



September 17, 2013

VIA ELECTRONIC DELIVERY

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: Money Market Fund Reform, File No.: S7-03-13

Dear Ms. Murphy:

TIAA-CREF is committed to ensuring the continued integrity and financial stability of the financial markets. As a leading provider of retirement services and a manager of over \$500 billion in assets, including over \$200 billion in registered variable annuities and mutual fund products, we believe money market funds are essential to provide the ability for investors to diversify their investments into short term assets, while also providing cash management and liquidity features for investors. We believe, however, the current structure of money market funds, where an investor can purchase or sell an interest in a money market fund at a set price could create an advantage for sophisticated shareholders that redeem early from an affected money market fund that has experienced credit problems within its portfolio, or create a risk of a run on that money market fund. We philosophically agree with the Securities and Exchange Commission ("SEC" or "Commission") that implementing floating net asset values ("NAV") on money market funds would mitigate such problems and ensure fairness and transparency for all money market fund shareholders.

Nevertheless, we recognize that stable NAV money market funds play an important role in the financial planning of individual investors that view them as an efficient and understandable way to manage everyday liquidity needs. We also understand that many investors use stable NAV money market funds as an asset class when allocating their monies, either on a temporary or permanent basis. Therefore, we believe that a stable NAV money market fund product has a useful place in today's financial marketplace.

After much consideration, we have reached the conclusion that treating institutional and retail investors differently is a legitimate and practical approach that successfully meets the needs of these two different sets of investors while providing system stability and minimizing the risk of runs on money market funds. Consequently, we commend the recent proposal by the Commission

that would require floating NAVs for money market funds that are targeted for use by institutional, large-balance investors while continuing to permit the use of stable NAVs by money market funds targeted for use by retail-oriented, individual investors.

We also want to express our support for the proposed liquidity fees and gates option, either as an alternative or as an addition to the floating/stable NAV division of the money market fund industry. Nevertheless, the Commission's proposals in this regard do raise technical difficulties related to each option. We describe below our concerns and recommendations regarding each option.

I. The TIAA-CREF Organization.

TIAA-CREF is a leading provider of retirement services in the academic, research, medical and cultural fields managing retirement assets on behalf of approximately 3.9 million clients at more than 15,000 institutions nationwide. The mission of TIAA-CREF is "to aid and strengthen" the institutions we serve by providing financial products that best meet the special needs of these organizations and help their employees attain lifelong financial well-being. Our retirement plans offer a range of options to help individuals and institutions meet their retirement plan administration and savings goals, as well as income and wealth protection needs.

The TIAA-CREF organization ("TIAA-CREF") is comprised of several distinct corporate entities. Teachers Insurance and Annuity Association of America ("TIAA") was founded in 1918 and is a life insurance company domiciled in the State of New York. TIAA operates on a nonprofit basis and issues fixed annuity contracts to its participants. The College Retirement Equities Fund ("CREF") issues variable annuities and is an investment company registered with the SEC under the Investment Company Act of 1940. CREF assets are managed at-cost by TIAA-CREF Investment Management, LLC, an SEC registered investment advisor, and a subsidiary of TIAA. CREF offers eight investment accounts, with assets totaling approximately \$212 billion, including a money market account with assets of approximately \$12 billion. TIAA-CREF also sponsors a family of 69 equity and fixed-income SEC-registered mutual funds, which are managed by Teachers Advisors, Inc., a TIAA subsidiary and also an SEC registered investment advisor. Teachers Advisors sponsors two money market mutual funds – a fund for retail investors, and a fund which is primarily available as an underlying investment option for variable insurance products. Assets in these two TIAA-CREF money market funds total approximately \$900 million, bringing the total assets managed by TIAA-CREF in money market funds to approximately \$13 billion.

II. Current SEC Proposal.

Many market participants and stakeholders have commented extensively on aspects of the SEC's and the Financial Stability Oversight Council's previous money market proposals, which contained elements of the current SEC proposal. There have also been numerous excellent comment letters on the current SEC proposal highlighting the importance of money market funds to the U.S. financial markets, which we will not duplicate here. Parts of the current SEC proposal are reviewed briefly below to provide a framework for our comments.

