LEGG MASON
GLOBAL ASSET MANAGEMENT

WESTERN ASSET

Legg Mason & Co., LLC
100 First Stamford Place, 6th Floor
Stamford, CT 06902

Western Asset Management Company
385 Colorado Blvd.
Pasadena, CA 91101

***Via* Electronic Submission** **(http://www.sec.gov/rules/proposed.shtml)**

September 17, 2013

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

Re: Money Market Fund Reform; Amendments to Form PF, Release No. 33-9408, IA-3616, IC-30551 [File No. S7-03-13], 78 FEDERAL REGISTER 36,834 (June 19, 2013)

Dear Ms. Murphy:

Legg Mason & Co., LLC and its affiliate, Western Asset Management Company,[1] welcome the opportunity to respond to the request by the Securities and Exchange Commission for comments on its proposal to amend the rules that govern money market mutual funds (the

[1] Legg Mason & Co., LLC and Western Asset Management Company ("Western Asset") are wholly-owned subsidiaries of Legg Mason, Inc. ("Legg Mason"). Legg Mason is a global asset management company that, acting through its subsidiaries, provides investment management and related services to institutional and individual clients. Legg Mason affiliates sponsor, and Western Asset manages the portfolios of, 20 U.S. registered money market funds with aggregate assets of over $100 billion.

"Proposal").[2] In the Proposal, the Commission has proposed to require certain money market funds either to establish a floating net asset value ("Alternative 1") or to impose a stand-by liquidity fee or a "gate" if a fund's liquidity levels fall below a threshold ("Alternative 2"). The Proposal states that the Commission will consider implementing Alternative 1 and Alternative 2 together. The Commission also proposes to implement a number of other significant changes to the regulatory framework applicable to money market mutual funds, including additional diversification, disclosure, stress testing and reporting requirements.

We support the Commission's stated goals of reducing money market funds' vulnerability to heavy redemptions and making them more resilient, while also increasing their transparency to investors. Nonetheless, as explained in more detail below, we believe that certain aspects of the Proposal could significantly undermine the attractiveness of money market funds for investors seeking stability of principal and liquidity, dramatically increase money market funds' operational complexity and the attendant burdens on sponsors and intermediaries, and undermine the role of money market funds as providers of credit to private and municipal issuers, without furthering the Commission's goals.

Money market funds play critical roles in our economy. They respond to the needs of all types of investors for high quality and low risk investments, liquidity and cash management, and they are an important provider of credit to private companies, states, municipalities and others. Money market funds also provide a means for investors to obtain much broader diversification of their exposure to credit risk, compared to a deposit in a financial institution. Recent reforms have significantly improved the safety and stability of money market funds, and we do not believe that additional dramatic changes in regulation are needed or justified. It is very important that any further changes in money market fund regulation not make money market funds so unattractive that investors would not want to invest in them. If money market funds became unattractive investment options, they could no longer fulfill their critical role.

---

[2] *See Money Market Fund Reform; Amendments to Form PF*, SEC Release No. IC-30551 (June 5, 2013), 78 FR 36834 (June 19. 2013) (the "Release"), available at http://www.sec.gov/rules/proposed/2013/33-9408.pdf.

Against that background, our key concerns about the Proposal are as follows:

- We do not believe that there is sufficient support for the conclusion that additional dramatic changes in money market fund regulation are needed. However, if the Commission believes that additional changes are needed, Alternative 1 and Alternative 2 should apply only to prime funds and not be adopted in a manner that requires both to apply to a fund in combination. Combining them in this manner is unnecessary and will make money market funds too unattractive, as they would not be able to provide either price stability or liquidity to investors. Instead, if the Commission adopts fundamental reforms, prime money market funds should be permitted to select and operate under either Alternative 1 or Alternative 2. No fund should be subject to both Alternative 1 and Alternative 2. Giving sponsors and investors the ability to select the alternative that best meets their needs will help ensure that money market funds continue to fulfill their critical roles.

- Tax-exempt money market funds should be excluded from Alternatives 1 and 2.

