



THE DREYFUS CORPORATION

J. Charles Cardona
President

September 17, 2013

Via Email Submission: rule-comments@sec.gov

U.S. Securities and Exchange Commission
Attn: Ms. Elizabeth M. Murphy, Secretary
100 F Street, NE
Washington, D.C. 20549-1090

RE: **Proposed Money Market Fund Reform Proposals - SEC File Number S7-03-13**

Dear Ms. Murphy:

The Dreyfus Corporation ("Dreyfus") appreciates the opportunity to respond to the "Money Market Fund Reform" proposals (the "Proposals") recently issued for public comment by the U.S. Securities and Exchange Commission (the "Commission") on June 19, 2013 (the "Release").

Established in 1951 and registered with the Commission as an investment adviser under the Investment Advisers Act of 1940, Dreyfus manages approximately \$260 billion in assets, including approximately \$167 billion in 41 domestic money market mutual fund ("MMF") portfolios that are structured within the confines of Rule 2a-7 under the Investment Company Act of 1940 (the "1940 Act") and approximately \$24 billion in two offshore, dollar-denominated liquidity funds (Irish-domiciled UCITS funds). Dreyfus is a subsidiary of The Bank of New York Mellon Corporation, a global financial services company operating in 36 countries and serving more than 100 markets, and a leader in providing financial services for institutions, corporations, and high net-worth individuals, offering investment management and investment services worldwide.

Dreyfus supports the policy goals that the Commission set forth in the Release and at the Commission's Open Meeting held on June 5, 2013 (the "Policy Goals"), which we understand are:

- Lessening MMFs' sensitivity to excess redemption activity;
- Increasing MMFs' ability to manage through and mitigate potential contagion from high levels of redemptions;
- Imposing transparency and risk management overlays; and
- Preserving, as much as possible, the utility of MMFs



Though Dreyfus supports these directionally sensible policy aims, we believe a number of the Proposals are not appropriately designed to achieve the Policy Goals and are more likely to diminish, rather than preserve, the overall utility of MMFs for all MMF investors. In particular, we are concerned with:

- The variable net asset value (“VNAV”) alternatives (particularly, without appropriate “tax relief” as we discuss in Section III below), despite the proposed Government and retail exclusions;¹
- The Commission’s decision not to exclude tax-exempt MMFs (“Municipal MMFs”) from the Structural Proposals, as the Commission chose to exclude Government MMFs;² and
- The elimination of amortized cost as a means for valuing the portfolio securities (with remaining maturities of > 60 days) of constant net asset value (“CNAV”) MMFs.

Dreyfus welcomes the Commission’s intent to preserve the intrinsic value of MMFs in its proposals to exclude Government MMFs from the proposed mandates of VNAV and Standby Liquidity Fees and Gates (“Fees and Gates”) structures (hereafter, the VNAV and Fees and Gates proposals collectively are referred to as the “Structural Proposals”) and to provide a “retail” exception from the VNAV alternative that would allow for certain funds to maintain a CNAV. We can see how these Proposals, to some degree, can preserve the utility of MMFs for certain investors, but we believe they are not sufficient to offset the damage that will be done to the industry if the three Proposals cited above are adopted.

Dreyfus also continues to believe that too much emphasis has been placed on stopping MMF redemptions to the exclusion of considering how a MMF’s structure reveals how it can be expected to perform in a time of crisis. Our comments in this regard derive from our view that MMFs were not the cause of the 2008 financial crisis, but rather faced the same flight to quality from financial institutions that others faced during this period. We believe there is room within Rule 2a-7 to enhance the credit, interest rate, and liquidity risk profile of MMFs, and increase the frequency of disclosure of MMF holdings, without harming the utility of MMFs for investors. We believe our approach can successfully mitigate systemic risk by broadly enhancing MMFs resiliency. Importantly, we do not think that improving resiliency fails to address the perceived “structural vulnerabilities” of MMFs. Instead, we think these are complementary and not discrete objectives.

Dreyfus further welcomes the Commission’s consideration of Fees and Gates as a stand-alone alternative. We believe Fees and Gates directly answer the perceived structural vulnerabilities of MMFs and the Policy Goals and should be given due consideration in that regard. We also think that Fees and Gates appropriately complement the Rule 2a-7 enhancements we outline later in this letter, as each incentivizes more conservative and resilient MMF portfolio construction within a VNAV framework.

Lastly, Dreyfus agrees with the Commission that among the proposals “not one size fits all” and that a requisite balance must be achieved between preserving the unique value of MMFs for all investors both as investments offering capital preservation, daily liquidity, and cash management

¹ Among the VNAV alternatives, we are particularly concerned with the prospect for the Commission adopting a VNAV structure in combination with Fees and Gates. We think this alternative would prove most detrimental to the overall utility of MMFs. We address the Commission’s request for comment on combining these Structural Proposals in Section IX of this letter.

² As used in the comment letter, “Government MMFs” includes both “Government” and “Treasury” MMFs.

transactional utility³ and as instruments that contribute to the capital formation process, with systemic concerns. Thus, we believe that if the Commission remains inclined to pursue a VNAV alternative, providing fund sponsors and MMF boards choice in implementation, as contemplated in the Release,⁴ offers the best chance for the Commission to achieve its Policy Goal of preserving the utility of MMFs in a VNAV environment.

This commentary is divided into 12 sections. Section I provides a holistic summary of Dreyfus' comments on the Commission's Proposals. Sections II through XII are as follows:

- Section II addresses the VNAV alternatives generally and how they do not address the Policy Goals.
- Section III discusses the treatment of Municipal MMFs and our objection to their not being excluded from the Structural Proposals.
- Section IV presents our objection to the proposed elimination of the amortized cost method.
- Section V summarizes our perspectives on ways to enhance Rule 2a-7 (by de-risking portfolios and requiring daily holdings disclosure) to address systemic concerns.
- Section VI explains our general support for Fees and Gates.
- Section VII describes our preference for "choice in implementation" between VNAV and Fees and Gates structures, if the Commission is inclined to require a VNAV structure.
- Section VIII discusses aspects of the "retail exception" for a VNAV environment, if the Commission is inclined to require a VNAV structure.
- Section IX discusses the how the combination of a VNAV structure with Fees and Gates presents a worst case scenario for MMF investors.
- Section X discusses aspects the Commission's various proposed disclosure, form reporting, and stress testing requirements.
- Section XI discusses diversification requirements.
- Section XII recommends proposed compliance dates for the Proposals, if approved.

I. Summary of Comments.

A. *We do not support any VNAV alternative because the VNAV neither solves for redemption sensitivity nor makes a MMF's overall risk profile more transparent.*

The VNAV structure will diminish MMF utility substantially, without solving for redemption sensitivity in times of market crisis or improving the ability of investors to understand the risks associated with their MMF investment. The VNAV structure fails to adequately address the perceived "first mover advantage" and should not be expected to reduce portfolio or systemic stress during times market crisis. The VNAV structure also cannot be a meaningful option for the cash management marketplace because it carries major tax and recordkeeping burdens and will not be supported by intermediaries provides of MMFs if adopted by the Commission. Also, and contrary to assertions made in the Release, a VNAV structure eliminates the fund's ability to serve investors' same-day liquidity needs. Further, we do not believe that "transparency of risk" is achieved through "causing investors to

³ See page 39 of the Report by the Staff of the Division of Risk, Strategy, and Financial Innovation, dated November 30, 2012 (the "RSFI Report") in which, following a summary discussion of available alternatives to MMF investments, the Staff concludes "*none are perfect substitutes for MMFs.*" (emphasis added)

⁴ See page 36903 of the Release (Federal Register version, June 19, 2013).

experience price changes,” as the Commission asserts. Transparency is achieved by making the MMF’s overall risk profile readily available for investors to assess how a fund can be expected to perform in various market conditions. These are threshold issues for market acceptance for any sort of VNAV MMF and the record established by the Commission is insufficient to support imposing this level of disruption on MMF investors.

B. Municipal MMFs should be excluded from the Structural Proposals.

We applaud the Commission’s intention to “specifically target the funds where the problems during the financial crisis occurred,”⁵ but we believe that Municipal MMFs should have been excluded from the Structural Proposals similar to how Government MMFs are proposed to be excluded. Perhaps the Commission’s expectation that “the vast majority” of Municipal MMF investors would come under a retail exception explains the Commission’s approach. However, this would be a misconception on the Commission’s part. Institutional investors make significant use of Municipal MMFs and the transition to a VNAV would substantially diminish the utility of Municipal MMFs designed for institutional investors. Moreover, we know that short-term municipal market, which is dominated by variable rate demand notes (“VRDNs”), did not freeze up like the corporate market did during the financial crisis. Municipal MMFs had no role in intensifying the 2008 financial crisis and should be treated in the same manner as Government MMFs rather than Taxable Prime MMFs.⁶

C. The Commission has not made a reasonable case for eliminating the use of the amortized cost method for valuing the portfolio securities (with a > 60-day remaining maturity) of CNAV MMFs.

Eliminating the amortized cost method for daily valuation of portfolio holdings will drive CNAV MMFs to next-day liquidity or will necessitate a shift to much earlier times of day for NAV calculation. In each case, this action will inhibit the ability of CNAV MMFs to offer same-day liquidity and thus severely diminish the utility of the MMFs for all investors. Same-day liquidity is a critical feature MMF investors rely on and should be preserved. The Commission has not presented reasonable evidence demonstrating the incremental benefits associated with eliminating amortized cost compared with the negative impacts eliminating amortized cost will have on CNAV MMFs. We respectfully request that the Commission recognize that this Proposal is unnecessary and withdraw it for CNAV MMFs.

D. We support amending Rule 2a-7 to enhance certain of its risk-limiting conditions (to reduce credit, interest rate, and liquidity risks in MMFs) and to require daily disclosure of portfolio holdings. We think these proposals offer a more meaningful and cost effective answer to the perceived systemic risk of MMFs than the Structural Proposals offer - alone or in combination.

We support enhancing Rule 2a-7 to lower the overall risk profiles of MMFs and to require the daily disclosure of a MMF’s Schedule of Investments (“Daily Transparency”). We believe this approach directly answers all of the Policy Goals and promotes more stable and predictable, and less fear-driven, investor behavior during times of market crisis, particularly when characterized by “a flight to quality.”

⁵ See, e.g., the Chair’s Statement at the SEC Open Meeting on June 5, 2013.

⁶ For this purpose, we defined “Taxable Prime” funds as general purpose type MMFs that can invest in the widest array of money market instruments that generate income subject to federal income tax. For example, these are the funds listed in the “First Tier” categories of iMoneyNet’s Money Fund Report.

This approach is preferable to the range of range of Structural Proposals for which costs are very high, consensus is elusive, the likelihood of reducing systemic risk is uncertain at best, and the overall utility of MMFs will be severely diminished.

- E. We believe standby liquidity fees and redemption gates (“Fees and Gates”) are reasonably tools that can help CNAV MMF boards manage times of severe redemption pressure. Unlike the VNAV alternatives, Fees and Gates directly answer the Policy Goals and would complement our Rule 2a-7 and Daily Transparency proposals.**

Standby liquidity fees (“SLFs”) can reduce incentives to redeem MMF shares as well as provide an appropriate cost of liquidity and have been reasonably implemented by non-MMFs to address different policy concerns (e.g., market timers). Gates offer boards the capacity to suspend redemptions for a period of time in order to preserve and restore portfolio liquidity. Gates also are the only mechanism for ultimately stopping the fire sale of MMF portfolio securities in an illiquid market. Each is a tool that reasonably can be applied in the best interests of fund shareholders.

To increase the effectiveness of Fees and Gates and mitigate the systemic concern some perceive to be associated with this Proposal, MMF boards should not be limited to the occurrence of an objective trigger event in order to implement SLFs and/or gating. We also believe that the “emergency” nature of a Fees and Gates structure is a reasonable complement to the Rule 2a-7 enhancements and Daily Transparency requirements we propose, because more conservative and transparent MMFs will reduce redemption sensitivity and thus the potential run risk that some perceive to be the flaw with Fees and Gates as a stand-alone alternative.

- F. If the Commission remains inclined to adopt one of the VNAV proposals, we favor having the choice to implement a VNAV structure or a Fees and Gates structure.**

As part of any VNAV solution, we believe the Commission should give priority consideration to permitting choice in implementing a VNAV structure or Fees and Gates. We believe a “choice in implementation” approach offers the highest likelihood of preserving the utility of MMFs overall because it would allow for servicing diverse MMF client bases with the least amount of systemic disruption. We believe this approach would apply appropriately to all Taxable Prime MMFs (excluding Municipal MMFs), without a “retail” exception. Functionally, it can offer a more rational means for implementing a retail exception, because it does not require segmenting the market with artificial characterizations that neither reflect consensus nor answer the associated operational challenges.

- G. If the Commission adopts the VNAV structure as a stand-alone alternative, we favor limiting it to Institutional Taxable Prime MMFs with a “retail” exception and we favor segmentation based on purchase and not redemption constraints.**

If the Commission is inclined to pursue “Alternative One” of the Release as a stand-alone option, we support limiting such a framework to Institutional Taxable Prime MMFs (excluding Municipal MMFs) with a “retail” exception. However, we disagree with the Proposal to define a fund that imposes a \$1 million daily redemption limit as a “retail fund.” This option fails to define a class of investor and is unduly restrictive and will have unintended consequences. To avoid these hurdles and facilitate investor and intermediary acceptance of such a framework (at least to some extent), we believe the “institutional” and “retail” investor should be segmented by purchase-related characteristics (e.g.,

defining “institutional” investors by minimum initial investment amount) rather than by structural redemption limitations.

H. Despite the positive aspects of Fees and Gates as a stand-alone option, we believe adopting a VNAV in combination with the Fees and Gates (including in combination with Fees or Gates alone) presents a worst-case scenario for MMF investors.

We are convinced that the highest permanent level of outflows from MMFs will follow adoption of a VNAV structure in combination with a Fees and Gates structure (or in combination with only SLFs or only Gates). Among the Structural Proposals, this one presents a worst case scenario for MMF investors because they would be asked to sacrifice principal stability and risk ready liquidity. Ultimately, most institutional MMF providers will be left to exit this space if this alternative is adopted, leaving assets to go into other unregulated but systemically important markets.

I. Many of the proposed disclosure, Form reporting, and stress testing requirements should be better aligned with a standard of necessity for regulatory and/or board oversight.

In general, these Proposals are substantial and in many respects redundant and excessive, and do not come without cost and burden and very short-time frames. Our concern is piqued with assertions from the Commission that many of these Proposals “may” be of value to the Commission or to investors. We request that the Commission reconsider these Proposals in the aggregate to reduce redundancies and to further tailor their potential benefit to investors and the Commission to the costs and burdens involved.