A. Dividing Money Market Funds into Floating and Stable NAV Groups.

i. Summary of NAV Options

This part of the proposal intends to split the money market fund world into two groups, one group with floating NAVs and the other with stable NAVs. The first floating NAV group includes “prime” and tax-exempt money market funds. The second stable NAV group includes “retail” and U.S. government securities money market funds. “Retail” funds would be defined as money market funds that limit daily redemptions per shareholder of record to \$1 million. Floating NAV money market funds would be required to value their portfolio securities based on current market values and “basis point round” their share price to the nearest 1/100th of 1%. Stable NAV money market funds would also be required to value their portfolio securities based on current market values, but could continue to “penny-round” their share price. Nevertheless, for both groups of money market funds, securities maturing in 60 days or less could continue to be valued based on amortized cost.

The SEC’s reasoning behind this differentiation is to create two types of money market funds—a floating NAV type that would cater to larger, more sophisticated investors that would not be subject to everyday redemption limitations, and a stable NAV type that would cater more to individual investors who do not need immense daily liquidity and could continue to benefit from the simplicity of a stable NAV.

ii. TIAA-CREF Supports Floating NAVs for Institutional Money Market Funds

We agree with the Commission that floating NAVs are the most effective way to deliver accurate, timely and transparent information regarding the current state of a money market fund’s portfolio to its investors. General market volatility in recent years has shown weaknesses in the current money market fund regulatory scheme and business model that need to be remedied. For example, though rare, there have been a few instances of money market funds “breaking the buck” when their portfolios’ amortized cost NAV deviated from their market-based NAV by more than 50 basis points. Also, more frequently, sponsors of money market funds had to step in financially to prevent distressed money market fund portfolios from reaching such a point when there have been issues with particular portfolio credits. By allowing redemptions at a stable price of \$1.00 per share, rather than at a share price reflecting the current market value of underlying portfolio assets, money market funds currently provide investors a financial incentive to redeem quickly before others during times of stress, as losses are borne by the investors remaining in the fund. Moreover, we believe many investors now expect sponsor support of money market funds in all instances, and the lack of this implicit support by a sponsor in times of stress could have significant ramifications throughout the financial markets.

From a purely economic and philosophical perspective, the best way to mitigate these distressed situations while maintaining market integrity and transparency is to require all money market funds to use market prices for money market instruments with a remaining maturity of more than 60 days, and to require floating NAVs with enough transparency and precision (by basis

point rounding) to make a floating NAV effective. Improvements are needed in money market fund regulation to protect smaller, less sophisticated shareholders who were more likely to be harmed in scenarios where larger, more expertised investors redeemed from failing money market funds first, making the funds' situations yet more dire for the remaining shareholders. Floating NAVs would reflect the true market valuation of money market funds' underlying credits, thus providing the most accurate information on their valuation to the market. This would also mitigate the advantage that first actors have in redeeming from distressed money market funds that have stable NAVs based upon amortized cost valuation.

Currently, Rule 2a-7 allows a money market fund to utilize amortized cost valuation on its entire portfolio as long as such amortized cost NAV does not deviate from its "shadow price" (*i.e.*, its market price-based NAV) by more than 50 basis points. Allowing investors to transact daily using amortized pricing in times of stress could lead to dilution of the remaining investors' shares as the first redeemers in a run on a money market funds would get a higher valuation for their shares based on amortized cost than would subsequent redeemers. We do not believe that this is fair to all shareholders in the context of how mutual funds are meant to operate, which is as collective, transparent investment pools whose risks and returns (or losses) are meant to be shared equally by all shareholders invested in a fund during a particular period in time.