- The definition of "retail" funds should be changed to reflect a true division of individual versus institutional investors. Investors with a Social Security number and tax deferred savings plans should be considered per se "retail."

- Elimination of the use of the amortized cost method for valuing certain securities in a money market fund portfolio will likely result in less precision and more uncertainty in pricing; also, without the use of the amortized cost method, same-day settlement in money market funds likely will be precluded.

- If a floating NAV is adopted, money market funds should be required to calculate their NAVs with the same degree of precision (i.e., 1/10th of one percent) as other mutual funds, but not more. A higher degree of precision would not be realistic given the ways in which money market instruments, and for that matter fixed income securities in general, are valued.

- Certain enhanced disclosure and reporting may be appropriate if a floating NAV is not adopted. Other proposed disclosures, however, are unnecessary, as is the proposed expansion of the stress test requirements and, indeed, may even potentially harm funds by requiring the disclosure of sensitive trading information to other market participants.

- Eliminating the 25 percent basket for securities guaranteed by one provider may well reduce liquidity for money market funds, particularly tax-exempt money market funds, and may result in funds buying lower quality investments.

Each of these points is discussed in more detail below.

* * *

1. Combination of Alternative 1 and Alternative 2 is unnecessary and will make money market funds too unattractive. If the Commission adopts fundamental reforms, prime money market funds should be permitted to select and operate under either Alternative 1 or Alternative 2.

As noted above, we do not believe that there is sufficient support for the conclusion that additional dramatic changes in money market fund regulation are needed. We also believe that any further changes that are adopted must not make money market funds so unattractive that they can no longer fulfill their critical role in the economy. One way to preserve the role of money market funds is to limit the application of the two Alternatives to prime funds and give sponsors and investors the choice of prime money market funds with floating NAVs or money market funds with stable NAVs and liquidity fees and/or gates. However, we strongly oppose requiring the application of Alternatives 1 and 2 in combination. We see no reason why, if Alternative 1 is selected, money market mutual fund investors, unlike any other mutual fund investors, should also be subject to liquidity fees and/or gates. Likewise, if Alternative 2 is selected, we believe that the floating NAV under Alternative 1 should not be required. No fund should be subject to both Alternative 1 and Alternative 2. That would be particularly true in the case of retail money market funds if, as contemplated by the Proposal, shareholders of those funds will be subject to a redemption restriction (although we oppose defining retail money market funds this way, as described further below).

We believe that Alternative 1, a floating NAV, will likely make money market funds less attractive to certain investors. Those investors may be unwilling to forego the benefits of a stable NAV and/or may be deterred by the tax and accounting issues associated with a fluctuating NAV. Alternative 1 will also impose significant operational burdens on money market fund sponsors and intermediaries. Nonetheless, we believe that prime money market funds should be permitted to select and operate under Alternative 1 if they wish to do so. Despite the burdens, certain sponsors and investors may prefer the floating NAV or be indifferent to it. If, however, in addition to the floating NAV investors were potentially subject to liquidity fees and/or gates, money market funds would become too unattractive to investors. We do not believe that investors would choose to be both subject to market fluctuation and the risk that they will not be able to get their money (without further deduction) when they need it. For sponsors, intermediaries and others (including transfer agents), liquidity fees and gates would add unduly to the operational burdens, costs and complexities resulting from Alternative 1. This may cause sponsors to leave the industry, potentially making it more concentrated.

Similarly, certain sponsors and investors, particularly those with certain cash management needs, may prefer a stable NAV and may be willing to live with liquidity fees and gates. Accordingly, we believe that a prime money market fund should be permitted to select and operate under Alternative 2 if it wishes to do so. Again, however, we do not believe that investors who use money market funds as a cash management tool would want to invest in a fund that both has a floating NAV and restricts redemptions. We believe that instead, if faced with the combination of Alternatives 1 and 2, investors will seek out other alternatives and as a result many money market funds may no longer be viable. The result would likely be a reduction of capital market funding to the private sector.