J. We do not support eliminating the “25% basket” under Rule 2a-7 applicable to guarantors and providers of demand features.

We think retaining the 25% basket is important for Municipal MMFs given the variability and unpredictability of supply and demand in the municipal market. This flexibility is particularly important for state-specific Municipal MMFs where supply conditions can be more challenging from time to time. Eliminating the 25% basket, while potentially harmful to investors, would have no impact on systemic risk.

K. We believe the Commission should resolve its Dodd-Frank mandate to eliminate references to credit ratings in Rule 2a-7 (and Rule 5b-3) before adopting any Proposals.

We believe the nature and quality of the minimal credit risk determination is critical to MMF portfolio composition, which we believe is the core concern for how a MMF will perform in a time of crisis. We recommend that the Commission consider resolving this matter prior to voting on these Proposals so it can fairly assess the potential systemic impact of any structural, rule, or disclosure reforms adopted.

L. The massive systems and operations impact that these Proposals will have on a collective basis require extended time frames for implementation.

We propose a 3-year time frame for implementing any VNAV alternative, a 2-year time frame for implementing Fees and Gates as a stand-alone alternative, and a 1-year time frame for any other Proposal discussed herein.

II. The VNAV alternative neither solves for redemption sensitivity nor makes a MMF's overall risk profile more transparent.

The stable NAV is paramount to preserving the utility of MMFs to investors and to the financial markets. Efforts to eliminate it, even in part, should be supported by sound evidence for achieving the Policy Goals. In our view, the Commission has not presented a convincing rationale to support its VNAV Proposal. Rather, we think the Commission delivered a mixed message (at best) in this Release and at the Open Meeting about the VNAV's ability to meaningfully reduce systemic risk. In the Release and at the June 5th Open Meeting, the Commission voiced an understanding that a VNAV will not solve for sensitivity to redemption activity, will not deter a flight to quality, and may only have limited capacity to reduce systemic risk. We agree and we cannot see how such views justify adopting a VNAV alternative.

A. We anticipate that adopting a VNAV alternative will lead to substantial and permanent net outflows from MMFs.

Dreyfus currently manages approximately \$90 billion in Taxable Prime and Municipal MMF assets in funds we commonly deem "institutional." Feedback from our Taxable Prime and Municipal MMF customers tells us that if a VNAV alternative is adopted without tax relief from de minimis gains and losses,⁷ approximately 80% of those client assets would redeem their institutional account permanently (if the VNAV is adopted with "tax relief," which we also discuss below, we anticipate that number to be about 60%). Of that amount, we would expect approximately 40% of those assets would exchange to Dreyfus Government MMFs and the remaining 60% would move to alternate liquidity sources such as bank balance sheets, FDIC-insured deposit products, separate accounts, and unregistered pooled vehicles.⁸ So, if the VNAV proposal is adopted, Dreyfus estimates approximately \$72 billion in assets would redeem from its institutional prime accounts permanently, with approximately \$24 billion exchanging to Government MMFs and \$48 billion migrating to alternative liquidity sources. We expect that other institutional MMF sponsors, distributors, and service providers forecast similar outcomes.

We think the Commission must carefully weigh mandating such transformative structural change against the likelihood that the Policy Goals will not be achieved and the related systemic ramifications, particularly if viable alternatives exist.

B. Moving to a VNAV structure does not remove any perceived "first mover advantage."

A VNAV does not meaningfully address the Policy Goal for improving MMF's sensitivity to high net redemption activity during market stress. We can see how VNAV proponents might think that eliminating the "dollar put" associated with CNAV MMFs removes the incentive to be a first mover, but

⁷ As more fully described in a later sub-section of this letter, the Commission should not underestimate the extent to which opposition to the VNAV is driven, in significant part, by the tax, accounting, and recordkeeping burdens associated with a VNAV structure..

⁸ Please also refer to the comment letter from The Dreyfus Corporation dated and filed with the Commission on September 8, 2009 in response to the Commission's initial Rule 2a-7 proposals (File No. S7-11-09; Release No. IC-28807), in which Dreyfus polled its institutional MMF investors about how they would respond to having their fund converted to a VNAV structure. At that time, two-thirds of these investors (measured by assets) responded that they would redeem their respective fund and shift their assets to alternative liquidity sources. One-half of those respondents cited principal risk concerns and the other half cited collectively operational implications, applicable investment guidelines, and other concerns that would "prevent maintaining such an investment."

that is an unduly narrow view of the issue. The VNAV only changes the nature of the perceived first mover advantage because there remains a strong incentive for the cash/liquidity investor to redeem from the portfolio before liquidity drains away, credit risk increases, and losses deepen.

No different from a CNAV MMF, the VNAV MMF will meet redemptions by selling off its “liquidity,” meaning that in the short-term its “credit risk” becomes a larger percentage of its portfolio. With the fund continuing to transact business and no structural bottom in place, the pace of redemptions could accelerate and lengthen while portfolio liquidity is drained and the risk of principal loss heightens.⁹ Losses can mount beyond those likely to be incurred in a CNAV MMF. It thus seems axiomatic that cash investors will redeem out of VNAV MMFs if the alternative offers superior prospects for preserving capital and maintaining liquidity, even if the “dollar put to the issuer” is eliminated.

We also note the following assertion and conclusion from the RSFI Report that appears to have informed, at least in part, the VNAV Proposal:

“...once a fund’s shadow price falls below \$1.00, investors have an incentive to redeem shares to potentially avoid holding shares worth less than \$1.00. This incentive exists even if investors do not expect the fund to incur further portfolio losses.”¹⁰

We believe this statement severely exaggerates the influence of a shadow NAV on investors because it implies that any deviation from \$1.00 can provide a trigger event for redemptions. Deviations from \$1.00 can be expected even during normal market conditions (albeit most likely at a fraction of the ½% flexibility afforded under Rule 2a-7). Nonetheless, a shadow NAV of \$0.9995, for example, during a time of market, economic, and issuer stability, by itself will not incite or incentivize redemption activity (particularly if the fund’s holdings are readily transparent).

C. Transparency of Risk: A VNAV does not reflect a MMF’s overall risk profile.

We do not support a policy which provides that the way to make risk transparent in MMFs is if “investors truly experience price changes” because we believe that causing investors to experience losses is an inappropriate means for educating investors about risk. We believe the goal of transparency should be to convey how a MMF can be expected to perform in various market environments (which, e.g., is consistent with the purpose of MMF stress testing). By itself, a VNAV does not reveal anything about the intrinsic risk of a portfolio. Rather, it merely provides a statistic for measuring historical performance of an investment – without the benefit of attribution. MMFs already offer that historical measure in the shadow NAV and they make that measure public at least as often as they file Form N-MFPs or more frequently, including daily, as the Commission notes in the Release. If the shadow NAV already demonstrates the variability of the collective market value of a MMF’s holdings, then nothing is added to the equation by making the shadow NAV the investor’s transactional NAV except for “causing” the investor to experience losses, and at a tremendous risk to the utility of MMFs to investors and the financial system.

While we agree in principle with the Commission that increased transparency can reduce the incentive to run, we also believe the goal of increasing MMF transparency should be aimed at making a

⁹ A VNAV also could give investors a false sense of comfort that their redemption order would be processed at their expected NAV (e.g., not accounting for the closing NAV on the day of a redemption order reflecting a significant percentage decline from the prior day’s closing NAV).

¹⁰ See page 4 of the RSFI Report (November 30, 2012).

portfolio's credit, interest rate, and liquidity risk profiles easy to discern and obvious – the true definitions of “transparent.” We know that the main concern of MMF investors and intermediaries is to understand how a fund can be expected to perform under various market conditions. While market value changes in portfolio holdings already are transparent today (in the form of shadow NAVs), MMF portfolio composition is not. We believe currently available information on portfolio holdings today, in general, is insufficient to make risk transparent.¹¹ Daily Transparency solves that problem.

We also note that the RSFI Report, in several places, recognizes the value of Daily Transparency as a means for potentially improving MMF redemption sensitivity. These passages, cited below, specifically note, in pertinent part, that MMF redemption activity in 2008 represented not only a flight to quality but also a flight from less transparent investments to more transparent investments.

For example:

- “....[I]nvestor redemptions may have resulted from a flight by investors to funds offering liquidity, transparency, and performance.” [Page 5 of the RSFI]
- “If investors expect the values of certain securities to be impaired – but do not know which funds hold them – they may sell shares in more opaque funds and invest in more transparent funds.” [Page 9 of the RSFI]
- “To the extent that investors could have known The Reserve Primary Fund was holding Lehman Brothers commercial paper through Form N-MFP disclosures (had the 2010 reforms been in place at the time), it is unclear how they would have responded given that the information is reported with a 60-day lag.” [Page 38 of the RSFI]

D. The proposed policy for VNAV MMF pricing will exaggerate market value changes in MMF portfolios.

We do not support the proposed requirement for VNAV MMFs process share transactions at an NAV that is calculated to the fourth decimal place. We note the Commission's rationale for establishing “a significantly more precise standard than....currently required for most mutual funds... that provides the level of precision necessary to convey the risks of money market funds to investors” (emphasis added).¹² However, it is concerning that the Commission intends to make VNAV MMFs ten times more volatile under this framework (than they ordinarily would be under a “traditional” VNAV framework) in order to make MMF investors “experience risk.” We think this intentional effort to overstate MMF price fluctuations in relation to price fluctuations of longer-term investments is inappropriate and should not be undertaken by the Commission. It has no place in making the risk of CNAV MMFs more transparent.

¹¹ This would include monthly web site posting of portfolio holdings, information provided on the Form N-MFP, and the voluntary, periodic disclosure of portfolio-related statistics such as shadow NAVs and daily and weekly liquid asset percentage totals. While these disclosures have some clear value, they also fail to provide the requisite transparency to achieve the goal. Monthly web site posting is of limited value in assessing portfolio risk in a product with a 60-day weighted average maturity. The Form N-MFP (as more fully discussed in subsequent sections of this letter), is too detailed, complex, and lengthy to provide this service to investors, even if it was filed and posted more frequently and promptly. Statistical disclosures such as shadow NAVs and liquidity percentages only depict small parts of the overall risk story; e.g., neither depicts credit or interest rate risk.

¹² See page 36853 of the Release (Federal Register version, June 19, 2013).

E. A VNAV MMF cannot offer same-day liquidity.

The VNAV MMF will not be a meaningful part of the cash management marketplace because VNAV MMFs cannot offer same-day liquidity. All VNAV MMFs will be T+ 1 settlement. We note the Commission's observation that delivery of redemption proceeds "in the evening" equates with same-day liquidity,¹³ but that observation is not accurate. The concept of "same-day liquidity" in the MMF business refers to the closing of the Fed wire at 6:00 p.m., after which funds cannot be transmitted until the opening of the Fed wire on the next business day.

"Same-day settlement" is a critical requirement for liquidity investors and a necessary feature for MMFs to be able to service the cash management marketplace. VNAV MMFs have the option, in principle, of calculating NAVs multiple times per day to facilitate same-day liquidity, but this option also is undesirable for a number of reasons. First, transfer agency systems generally cannot accommodate transactions at two or more different NAVs in a single business day, so reprogramming at the TA level would be expensive.¹⁴ Also, there is the prospect for higher fund expenses in the form of multiple valuations being performed during the business day. Further, a short-term NAV impairment could trigger excessive redemptions if the reported VNAV early in the day is materially lower than the prior day's closing NAV.

F. Tax-related issues are a primary impediment to reasonable market acceptance of a VNAV structure.

Like the concern for "same-day liquidity," the tax implications of the VNAV alternative pose a major operational hurdle for investors and intermediaries in supporting the VNAV alternative. The Commission should not underestimate the significance of the tax issue associated with a VNAV MMF as a primary source of industry objection. It is critical that any worthwhile level of acceptance by investors and intermediaries alike of VNAV MMFs will require that VNAV MMF share transactions enjoy tax relief for de minimis gains and losses. Otherwise, these kinds of MMFs will be obsoleted as cash management vehicles, an outcome that seems wholly inconsistent with the Policy Goal of maintaining the utility of MMFs. The Commission's "cost-benefit" analysis for VNAV MMFs, we think, would be very different if there was a reasonable belief among investors and intermediaries that the operational and administrative burdens associated with capturing de minimis gains and losses on VNAV MMF transactions could be eliminated.

We have reviewed the recently released Proposed Revenue Procedure (the "Revenue Procedure") issued for comment by the Internal Revenue Service ("IRS") in connection with the VNAV proposal and found it insufficiently responsive to the administrative burdens associated with a VNAV

¹³ See page 36873 of the Release (Federal Register version, June 19, 2013), in which it states the following: "A money market fund with a floating NAV could still offer same-day settlement. The fund could price its shares each day and provide redemption proceeds that evening." The Commission should acknowledge that, according to industry convention, what the Commission has described constitutes next-day, and not same-day, settlement.

¹⁴ We note that the MMFs that calculate NAVs more than once per business day currently must rely on the NAV being \$1.00 at each time during the business day. Thus, while the NAV is calculated multiple times daily, the transfer agent is not tasked with processing transactions at different NAVs daily, which is the key distinction.

structure.¹⁵ While we recognize the apparent good faith effort to provide a level of tax relief, the Commission rightly noted in the proposal, *“money market funds would still incur operational costs to establish systems with the capability of identifying wash sale transactions, assessing whether they meet the de minimis criterion, and adjusting shareholder basis as needed when they do not.”* These issues are not addressed by the Revenue Procedure.

The Revenue Procedure also does not solve the recordkeeping complexities associated with a VNAV structure. Shareholders still will have to track the timing and price of purchases and redemptions of money fund shares to determine the amount of taxable gains and losses realized. Although these gains and losses would normally be small (rounding at 1/100th of 1 basis point), the burden to record purchases and redemptions is the same. The frequency of purchases (including reinvested dividends) in varying amounts and at different NAVs will make it difficult to determine the cost of shares being redeemed. Also, gains and losses will be capital gains and losses, which may be either short-term or long-term depending on the holding period of redeemed shares. Capital losses can generally only offset capital gains, and rules for capital loss carryovers can result in additional complexities.¹⁶

While the Commission suggests that MMFs could determine and report gains and losses, the point we wish to emphasize is that would be very costly and burdensome undertaking. Current information reporting rules do not apply to MMF redemptions. The cost basis information reporting rules for registered investment companies also generally apply only to sales of shares acquired after January 1, 2012. Any requirement to expand information reporting requirements to VNAV MMFs would require the funds and intermediaries to implement systems, processing, and reporting changes, which would be at substantial additional costs. Collectively, these complexities will drive institutions and intermediaries away from VNAV MMFs.¹⁷

G. Operational Costs and Burdens of the VNAV Structure Further Tilt the Cost-Benefit Analysis Away from a VNAV Alternative.

