB ASC 305.
[23] FAS 320-10-20.

that MMFs that operate in compliance with Rule 2a-7 meet the definition of a cash equivalent.

Required level of precision

The SEC proposes that MMFs that float their NAVs transact using a rounding convention that is ten (10) times more precise than that required of other mutual funds. Specifically, floating NAV MMFs would be required to transact at an NAV that is calculated to the fourth decimal place for shares with a target NAV of one dollar (i.e., $1.0000). The Release refers to this rounding as “basis point rounding.” We believe that the SEC should not require basis point rounding, as we do not believe that it presents an incremental benefit over the precision of valuation currently utilized by all other mutual funds. The increased volatility created by the requirement to transact to a degree of precision of an additional decimal could make MMFs less desirable than other short-term and ultra short-term funds. As noted above, the education and awareness of investors as to the extent a MMFs NAV fluctuates, calculated to the basis point level, could be served equally well through the disclosures recommended above.

Settlement Considerations

A move to a floating NAV will impact the ability of MMFs to offer same-day settlement of transactions. In order for MMFs to offer T+0 settlement, transfer agents will need to enhance their systems to account for floating NAV MMFs, and their reconciliation and audit processes would need to be condensed to the end of the day, which introduces additional risk.

If a mechanism for T+0 settlement can be created, it will almost certainly require MMF closing times to move to earlier in the day. Many MMFs permit same-day trading up until 5:00 p.m. Eastern Time (some until 5:30 p.m. Eastern Time). Under the amortized cost method of accounting currently utilized by MMFs, NAVs can be calculated prior to receipt of market-based prices, which are currently provided at the end of the day after the close of the Federal Reserve Cash Wire. However, if the use of this method of accounting is no longer permitted, calculations of NAVs will require obtaining pricing information for securities earlier in the day, which may be difficult to obtain, and closing times will need to move to earlier in the day to allow sufficient time to conduct the calculation of the NAV prior to the close of the Federal Reserve Cash Wire. Moving closing times earlier to allow sufficient time to price the securities in a MMF and calculate the floating NAV would eliminate a feature important to investors, the ability to purchase and redeem shares of a MMF late in the day. Additionally, to support the important feature of same-day settlement, other infrastructure and systems of service providers supporting MMFs, including, but not limited to, sweep providers, broker-dealers, pricing vendors and fund administrators, will require significant enhancements and upgrades.

Financial intermediaries distribute MMFs via various channels, including a significant amount through sweep vehicles and portals. The stable NAV is the mechanism that facilitates the efficient movement of assets into and out of MMFs on a daily basis. We understand from our discussions with financial intermediaries that offer MMFs through a sweep vehicle that they will not use a floating NAV MMF in a sweep vehicle. This is due to the costs associated with the system enhancements necessary to accommodate the trading of floating NAVs and the required tracking of lots for tax purposes.

Transition challenges

Many believe that shareholders would likely move out of MMFs upon (or in anticipation of) the implementation of Alternative 1. This would likely entail MMF shareholders moving assets to deposits, direct investments in short-term government debt or into stable NAV government MMFs. Shareholders would likely evaluate the performance of floating NAV MMFs and consider over time whether to re-invest. The choice to re-invest in floating NAV MMFs would likely be based on a set of factors that include volatility of the NAV, yield advantage provided and, most importantly, the practical application of the tax and accounting relief discussed above. We have considered a number of potential methods to transition prime institutional MMFs to a floating NAV, however, each presents concerns. Certain of the methods that we have considered are set forth below (while we do not support an exemption for retail MMFs from Alternative 1, for purposes of this analysis, we have assumed the inclusion of such an exemption in the reform):

Option 1
Convert existing prime MMFs to stable government MMFs and launch new prime institutional floating NAV MMFs. Under this option, investors have the option to stay in the stable government MMFs or move to the new floating NAV prime institutional MMFs.

Option 2
Launch new prime institutional floating NAV MMFs and convert existing prime institutional MMFs to prime retail MMFs through the introduction of redemption restrictions that take effect at the end of the conversion period. Under this option, investors may elect to stay in the prime MMFs and accept the new redemption restrictions or move to the new floating NAV prime institutional MMFs.

Option 3
Convert existing prime MMFs to floating NAV prime institutional MMFs. Under this option, investors may move to government or retail MMFs as needed.

Option 4
Split prime MMFs into retail and institutional MMFs and allow investors to elect which to invest in as of a certain date.

Each of the four methods to transition to floating NAV MMFs listed above comes with risk. The first and largest risk is they each could cause large redemptions from prime MMFs, increasing risk to the financial system by stressing the short-term funding market. In addition, assuming that any costly procedural and legal corporate requirements could be overcome, each option also has the potential to over-saturate the short-term treasury and agency markets, potentially forcing many stable government MMFs to close to new investments.