2. Tax-exempt money market funds should be excluded from fundamental changes.

We strongly believe that tax-exempt money market funds should be treated like government money market funds under the Proposal and excluded from the requirements of Alternatives 1 and 2 (but, like government funds, be permitted to impose liquidity fees and/or gates as appropriate). We see no evidence that would justify the application of the fundamental changes under the Proposal to tax-exempt funds, and imposing those changes may result in undue disruption to tax-exempt funds.

First, tax-exempt funds typically do not present the same risk characteristics as other money market funds and therefore should not be subject to the same requirements under the

Proposal. Tax-exempt funds typically hold securities of issuers with low credit and default risk.[3] Further, tax-exempt fund portfolios' credit quality is often enhanced by letters of credit from creditworthy providers, which protect tax-exempt funds from downgrades and defaults on their assets. Tax-exempt funds also tend to be highly liquid, with levels of weekly liquidity that typically far exceed the requirements under Rule 2a-7 and often cover more then 3/4ths of the tax-exempt fund industry's total assets. This level of liquidity significantly reduces the risks of shareholder redemptions.

Second, the Commission offers no data or explanation as to why including tax-exempt funds under the Proposal would further its objectives of reducing funds' vulnerability to heavy redemptions. In fact, even when municipalities whose paper was held by money market funds defaulted, such as Orange County in 1994, those defaults have not triggered large-scale redemptions from all tax-exempt funds, though in the case of Orange County at least one fund heavily invested in California municipal obligations experienced heavy redemptions. Likewise, even though money market funds sponsored by a Lehman Brothers affiliate experienced heavy redemptions when Lehman became insolvent, other tax-exempt funds did not face large-scale redemption activity. Further, during the height of the financial crisis in 2008, many tax-exempt funds experienced inflows or very small outflows. In 2008, net redemptions represented a mere fraction of the billion dollar tax-exempt fund industry.

In the Proposal, the Commission notes that tax-exempt funds may nevertheless be exempted from the requirements under Alternative 1 because tax-exempt funds could rely on the retail exemption under the Proposal and continue to trade at a stable NAV.[4] This conclusion fails to address the operational issues facing many fund complexes, including those sponsored by Legg Mason affiliates, that offer institutional tax-exempt funds or tax-exempt funds with

[3] Between 1970 and 2012, the one-year default rate of municipal issuers of rated bonds was 0.012 percent, and approximately 93 percent of issuers held investment-grade ratings in 2012, reflecting the low probability of default among municipal issuers. *See* Moody's Investors Service, *US Municipal Bond Defaults and Recoveries, 1970-2012* (May 7, 2013), https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_PBM151936.
[4] *See* Release, *supra* note 2, at 86.

institutional and retail classes. The Commission fails to take into account the costs and disruptions to managers and shareholders in the latter scenario, where funds seeking to rely on the retail exemption would have to reorganize fund classes into two distinct funds, move shareholders into those funds and bear the risk of increased expenses and loss of economies of scale. Given these costs and burdens and the lack of any clear benefit from including tax-exempt funds, we believe that it is more appropriate for the Commission to exempt all tax-exempt funds from Alternative 1.

We note that if tax-exempt funds become less attractive to investors (*e.g.*, as a result of a floating NAV), an important source of credit for many state and local governments would be impaired. As of April 2013, money market funds held more than 70% of state and local short-term debt. If tax-exempt fund investors were to balk at the additional restrictions on tax-exempt funds under the Proposal, they may seek other investment options which would directly impact the future of tax-exempt funds and, indirectly, the market for short-term debt and the ability of municipal entities to finance operations and public projects.

3. <u>The definition of "retail funds" needs to be changed</u>.

Under the Proposal, "retail" funds would be exempt from the floating NAV requirement. We agree that if the Commission were to adopt Alternative 1 an exemption for retail funds would be appropriate, but we believe there would be superior ways to define "retail fund" for purposes of the exemption. Specifically, all investors who open accounts, with a fund or via an intermediary, with a Social Security number, should be considered "retail."