We expect the Commission will receive substantial discussion of the significant operational impacts posed by each Structural Proposal. Total costs and man-hours to modify systems, controls, and procedures to accommodate a VNAV structure on an industry-wide basis (including sponsors, distributors, and service providers) will be enormous.¹⁸ We have identified and listed below some of the operational burdens we believe will be borne by various MMF providers related to the VNAV Proposal:

¹⁵ We understand that the proposed Revenue Procedure provides a de minimis exception to the “wash sale” rules under Section 1091 of the Internal Revenue Code by excepting from Section 1091’s wash sale rules a realized loss by a VNAV MMF shareholder in the amount of 50 basis points or less.

¹⁶ We also understand that the Investment Company Institute (“ICI”) submitted a letter to the U.S. Treasury and to the Internal Revenue Service (“IRS”) dated September 12, 2013, which, in pertinent part, acknowledges the limited relief proposed to be provided from the wash sale rule but emphasizes the substantial compliance and recordkeeping burdens associated with the SEC’s VNAV proposal. We support the substance of ICI’s September 12th letter to the US Treasury and agree with the description of the issues and burdens associated with the VNAV proposal from a tax and recordkeeping perspective.

¹⁷ It also is important that the VNAV MMF qualify as a “cash equivalent” for accounting purposes to further preserve utility. The Commission states in the Release that it “believes” that the VNAV MMF would continue to be classified as a Cash Equivalent. We believe the Commission should confirm this specifically in any adopting release.

¹⁸ This presumes that sponsors, distributors, and vendors will choose to make such expenditures following the substantial net outflows that will follow adoption of a VNAV structure. Some of these entities may discontinue offering MMFs in their entirety as a cash management investment choice.

Fund Accounting and Administration.

- Implementation of controls and procedures to support daily valuation of portfolio securities for all (if amortized cost no longer is permitted) or some types of MMFs.
- Program modifications necessary to receive prices from pricing vendors one or more times each business day.
- Program modifications necessary to calculate the four-digit VNAV while incorporating the traditional servicing aspects of MMF such as 2a-7 compliance (e.g., WAM and WAL calculations).
- Modification of existing controls and procedures to support the four-digit VNAV.
- Program modifications necessary to calculate the fund's yield based on a four-digit VNAV.
- Additional tracking of information for tax reporting including portfolio gain/loss information and wash sale monitoring.
- Program modifications necessary to communicate four-digit VNAVs and other fund data to intermediaries, web sites, data providers, etc.
- Modifications to workflows to accommodate new settlement times in a VNAV environment.

Transfer Agency/Custody.

- Address shift in "same-day liquidity" to delivering payments post-end of day pricing; will result in significant change in the sweep mechanisms for client cash in particular (if undertaken).
- Address need for increased controls with respect to late-day wires and T+1 settlement in a VNAV environment.
- Certain systems will have to be modified to accept and use a four decimal place NAV. Not all relevant systems currently possess this capability.
- Would need to track gains and losses at the subscription/redemption level. Enhanced recordkeeping and forms creation relating to gains and losses of purchase and redemption activity previously not required for CNAV MMFs.

In addition, we note that a number of third-party commenters have, in our view, done an excellent job in summarizing the operational implications associated with the VNAV Proposal.¹⁹ We respectfully recommend that the Commission also consider these reports in its deliberations.

¹⁹ See, e.g., (i) Report by Treasury Strategies entitled "Operational Implications of a Floating NAV across Money Market Fund Industry Key Stakeholders" (Summer 2013); (ii) Report by Institutional Cash Distributors ("ICD") entitled "Operational and Accounting Issues with the Floating NAV and the Impact on Money Market Funds" (July 2013); and (iii) Survey of SIFMA Asset Management Group ("AMG") Members (among the findings from the survey are estimates of initial and ongoing costs of a VNAV structure as well as estimates of diminished customer demand for VNAV MMFs). Each of these reports and surveys was filed with the Commission in response to its request for comment on the Proposals.

H. The VNAV structure will diminish the utility of MMFs overall because Government MMFs will be able to absorb only a fraction of the outflows from Prime MMFs.

It appears that the Commission places significant reliance on the Government MMF exemption from the Structural Proposals to conclude that the Policy Goal of preserving the utility of MMFs will be achieved. However, we believe the Commission has overestimated the extent to which Government MMFs can absorb the assets that will migrate from Taxable Prime (and Municipal, based on the outcome of the Proposals) MMFs if a VNAV is implemented. Thus, we think it is critical for the Commission to reassess the extent to which the broad utility of MMFs will be meaningfully reduced with a VNAV structure, despite a “Government” MMF exemption.

Part of our view is based on the anticipated systemic impact a VNAV structure will have on the short-term government market, particularly during periods of market dislocations or very low interest rates. The performance of the U.S. Government market in 2008 and 2011 demonstrated how Treasury yields can go negative during a massive flight to quality, something for which the Commission admits in the Release that the VNAV alternative is neither intended nor designed to stop. As a result, perhaps a permanently steeper short-term Government yield curve can be expected, with the risk that US Treasury yields drop to zero or into negative territory during times of market stress. Ultimately, this will lead to Government MMFs temporarily suspending subscriptions (as they did in 2008) in order to protect shareholder principal.

I. Transition to a VNAV structure will have systemic impact.

We note that, since the VNAV MMF alternative was first contemplated in 2009, no one has presented a rational way to transition MMFs from a CNAV to a VNAV structure without substantial potential cost and systemic impact. We think this is significant because transition to a VNAV structure will have serious systemic and financial implications that necessitate an orderly and transparent transition plan. Perhaps the Commission holds the view that an extended transition period will mitigate systemic concerns – and thus also mitigating one of the costs associated with transition to a VNAV structure – but we anticipate that competitive concerns among fund sponsors, intermediaries, institutional investors, and service providers alike will cause most MMFs required to transition to a VNAV to do so later rather than sooner, likely resulting in a concentrated outflow of assets within a short time frame, regardless of how far out in the future that may be.²⁰ The VNAV option also may require fund sponsors to have to “top off” funds that have shadow NAVs below \$1.00, even if a small fraction thereof (e.g., 1 basis point or less below \$1) in order to protect the value of shareholder balances and prevent arbitrage that will inevitably be pursued as part of this transition.

J. Associated Disclosures.

With respect to the proposed Disclosure Statement associated with the VNAV alternative, we recommend (1) that bullet #3 exclude reference to specific risk factors (e.g., interest rate risk, as noted in the Release) as these risk factors are repeated elsewhere in the prospectus (both in the summary and body of the prospectus) and (2) references to sponsor support in bullet # 5 be eliminated, as it is misplaced in this context and confuses the matter being disclosed. As a general matter, we also question the Commission’s concern that investors will fail to understand that the value of the VNAV

²⁰ To clarify, we support a 3-year transition period for implementing any VNAV proposal because of its transformational features; however, our point is that an extended compliance period will not reduce the systemic impact of the transition.

MMF will fluctuate. We question at what point investors will be given the benefit of the doubt for understanding the product in which they are invested and when such concerns will cease to drive additional regulatory action.

K. Other Aspects of the VNAV Option if Adopted.

Dreyfus also believes that Rule 17a-9 and Rule 22e-3 under the 1940 Act should be maintained as currently written. We believe Rule 17a-9 can be effective for reducing systemic risk, even in connection with VNAV MMFs as proposed. We think this is particularly important because we are not convinced that a VNAV structure will be any more than only marginally successful in reducing the perceived systemic risk associated with Taxable Prime MMFs. We also believe that the Rule provides important flexibility for consistency of application across a sponsor's product line-up. Finally, we believe that Rule 22e-3 provides rational flexibility to a board for protecting shareholders during times of market stress. We see no logical reason for pairing back that important flexibility at this point.²¹

III. Municipal MMFs should be excluded from the Structural Proposals. Any structural reforms should be limited to Taxable Prime MMFs.²²

While we have stated our general support for the Commission having attempted to narrowly tailor these Proposals to the types of funds that demonstrate stress during the financial crisis (by excluding Government MMFs), we believe that the Commission has unnecessarily targeted Municipal MMFs for the range of structural reforms proposed. In our comment letter to the Financial Stability Oversight Council ("FSOC") earlier this year, we supported reforms targeted at "Prime" funds and we expressly recommended excluding Municipal MMFs from the proposed structural reforms.

We are not certain of the basis for the Commission choosing not to group Municipal MMFs with Government and Treasury MMFs under the Proposals. One reason, we believe, the Commission may have determined to include Municipal MMFs under the VNAV alternative is because municipal securities, unlike Government (with few exceptions) securities, are subject to credit risk²³ and often are backed by third-party credit enhancements such as bank letters of credit ("LOCs"). The Proposal also may be based on the Commission's understanding that the substantial majority of Municipal MMFs would come under the "retail" exception proposed in connection with the VNAV alternative.²⁴

²¹ In 2009, in our comment letter to the Commission on the first round of MMF reforms, and in it we supported adopting Rule 22e-3 as well as expanded board flexibility to suspend redemptions without a corresponding irrevocable election to liquidate.

²² As noted above and more fully described below, we support certain Structural Proposals that would apply to all Taxable Prime MMFs; however, to the extent the VNAV alternative is adopted as proposed (i.e., "Alternative One"), we support limiting its application to Institutional Taxable Prime MMFs with a retail exception.

²³ See page 36855 of the Release (Federal Register version, June 19, 2013), where the Commission provides a discussion of the proposed exclusion of Government MMF from the VNAV alternative, noting that the exclusion would extend to Government funds that invest only 80% of their assets in Government securities, and further noting that the proposal excludes municipal securities from the 20% basket because "*securities issued by state and municipal governments...do not generally share the same credit and liquidity traits as U.S. Government securities.*"

²⁴ See page 36860 of the Release (Federal Register version, June 19, 2013), in which the Commission states:

"We note that most money market funds that invest in municipal securities (tax-exempt funds) are intended for retail investors, because the tax advantages of those securities are only applicable to individual investors, and accordingly, a retail exemption would likely result in most such funds seeking to qualify for the proposed exemption."

While we recognize that Government and Treasury MMFs have distinguishing risk characteristics from Municipal MMFs, we do not believe that is reason enough not to exclude Municipal MMFs from the VNAV alternative. Further, the Commission's understanding about the nature of the investors in Municipal MMFs is incorrect. We address these issues and misconceptions below.

A. *Municipal MMFs do not concentrate their investments in securities that present systemic concerns.*

In our view, there are several reasons why Municipal MMFs are distinguishable from Taxable Prime MMFs and why municipals do not pose the same contagion threat perceived among financial institutions in the Taxable Prime space. Individual municipalities are not, by themselves, systemically important in the same way as a global financial institution might be. For example, consider the recent difficulties experienced in Jefferson County, Alabama, Harrisburg, Pennsylvania, and Detroit, Michigan, none of which had any systemic impact nor caused any sort of "run" on Municipal MMFs. Conversely, the impact of the failure of Lehman Brothers and the protections afforded to other major financial institutions in 2008 can be more directly traced to the degree of net redemption activity experienced by Taxable Prime MMFs in 2008.

We recognize that many short-term municipal obligations – in particular, variable rate demand notes ("VRDNs"), which populate a large majority of the short-term municipal market overall - are backed by LOCs or other credit enhancements from systemically important financial institutions such as banks. Notwithstanding that short-term municipals often come with these credit enhancements, Municipal MMFs did not experience the same or even similar stresses as those experienced by Taxable Prime MMFs in 2008. Instead, the VRDN market functioned efficiently and properly and did not freeze up, unlike the taxable market, and this occurred in spite of any pressures on banks or other monoline insurers whose credit enhancement supported the various VRDNs then-outstanding.

A number of unique features of VRDNs contributed to this result. Most importantly, the daily or weekly "reset" mechanism intrinsic to VRDNs facilitates the ready liquidity of these securities at par, even during times of market stress. The reset mechanism functions to make the securities attractive to different kinds of buyers. These buyers are attracted by the prevailing rates on the securities and keep the market "liquid" for them at par value. Accordingly, Municipal MMFs can dispose of VRDNs even during times of market stress as demand from other buyers enters the short-term market (*e.g., this is what happened in 2008 with short-term securities that were enhanced with municipal bond insurance*). Also, to the extent VRDNs become Rule 2a-7 ineligible in the event of a downgrade, the governing documents for the issuance typically contain a "mandatory tender" provision pursuant to which security holders are bought out at par (as the issuance is restructured). (*e.g., this is what happened with the downgrade of Chicago to "A" in 2013*). Importantly, institutional investors are aware of these aspects of municipal investing, and that "transparency" is critical during times of market stress.

If the Commission's concern for Municipal MMFs is the fact that many short-term municipal securities are backed by bank LOCs, we believe the Commission should consider these features of VRDNs, and the performance of the short-term municipal market overall, during the market crisis. The reset mechanism and the mandatory tender provisions intrinsic to VRDNs preserved and facilitated order in the VRDN market throughout 2007 – 2008, including at the height of the financial crisis.²⁵

²⁵ Prior to the financial crisis peaking in September 2008, there was similar upheaval in the short-term municipal market due to the failure of monoline insurers and the liquidation of tender option bond programs. During this time in 2007, as in 2008, the short-term municipal market did not dislocate as the short-term taxable market did.

Unlike the taxable market in 2008, there were no dislocations in the VRDN market and Municipal MMFs were able to put back VRDNs to remarketing agents at par without issue. This was a critical distinction in 2007-2008 between Municipal and Taxable Prime MMFs. This orderly functioning of the VRDN market meant that issuers did not have to rely on the bank guarantors for liquidity or price support, suggesting that the concern over banks having to actually “guarantee” large dollar amounts is extremely low under this framework.²⁶

Another distinguishing aspect of the short-term municipal market is that many “distressed” municipal issuers generally are not Rule 2a-7 eligible. Typically, distressed issuers have been subject to a spate of rating agency downgrades over time, but the first or second downgrade knocks the security out of Rule 2a-7 eligibility, well before municipality actually became distressed. Thus, the bankruptcies of these municipalities did not impact the direct holdings of Municipal MMFs. Again, this is unlike what happened with financial institutions in 2008, when Lehman declared bankruptcy as a AAA-rated commercial paper issuer.²⁷

Further, Municipal MMFs normally maintain significantly higher percentage allocations to Weekly Liquid Assets (“WLAs”) mainly due to the fact that VRDNs dominate the investment market. As a result, many Municipal MMFs routinely have high WLA percentages – many well over 60% and significantly higher than average Taxable Prime MMFs - at all times.²⁸ Collectively, we believe these are critical distinctions that merit Municipal MMFs being excluded from the Structural Proposals.