Because TIAA-CREF believes that institutional-type money market funds should have floating NAVs, we applaud the Commission for its proposal. As discussed in more detail below, however, on a more practical level, we also commend the proposal for allowing retail-type money market funds to maintain stable NAVs. This division will balance the need to protect retail shareholders from market volatility that can be caused or heightened by the rapid redemptions of larger, institutional investors with the comfort, efficiency and predictability that retail money market fund shareholders have come to expect from stable NAV money market funds.

iii. TIAA-CREF Supports Maintaining Stable NAVs for Retail Money Market Funds

As an institution that cares deeply about its participants' needs, TIAA-CREF recognizes the way that money market funds' current stable NAV structure has become an inherent part of American consumers' financial planning tools. Stable value money market funds have been one of the great innovations in the American financial system, providing competitive and efficient options to shareholders seeking liquidity. Generations of individual investors have successfully utilized money market funds as a transparent and safe way to maintain their assets and, at times, to seek shelter from more volatile equity and fixed-income investments. They have come to rely upon the ease of use and calculation that a stable \$1 per share NAV provides, which has led them to integrate money market funds into their daily lives much more than other mutual funds, such as in the use of personal checking tied to money market fund accounts. We question whether the very few instances of possible harm to shareholders over the decades of successful use of money market funds warrant removing the stable value feature that makes money market funds so useful and attractive to individual investors.

As previously noted, TIAA-CREF's primary mission is to provide retirement services to its participants, and thus, the vast majority of our money market fund assets are ultimately held directly or indirectly by individual investors as part of their retirement assets or other forms of savings. Millions of American investors are accustomed to experiencing stable NAVs in their money market funds and we believe that they would prefer maintaining the historical presentation of their money market fund balances. Nevertheless, in keeping with our long-standing commitment to shareholder protection and market stability, we also agree that the mixing of retail and institutional investors in single stable value NAV money market funds is not ideal. Therefore, while we believe some money market funds should maintain stable NAVs, we agree with the SEC that separating retail and institutional investors into different money market funds is the best way to balance market fairness and integrity with individual customer protection and satisfaction.

iv. Specific Comments on Stable NAV Money Market Fund Qualifications

a. Redemption Limitation Applicability and Waivers

In looking more closely at the requirements for a money market fund to qualify as a retail fund, we have some additional comments and requests for clarification especially related to the main requirement that retail money market funds limit daily redemptions to \$1 million per shareholder of record. First, we believe the types of shareholder that the daily limitation would effect should be more fully outlined so that it is clear on what level the redemption limitation would apply. We suggest that the limitation should apply to the level of shareholder that makes the investment decision. The proposal is clear that the limitations would be applied to direct holders and underlying investors who hold their shares through broker/dealers and other intermediaries. Even so, the implementation of this limitation is less clear in situations where individual investors hold their fund shares through pension plans that are overseen by plan sponsors or for individual investors that indirectly hold fund shares through their ownership of variable products that utilize a money market fund as an underlying investment option. We believe that the proposal should clearly allow for the imposition of the redemption limitation on the individual plan participant level or variable product contract holder, rather than the pension plan or insurance company separate account, respectively, because the fundamental investment decision for such holdings ultimately resides with the individual investor. We note that the Commission has already implemented a similar definitional approach in the market timing provisions of Rule 22c-2 under the Investment Company Act of 1940.

In addition to these clarifications of the affected types of shareholders, if the redemption limitation is maintained as the defining characteristic for a retail money market fund, TIAA-CREF believes there needs to be exceptions to the \$1 million daily redemption per shareholder requirement. We believe we are not alone in the industry in seeing a need for various shareholders to redeem in larger amounts in one day in the ordinary course of business. Such instances could include funds of funds, education savings plans, so-called 529 plans, or wrap plan reallocations or rebalancings, pension plan mapping from one investment option to another or insurance company separate account investment option substitutions. In addition, there may be times when individual investors may need to make a large redemption in one day. Such occasions may include

redemptions in anticipation of a large personal transaction like a home or pre-planned estate arrangements. Additionally, there are redemptions that are mandated by law such as minimum retirement distributions. Therefore, we believe that there should be a prior notice exception to the daily redemption limitation of up to three business days prior to the desired execution of a large transaction. We believe that this notice period would provide sufficient flexibility for investors needing to make large transactions without co-opting the intent to divide retail and institutional investors into separate money market funds. Finally, we would suggest that the \$1 million redemption limitation be tied from the outset to an appropriate inflation measuring index so that this amount will keep pace with consumers' economic realities.