Under the Proposal, a retail fund would be defined as one that does not permit any record shareholder to redeem more than $1 million on any business day. Omnibus accounts could exceed the $1 million per day redemption limit, if the fund establishes policies and procedures reasonably designed to ensure that intermediaries enforce the $1 million limit. This approach poses significant operational burdens and complexity, both for the money market fund and intermediaries. The fund would be required to establish systems to ensure that daily redemptions by a record holder do not exceed the limit. It would also have to establish policies and procedures, and take steps to implement and enforce those procedures, designed to ensure that intermediaries apply the same policy. Coupled with other aspects of the Proposal, this additional requirement will substantially increase the cost and burden on fund sponsors and intermediaries of operating retail money market funds. In light of these burdens intermediaries may in fact choose not to make these changes and limit or stop offering affected money market funds, further reducing the availability of short-term capital to borrowers.

Also, the requirement would impose a significant, and in our view unnecessary, limitation on the usefulness of a money market fund as a liquidity vehicle -- the very purpose of money market funds. While presumably not many retail investors will exceed the $1 million limitation on a given day, it is possible that an investor may wish to do so. For example, the investor may wish to close out his or her account, or to move his or her account to another provider. An investor may make a large redemption to finance a large purchase or investment, such as a home or small business. Similarly an investor may wish to make a major redemption from a money market fund as part of an asset allocation decision. Under most circumstances, such redemptions would not pose any threat to a fund or to the broader financial system.

Instead, we believe that a “retail fund” should be defined so as to reflect a true division of individual versus institutional investors. The definition also must be susceptible to efficient and effective administration. We believe that any account established by an individual using a Social Security number should be considered “retail” as the account would have clearly been established by an individual and not an institution. Omnibus accounts established by intermediaries, where the underlying accounts with the intermediary are established by an individual using a Social Security number, should likewise be considered “retail.” There is no evidence that accounts held by individuals have contributed to stress on money market funds during the financial crisis or at any other time.

Identifying as "retail" those accounts established with a Social Security number (as well as omnibus accounts consisting of such accounts) is not only a superior method of identifying retail investors, but it also will be operationally more simple and efficient, both for funds and intermediaries. An account's eligibility to be considered "retail" would be established through a one-time test, at account opening. It will not require development of systems to block redemptions above a given level. It will also reduce incentives for investors to get around redemption limits by establishing multiple accounts.

4. <u>Tax-advantaged savings programs should be considered *per se* "retail" investors</u>.

Regardless of how else a "retail" investor is defined, we believe that tax deferred savings plans, such as individual retirement accounts ("IRAs") and defined contribution ("DC") plans, should be considered *per se* "retail." Over the years, money market funds have experienced considerably more stable flows from IRAs and DC plans than from other types of investors. Therefore, defining such accounts as *per se* retail would allow investors who pose very little risk of redemption to continue to use a stable NAV. In fact, the costs of complying with the restrictions of the Proposal would be particularly onerous for recordkeepers of tax deferred savings accounts, which are often smaller than any retail account maximum value or redemption limit would be under the Proposal. Without a *per se* exemption for tax deferred savings plans, investors in such plans may seek investment alternatives in the face of unduly burdensome and cumbersome restrictions under the Proposal. Indeed, unregistered alternatives, such as collective investment trusts which the Commission has no power to regulate, may fill the gap for DC plans.

5. <u>Elimination of the use of the amortized cost method for valuing certain securities in a money market fund portfolio will likely result in less precision and more uncertainty in pricing and disrupt the key same-day settlement aspect of money market funds</u>.

We disagree with the Commission's proposal to eliminate the use of the amortized cost method for valuing securities held in money market funds. Under the Proposal, money market funds not required to maintain a floating NAV under Alternative 1 would nevertheless be permitted to use only the penny rounding method to maintain a stable NAV of $1.00.[5] Money market funds would still be permitted to use the amortized cost method to the same extent other mutual funds are permitted to do so, *i.e.*, for securities maturing in 60 days or less.[6] The Commission explains in the Proposal that it believes that the amortized cost method is no longer appropriate given that all money market funds would be required to disclose on a daily basis share prices based on market factors. The Commission also states that penny rounding otherwise achieves the same level of price stability as amortized cost valuation. We disagree on both points, and we question whether a market-based valuation is any more useful than a valuation based on amortized cost and why the elimination of amortized cost is necessary, particularly for funds that would otherwise not be required to maintain a floating NAV.