We think all of these unique aspects of short-term Municipal MMF investing merit the Commission’s special attention. We ask respectfully that the Commission undertake a deeper review of the material, inherent differences between Municipal MMFs and Taxable Prime MMFs, after which we believe the Commission will recognize and agree that Municipal MMFs do not pose systemic risk and should not be the subject of any of the Structural Proposals. To assist in this undertaking, we can make our Director of Municipal MMF Strategies available to the Commission for discussion, at the Commission’s convenience.

B. Municipal MMFs are not designed solely for individual investors.

We also disagree with the Commission’s apparent presumption that the vast majority of Municipal MMF investors will be able to continue to invest in a CNAV MMF if the VNAV is adopted, under the associated retail exception.²⁹ To the contrary, institutions commonly use Municipal MMFs.

²⁶ We also note that, compared with 2008, banks are eminently healthier and more liquid than in 2008 and that these conditions have been institutionalized by Dodd-Frank, Basel III, etc. If a bank did fail, the issue still stands on its own credit quality and the reset mechanism, again, would work to facilitate liquidity at par.

²⁷ We recognize that a bank LOC can provide the requisite credit quality to an otherwise ineligible security. However, such issues would trade at wide spreads reflecting the intrinsic credit quality and many funds would shy away from that spread risk, even if it offers to pay off at par on maturity.

²⁸ For example, as of August 30, 2013, Dreyfus’ Taxable Prime MMFs averaged approximately 47% invested in WLAs while Dreyfus’ Municipal MMFs averaged approximately 77% invested in WLAs.

²⁹ See, e.g., the comments on page 36923 of the Release (Federal Register version, June 19, 2013):

“We expect that the net investment in municipal money market funds will not change in response to the floating NAV proposal because we understand that few institutional investors invest in retail funds today and believe that most retail investors would not object to the daily \$1,000,000 redemption limit.”

We calculate that approximately 30% of the Municipal MMF industry is invested in “Institutional Funds” currently, down from 40% in 2008.³⁰

However, it does not follow that Institutional Municipal MMFs experienced the same sensitivity to redemption activity in 2008. To the contrary, the Commission also should recognize that the redemption activity of Institutional Municipal MMFs was a fraction of that experienced by Institutional Taxable Prime Funds. For example, for the 8-business day period 9/12/08 through 9/23/08, total assets under management (“AUM”) for Institutional Municipal MMFs declined 8.7% (approx. \$18 billion) while total AUM for Institutional Taxable Prime Funds declined 27.8% (approx. \$363 billion).³¹ Note that lower redemption rates are not due to Municipal MMFs being predominantly retail; rather, as noted above 40% of the Municipal MMF market was “Institutional.” This data suggests that the structural attributes of short-term municipals and Muni MMFs (highly populated with VRDNs) makes them much less susceptible to high net redemption rates relative to Taxable Prime MMFs.

Based on the foregoing, we think the Commission should reconsider the impact of the VNAV alternative on Municipal MMF investors. This should drive a reassessment of the cost-benefit analysis, which also should require a more focused consideration of the Municipal MMFs in providing a market for municipal debt issuance. Municipal issuers will suffer higher financing costs if the market shrinks because these funds are made less attractive to institutional investors due to a VNAV structure.

IV. The Commission has not made a reasonable case for eliminating the use of the amortized cost method for valuing the portfolio securities (with > 60-day remaining maturity) of CNAV MMFs.

We strongly oppose eliminating the use of the amortized cost method for valuing the portfolio holdings of CNAV MMFs. While the proposed exception for securities with remaining maturities of 60 days or less may have some value in moderating volatility in a VNAV MMF, it does nothing to allay our concerns with this Proposal. Specifically, we are concerned with the Commission’s apparent misconception about the concept of “same-day liquidity” as well the Commission’s logic for proposing daily disclosure of shadow NAVs. We also believe that the Commission has not offered any benefit or enhanced investor protections likely to be derived from eliminating amortized cost. Because the Commission has not articulated a single benefit to be derived from eliminating amortized cost, we respectfully ask that the Commission reconsider the necessity for the proposal against the Policy Goals and the utility amortized cost provides.

A. Amortized cost is required to maintain same-day liquidity.

While we agree generally with the Commission’s statement that penny rounding “provides the same rounding convention as exists in money market funds today,” we believe the Commission has

³⁰ Based on total assets reported in the Institutional and Retail Municipal MMF categories of iMoneyNet’s Money Fund Report (July 2013), respectively. We view the decline in industry assets, and at Dreyfus, as driven by the “zero-yield” environment for Municipal MMFs in which a tax exemption has not value. In a normal yield environment, we would expect the asset allocation to move back to the 40% level.

³¹ Redemptions from Dreyfus’ Institutional Municipal and Taxable Prime MMFs generally tracked industry activity during this period (Dreyfus’ Institutional Municipal MMFs redeemed at approximately the same rate as the industry average while its Institutional Taxable Prime Funds redeemed at a higher rate than the industry average, suggesting an even wider divergence between the asset classes). We also note that the bankruptcies of Jefferson County, Harrisburg, and Detroit did not precipitate any measurable level of redemption activity in Dreyfus’ Institutional Municipal MMFs.

neglected also to acknowledge the extent to which amortized cost facilitates same-day liquidity and how eliminating it compromises the ability to provide CNAV MMF shareholders with same-day liquidity. Using amortized cost, MMFs generally value their portfolio securities “at par” on each business day. This “convenience” facilitates processing of purchase and redemption orders on the day they are received in proper form on a same-day basis (defined as prior to the close of the Fed wire at 6:00 p.m., EST). Funds then calculate their “shadow NAVs” depending on the procedures in place at each fund complex, typically on an “after hours” basis.³²

Conversely, penny rounding will require market valuations for each portfolio security to be determined prior to the time of day for calculating fund NAVs. Pricing services currently provide prices/valuations in the late afternoon and we do not think this timing will facilitate calculating NAVs to achieve same-day liquidity. Accordingly, we expect to incur higher costs in order to provide prices/valuations early enough in the day to potentially support same-day liquidity (if feasible). In the alternative, funds may be forced to move their time of day for pricing fund shares to earlier in the day. Such a move would be detrimental to MMFs, particularly sweep MMFs that would continue to operate under the “retail” exception, because one of the values of sweep facilities is offering same-day liquidity across the entire business day. We would anticipate that if “prime” MMFs transitioned to earlier NAV calculation times, MMFs would become less the cash management vehicle of choice for institutions and intermediaries servicing retail investors.

We are aware of the many opinions expressed over recent years by academics and others on the notion that amortized cost is a “fiction.” To the contrary, the amortized cost method is rooted in years of established accounting practice.³³ For a complete discussion of the historical use and benefits of the amortized cost method of valuation, we suggest the Commission review the white paper published by the U.S. Chamber of Commerce’s Center for Capital Markets Competitiveness in the Fall of 2012 entitled “*Amortized Cost is “Fair” for Money Market Funds*” which provides an informative summary of the history of the amortized cost method and its applicability to money market funds.³⁴

B. Daily Shadow NAV calculation and disclosure appropriately complements the use of the amortized cost method.

The Commission asserts that the “*continued use of amortized cost method is not appropriate given that market-based NAVs would have to be published daily*” pursuant to the Proposal on fund web

³² Dreyfus calculates the shadow NAV of each Dreyfus MMF on each business day, after the time of day for calculating the fund’s NAV on that day.

³³ We note the Council’s proposal to set the NAV of a floating NAV money market fund at \$100, ostensibly to better illustrate to investors the risk of loss associated with money market funds. If a floating NAV is pursued as a regulatory option, we would strongly oppose setting the NAV initially at \$100. A \$100 NAV, in our view, would exaggerate the tiny fluctuations “from par” that money market fund typically experience on a daily basis.

³⁴ In summary, the Center for Capital Markets Competitiveness’ Fall 2012 report entitled “*Amortized Cost is “Fair” for Money Market Funds*” concludes as follows:

“This paper shows that the use of amortized cost by money market mutual funds is supported by more than 30 years of regulatory and accounting standard-setting consideration. In addition, its use has been significantly constrained through recent SEC actions that further ensure its appropriate use. Accounting standard setters have accepted this treatment as being in compliance with generally accepted accounting principles (GAAP). Finally, available data indicate that amortized cost does not differ materially from market value for investments industry wide. In short, amortized cost is “fair” for money market funds.”

sites.³⁵ We cannot see the logic in this assertion. Shadow NAVs are published daily now for CNAV MMFs. There is obvious value in current practice and the Proposals, even if adopted, do not suggest a need to change that approach. There is no rational reason why mandatory shadow NAV disclosure should necessitate eliminating the use of amortized cost.

V. We support amending Rule 2a-7 to reduce the credit, interest rate, and liquidity risks associated with MMFs. We also support Daily Transparency.

We think the amendments to the risk-limiting conditions of Rule 2a-7 discussed below, coupled with a requirement for Daily Transparency, offer a more meaningful and cost-effective way to address the perceived systemic risk of MMFs than the structural proposals offer – alone or in combination. We further believe that these proposals offer less structurally complex and compromising means for achieving the Commission’s Policy Goals, while preserving the utility of MMFs and the stability, liquidity, and current income requirements of MMF investors. To the extent applicable, the proposals discussed below would not be limited to Prime MMFs (but we expect that their primary applicability will be to Prime MMFs).

A. We support reducing the credit, liquidity, and interest rate risks associated with MMF investments in order to increase the resiliency of MMFs to times of market stress.

We believe that the potential for reducing perceived systemic risk in MMFs corresponds with increasing their resiliency to systemic shocks. We note that MMF redemptions were a consequence of stresses in other areas of the financial markets, and so we believe that the appropriate regulatory response is to address how MMFs will react to systemic events rather than how they potentially can trigger systemic events. Because MMFs were not the cause of the financial crisis, we think it is appropriate that their “resiliency” remain the regulatory focus. We believe this approach is appropriate because (and perhaps contrary to the common thinking among regulators today) we do not agree that addressing the “resiliency” and the “structural vulnerabilities” of MMFs are mutually exclusive tasks, particularly given our view expressed above about a “first mover advantage.” Rather, we view these tasks as related, addressing the same issue from different avenues of approach.

We continue to believe systemic risk should be addressed principally through a combination of portfolio management and transparency initiatives that (a) increase organic portfolio liquidity; (b) reduce credit and interest rate risk as well as certain types of investment concentrations; and (c) mandate daily disclosure of portfolio holdings. We believe the 2010 reforms solved to a very large degree the ability of MMFs to manage through a liquidity event without a credit event, as evidenced by the performance of MMFs during the events of the summer of 2011. The significance of this time for measuring MMF resiliency, which was characterized by the bankruptcy of a European Union member and a banking crisis that invaded the Eurozone broadly, coupled with the significant likelihood that the US Government was going to default on its debt obligations, demonstrated that MMFs can build, manage, and withstand substantial stresses (albeit, without the contagion effect of a US financial institution failure). The MMF market remained strong despite the Eurozone crisis and U.S. debt ceiling crisis during this period.

Dreyfus believes that the 2010 Reforms did not totally solve for the potential of a credit event and its potential spill-over effects. We believe that our approach, outlined below, can further reduce systemic risk to a meaningful degree without the costly and burdensome structural alternatives

³⁵ See page 36857 of the Release (Federal Register version, June 19, 2013).

proposed. Portfolios with higher organic liquidity levels and lower interest rate, credit, extension, and liquidity risks would have been better able to withstand the 2008 financial crisis, which was characterized by a flight to quality from financial institutions into an already illiquid market.

Dreyfus proposes the following to improve MMF's resiliency to liquidity and credit events:

1. Establish higher minimum Daily Liquid Asset and Weekly Liquid Asset percentage requirements (e.g., 15% (for Taxable Prime MMFs) and 40-45% (for all non-Government MMFs), respectively).³⁶
2. Reduce interest rate/extension risk by shortening maximum remaining maturity of investments from 13 months (e.g., to 9 months) (for non-Government funds).
3. Limit investment in asset-backed securities in Taxable Prime MMFs.
4. Minimize³⁷ investment in the more "esoteric" types of bank products and commercial paper (including asset-backed commercial paper ("ABCP")) products that, if the markets dislocate, will be subject to the highest likelihood of price dislocations due to the inherent liquidity characteristics of such products.
 - i. Limit bank products to those backed by banks of a minimum size (e.g., \$10 billion).³⁸
 - ii. Limit commercial paper (including ABCP) to securities sponsored/dealt by more than one recognized over-the-counter commercial paper dealer.³⁹
5. Reduce and diversify exposures to non-dollar, sovereign credits and "country risk" associated with exposure to foreign banks.
6. Require Daily Transparency (disclosure of each MMF's Schedule of Investments), including a summary of repo collateral by asset type.

Taken together, these proposals address the risk factors intrinsic to prime MMFs, such as issuer or geographic diversification and concentration in financial and sovereign issuers. Recent events have made clear that concentrations in both sovereign and corporate credits pose special risks to prime money market funds. In 2008, during a run on domestic corporate and financial institutions broadly, prime funds were susceptible to market stresses because of their overall exposures to these entities.

³⁶ We note and believe it is relevant that this percentage corresponds closely with the general percentage of "institutional prime" assets that redeemed MMFs during the five most noteworthy redemption days in 2008. We emphasize that we do not support these levels of required liquidity solely based on the historic data. Instead, we support these percentage amounts based on our view of the prudent level of liquidity required for MMFs since the 2008 crisis and in the exercise of our KYC obligations.

³⁷ We support further study to determine if eliminating these types of securities is advisable for MMFs, subject to the ongoing concern that supply limitations and quality credits may merit small allocations to such securities from time to time.

³⁸ Minimum size gives the bank sponsor greater ability to fund itself and support product liquidity.

³⁹ The idiosyncratic nature of these more esoteric securities lends to having fewer prospective purchasers and significantly less dealer activity in the market for securities. At times, only the sponsor/dealer is providing liquidity for such securities, and so in times of market stress these securities will be the first to experience liquidity pressures. This limitation would legitimize market liquidity in the security.

The 2008 financial crisis also showed how exposure to longer-maturity investments could create credit and liquidity problems during time of heavy redemption activity, as the spreads on those securities widened dramatically. While the 2010 amendments to Rule 2a-7 shortened weighted average maturity, the amendments did not shorten the maximum time to maturity for single investments, meaning that prime funds are subject to spread risk on individual holdings to the same extent as before 2010. In 2011, prime funds showed their sensitivity to European bank exposures during the Greek/Eurozone crisis, while domestic corporate credits during that time became almost a safe haven from such risk. As a result, it became clearer that sovereign issuers presented risks different from corporate issuers.