b. Enforcement of Redemption Limitation

We also would like to encourage the SEC to propose more robust compliance mechanisms for money market funds in enforcing the daily redemption limit on omnibus holders. We note that the existing enforcement mechanism provided for in Rule 22c-2 of the Investment Company Act of 1940 Act for market timing and redemption fees could be a workable model. Under Rule 22c-2, funds are permitted to enforce their frequent trading policies on the beneficial holder level instead of the intermediary level if the selling agreement between the fund and the intermediary requires the intermediary to enforce these policies on its beneficial holders. We believe a similar regime could be implemented for the daily redemption limitation (albeit with time and expense ramifications). Barring this, we would encourage the SEC in its adopting release to make clear that the Commission considers enforcement of this new limitation as part of intermediaries' larger duty to comply with the terms of a money market funds' prospectus, which would contain new disclosures concerning the redemption limitation.

c. Implications of Redemption Limitation on Variable Products

We also believe that this limitation needs further attention and clarification for money market funds utilized by variable products. Some money market funds primarily are utilized as investment options underlying variable annuity and variable insurance products sponsored by insurance companies. Regulations that affect the investment operations of such variable investment options can have implications for their insurance operations. Consequently, we anticipate a conflict between the proposal's redemption limitation and the current provisions of many products' insurance contracts and state insurance law, which may not normally permit redemption restrictions. In addition, money market funds are also widely held in pension plans where the terms of the plan or pension law may not permit this type of redemption restriction. These concerns are heightened in a one-tier variable annuity structure where both the insurance contract and investment portfolio reside within one entity, instead of the industry standard variable product arrangement where the contract resides in an insurance separate account and the investment portfolio resides within various underlying mutual fund options.

Although the proposal removes obstacles to imposing redemption restrictions under the securities regulations, it is silent on other regulatory regimes that money market funds could be subject to that could prohibit or make it problematic to have a redemption restriction as outlined in

the SEC proposal. In order for these proposals to work for the variable product and retirement plan worlds, we recommend that the SEC explore these issues more closely, including assessing whether using other means of dividing retail and institutional money market funds, such as average account balances, would be less problematic. Such a framework could avoid the possible complications involved with having an investment limitation on money market funds that are subject to insurance and pension regulation, while still serving to keep retail and institutional investors in different money market funds. Some other possible suggestions to alleviate these concerns, alone or in combination, include exempting redemptions from the limitation that relate to variable contracts or plan accounts, grandfathering in existing contracts or plan accounts so their redemptions are not capped, working with the states to revise their requirements and enacting legislation causing the federal redemption limitation to take precedence over contractual provisions and state and other federal laws.

B. Liquidity Fees and Gates on Money Market Fund Redemptions.

i. Summary of Liquidity Fees and Gates Options

Under this option, money market funds could maintain stable NAVs but at certain stressful times they would be forced to implement liquidity fees and could have the option to impose redemption gates. Liquidity fees would be automatically triggered if a money market fund's "weekly liquid assets" (as defined in Rule 2a-7) fell below 15% of its total assets. The money market fund would then be required to implement a liquidity fee on redemptions of 2%. This fee could be removed or lessened, however, if the money market fund's board found such actions to be in the best interest of the fund. Under such circumstances, a money market fund's board could voluntarily impose a temporary suspension of redemptions (*i.e.*, a "gate"). A gate could be in place for up to 30 days, but a gate could not be imposed for more than 30 days within any 90-day period. The proposal also notes that the fees and gates option could be used alone or in combination with the floating/stable NAV division whereby just stable NAV money market funds or both stable NAV money market funds and floating NAV money market funds could be subject to the fees and gates provisions.

ii. TIAA-CREF Supports the Liquidity Fees and Gates on Money Market Fund Redemptions