The amortized cost method determines valuations based on actual costs and actual accruals of discounts and premiums and thus provides a fair degree of precision in valuation.[7] This precision is not available without the use of amortized cost. Many portfolio securities of money market funds are not actively traded. As a result, pricing vendors and money market funds would essentially be required to estimate fair values for their securities to achieve "market-based" valuations. Fair value pricing, with its attendant judgments, would appear to frustrate the Commission's stated goal of price transparency. The same security, held by two different funds with different pricing vendors, could show different valuations. Market-based valuations also may reflect small price changes during the life of a security that will ultimately be irrelevant if the security is held to maturity, as many investments held by money market funds are. Under most circumstances, a fund will receive par at the instrument's maturity. Investors that purchase

---

[5] *See* Release, *supra* note 2, at 48.
[6] *See* Release, *supra* note 2, at 48.
[7] That amortized cost reflects market value is demonstrated by the fact that, since money market reforms were adopted in 2010, deviations between the amortized cost NAV of a money market fund's portfolio and the mark-to-market NAV of the portfolio have been de minimis. From January 2011 to January 2012, 96 percent of prime money market funds recorded an average absolute monthly change in their mark-to-market value of 1/100th of a cent (1 basis point, or $0.0001) or less. *See* S. Collins, E. Gallagher, J. Heinrichs, and C. Plantier, "Money Market Mutual Funds, Risk, and Financial Stability in the Wake of the 2010 Reforms," *ICI Research Perspective* (January 2013), available at http://www.ici.org/pdf/per19-01.pdf.

shares based on interim fluctuations could either be diluted or benefitted, which is a potentially unfair result. The amortized cost method provides less possibility for this unfair dilution.

The Proposal contemplates that securities maturing in 60 days or less may continue to be valued using the amortized cost method, assuming they have market values that approximate amortized cost.[8] As a result, a money market fund could use a mix of methodologies to value its investments: amortized cost for securities maturing in 60 days or less and market-based valuations for securities with longer maturities. We question to what extent price transparency or accuracy is accomplished with this hodgepodge of valuations in the same money market fund portfolio.

The use of the amortized cost method also remains appropriate, indeed necessary, for money market funds to continue to offer same-day settlement, which is key to many money market fund investors. Many funds, including some sponsored by Legg Mason affiliates, offer same-day settlement, in some cases several times a day. We are very concerned that, if those funds were unable to use amortized cost, they would not be able to obtain sufficiently reliable market data to calculate their NAVs in sufficient time to meet same-day settlement requests throughout the day. The Commission recognizes in the Proposal that pricing vendors do not provide continual pricing throughout the day and suggests that money market funds establish specific times at which to price their shares, such as noon or 4:00 p.m., to provide same-day settlement.[9] Even if reliable market data were available to calculate an intraday price, limiting same-day settlements to only certain times of day will, we believe, make money market funds less attractive to investors and could cause investors to seek investment alternatives. Further, in order to continue to offer same-day settlement under the Proposal using only the penny rounding methodology (if they could do so at all), money market funds would incur significant and burdensome operational costs in order to attempt to obtain intraday market data to calculate NAVs and implement processes and systems for periodic same-day settlements based on such

---

[8] *See* Release, *supra* note 2, at 48 n.136.
[9] *See* Release, *supra* note 2, at 133 n.298.

prices. Additionally, as noted above, prices based on intraday market data, which result from the subjective evaluation of market-based factors, are not necessarily as accurate as prices based on the amortized cost method, which accounts for actual accruals of discounts and premiums on a security.

6. If Alternative 1 is adopted, Funds should not be required to calculate their NAVs to four decimal places.

Under Alternative 1, money market funds would be required to "basis point round" their share price to the nearest 1/100th of one percent, *i.e.* to four decimal places in the case of a fund with an approximately $1 share price. We believe that this requirement would be unduly onerous, and would imply a degree of precision in valuation which is artificial and unrealistic.