We also believe there is room for higher minimum allocations to DLAs and WLAs without compromising effective portfolio construction. In our 2009 comment letter on the proposed amendments to Rule 2a-7, Dreyfus was one of the very few fund companies that supported the proposed 10%/30% liquidity percentages. We also believe that higher liquidity equates with higher resiliency to market and economic stresses and that higher resiliency means less systemic impact arising from having to satisfy unusually high net redemption activity during periods of market stress or illiquidity. Similarly, the perceived destabilizing effect of the “first mover advantage” only should be a concern to the extent that MMFs cannot manage the associated redemptions organically with liquid investments and intelligent maturity management.

Prudent management of prime MMFs currently reflects consideration of all of these factors described above. MMFs that are more diversified geographically and across financial institutions,⁴⁰ that pose lower spread risk, that are sensitive to headline risks, that minimize exposure to risks that are more difficult to quantify (e.g., structural risks related to ownership of extendible securities), and that otherwise more conservatively apply their minimal credit risk determination, we believe, can be expected to be safer and more stable investments during a time of crisis. Enhancing the risk-limiting conditions in Rule 2a-7 in this regard should further stabilize MMFs to address the Policy Goal for improving MMFs’ sensitivity to excess redemption activity.

B. We believe Daily Transparency is critical to the success of this approach.

The Policy Goal of making MMF risk more “transparent” does not require eliminating the CNAV MME. Each Dreyfus MMF has disclosed its portfolio holdings on a daily basis since April 2007. We know from 30+ years of servicing the due diligence requirements of institutional investors, including servicing these requirements with Daily Transparency for 6+ years, the extent to which institutional investors rely on portfolio holdings information to assess “risk” – i.e. - how a MMF can be expected to perform in different market environments. Creating a framework that guarantees MMF investors will experience a one penny fluctuation (or a fraction of a penny) in share price, for the sake of “transparency of risk,” is not the right way to answer this investor concern. We respect that this is an important resource for Dreyfus MMF investors to measure portfolio risk.

We also find that Daily Transparency is critical to the effective execution of know-your-customer (“KYC”) procedures and obligations. We believe that Daily Transparency not only incentivizes conservative portfolio construction, but more importantly Daily Transparency matches portfolio construction with the risk tolerance of our fund shareholders, and ultimately, in our view, will yield a

⁴⁰ We note that an analysis of concentration risk among financial institution exposures should distinguish between exposures due to repurchase agreements, bank certificates of deposit, and time deposits, and exposure related to commercial paper and asset-backed securities holdings. Our views are influenced by the critical supply financial institutions provide for daily liquidity sources for MMFs.

more stable asset base during times of market stress. Neither the VNAV structure nor any of the proposed disclosure requirements, we believe, will be as effective.

Currently, we disclose the description of the issue, final maturity date, par value, percentage of total net assets, and country risk. As compared with Rule 2a-7's monthly disclosure requirement, we believe CUSIP number and coupon rate are less meaningful in framing a fund's risk profile. Nevertheless, our experience tells us that Daily Transparency can be effective with a basic amount of portfolio information.

Summary disclosure of repurchase agreement transaction collateral type can be a significant component of Daily Transparency. Dreyfus believes that disclosing repurchase agreement transaction ("repo") collateral type is an important component of Daily Transparency and for providing a comprehensive risk profile for a MMF, particularly if repo is collateralized with "non-conforming" collateral. Public disclosure should reflect repo collateral type (e.g., Treasury, Govt. Agency, Corporate, Sovereign) and its credit quality (e.g., Treasury, Govt. Agency, AAA, AA-BBB, <BBB). We do not think that collateral must be disclosed per repo transaction; rather, it is appropriate to disclose on a fund-by-fund basis the allocation to repo type and quality on any business day in summary form. To illustrate, a MMF family that only utilizes Treasuries and GNMA's as repo collateral simply would disclose a 100% allocation to repo collateral in connection with each MMF's repo activity.

MMFs that engage in repos are subject to counterparty risk and the risk of counterparty default poses the associated risk of being able to readily liquidate repo collateral promptly to recover the par value of the repo. In times of stress, MMFs are faced with the risk having to dispose of repo collateral in a "fire sale," which can threaten maintenance of the stable NAV. Because MMFs often use different types and quality of repo collateral over time, during times of systemic stress the type of repo collateral used is meaningful in the event of fire sale conditions.

Discussion of the Commission's alternative approaches for providing transparency of risk. Rather than proposing Daily Transparency, the Commission has proposed numerous other substitute methods for achieving the goal of transparency. We believe each of these is inferior to Daily Transparency for revealing MMF risk. We have presented our objections to the proposed implementation of a VNAV structure to promote transparency of risk in Section II.C above.

We think the Form N-MFP is an inadequate tool for achieving the Policy Goal of greater risk transparency. We believe the Form primarily serves the purposes of the Commission only because the Form generally is too lengthy and detailed to be an effective disclosure tool for average retail and institutional shareholders.⁴¹ The Form also does not (and cannot) facilitate real-time disclosure of holdings, even if posted on a "real-time" basis as the Commission proposes to do. Snapshots in time of portfolio holdings do not reflect daily risk-taking. Rather, portfolio turnover can mask the fund's risk profile over time. Increasing its frequency only makes it more burdensome without improving readability or availability for purposes of serving as a useful tool for investors.

With respect to the daily disclosures proposed by the Commission in this Release, we note that DLA and WLA percentages only demonstrate the amount of the portfolio that can be "guaranteed" to be sold at par on demand. It does not forecast how the portfolio will perform in a stressful market

⁴¹ To illustrate, while the Form N-MFP with instructions is only 8 pages in length, the average completed Form N-MFP filing for a large Dreyfus institutional MMF is well over 100 pages. Currently, Dreyfus files the Form N-MFP for 41 MMF funds, many of which are large institutional MMFs.

environment nor does it provide any information about credit risk undertaken.⁴² The allocation to DLAs and WLAs also is readily available from full disclosure of portfolio holdings.

As for shadow NAV disclosure, Dreyfus began posting shadow NAVs for its various MMFs on February 1, 2013. However, we do not believe that disclosure of the shadow NAV is appropriately representative of portfolio construction. We made the decision to post shadow NAVs as a complement to our current disclosure of each Dreyfus MMF's Schedule of Investments. The shadow NAV does not help to distinguish the potential risks embedded in different MMFs. Rather, the shadow NAV is a lagging indicator, useful only as an after-the-fact measure of the changing market value of portfolio holdings. To date, we have received only a modest number of questions and comments from MMF shareholders and while feedback has been favorable, our MMF shareholders continue to rely more heavily on portfolio holdings information. Accordingly, we believe shadow NAV disclosure serves primarily to complement portfolio holdings disclosure.

VI. We believe standby liquidity fees and redemption gates are reasonably designed tools to help CNAV MMF boards manage times of severe redemption pressure.

Fees and Gates provide meaningful tools for MMF boards that directly address the Policy Goals, and without undue structural and operational burden. We also believe that Fees and Gates would complement our Rule 2a-7 proposals described above, because we believe establishing Fees and Gates creates a new "break the buck" scenario for investors, which we expect would institutionalize more conservative MMF portfolio management as well as serve a useful tool only in the most extraordinary circumstances. However, we recognize that a Fees and Gates framework, like each other Structural Proposal, is not universally acceptable to MMF investors, but as we noted earlier we also recognize that, for these Proposals, not one size fits all.

A. Positive Features and Aspects.

Fees and Gates are useful tools for boards to exercise in their business judgment and are a logical extension from the Rule 22e-3 amendments adopted in 2010.⁴³ We also agree that liquidity fees can deter net redemption activity while also providing an appropriate "cost of liquidity" for investors choosing to exercise the option to redeem over the option to hold and that gating functionally "stops" redemption activity.⁴⁴

Importantly, from our conversations with intermediary service providers, subject to development costs and transition times, we believe intermediaries can accommodate CNAV MMFs with Fees and Gates on their platforms. As we have noted, we are convinced that VNAV MMFs will be removed from most every intermediary platform. We think this is a critical distinction that goes directly to the Policy Goal of preserving, as much as possible, the utility of MMFs.

⁴² See page 20 of the RSFI Report (November 30, 2012), in which the RSFI Staff writes *"It is important to note that the level of liquidity in a money market fund is not necessarily a measure of portfolio risk."*

⁴³ In its 2009 comment letter to the Commission on the first round of MMF reform proposals, Dreyfus supported proposed Rule 22e-3 under the 1940 Act as well as expanded authority for boards to act to suspend MMF redemptions without being conditioned on irrevocably approving the fund's liquidation.

⁴⁴ See, e.g., Commissioner Gallagher's Statement at the SEC Open Meeting; *"But the only way to ensure a run is stopped in its tracks is to permit gating."*

Further, Dreyfus believes that a Fees and Gates framework will incentivize more conservative (from a credit and liquidity risk perspective) MMF portfolio construction and stronger KYC practices to avoid the business risk from having to impose Fees and Gates. We believe this because we think a Fees and Gates framework institutionalizes a potential “break the buck” scenario that MMF sponsors will manage against. Again, this is a critical distinction, because a VNAV framework offers neither of these potential benefits (in fact, it could actually incentivize more risky portfolio construction, compared with a CNAV framework supported by Fees and Gates and Daily Transparency).

B. Potential Challenges to Implementation.

We recognize that some may think that Fees and Gates could precipitate a degree of higher net redemption activity for a period of time in anticipation of the potential imposition of fees or gates. We are not convinced that such would be the case, and particularly in light of our belief that appropriate portfolio construction and Daily Transparency reduces that likelihood. Moreover, and we believe more importantly, a Fees and Gates framework offers the prospect for mitigating and/or stopping that activity. Again, this is an important distinction from the VNAV framework, which does not offer the benefit of slowing or stopping a run.

We also acknowledge that the SLF poses its own unique “tax” problem for MMF providers and that there are costs in implementation. However, we believe this tax issue should be easier to manage on a relative basis and potentially overcome compared with the daily tax and recordkeeping obligation posed by VNAV MMFs (and, another material distinction between the Proposals).⁴⁵

C. The arguments for Fees and Gates as a stand-alone option are sound.

Dreyfus believes some of the resistance to Fees and Gates as a stand-alone option is misplaced, particularly when compared with transformative alternatives such as VNAVs, or even capital buffers and MBR requirements that have been previously considered by regulators (including the Commission). It appears to us that the two main criticisms for Fees and Gates as a stand-alone option generally are that (a) they do not address the perceived “structural vulnerabilities” and (b) they can precipitate a run during a market crisis. We disagree with these criticisms and believe that they should not disqualify Fees and Gates as a stand-alone option.

There should not be any concern for a MMF’s “sensitivity to redemptions” in a normal market environment, so the regulatory focus, we think, should be on the question “How can the fund be expected to perform in a time of crisis?” because that answer is directly related to anticipating redemption activity under the KYC obligation. We think Fees and Gates provide a measured, effective response to that question without compromising the utility of MMFs broadly. Fees and Gates also provide the solutions regulators want – a disincentive (with a cost of liquidity) and/or a halt (gating) to redemption activity to allow for MMF liquidity to be repaired organically. A VNAV, conversely, functionally destroys the utility of MMFs (because it applied “all the time” and not just during a crisis).

Fees and Gates address the perceived structural vulnerabilities. SLFs provide a cost of liquidity and protect the “shareholder left behind” - a key concern of the Commissions dating back to the 2009

⁴⁵ We also understand that the ICI submitted a letter to the U.S. Treasury and the IRS dated September 12, 2013, which acknowledges the potential for the imposition of SLFs ultimately to result on a “return of capital” to fund shareholders in the form of a distribution from the fund. We support ICI’s request for consideration that such a distribution be deemed to create an “ordinary distribution” and not result in a return of capital.

Rule 2a-7 reform proposals. And, from among any of the Structural Proposals or other proposals offered by other commenters or regulatory bodies, gating is the only structural mechanism for stopping redemption activity that could intensify a market crisis/fire sale conditions.

We also are not convinced that Fees and Gates will incentivize runs in all cases. We recognize that MMF investor behavior may change as the potential for SLFs or gating rises, but the concern for the potential imposition of Fees and Gates should be incidental to the overriding concern investors we expect investors would have at the time for the MMF breaking the buck (because breaking implicates a principal loss as well as an extended illiquidity while a fund liquidates its holdings and winds up its affairs – neither of which is a certainly if an investor merely is “gated”). Accordingly, we do not believe a Fees and Gates structure provides a meaningful incremental risk in redemption sensitivity for MMFs.

D. Discussion of the specific aspects of the Fees and Gates proposal.

Board action to implement Fees and Gates should not depend solely on the occurrence of an objective trigger event established by Rule. We appreciate the Commission’s desire for establishing an “objective trigger” for the application of a fixed rate SLF because it establishes a level of assurance that SLFs will be imposed. We also appreciate the Commission’s characterization of SLFs as “tools” and recognizing that they should be implemented as part of the board’s total oversight role in managing MMFs through periods of systemic stress, so we support the aspect of the proposal that grants boards decision-making authority to pursue a different course from the default scenario.

However, with respect to the board’s exercise of its business judgment in these circumstances, we are concerned with the potentially implied constraint on the board’s business judgment in acting in this regard. If this proposal is adopted, we respectfully ask that the Commission, absent setting forth a specific standard of review, acknowledge the board’s business judgment in establishing Fees and Gates. We think this is reasonable and of particular importance given that the Commission is proposing to require public disclosure about the board’s decision-making related to putting on and taking off SLFs and gates. Otherwise, a board may not feel it can act independently, the exercise will be perfunctory, and the associated disclosure will be boilerplate.

In our comments on the 2009 MMF reform proposals, we supported giving MMF boards the power to suspend redemptions during times of market stress. We think it is a tool that MMF boards should have to effectively serve in the best interests of MMF shareholders. Thus, to the extent the Commission proceeds with establishing an objective trigger (e.g., reaching 15% WLA as proposed), we support increasing the Board’s flexibility to also be able to act (i.e., impose a SLF or apply a redemption gate) before any objective trigger (e.g., 15% WLA as proposed) is reached, in respect to imposing both SLFs and gates. We believe boards will not use this tool loosely as investors, over time, will come to equate Fees and Gates with a “break the buck” scenario that fund sponsors and boards can be expected to seek to avoid at all costs.

