square 1 asset management

September 17, 2013

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

**Re: Securities and Exchange Commission's Money Market Fund Reform Amendments to Form PF, SEC File no. S7-03-13**

Dear Ms. Murphy,

Square 1 Asset Management is pleased to have the opportunity to submit comments in response to the Securities and Exchange Commission's ("SEC") proposals for Money Market Fund Reform, SEC File no. S7-03-13 ("Proposed Rules"). Overall, we encourage market rules and reforms that help minimize loss and ensure liquidity for money market fund ("MMF") participants and are supportive of the SEC's continued efforts to improve the safety and stability of this investment option. This comment letter serves to address Square 1 Asset Management's position of the Proposed Rules.

## About Square 1 Asset Management

Square 1 Asset Management, a subsidiary of Square 1 Bank, is a registered investment adviser and cash management solution designed for corporations and their institutional investors, tailored to meet each client's liquidity management needs. Square 1 Bank is a full service commercial bank that provides financial products and services to the venture capital community and entrepreneurs in all stages of growth and expansion. On a regular basis, we utilize MMFs for clients whose cash portfolios can benefit from the functionality of these instruments.

## SEC Proposed Rules

On June 5, 2013, the SEC unanimously approved two principal reform proposals for the MMF industry. This is in addition to the 2010 rules adopted by the SEC, which introduced significant changes designed to bolster the safety of MMFs in times of market stress, specifically tighter restrictions on maturity limits, liquidity requirements, credit quality and disclosure requirements.

We believe the aim of the current Proposed Rules is to limit the potential "run risk" in MMFs. In brief, there are two key rule proposals that are specific to prime institutional MMFs and tax exempt funds. Government MMFs would be exempt under the Proposed

Rules, while retail MMFs would be exempt in one scenario. The SEC is proposing the following:

- Floating NAV: This would require MMFs to transact at a floating net asset value (NAV) for prime institutional MMFs versus the current stable NAV structure. Government and retail MMFs are exempt.
- Liquidity Fees and Redemption Gates: This would require both institutional and retail prime MMFs to charge liquidity fees and allow redemption gates in times of stress, while preserving the stable NAV structure. A liquidity fee of up to 2 percent would apply only if weekly liquidity falls below 15 percent. The MMF's Board could also temporarily suspend redemptions for up to 30 days. Government MMFs are exempt.

The two proposals could be implemented individually or in combination. There were also additional proposals presented around holdings reporting and disclosures.

**Square 1 Asset Management Perspective**

The $2.6 trillion MMF market is both an important investment tool and source of liquidity for a cash management strategy that focuses on capital preservation and on demand liquidity for institutional investors. We are pleased that the Proposed Rules are less onerous and disruptive to market participants compared to the recommendations proposed by the Financial Stability Oversight Council last year, which included a mandatory capital buffer.

*Floating NAV*

We strongly oppose the floating NAV proposal on several grounds, including:

- The difficulty in a given investor's ability to account for realizing gains and losses due to price fluctuations;
- The potential adverse changes to the current financial reporting of floating NAV as "cash equivalents";
- The unknown accounting treatment under the Internal Revenue Service, which may further decrease the viability or attractiveness of MMFs;
- An ambiguous definition of retail that may affect the management of smaller institutional clients;
- The ability to execute intraday deposits and withdrawals with floating NAV;
- The inherent weaknesses of matrix pricing of securities in times of stress, which might drive prices yet further down;
- Doubts as to whether or not a floating NAV could provide a significant means of reducing the desire of investors to withdraw funds in in a market run scenario. A statistically significant drop in NAV may in fact encourage investor flight; and
- A concern that the aggregate set of risks borne out of floating NAV features are difficult to predict or anticipate at this moment, including:

- The possible changes in behavior of institutional entities that invest on behalf of their clients,
- The relative reduction in liquidity in the short-term financing market due to a reduced investor appetite for MMFs, and
- The potential ascendancy of alternative security structures that offer attractive investor features, but may have their own structural weaknesses in times of market stress.

*Liquidity Fees and Redemption Gates*

Although we believe that the 2010 reforms were sufficient in its goal to provide additional safety, liquidity and transparency, we would favor the proposal for liquidity fees and redemption gates for prime MMFs only. Currently, there are strict rules for MMFs to maintain both daily and weekly liquidity requirements. The Proposed Rules also contemplate greater reporting transparency, which we believe will provide both fund managers and investors with an objective measure of acceptable liquidity risk towards the proposed 15 percent trigger that would lead to both the implementation of a liquidity fee and potentially the imposition of a redemption gate. This would likely meet the SEC's orderly dissolution goal in a way acceptable to all market participants.

*Retail Definition*

Retail is vaguely defined as a "fund that limits each shareholder's redemptions to no more than $1 million per business day". We believe this definition is inadequate and are requesting more clarification around the definition of retail.

**<u>Conclusion</u>**

Square 1 Asset Management would like to thank the SEC again for this opportunity to provide comments to the Proposed Rules. We want to reiterate our favorable position to liquidity fees and redemption gates as described above and also to strongly oppose a floating NAV structure or any combination of rules that would include a floating NAV. Please do not hesitate to contact any of us for clarification on our points or for any questions.

Sincerely,

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