Other floating NAV mutual funds are currently required to calculate their NAVs with a precision of 1/10th of one percent, which equates to the nearest penny for a fund of approximately $10 per share net asset value. We see no reason why a money market fund should be required to calculate its NAV to a greater degree of precision than other mutual funds. In fact, we believe that imposing such an onerous standard on money market funds, which is 10 times stricter than the requirement for other floating NAV products, "forces" money market funds to show movements in their NAVs that would otherwise have been inconsequential and that may not reflect real changes in the prices at which money market instruments would change hands. Basis point rounding of money market funds may create an impression of precision in valuation that is not realistic given the way money market instruments, and fixed income securities in general, are valued. Basis point rounding may therefore spur redemptions or make investors believe that those small NAV movements foreshadow significant losses in a fund.

Also, sponsors and intermediaries will be subjected to tremendous operational costs to achieve basis point rounding, as existing systems may be unable to accommodate four decimal places. Many money market fund systems, which are typically designed for processing of all mutual funds, generally process and record transactions using no more than three decimal places. Consequently, sponsors and intermediaries of money market funds would have to fundamentally change and augment their systems to account for the extra decimal places. Numerous aspects of trade order management, including recordkeeping, reconciliation, NAV accuracy and shareholder confirmations would need to be reviewed, adjusted and regularly tested to account for basis point rounding, at significant cost to sponsors and intermediaries. We believe that these costs will drive investors, sponsors and intermediaries away from offering or investing in money market funds which will have the domino effect of reducing capital market funding to the private sector and states and municipalities.

7. Compliance periods should be extended.

Under the Proposal, the compliance date for Alternative 1 would be two years and the compliance date for Alternative 2 would be one year.

Both alternatives would require significant changes to various systems used by sponsors and intermediaries. To accommodate floating NAVs, intermediaries would need to modify brokerage platforms, cash management systems, sub-transfer agent and recordkeeping systems, cost basis systems and other controls and procedures. Significant modifications of systems would also be required to accommodate basis point pricing as many existing systems designed for mutual funds only accommodate two or three decimal points currently. Likewise, Alternative 2 would necessitate significant operational changes, as well as require funds to develop and implement policies and procedures for oversight of intermediaries. If, as we suggest, a fund is permitted to select the alternative to which it will be subject, additional modifications will be required.

The changes contemplated by the Proposal also would have significant effects on investors and credit markets. All of these factors argue for a longer compliance period, and we would suggest three years as an appropriate compliance period under either alternative (or both), with the compliance period to commence after related tax and accounting issues are resolved.

8. Enhanced disclosure and reporting enhancements need only be adopted if the Commission does not require floating NAVs.

We generally support the Commission's proposals to enhance disclosure and reporting by money market funds. Indeed, money market funds sponsored by Legg Mason affiliates already voluntarily disclose daily mark-to-market NAVs even though they are not legally required to do so.

If, however, the Commission adopts Alternative 1 and requires money market funds to float their NAVs, additional disclosure would simply not make any sense -- because the fund's publicly available NAV would already reflect mark-to-market pricing. Even the current level of required disclosure and reporting would appear to be superfluous in that instance.

To be clear, however, in the event the floating NAV is not required, we generally support enhanced disclosure and reporting, and believe that enhanced disclosure and reporting indeed achieves a good deal of what the Commission has indicated to be a principal purpose of the floating NAV.

9. Certain proposed disclosures are unnecessary, are unduly burdensome or are unlikely to generate meaningful information for investors.

Generally, we support enhanced disclosure and reporting, assuming the Commission does not adopt the requirement of a floating NAV. However, we believe certain of the disclosure proposals are unnecessary or unlikely to generate meaningful information, or would impose burdens far beyond any value to investors. In particular:

a. The proposal would require a money market fund to disclose the fund's daily net inflows and outflows. We believe this information would not be useful to investors, and could potentially be misunderstood. For example, a large outflow could result from a significant institutional investor making a business acquisition, or another major capital investment. These outflows would not be reflective of stress, and are typically readily accommodated by institutional funds.