Our view, in part, is based on the expectation investors will begin to more closely monitor portfolio holdings, shadow NAVs, and DLA and WLA percentages against the likelihood of any objective trigger being reached. A fund with a 35% WLA allocation, for example, can decline to 15% WLA within 1-2 business days. Accordingly, after a full day’s redemption activity, it may be too late for a board to act as it would want. If boards are going to have the authority to act, they should be able to act in the best interests of shareholders under any exigent circumstance – and while a 15% WLA percentage may be a

reasonable “floor” calling for a board to act, no particular WLA percentage alone should define an “exigent circumstance” for board action.

The proposed default rate of 2% for SLFs should be lower. We believe that a default fee rate lower than 2% (1%, perhaps⁴⁶) is warranted. We believe a lower default fee rate is consistent with the board’s exercise of its business judgment in setting the SLF. We note that the Commission has established in the Release (whether inadvertently or not) a strong presumption for the default rate and has suggested that boards would have a strong hurdle to overcome in setting a different rate. A key issue with imposing SLFs is “doing the math” in advance of applying it to ensure that redeemers are not “overcharged” and that the fund is not enriched as a result. So, if a 2% rate is determined to be too high, we would expect boards to sense a higher regulatory burden associated with lowering a default rate compared to increasing a default rate. If the default rate is 1%, boards would appear to have more inherent flexibility to increase the fee rate as required to keep a fund “whole” (and not overcharge) in connection with redemptions.

The proposed maximum 30-day term for gating (within a 90-day period) is reasonable. Whatever the pros and cons are specifically of a maximum 30-day period (within 90 days) in which to permit gating of a MMF, we support a term that is longer than the 7-day hold period authorized currently under Section 22(e) of the 1940 Act. We think it is prudent to have a more extended time period allowed for gating if the goal of gating is to protect fund shareholders’ CNAV by providing time to restore liquidity organically and in an orderly manner, as opposed to suspending redemptions and liquidating under Rule 22e-3, in which case (i) there is no opportunity to access funds as the SLF would provide; (ii) there is no prospect of reinstating redemptions or restoring the CNAV; and (iii) the shareholder likely would have a longer wait for return of principal than if the fund merely was gated (assuming the fund does not break the buck and liquidate). There seems no rational reason to limit such period further by regulation and hamstringing boards and fund sponsors unduly. Shareholders that are dissatisfied with the length of gating ultimately will make that fact known to sponsors who will be accountable for it.

Some commenters may oppose the “message” that a 30-day maximum gating period might send to shareholders and instead support establishing a shorter maximum time frame by rule. In our view, we cannot see the rationale for that approach if the goal is to afford time to repair liquidity that has declined significantly. Shortening the maximum period to 10 days, for example, merely equates with the current 7-business day hold allowance and adds little value within this framework. Further, if the fund is relying on laddered maturities to generate liquidity, a shorter time frame may prevent that from happening. The message to shareholders can be managed by the fund and its sponsor/adviser. For example, the fund can adopt and disclose (in the prospectus) a policy that establishes a shorter time frame (e.g., 10-day maximum) if it is determined (ostensibly, by board vote) that the message is important enough. In this way, those wanting a shorter time frame can apply one without limiting by rule the important flexibility that a longer time period can provide for restoring liquidity organically.⁴⁷

⁴⁶ 1%, in fact, corresponds with the 1% loss realized by Reserve Primary Fund shareholders in liquidation.

⁴⁷ To illustrate, many MMFs serve the cash management needs of futures commission merchants (“FCMs”) and derivatives clearing organization (“DCOs”). MMFs are classified as “permissible investments” pursuant to Regulation 1.25 under the Commodity Exchange Act for FCMs and DCOs to invest customer funds. One of the conditions for FCMs and DCOs being able to use MMFs under Regulation 1.25 is that the MMF is “legally obligated” to redeem and make payment for MMFs shares within one business day. MMFs comply with this “legal obligation” by making specified prospectus disclosures that accommodate the investment. A similar approach can be taken with respect to shorter maximum gating periods at the discretion of the fund, if desired.

Associated Disclosures. With respect to the proposed Disclosure Statement associated with Fees and Gates, we recommend that (1) bullet #4 require a different term than “considerable” stress, as we believe this overstates the prospect for imposing Fees or Gates (or, in the alternative, not require a qualitative conclusion at all); (2) references to sponsor support in bullet # 5 be eliminated, as it is misplaced in this context and confuses the matter being disclosed; and (3) the Commission consider allowing funds to disclose that boards have discretion in imposing and setting the terms of Fees and Gates. We also agree that the SLF is not appropriate for the prospectus fee table.

Disclosure of the board’s analysis. With respect to the proposed disclosure (on the MMF’s web site disclosures proposed and on proposed Form N-CR), we note initially the redundancy and challenge of a one-day time frame to comply with these proposals. More importantly, though, we are concerned with the precedent being set for requiring disclosure of the board’s analysis to establish Fees and Gates. Outside of the advisory contract approval process, for which there is a statutory basis under Section 15 (c) of the 1940 Act, the Commission has respected the confidentiality of board deliberations and findings that are recorded in board minutes. The decision to impose SLFs or gate a fund will be the product of recommendations of the MMF sponsor’s KYC analysis applicable to the fund’s respective investor base, coupled with other material information the board considers at that time (e.g., the extent of the deviation as relevant to the size of the SLF or the prospects for restoring liquidity as relevant to the term of gating). This analysis will implicate significant amounts of confidential information, including the identity of shareholders and future expectations about investment flows). Thus, we cannot support a disclosure requirement of this nature, particularly, at least, without a statutory basis for proposing it.

VII. If the Commission remains inclined to adopt one of the VNAV proposals, we favor having the choice to implement a VNAV structure or a Fees and Gates structure.

We emphasize that we favor this approach only among the VNAV alternatives and so to the extent the Commission determines that a VNAV structure is required we believe the Commission should give strong consideration to the potential benefits of allowing MMFs choice in implementation, as contemplated in the Release. We note that the Commission only addresses this alternative briefly in the Release, but we hope the Commission considers this option in greater detail to the extent it has not already.

Feedback from our MMF investors in response to the Structural Proposals reveals uncertainty and confirms a “one size does not fit all” understanding. Our informal survey of MMF customers suggests that different types of investors will find it more or less difficult to adapt to a VNAV or to Fees and Gates. We believe that providing choice offers a higher potential for investor adaptability and lower likelihood of investors migrating to alternative liquidity sources. Each investor can decide which structure is suitable for their respective investment objective(s), income and liquidity needs, and otherwise consistent with applicable state law or charter requirements. In essence, we believe an investor that cannot tolerate one of the structural arrangements can tolerate the other rather than be forced to leave the MMF industry if restricted to only one “unusable option.” In Section II.A above, we provided our estimate for asset depletion if a VNAV alternative is adopted. Under this “choice in implementation” approach, we estimate that the wider ability to accommodate investors would reduce total amount of assets that would migrate away from MMFs overall to a measurable degree.

Dreyfus believes that a regulatory structure can be proposed that requires Taxable Prime MMFs to transition to a VNAV structure, but in the alternative such funds instead can transition to a Fees and

Gates structure (and, perhaps, subject also to certain conditions that would seem inappropriate for a VNAV MMF, such as daily shadow NAV disclosure). We believe this approach is suitable to all Taxable Prime Funds - and does not require a "retail" exception or the burden of having to characterize certain investors or funds as retail or institutional - because this alternative has a "self-selecting" aspect to it. Functionally, we think this "choice in implementation" approach will produce results similar to the Commission's VNAV Proposal with a retail exception, because the Proposal also requires fund boards and their sponsors to make decisions – in this case about which funds will apply a daily maximum redemption restriction (and stay CNAV) and which funds will not (and transition to VNAV).

We see only two distinctions between our proposed approach and the Commission's VNAV alternative: (1) "retail" investors would trade a daily redemption limit for Fees and Gates and (2) the need to establish artificial "institutional" and "retail" definitions is eliminated, definitions for which unanimity and consensus remain elusive. We view our approach as preferable from a simplicity standpoint and for the benefit of investors,⁴⁸ and we see little logic for why the Commission would propose a daily redemption limit and would not also support choice in implementation of the VNAV and Fees and Gates alternatives.

Some commenters may suggest that a "choice in implementation" approach would be confusing to investors. We think the same issue is presented under the Commission's VNAV option with a retail exemption, because in each case two kinds of MMFs will exist and in each case the MMF board will be responsible for segmenting and classifying the sponsor's fund line-up. The industry will be responsible for educating investors about the results of this activity and we believe that MMFs will be able to clearly articulate the structure implemented and the rationale for each.

VIII. If the Commission adopts the VNAV structure as a stand-alone alternative, we favor limiting it to Institutional Taxable Prime MMFs with a "retail" exception and we favor segmentation based on purchase and not redemption constraints.

A. Limits on redemptions are not the preferred means for segmenting MMF investors, operationally or otherwise. If the Commission is inclined to pursue this definitional standard, we suggest that \$1million is too low to be meaningfully applied as a definition of "retail."

In general, we believe segmenting MMF investors by purchase limitation rather than redemption limitation offers easier administration and greater potential acceptance by investors and intermediaries, all to the benefit of preserving MMF utility. It also avoids a framework where investors are incentivized to spread their assets out among multiple funds in order to be able to access the total amount of liquidity required on any given day without restriction.

While we appreciate the Commission proposing a retail exception that reflects a reasonable interpretation of the 2008 financial crisis, we do not support defining the "retail" fund as one with a dollar restriction on redemptions, be it a \$ 1million daily limit or some other amount. We have a number of reasons why we do not support this aspect of the Proposal, which we discuss below, but the basic principle behind our objection is that a daily redemption limit fails to define a class of investor, which seems to be the object of the exercise. In our view, to the extent an institutional/retail distinction

⁴⁸ We also respectfully ask that the Commission consider if "retail" investors in CNAV MMFs may be better off with a Fees and Gates structure than with a structure that caps redemptions at fixed dollar amounts. With fees and gates, redemptions can be honored in full.

would exist under Rule 2a-7, we believe it should be one that ultimately defines the ability to purchase MMF shares – it should not impact the ability to sell MMF shares.

We also object to redemption limits because they are operationally more difficult (and less desirable) for intermediaries to implement than a number of other potential alternatives. Using the proposed \$1 million daily redemption limit to illustrate, we think this framework will drive assets in omnibus, non-fully disclosed accounts to other liquidity products because intermediaries will not be amenable to limiting client redemption requests within an omnibus structure, either from an operational perspective or from a servicing perspective. We also think that an unintended consequence of this approach will be for intermediaries that choose to make the operational changes necessary to maintain the fund on their platform will cap omnibus account balances at the \$1 million maximum daily redemption limit so the intermediary is protected from inadvertently violating the daily limitation or from having to advise a client that a redemption order will not be executed in full.⁴⁹

We do not expect consensus among commenters on this topic. We believe that this may be because the Commission has not focused precisely on whether its intent is to define a “retail fund” as (i) a fund comprised of individual investors; or (ii) a fund with a structural feature that will limit maximum potential redemptions; or (iii) a fund for which the structural characteristics and historical velocity of redemption activity is such that a VNAV is not deemed required; or (iv) if the Commission’s intent with the proposed retail definition is to apply a “soft gate” on retail investors.⁵⁰ We think this is a critical threshold issue that, without Commission guidance, has prevented consensus.

B. We believe purchase constraints are more easily implemented and more rationally reflect investor differences.

If the Commission concludes that a single objective standard is required, as a threshold matter we believe the exercise should be focused from the “purchase” side and also from the “institutional” side (because that is where the Proposal is aimed). If the Commission is proposing a VNAV for “institutional” funds, the Commission should define the type of fund to which the Proposal is aimed. In that regard, we note that “institutional funds” generally are defined by high minimum initial investment amounts. This is a “self-selecting” feature of MMFs, as higher minimum initial investment amounts typically equate with different fee levels and servicing structures, higher average account sizes, and lower overall operating expenses, and attract institutional investors. Correspondingly, we would not expect institutional investors to migrate to lower minimum initial investment funds if this definitional standard was adopted because the migration downward would be to higher fee, lower yielding products that typically do not offer services tailored to the large institution. A daily redemption limit has never been a defining feature of any type of investor and we would not expect it to be successful now in this complex circumstance.

Based on segmentation by minimum initial investment, we believe that a \$10 million threshold appropriately defines the institutional investor. We believe funds with at least a \$10 million minimum initial investment are those which are “designed” for institutional investors and are those that institutional investors seek out for the various reasons outlined above. At first glance, this amount may

⁴⁹ We base this opinion on feedback received from intermediary partners. In addition, we note that while we present this issue in the context of omnibus accounts, which generally are the most common type of intermediary account, we would not expect a different result with respect to fully-disclosed accounts carried by intermediaries.

⁵⁰ We note that the Commission requested comment generally on how to make the retail distinction and whether the proposal achieves that distinction, but we do not believe that the Commission’s intent was clear.

appear excessive because it may suggest an overabundance of “retail” assets that may enjoy a retail exception. But we do not think that will be the case, because a \$10 million threshold is adequately representative of the current segmentation of MMFs currently (e.g., as reported among the various institutional and retail MMF categories listed in iMoneyNet’s Money Fund Report). And, as we noted, we believe this is a self-selecting feature of MMF manufacturing and distribution and that, accordingly, institutional investors will not find that their servicing needs are met at the “retail” level.

C. Other means for segmenting institutional and retail investors offer different potential advantages and disadvantages.

Maximum Account Balance. We noted earlier that we think a daily redemption limit would become a maximum account balance requirement by default at most intermediaries that choose to continue to offer such funds. We think our minimum initial investment framework and a maximum account balance framework are related concepts and, if the Commission pursues this approach, we think \$10 million also is the right number for a maximum account balance.⁵¹ While we think a \$10 million minimum initial investment is the right number to define the type of fund that attracts the type of institutional investors for which the VNAV ostensibly is targeted, we also think that on the maximum account balance side, \$10 million is the right number to accommodate the high net worth investor who is not a “run risk” in a CNAV MMF without being attractive enough for large institutional investor’s primary cash management needs.⁵² We also think \$10 million as a maximum account size is the right number to reduce the potential for spreading large investments over numerous funds. To reiterate, we think \$10 million would be the right amount at which fund fee and service structures define retail and institutional eligibility and that if these are the parameters set, funds will be priced accordingly and will be attractive to the kind of investors the rule intends for them to accommodate.

Settlement Times. On the idea of defining “retail” and “institutional” funds by settlement times, with retail being T+1 and institutional being T+0, the Commission should gain note that its Proposals will move all MMFs to T+1 settlement, as we described above, so the Commission cannot consider this as an option unless it withdraws its proposal with respect to eliminating amortized cost.

