September 17, 2013

The Honorable Mary Jo White
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Association for Financial Professionals

RE: File Number S7-03-13

Dear Chairman White:

The Association for Financial Professionals (AFP) welcomes the opportunity to comment on the Securities and Exchange Commission's (SEC) proposed alternatives for amending the rules governing money market funds (MMF) under the Investment Company Act of 1940. AFP supports strengthening the current rules in a manner that enhances transparency, protects investors and ensures requisite access to capital markets.

AFP's membership includes more than 16,000 financial professionals employed by over 5,000 corporations and organizations. We represent a broad spectrum of financial disciplines at organizations generally drawn from Fortune 1,000 companies across all industries, including manufacturing, retail, energy, financial services, universities/colleges and technology. As financial professionals are often the overseers of investment portfolios, AFP members assume responsibility for management of money market fund operations within their respective businesses. These financial professionals are tasked with directing the investment of corporate cash and pension assets, guided by the responsibility of protecting principal, ensuring liquidity and prudently maximizing returns. As such, the proposed rules focus on the routine duties and subject expertise of our membership.

AFP members agree with and applaud the provision to permit government and prime retail MMFs to retain their stable NAV status. As has been our longstanding position, the stable NAV preserves the viability of these funds as a suitable cash management and short-term investment vehicle for corporate investors. We appreciate the SEC's recognition of the importance of the stable NAV to corporate investors.

AFP offers the following comments on the proposed recommendations:

Alternative One:

We oppose the proposal to remove the amortized valuation of prime institutional funds, thereby subjecting these funds to a floating net asset value (NAV). Doing so reduces corporate investors' interest in utilizing MMFs as a cash management and investment tool. For purchasers of MMFs, the return *of* principal is a greater driver of the investment decision than return *on* principal. The exposure of that principal under a floating NAV would drive away many corporate investors, the predominant purchasers of prime MMFs. Prime institutional MMFs are often the investment option most closely matching the risk/return profile specified within an organization's

investment policy. Moving the funds to a floating NAV makes them unsuitable for meeting the safety of principal requirements of a typical investment policy.

We also urge the SEC to consider the potential impact that a floating NAV for prime institutional funds may have on accounting guidelines under the generally accepted accounting principles (GAAP). Prime institutional MMFs are currently treated as cash equivalents for accounting purposes, as they are readily convertible to cash and pose no significant risk of loss. Because this treatment results from their fixed share price and daily liquidity, a floating NAV may prohibit prime institutional MMFs from convertibility to cash, requiring instead that they be treated as short-term investments. This creates burdensome administrative expenses and potentially threatens compliance with debt covenants that mandate certain levels of cash equivalents. As the proposed rules are not currently considered under GAAP, prime institutional funds are likely to be treated as mark-to-market 'available for sale' securities for purposes of accounting and auditing, potentially impacting companies' income statements and earnings per share. The risk of loss or earnings volatility would likely erode the utility of investing in prime institutional funds.

Furthermore, we are concerned about the feasibility of offering same-day liquidity on shares of prime institutional MMFs that are exposed to fluctuating valuation throughout the day, with the redemption price determined only at end-of-day. Delivering funds only after end-of-day pricing eliminates the immediate liquidity effectively offered by stable NAV MMFs and required for working capital management.

Considering the vast market share of corporate commercial paper purchased by MMFs, a shrinking money market fund industry would have a cascading effect of tightened liquidity on an important source of commercial financing. A shrinking commercial paper market could force large, creditworthy companies that are currently able to sell commercial paper into other areas of debt markets. As these companies enter or increase their borrowing through these debt markets, smaller and less creditworthy companies may no longer be able to raise sufficient capital or might see their borrowing costs increase due to increased competition for capital. Moreover, research indicates that bank lending lacks the capacity to replace the void that would be left by the $1.37 trillion commercial paper market[1]. Since the 2010 reforms, which further limited MMF commercial paper purchases, fund commercial paper holdings have remained stable and adequate. Although prime institutional MMF holdings of commercial paper saw a sharp decline after the 2008 financial crisis, following the 2010 reforms, average holdings of commercial paper have reliably accounted for over one-third of prime institutional money market fund portfolios.[2]

AFP acknowledges that the 2008 financial crisis revealed liquidity vulnerabilities in certain MMFs. Still, we maintain that implementing a floating NAV does not address potential fund runs, nor does it preserve the benefits of MMFs for investors and short-term financing markets. Rather, a floating NAV can adversely impact the investment incentive for MMFs and effectively destabilize market demand for these funds regardless of prevailing economic conditions. Considering the consequences a floating NAV might have on short-term debt markets for

[1] United States. Board of Governors of the Federal Reserve System. *Federal Reserve Statistical Release – Financial Accounts of the United States.* (2013, June 6) Retrieved June 19, 2013 from the Federal Reserve System website: http://www.federalreserve.gov/releases/Z1/Current/z1.pdf.
[2] iMoneyNet as of July 25, 2013

corporates and municipalities, we urge the SEC to consider the ramifications of reduced investor interest in prime institutional MMFs.

Alternative Two:

Liquidity is a critical factor for corporate investors, second only to safety of principal in importance. An AFP survey of financial professionals found that 56% of organizations would be less willing to invest in money market funds constrained by redemption gates or fees, resulting in reduction or even elimination of MMF holdings. [3] MMF redemption limitations through a 30-day hold on a percentage of shares would create onerous operational constraints on investors. Furthermore, if transactions are made on a daily basis, as is often the case for corporate investors, redemption gates may mathematically result in higher redemption holdbacks than mandated. Any regulatory impairment of the liquidity of money market funds may significantly reduce the attractiveness and suitability of MMFs as a cash management and investment tool for corporate investors.

While still too soon to assess fully the long-term effectiveness of the 2010 2A-7 reforms, the response of money market funds to domestic and foreign market crises since their implementation offers valuable insight. As the U.S. Congress enters a second debt ceiling standoff, it is noteworthy that during the first standoff in 2011, money market funds reacted by increasing liquidity above levels mandated by the 2010 reforms and shortening maturities. Moreover, with an ongoing European debt crisis, prime funds have reduced their exposure to European banks by one third and have strengthened their liquidity to accommodate redemptions, in accordance with the 2010 reforms. Through improved regulation and prudent management, money market funds have demonstrated their resiliency in times of crisis and attractiveness as a cash management tool and short-term investment vehicle.

We appreciate the opportunity to provide our thoughts on this set of proposed rule changes. If you have any questions about our comments, please contact Jeff Glenzer, AFP's Chief Operating Officer, at 301.961.8872 or **jglenzer@AFPonline.org**.

Sincerely,

James P. Gilligan, CTP
Assistant Treasurer,
Great Plains Energy, Inc.
Chairman, AFP Government Relations Committee

James A. Kaitz
President and CEO
Association for Financial Professionals (AFP)

[3] Association for Financial Professionals, 2013, 2013 AFP Liquidity Survey. http://www.afponline.org/liquidity/.