Proponents argue that the charging of a fee and/or imposing gates could be an effective way to slow or stop redemptions in cases where money market funds face overwhelming redemption requests at times of economic duress. Liquidity fees would force early redeemers to pay for the costs of their liquidity under special circumstances. TIAA-CREF believes that this part of the proposal could be beneficial for all money market funds shareholders. Nevertheless, as referenced above, money market funds that serve as investment options for variable products could have significant difficulties implementing fees and gates under existing insurance contract provisions and state insurance laws. Although, the SEC proposal is effective in amending the federal securities laws to allow for fees and gates, it is silent on how variable product money market funds would deal with contractual provisions or state insurance regulations that would

prohibit such fees and gates. In addition, there also may be pension plan requirements or pension law regulations that money market funds being used as pension plan options would be subject to that do not permit such limitations on the movement of shareholders' retirement assets. Finally, in both the insurance product and retirement plan worlds, there is often the need for periodic technical redemptions, such as for minimum distributions and payment for regular charges, as well as non-volitional programs, like automatic rebalancings or withdrawals, that would require redemptions despite the imposition of fees or gates. In order for these proposals to work for the variable product and retirement plan worlds, we would recommend that the SEC explore these issues more closely. Some possible methods to address these issues, alone or in combination, include exempting redemptions from fees and gates that relate to all variable contracts or plan accounts, grandfathering in existing contracts or plan accounts so their redemptions are not capped, exempting legally required or non-volitional redemptions, working with the states to revise their requirements, lengthening the compliance period for variable product mutual funds so that contracts can be revised and enacting legislation causing the federal fees and gates requirements to take precedence over contractual provisions and state and other federal laws

There also would be significant operational costs involved in implementing fees and gates, especially because the triggering conditions for such actions could occur swiftly. In particular, the fact that the imposition of the liquidity fee would be automatic would require significant technology and other work. These difficulties would include being able to convene an expedited board meeting if the triggering conditions for a fee were met, but fund management did not recommend the continued imposition of such a fee. Additionally, it would be even more difficult for an insurance company product or pension plan, which is independent of its fund options, to communicate and implement an immediate, unexpected fee or gate imposed by a fund for their customers. TIAA-CREF requests the Commission consider whether liquidity fees, similar to the proposed gates, also should be optional if "weekly liquid assets" fall below 15% of total assets, rather than be required. Under this approach, fees, along with gates, would be another optional defense against a run on a money market fund that could be tailored to the fund's specific situation. This would remove the need for the operational work necessary to set up automatic implementation of the fees, as well as reduce the burden on boards to convene quickly if fees were imposed but it was in the best interests of shareholders for them to be removed. Finally, making fees optional would allow a variable product or pension-oriented money market fund to balance the necessity for a liquidity fee or gate with the money market fund's legal and contractual obligations to its shareholders based on the extant circumstances, rather than forcing a one-size-fits all solution.

C. Other Aspects of the SEC Proposal.

We note that the SEC proposal also provides for other technical amendments to money market fund regulation primarily to: (1) increase the amount and frequency of public disclosure of money market fund portfolio statistics and significant events; (2) enhance money market fund stress testing; and (3) strengthen money market fund diversification requirements. Although each of these would require operational changes that would require time and resources to implement

and sustain, TIAA-CREF supports these aspects of the proposal and believes that they would be beneficial to shareholders and the industry.

III. Conclusion.

We commend the SEC's comprehensive money market fund proposal. We agree that regulatory improvements are needed to strengthen the money market industry in light of economic stress in recent years. This proposal astutely recognizes that there are different customer bases with varying needs and sophistication that historically have utilized money market funds. We believe that imposing floating NAVs on money market funds targeted to institutional investors while maintaining stable NAVs on money market funds targeted to retail investors is a perceptive and effective way to bolster shareholder protection and market integrity while maintaining the predictability, efficiency and comfort that stable value NAV money market funds historically have provided to American consumers.

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Thank you for the opportunity to comment on this important initiative. If you have any additional questions or we can be of any further assistance, please contact me at 704.988.5488 or cdeckbar@tiaa-cref.org; or Stewart P. Greene, Managing Director & General Counsel, Investment Advisors, at 212.916.5954 or sgreene@tiaa-cref.org.

Very truly yours,



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Chief Operating Officer, Asset Management