Social Security Number. On the idea of defining retail MMFs as those comprised exclusively of accounts identified with social security numbers, we think that while this is a reasonable and logical alternative for identifying individuals and other kinds of investors with historically low run risk, this option does not necessarily solve the “omnibus problem” unless omnibus accountholders unanimously agree to certify to the composition of their accounts. We also expect that intermediaries to advise that segmentation by minimum initial investment or maximum account balance would be easier to administer and therefore preferable to a social security number framework.

Finally, we believe one of the benefits of a choice in implementation approach is simplicity and clarity. For those who have voiced a level of support for the VNAV option with a retail exception as

⁵¹ We discuss the maximum account balance concept because, as noted above, we are convinced that intermediaries will not honor a daily maximum redemption limit and would simply cap account balances at the daily maximum amount. As a result, we think the Commission’s proposal is unworkable from the start and so the Commission should consider “purchase-level” standards of segmentation instead.

⁵² We acknowledge that a maximum account balance approach offers the opportunity for large institutional clients to split their investments among multiple funds in order to stay in the retail environment. While this could occur to some extent, we are unsure how prevalent that would be because the lack of consolidation of investment may present its own administrative hurdles for the institutional investor.

proposed (i.e., a (daily maximum redemption limit), we expect that the Commission also has been presented with a host of exception requests (from the retail exception) for investor servicing purposes (as contemplated in the release; e.g., retirement plans, a down payment on a house, changing brokers, etc.). While we neither agree nor disagree with the merits of those individual exception requests, we believe it illustrates the potential for a much more layered and complex result, with no additional safeguards, than we have described with choice in implementation. We ask that the Commission consider these points, and the associated message to investors from each alternative, in its deliberations involving a VNAV alternative.

IX. Despite the positive aspects of Fees and Gates as a stand-alone option, we believe the option of adopting a VNAV in combination with Fees and Gates (including in combination with Fees or Gates alone) presents a worst case scenario for MMF investors.

The Commission is correct in its assumption that a VNAV MMF that also has Fees and Gates will be unsuitable as a cash management vehicle.⁵³ Such a combination poses too many operational impediments for MMFs investors to continue to rely on MMFs as liquidity vehicles and thus, we believe, is inconsistent with the Policy Goal of maintaining the utility of MMFs. Feedback from our MMF investors strongly suggests that asset migration will be highest if these options are adopted in combination. This is because MMF investors generally can be separated into those that favor ready liquidity and those that favor price stability (and thus why choice in implementation can work). The Proposals require investors to compromise on one of those goals. However, investors cannot compromise on both of those goals – they cannot be asked to acquiesce to surrendering both ready liquidity (for Fees and Gates) and price stability (for a VNAV) in a cash management vehicle.

As mentioned in Section II.A above, we estimated asset depletion if a VNAV alternative is adopted. If a VNAV is adopted in combination with Fees and Gates, we would expect virtually 100% of institutional prime assets to advise their respective MMF providers that they will redeem assets subject to that structure on a permanent basis. While most MMF sponsors likely will re-structure their MMF product lineups to one degree or another to accommodate MMF shareholders under one alternative or the other, we expect most will be forced to exit the prime space if these alternatives are adopted in combination. We respectfully urge the Commission not to discount or disregard the significance of this kind of result spreading across the prime MMF industry and the shift in competitive balance and muting of investor choice that will ensue if these structural alternatives are adopted in combination.

Since this “reform” debate began, some have supported the VNAV alternative on the basis that the “structural vulnerability” perceived to be inherent in (and exclusive to) CNAV MMFs only can be repaired by eliminating the “dollar put” that exists on a security that can have a market value NAV of less than one dollar (which is the purported basis for the perceived “first mover advantage”). Our contention has been that the “first mover advantage” is not exclusive to CNAV MMFs and that eliminating the “dollar put” will not relieve the stress of high net redemption activity from liquidity investors in VNAV MMFs whose primary goal is preservation of capital.

We read the Release and understand the Commission’s comments at the June 5th Open Meeting to recognize that the VNAV is likely to be unsuccessful in resolving redemption sensitivity. We commend the Commission for reaching that conclusion, but remain deeply concerned that the Commission is considering addressing that fact by affixing Fees and Gates to a VNAV MMF. We view this proposal as excessive and unduly harmful to the utility of MMFs without offering any additional benefit

⁵³ See page 36902 of the Release (Federal Register version, June 19, 2013).

compared with adopting the alternatives separately (or as a choice). To the extent the VNAV is believed to meaningfully reduce the first mover advantage, a Fees and Gates option should be unnecessary and unsupportable on a cost-benefit basis.

Moreover, the VNAV's purported "dual purpose" as an instrument of transparency should not be a factor in this finding (and, as we have discussed, nevertheless is an inferior tool for this purpose). Conversely, if the Commission is unconvinced that the VNAV successfully addresses the Commission's goal of reducing the first mover advantage, then the VNAV should not be adopted alone or in combination with any other reform. If a VNAV requires Fees and Gates to successfully reduce the first mover advantage, then by definition Fees and Gates alone does repair the perceived "structural vulnerability" and should be sufficient as a stand-alone option to achieve that goal.

X. Amendments to disclosure, Form reporting, and stress testing requirements.

Despite each Proposal on its own offering certain positives for the Commission, in the aggregate these proposals raise broad concerns for MMFs and their sponsors. For example, several of the new Form reporting and web site and registration statement disclosure requirements are redundant and come with unduly short compliance timeframes as well as material cost to funds and their sponsors.⁵⁴ The Commission also asserts that many of these Proposals are reasonable because they "may" facilitate better oversight and evaluation of MMFs or "may" be of use to investors. However, there are tangible costs to these Proposals while they appear to offer little to no potential benefit to investors and MMF boards. We respectfully request that the Commission reconsider these Proposals in the aggregate for their redundancy and their necessity, recognizing the costs and, in our view, marginal benefit to investors and fund boards.

A. Disclosure Amendments.

i. Sponsor Support.

Dreyfus does not object in principle to a fund disclosing past instances of actual sponsor support. Many instances of sponsor support already are disclosed in fund financial statements after their occurrence (but these disclosures are not recurring beyond one year, unlike the 10-year period proposed). However, the proposal raises a number of concerns.

The Importance of an Appropriate Definition of "Financial Support." We appreciate the Commission recognizing the conflict and confusion that arose from past assessments and definitions of what counts as an "instance of sponsor support." We generally support the definition as proposed and recommend that the final rule, if any, ensure that disclosure relate to actual instances that had a financial impact on the fund. In this regard, we recommend that "or otherwise support the fund during times of market stress" be eliminated from subparagraph (viii), or revised to be made more specific as to

⁵⁴ For example, Dreyfus incurred several hundreds of thousands of dollars in technology-related costs to build systems required to populate the Form N-MFP for (at the time) 51 MMFs. The proposed amendments to the Form will cause additional technology costs to be incurred, ostensibly for the benefit of "filling in the gaps" (as the Commission notes) in its information gathering. Consider also that if these Proposals are adopted separately from the proposals to eliminate references to credit ratings agencies, a second round of programming will have to be undertaken for that latter purpose. Each programming will require several months of time at tens of thousands of dollars in cost for each. This is inefficient and unduly costly for MMFs and their sponsors.

actual financial support provided. As proposed, this broad “catch-all” provision re-opens the door for debate about what constitutes “instances of sponsor support.”

In this regard, we wish to remind the Commission of the comment letter we submitted in response to the Presidents Working Group on Money Market Fund Reform, dated August 7, 2012,⁵⁵ in which we strongly objected to the manner in which the number of historical “instances of sponsor support” was calculated and submitted to Congress in support of Past Chairman Schapiro’s Congressional testimony at the time. Again, it appears that the Release appropriately recognizes the distinction between the no-action relief obtained in 2008 and instances of sponsor support in fact provided that had a financial impact on a fund. We hope that any final rule- or disclosure-related definition continues to reflect this distinction.

Next, we question the necessity of requiring this disclosure for 10 years. Similar kinds of information (e.g., management fees and 12b-1 fees paid, officers and directors biographies, financial highlights) generally is required in the registration statement only for a 3-5 year period. We also do not believe that the apparent desire to capture the 2008 financial crisis in this disclosure justifies establishing such a long timeframe for maintaining such disclosure in the future.

Next, the Commission asserts that this disclosure will serve a “reporting” function for the Commission upon which it can build historical data. We think this is an inadequate justification for this expanded disclosure requirement. The registration statement historically has not served that purpose and tools such as the Form N-MFP have been introduced for that purpose. If the Commission’s overriding goal is information gathering, perhaps the Form N-MFP, or the proposed Form N-CR, should be the vehicle for delivering this information rather than the SAI. Moreover, as we noted, past instances of sponsor support already are disclosed in fund financial statements that are filed on Form N-CSR, from which such information is just as readily accessible to the Commission as it is in the SAI.

Finally, we note a passage in the Release that piqued our curiosity from a policy perspective. The Commission asserts that the proposed sponsor support disclosure:

“...would permit investors to assess the sponsor’s past ability and willingness to provide financial support to the fund, which could reflect the sponsor’s financial position or management style.”

We have two concerns in this regard. First, we are disappointed by the implication that instances of sponsor support are reflective of an adviser/sponsor’s portfolio management skill/style. If this proposal is adopted, we believe the Commission should retract this statement and otherwise not suggest that sponsor support is indicative of management style (because the implication is poor management style). To re-emphasize, MMFs were not a cause of the 2008 financial crisis and, in this context, we think it is inappropriate for the Commission to have imply that the value of sponsor support information is to assess a manager’s skill. The matter is not that simple and the guidance by the Commission has the easy potential to mislead.

Second, we discussed in prior sections of this letter the Commission’s also proposed disclosure amendments related to the respective Structural Proposals. In each case, funds would have to disclose that the fund’s sponsor has no legal obligation to provide support and that the investor should not

⁵⁵ SEC File No. 4-619; Release No. IC-29497, dated August 7, 2012.

expect that financial support will be provided at any time.⁵⁶ The contradiction appears untenable from a disclosure standpoint. On the one hand, the Commission wants funds to disclose that investors should not rely on financial support from the fund's adviser/sponsor in their MMF investment. On the other hand, the Commission wants funds to disclose past instances of actual sponsor support on the basis that it is material information for investors to consider about investing in a MMF. The Commission must resolve this contradiction before any of this disclosure can be considered for approval. The disclosure is meaningless to investors as proposed.

ii. Daily Disclosure of DLA and WLA Percentages.

We do not object in principle to the daily disclosure of DLA and WLA percentages on fund web sites, particularly in connection with a Fees and Gates only structure. However, we do not agree that DLA/WLA percentages provide transparency into how a fund is managed. Maintenance of a statutory liquidity bucket doesn't provide meaningful insight into the various risks of a MMF, such as credit and interest rate risks. From the perspective of increasing transparency of MMF risks, as discussed above we maintain that Daily Transparency is the primary tool for making MMF risks transparent and that DLA/WLA disclosure is beneficial only as a complement thereto.

We do agree, though, that disclosure of DLA/WLA percentages may impose a degree of discipline on fund managers in terms of liquidity management, particularly if the Fees and Gates option is adopted (because the WLA percentage will be measured against the potential for a triggering event for the SLF or a gate). Alternatively, in a VNAV environment, we cannot see how disclosure of DLAs and WLAs will have any impact on manager styles.

We do not support the disclosure of net inflows/outflows as proposed, in conjunction with disclosure of DLAs/WLAs. We are concerned that investors will not be provided with adequate context against which to measure flow information. For example, many times asset flows are seasonally driven (e.g., redemptions are high during tax season in Municipal MMFs) or are driven by other unique factors (e.g., some corporations typically make large withdrawals prior to quarter end and reinvest those amounts at the beginning of the next calendar quarter). These particular types of routine flows are not readily discernible to other investors or the general public; however, they are never indicative of market stress. Accordingly, this information could precipitate numerous shareholder inquiries over the ordinary course that would require the MMF service provider to weigh servicing one shareholder against the privacy of another shareholder's account activity (and we would not support any sort of narrative to explain flow information as being unduly burdensome). Also, flow information provides little if any added value if DLA and WLA percentages are disclosed daily.

iii. Daily Disclosure of Shadow NAV.

Dreyfus has posted shadow NAVs daily for all Dreyfus MMFs on dreyfus.com since February 1, 2013. As noted above, we view shadow NAVs alone as having limited value as a risk measure. Optimally, risk is made transparent when the investor can assess how a fund may perform in different environments. Accordingly, we shadow NAV disclosure is valuable only as a complement to daily portfolio holdings disclosure. Shareholders in general did not demand this information from us and have provided very modest (but positive) feedback about its availability. Note that investor feedback is not due to a lack of understanding about MMF risk. Contrary to the assertions in the Release,⁵⁷ MMF

⁵⁶ See page 36874 of the Release (Federal Register version, June 19, 2013).

⁵⁷ See page 36929 (footnote 650, e.g.) of the Release (Federal Register version, June 19, 2013).

shareholders are not uninformed about the risk of MMF principal loss and we disagree that they treat MMFs as risk-less investments. The institutional investors' due diligence suggests otherwise.

iv. Harmonization of Rule 2a-7 and Form N-MFP Portfolio Holdings Disclosure Requirements.

We do not support requiring Form N-MFP to be filed more frequently than monthly. This Form requires significant legal, compliance, and investment accounting oversight to be provided over a very short time frame. The five days to prepare and review these filings already is a very short time-frame within which to prepare and confirm each filing within a monthly cycle.⁵⁸ Weekly filing will increase this burden four-fold, but the Commission has not provided a reasonable rationale for the incremental value to the Commission from imposing this added burden. We also do not support increasing the frequency (to weekly) with which certain data would be provided within a monthly Form filing. Again, we view this as increasing burden (and cost, as re-programming would be required) without any demonstrated incremental benefit is to the oversight of MMFs.

v. Mandatory Daily Market Value NAV Calculation for CNAV MMFs.

Historically, Dreyfus MMFs have calculated shadow NAVs daily. This daily calculation has not impacted Dreyfus MMF investment strategy/selection. However, we do not support requiring fund boards to review shadow NAV deviations at any rule-set frequency. We expect that fund boards already review this matter routinely at quarterly board meetings. Dreyfus maintains a series of written internal procedures that contain various "escalation provisions" that involve the fund boards. We believe this procedural coverage is preferable to an arbitrary requirement to review deviations.

vi. MMF Confirmation Statements.

Because we do not expect that intermediaries will support a VNAV MMF for transactional type accounts, we believe that the demand for "real-time" transaction confirmations will be low. For VNAV MMFs remaining on such platforms, we expect that customer demand for reporting (in the form of statements and confirms) would vary among intermediaries and institutional investors. Institutions and intermediaries that demand more frequent confirmations will work that out with the MMF provider. Confirming transactions in VNAV MMFs on a transaction basis will increase costs, which will be passed on to MMF investors or underwriters. Thus, retaining flexibility rather than eliminating the Rule 10b-10 exclusion seems preferable, given that demand would seem to be low while costs would increase (even if to a lesser extent, based on actual demand).