It is also possible that such information could be used by market participants to the detriment of a fund. For example, if a fund recorded and reported a large inflow, such that the fund would need to enter the market to purchase additional securities, dealers may demand a higher price for those securities and other market participants could potentially "front run" the fund's purchases.

b. The Commission's proposal includes proposed amendments to Form N-MFP to require additional information, such as the purchase date of each portfolio security, the yield at purchase, the yield as of the reporting date, and the purchase price. Under the Proposal Form N-MFP would be immediately available upon filing. We believe this information would be of limited or no utility to investors: they are unlikely to want to second guess portfolio management decisions by fund management. The potential users of this information are more likely to be market participants who can use the information to a fund's disadvantage, as the fund's trading strategies become apparent to the marketplace. For example, other investors could potentially "free ride" on this information, to mimic a fund's portfolio strategy without performing the same research themselves. We believe the Commission should either delete these informational requirements or maintain the current 60-day lag in public disclosure of N-MFP filings.

c. We believe some delay in the public availability of Form N-MFP is appropriate. Even without the specific information we refer to above, Form N-MFP as proposed to be revised would include an enormous amount of information, some of which could be used to a fund's detriment. The information that will be of most concern to investors (*e.g.*, market-based share price, daily liquid assets and weekly liquid assets), would already be subject to daily website disclosure, and additional information (*e.g.*, portfolio holdings) would be subject to monthly disclosure. Therefore, we believe a delay of at least five business days after filing would be appropriate. (As stated above, if certain information is not deleted from the requirements of the Form, we believe a longer delay would be warranted.)

d. The Commission has requested comment on increasing the frequency of filing Form N-MFP from monthly to weekly. We believe this is completely unnecessary in light of the daily website disclosure which will otherwise be required. Moreover, we believe a requirement of weekly filings would be extremely burdensome, with more than four times the current number of filings being required annually. Each time any report is filed, fund management personnel time and effort is required, even if much of the information in the report can be computer-generated. We see little benefit to investors from more frequent filing, nor do we see any meaningful benefit in terms of the Commission's oversight of money market funds. Accordingly, we believe a requirement of weekly filing could not be justified.

e. In connection with Alternative 2, the Commission proposes to require "a short discussion in the funds' Statements of Additional Information of the board's analysis to supporting its decision to impose a liquidity fee (or not to impose a liquidity fee) and/or to suspend temporarily the fund's redemptions."[10] While the Release notes that this disclosure could take into account "considerations regarding the confidentiality of board deliberations," it proceeds to designate for disclosure much information that would normally be confidential to the board. We do not believe that a board's "analysis" will be material to investors. What would be material is <u>whether</u> the fund is imposing a liquidity fee or suspending redemptions. The Commission suggests that the "required disclosure may encourage portfolio managers to increase the level of daily and weekly liquid assets in the fund," but we believe that requiring burdensome disclosure of matters that are appropriately confidential to a fund is an inappropriate backdoor means of mandating liquidity, and we submit that fund managers already have great incentives to maintain adequate levels of liquidity.

---

[10] *See* Release, *supra* note 2, at 221-22.

10. The 25 percent basket should be retained.

Currently, a money market fund generally must limit its investments in securities subject to a demand feature or a guarantee from any one provider to no more than 10 percent of fund assets, except that 25 percent of the fund's securities may be subject to demand features or guarantees from a single institution (the "25 percent basket"). The Proposal would eliminate the 25 percent basket. We believe that the adverse consequences that could result from removing the 25 percent basket outweigh the risks of retaining it, and as a result, we strongly believe that the 25 percent basket should be retained.

Variable rate demand notes are a significant source of liquidity for money market funds, including in particular municipal money market funds. Removal of the 25 percent basket would likely mean that money market funds would invest fewer assets in variable rate demand notes, as managers would need to avoid purchasing variable rate demand notes that could cause them to exceed the 10 percent threshold. This would have the effect of reducing liquidity for these funds. Removal of the 25 percent basket could also result in funds relying on credit support providers of lower credit quality. Less investment could also adversely affect municipal issuers who today obtain long-term credit that is made eligible for investment by money market funds through the demand feature.