B. Form Reporting Requirements.

i. Form N-CR.

We appreciate the Commission's desire to formalize the process for MMFs to notify the Commission about significant operational activities, such as certain sponsor support actions or the imposition of SLFs or gates. However, Form N-CR raises several concerns as proposed.

The Commission may recognize that during periods of severe market stress, business concerns have a multitude of "crises" to prioritize. We respectfully suggest that the Commission consider a 2-3

⁵⁸ As noted, Dreyfus currently files 41 Form N-MFPs monthly, which equates with 492 Form N-MFPs annually. Pushing this obligation to weekly would mean over 2,100 Form N-MFP filings annually.

day time frame for filing the Form (as to the various events triggering the Form filing) to accommodate potential priorities. We also request that the Commission consider also that Form N-1A disclosure standards will require same-day or one-day responses, as will the need to make information available on the MMF's web site, adding to the priority of information flow among fund boards, investors, management, and regulators, which may include messaging about the implementation of SLFs or gating. If necessary to prioritize, we think registration statement and web site disclosure to investors is of paramount importance and should take priority to the Form N-CR.

We also do not see a compelling reason for requiring disclosure of sponsor support in the Form if the identical information is being required in the SAI and the Commission has indicated that it will gather such information from the SAI as a source. While the Commission may feel that Form N-CR will provide the information on a more real-time basis, we expect registration statements also will have to be updated with equal promptness with these disclosures (via Rule 497 filings with the Commission). Thus, the Form N-CR requirement seems redundant and burdensome and, as we noted above, we hope the Commission recognizes the several redundancies and timeframe pressures many of these Proposals pose and will address them accordingly.

Similarly, it seems unduly burdensome and redundant to have to file Form N-CR to report 25 bp deviations from a \$1 NAV for CNAV funds, as daily shadow NAV disclosure provides the same information on a real-time basis (and which also is available to the Commission as an information source). Moreover, we disagree that a 1-day time frame is warranted for filing the Form for this particular reason because we strongly disagree that a \$.9975 shadow NAV at all times equates with an "exigent circumstance" that requires immediate disclosure. The Commission, we think, cannot reasonably draw that conclusion with certainty nor, we believe, should it define such circumstance as "exigent" for MMF boards.

Finally, in principle, we have some concern that reporting the identity of a security that defaulted within a 1-day time frame on a Form report that is immediately available for public access on dreyfus.com may raise issues for some investment managers and their funds. Dreyfus posts portfolio holdings daily, so this is not an issue, but we would think that others fund families that have adopted portfolio holdings disclosure policies different than the Dreyfus MMFs' policy may have some concern with the public availability of that single security when the balance of the portfolio is not available with the same frequency. We think the Commission should consider this potential conflict before finalizing this aspect of the Form.

ii. Form N-MFP.

As a general matter, and as noted above, we disagree with the Commission's presumption that the Form N-MFP is a useful tool for investors in making investment decisions about MMFs. We do not believe that MMF investors utilize the Form N-MFP in a material way to inform their MMF investment decision-making process. The Form is long and complex and while commenters ultimately may educate us otherwise, we see its utility almost solely as an information gathering tool for the Commission. For these reasons, coupled with the technological costs associated with implementing systems to compile and file the Form (that we also have detailed elsewhere in this letter), on a cost benefit basis, we do not support the Commission's proposal for additional information items.

Portfolio Securities. We do not support the proposal for requiring additional "portfolio security" information (in the form of purchase date, purchase price, yield at purchase, and yield on reporting

date). On a monthly Form, for a product with a 60-day WAM, we cannot see the utility of this information to investors. We also are not convinced that the potential for facilitating “price discovery” warrants this proposal nor are we convinced that this information is necessary for the Commission to regulate MMFs.

Flows. The proposed additions of DLA and WLA percentages and gross purchase and redemption activity are redundant with the Commission’s proposed daily web site disclosure requirements for such information. We cannot see how expending the cost to expand the Form to include this information on a “weekly” basis in a “monthly” filing adds to the investor’s decision-making process (or, how such information will be “timely” provided, as the Commission suggests) when, if the investor is relying on such information, it will be available on a daily basis. Further, we do not support the Form being revised to classify portfolio securities as DLAs or WLAs. We cannot see the added value to investors in classifying “Treasury Bills” or “Repos” or “VRDNs” as DLAs or WLAs given (a) the classification is often obvious; (b) that investors do not utilize the Form N-MFP as a decision-making resource; and (c) the added burden and cost of the programming changes involved to accommodate this information.

Top 20 Concentrations. We also do not support the proposal to provide the percentage of fund shares owned by a fund’s 20 largest shareholders of record. This kind of information is required by Form N-1A (5% owners) and disclosed in SAs and investors can access that information to the extent they deem it material. More importantly, though, we are concerned about assertions made in the Release that imply that higher concentrations equate with higher run risk. We disagree with that assertion and believe that providing this disclosure in Form N-MFP would perpetuate this misconception and would be misleading. For example, a “retail” MMF populated primarily with a few intermediary omnibus accounts (for retail cash sweep) may very likely have fewer, larger accounts than an institutional MMF comprised of a number of corporate accounts acquired through portal investment platforms. In this example, on the Form N-MFP the “retail sweep” fund would show higher investment concentrations. As framed by the Commission, investors should believe that the retail sweep fund is subject to higher run risk. However, effective execution of a MMF sponsor’s KYC obligation might very well tell it that the assets invested in the institutional fund comprised mainly of “portal” accounts, even though more diversified than the retail sweep fund, poses the higher run risk based on the sponsor’s knowledge of those clients. But, the Form N-MFP would suggest that the institutional fund is lower risk because it is not as heavily concentrated. As this illustration suggests, the information has the easy potential to mislead because it is presented without any context for interpretation.⁵⁹ Accordingly, we request that the Commission not move forward with this information requirement.

C. Stress Testing.

In principle, we do not object to establishing stress testing requirements that would test for price stability and for liquidity maintenance, as these are traditionally the dual objectives of CNAV MMFs. Dreyfus already performs numerous stress tests for each of these results, alone and in combination with other hypothetical events.

In general, we believe stress tests are of more value to the fund manager than to the fund’s board of directors. As a result, it would seem logical that not every stress test that might be of use to a

⁵⁹ We also think that disclosing such information will raise questions that fund service providers cannot answer because of the confidential nature of the information (i.e., the fund’s “shareholder list”).

manager is appropriate for board review. Accordingly, we do not agree that the existence of some level of divergence in stress testing programs across MMF sponsors is a negative that requires a regulatory response that standardizes and increases, in the aggregate, the number of stress tests to be submitted for board review.

We appreciate the value of stress testing when market conditions turn, or are perceived as likely to turn near-term, or when shadow NAVs become temporarily or permanently impaired. However, despite the many technical requirements of Rule 2a-7, MMFs can be run very differently and it is logical that flexibility in stress testing be afforded for matching portfolio construction against various scenarios. Thus, we believe there is value in board's establishing fund stress testing parameters and we believe that the flexibility afforded under the Rule currently for that purpose is desirable.

Based on the foregoing, we believe the type and number of stress tests proposed for board review are onerous and excessive. In a normal market environment, and when the shadow NAV for a CNAV MMF closely approximates \$1.00, MMFs can withstand substantial interest rate increases and net redemptions (separately and in combination) without impairing price stability. We also know that a single default of a 1% position (typically, the minimum holding size) in a MMF can break the buck. So, because in normal market environments MMFs with strong shadow NAVs consistently will demonstrate high resiliency to market stresses (separately and in combination), there does not appear to be a compelling case for the significant increase in the number of mandatory stress testing reports to be presented for board approval that all will yield substantially similar results.

Our main objection is that many of the proposed stress tests are vague and qualitative in nature and that the mathematics to establish such tests is not readily intuitive. In general, the more factors incorporated in stress tests, the less interpretable and ultimately the less valuable the stress test becomes. Looking at the Proposals in this regard, for example, raises several concerns, such as:

- i. How can a fund manager draw meaningful conclusions about the impact of a default or downgrade on other portfolio securities? *(Does the manager assume an idiosyncratic event or market illiquidity? Or does the manager have to test for both circumstances? What assumptions does the manager use to value (or "devalue") portfolio holdings? Does the manager assume these are all 1-day events (and is that reasonable))?*
- ii. How does the manager test for *"an increase in net redemptions, together with an assessment of how the fund would meet the redemptions, taking into consideration assumptions regarding the relative liquidity of the fund's portfolio securities, the prices for which portfolio securities could be sold, the fund's historical experience meeting redemption requests, and any other relevant factors."*

We also are concerned that the Commission has proposed to establish a type of Section 15(c) obligation ("*...such information as may reasonably be necessary for the board to evaluate.....*") on the adviser's part in connection with the board's review of the stress testing results. We do not believe that reporting on this exercise, which often already is stale when presented at a board meeting, merits this standard of disclosure. For example, the proposal to have to deliver shareholder concentration and historical redemption activity in connection with 15% liquidity testing for every MMF in a large MMF family, on a quarterly basis, is extremely burdensome.

We also refer the Commission to the portion of the comment letter submitted by the Investment Company Institute (“ICI”) related to these stress testing proposals. We think the ICI’s comments are comprehensive and thorough on this topic and highlight the many salient concerns commenters share. We ask that the Commission also consider ICI’s comments on this issue in its deliberations.

XI. Diversification Requirements.

A. Aggregation of Affiliate Positions (into 5% Positions).

We currently aggregate exposures for Dreyfus MMFs in the same way as proposed and so we have no objection to this proposed diversification requirement.

B. The 25% Basket (Applicable to Guarantors and Providers of Demand Features).

We do not support the Commission’s proposal to tighten the diversification requirements applicable to guarantors and providers of demand features by eliminating the “25% basket” under Rule 2a-7 (under which holdings of a Demand Feature or a Guarantee provider may exceed the 10% limit otherwise required by the Rule). We are not convinced that eliminating this bucket meaningfully reduces systemic risk to the extent that it outweighs the lost flexibility for state-specific funds. This “basket” gives needed flexibility to the state-specific MMFs during times when supply is limited. The variability and unpredictability of supply/demand conditions makes this problematic, particularly for state-specific funds. The Commission’s conclusion that the basket may have “limited use” could be grounded in the fact that state-specific funds, unlike Dreyfus’, sometimes purchase out-of-state paper in their state-specific portfolios.

Also, net outflows could increase the basket to over 25%, but this is not currently a violation of Rule 2a-7. We propose framing this amendment as a kind of “safe harbor” contemplating either (i) an “at the time of purchase” standard or (ii) that no violation has occurred if the percentage exceeds 25% but each holding has a demand feature.

XII. The Commission should resolve its Dodd-Frank mandate to eliminate references to credit ratings in Rule 2a-7 (and Rule 5b-3) before adopting any Proposals.

Dreyfus believes that portfolio construction is the key to further enhancing the resiliency of MMFs to external factors so that MMF redemption activity itself does not intensify crisis conditions. The minimal credit risk determination is at the core of MMF portfolio construction and so we also think the framework for making the minimal credit risk determination also should be a critical part of the Commission’s analysis. Further, we believe our view underlies why, in 2011, many commenters forecast a decrease in the quality of the minimal credit risk determination in comments to the Commission on its proposal to remove references to credit ratings from Rule 2a-7.⁶⁰ So, while we certainly can appreciate why the Commission’s requested comment on the Proposals at this time, we think the Commission should consider addressing references to credit rating agencies in Rule 2a-7 (and Rule 5b-3) before

⁶⁰ File No. S7-07-11; Release No. IC29592, dated April 25, 2011. Dreyfus’ comment letter to the Commission on these proposals, dated April 25, 2011, is on file with the Commission. Among the various views we expressed in that letter, we wrote that (a) the proposals would provide a framework for higher credit risk in MMFs as well as less transparency and increased client servicing obligations.

moving any of these Proposals to final vote and should weigh how that resolution may impact the Commission's decisions on these Proposals.

XIII. The Commission should recognize the massive systems and operations impact that these Proposals will have on a collective basis and should consider tailoring compliance time frames accordingly.

A. Any VNAV Alternative Should Have a 3-year Implementation Period.

Delay in compliance date for 2 years will not prevent the systemic impact of a transition to a VNAV and the Commission may be mistaken if it believes that one of the "costs" of the VNAV proposal – that being a disruptive transition to a VNAV from a CNAV structure – can be alleviated with a lengthy compliance period. While the lengthy compliance period is advisable, we anticipate that competitive concerns among fund sponsors, intermediaries, institutional investors, and service providers alike will cause most MMFs required to transition to a VNAV to do so later rather than sooner, likely resulting in a concentrated outflow of assets within a short time frame, regardless of how far out in the future that may be.

Moreover, we ask that the Commission consider that multiple programming requirements will dominate the time and expenditures of fund companies, transfer agents, fund accountants, cash managers, institutions, and intermediaries to implement the wide array of obligations posed by these Proposals. Prioritization will be critical and budgets will have to be managed in order to accommodate the excessive amount of work required to operate in this framework. Because of the costs and number of tasks involved, we think 3 years, rather than 2 years, is reasonable to implement a VNAV structure.

B. Fees and Gating as a Stand-Alone Option Should Have a 2-Year Implementation Period.

Intermediaries may require more than 12 months. Eighteen months was provided for Rule 2a-7's transaction processing requirement and given other reform initiatives that must to be implemented concurrently, a similar approach might be prudent. The multiple programming requirements and high costs involved suggest that 2 years is a reasonable implementation time to implement Fees and Gates.

To the extent the Commission agrees with us and favors a "choice in implementation approach, we think this still requires a 3-year time horizon to build out a VNAV framework.

C. We Recommend a 12-18 Month Implementation Period for All Other Proposed Regulatory Changes Described in this Letter.

We believe this time frame is reasonable for these requirements, including for Daily Transparency, as our experience tells us systems can be enhanced within this time frame to increase the frequency of holdings disclosure.

We greatly appreciate the Commission's intent to take a moderate approach with these Proposals and we thank the Commission for the opportunity to present our views on the issues raised by them, particularly those that, in our view, risk diminishing the utility of MMFs to a much greater extent than the Commission may estimate. We welcome the chance to speak further if you have questions or would like to open an active dialogue. You can reach me directly at (212) 922-6680 or John B. Hammalian, Senior Managing Counsel, in my absence, at (212) 922-6794.

Very truly yours,

J. Charles Cardona

J. Charles Cardona
President

With copies to:

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
Norman B. Champ, III, Director, Division of Investment Management