Since the financial crisis, fewer issuers also are providing guarantees and other credit support for securities to be purchased by money market funds. Ironically, removing the 25 percent basket could also force managers to purchase paper of lower quality issuers who are unable or unwilling to obtain third party demand features.

We believe that money market funds would be better protected from risk of loss by retaining the flexibility to avail themselves of the 25 percent basket when their advisers believe it appropriate to do so.

11. Stress testing requirements should not be expanded.

The Proposal would require testing of stresses on a money market fund's liquidity, specifically the fund's ability to retain at least 15 percent of its total assets in weekly liquid assets. The Proposal also would require a significant number of other stress tests of money market fund portfolios (including tests of combinations of stresses), and would require a fund's investment adviser to provide not only an assessment of the results of the tests, but also such information as may be reasonably necessary for the board to evaluate the testing as well as the results of the testing. The Proposal notes that one of the reasons for this expansion is that the Staff has observed disparities in the quality and comprehensiveness of the testing currently being conducted as well as the manner in which test results are shared with and evaluated by fund boards.[11] We believe that no stress testing should be required for money market funds that have a floating NAV (if such a proposal is adopted), and that expansion of the stress testing requirements for other money market funds is unnecessary.

Testing a money market fund's ability to maintain 15 percent of its assets in weekly liquid assets, if the fund has a floating NAV, will serve no useful purpose. The fund will continue to be subject to the requirement in Rule 2a-7 that when weekly liquid assets fall below 30 percent, non-weekly liquid assets may not be acquired. Any losses, including losses from sales of securities to generate cash to meet redemptions, will by definition be reflected in the fund's NAV. Beyond these requirements, determination of the appropriate level of liquidity in the fund should be left to the fund's investment adviser, and that level may vary under different circumstances. We believe that a test of a fund's ability to maintain a specified percentage of its assets in weekly liquid assets will not be particularly meaningful and should be eliminated, given that it may not be possible to predict which assets would be disposed of to meet redemptions. An assumption that a fund would first dispose of its most liquid assets (in the way liquidity is defined for these purposes) may not reflect reality.

---

[11] *See* Release, *supra* note 2, at 469.

The Proposal would significantly expand the stress testing that is required of money market funds. We do not believe that any expansion is necessary. There are limits to what stress testing can foretell, even when conducted and evaluated with the utmost diligence. Stress testing reports are already often lengthy and complex. The current program has worked reasonably well since 2010 to remind advisers and boards of the impact that external events can have on money market funds. That is, after all, the intention of the current requirements. Moreover, boards and fund management have ample incentive to design and implement appropriate stress testing; they should have the flexibility to do so without detailed prescriptions in the Proposal that cannot possibly anticipate the circumstances of each particular fund.

*   *   *

Again, we appreciate the opportunity to submit comments upon the Commission's proposal. If you have any questions about our comments, or if it would be helpful to discuss them, please feel free to contact us.

Yours sincerely,

Robert Frenkel*
Managing Director and General Counsel - Mutual Funds
Legg Mason & Co., LLC
203-703-7046 (office)
rifrenkel@leggmason.com

Charles A. (Tony) Ruys de Perez
General Counsel
Western Asset Management Company
626-817-5134
tony.ruysdeperez@westernasset.com

* Licensed to practice law only in New York. Certified as an Authorized House Counsel in Connecticut.

cc:

The Honorable Mary Jo White, Chair
The Honorable Luis A. Aguilar, Commissioner
The Honorable Daniel M. Gallagher, Commissioner
The Honorable Kara M. Stein, Commissioner
The Honorable Michael S. Piwowar, Commissioner

Securities and Exchange Commission

Norm Champ, Director
Adam Bolter, Senior Counsel
Brian McLaughlin Johnson, Senior Counsel
Kay-Mario Vobis, Senior Counsel
Amanda Hollander Wagner, Senior Counsel
Thoreau A. Bartmann, Branch Chief
Sarah G. ten Siethoff, Senior Special Counsel, Investment Company Rulemaking Office

Division of Investment Management, Securities and Exchange Commission