

September 17, 2013

*VIA ELECTRONIC SUBMISSION*

Ms. Elizabeth M. Murphy  
Secretary  
United States Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

**Re: Money Market Fund Reform; Amendments to Form PF, File No. S7-03-13**

Dear Ms. Murphy:

State Street Global Advisors (“SSgA”)<sup>1</sup> supports the efforts of the Securities and Exchange Commission (“SEC” or “Commission”) to strengthen the resiliency and transparency of the money market fund industry. Money market funds are essential participants in the capital markets, providing retail investors and institutions with a flexible cash investment vehicle with a higher yield than many other cash investment alternatives. In addition, money market funds play an important role in providing both capital and liquidity to large and small businesses as well as state and local governments. From a regulatory standpoint, money market funds have proven to be remarkably successful in preserving a stable net asset value (“NAV”) for investors while providing liquidity and reasonable investment returns.

SSgA welcomes the opportunity to provide comments regarding the Commission’s proposals to amend Rule 2a-7 and other rules that regulate money market funds under the Investment Company Act of 1940, as amended (the “1940 Act”).<sup>2</sup> SSgA makes the following observations and recommendations, which are discussed in more detail below:

- SSgA believes that the SEC is the appropriate regulatory body to regulate money market funds.
- SSgA has been, and continues to be, opposed to the adoption of a floating net asset value for any money market fund.<sup>3</sup>

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<sup>1</sup> SSgA Funds Management, Inc. (“SSgA FM”), a U.S. registered investment adviser, and other affiliates of State Street Corporation make up State Street Global Advisors (“SSgA”), the investment management arm of State Street Corporation. SSgA FM serves as investment adviser to registered money market funds with over \$100 billion in assets. In addition, other investment advisory affiliates within SSgA manage over \$96 billion in unregistered funds that generally comply with the investment management restrictions of Rule 2a-7 under the Investment Company Act of 1940, as amended (“Rule 2a-7”).

<sup>2</sup> *Money Market Fund Reform; Amendments to Form PF*, 78 Fed. Reg. 36834 (June 19, 2013).

<sup>3</sup> See Comment Letter on Money Market Fund Reform, File Number 87-11-09 from Phillip S. Gillespie, Executive Vice President and General Counsel, State Street Global Advisors, of September 8, 2009, available at <http://www.sec.gov/comments/s7-11-09/s71109-108.pdf> (“2009 SSgA Comment Letter”).



- SSgA opposes the adoption of liquidity restrictions on its clients. However, SSgA concedes that a fees and gates approach is more likely than other proposals to halt a “run” on a money market fund.
- SSgA strongly opposes any proposal that would combine a floating NAV with a fees and gates approach.
- SSgA supports the efforts of the SEC to increase transparency and strengthen the resiliency of the money market fund industry, but urges the SEC to consider the substantial administrative, operational and expense burdens of its proposed amendments.

SSgA encourages the Commission to strictly limit any potential reforms to those which directly address the issues which the Commission is attempting to solve. We further believe that the Commission must evaluate any potential reforms and their purported benefits in light of all of the costs associated with the implementation of such reforms. In addition to the monetary expenses, we believe that the Commission should also carefully consider the administrative and operational burdens, unintended consequences, negative externalities, and even the potential degradation of the attractiveness of the product, as part of its cost-benefit analysis.

## **I. Regulatory Jurisdiction**

SSgA supports the efforts of the Commission to retain its regulatory authority over money market funds. SSgA believes that, as registered investment companies, money market funds are appropriately regulated by the SEC. With over forty years of overwhelmingly successful regulation of money market funds, we believe that no other regulatory body has the institutional knowledge and experience necessary to maintain regulatory jurisdiction over this unique investment option.

## **II. Floating NAV**

SSgA has been, and continues to be, opposed to the adoption of a floating net asset value for any money market fund. We have previously set forth our views on the importance of the stable NAV to money market funds, and our opposition to a floating NAV for money market funds, in our 2009 SSgA Comment Letter. We will incorporate by reference those portions of that letter herein, rather than repeat them here, and simply note our continued opposition to the adoption of a mandatory floating net asset value for money market funds.

We will, however, reiterate our view that we do not believe that a floating NAV for money market funds will effectively solve for the issues that the Commission is attempting to address. We believe that any regulatory action that the Commission would seek to implement should be narrowly tailored to accomplish a specific objective. If the Commission is seeking to mitigate runs on money market funds, SSgA does not believe that the adoption of a floating NAV would be an effective tool in preventing a run on a money market fund in times of financial stress. Recent history indicates that a floating net asset value was not enough to halt significant runs on European money market funds.<sup>4</sup>

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<sup>4</sup> See, e.g., Investment Company Institute, Report of the Money Market Working Group (March 17, 2009), available at [http://www.ici.org/pdf/ppr\\_09\\_mmwg.pdf](http://www.ici.org/pdf/ppr_09_mmwg.pdf) (noting that, “[t]he experience in Europe of certain money and bond funds likewise demonstrates that floating NAV funds can also face strong investor outflows during periods of market turmoil”).



Even setting aside our philosophical opposition to a floating NAV, there still remain significant practical impediments to the adoption of a floating NAV for money market funds. Substantial and very real tax, accounting and operational issues would arise, and to date have yet to be adequately addressed. While the Commission has indicated that its staff has had discussions with the staff of the Internal Revenue Service and Treasury Department with respect to certain of the tax complications which could result from a floating NAV, there did not appear to be any finality or certainty to those discussions. We believe that absent formal declarations from the tax authorities permitting accommodations relating to the tax complications, a floating NAV for money market funds is not a viable option. We echo this view as it relates to the accounting implications of a floating NAV. An indication that the Commission believes that a floating NAV money market fund would meet the definition of “cash equivalent,” while useful, is not likely to be persuasive.

While we continue to oppose the adoption of a floating NAV for any money market funds, should the SEC ultimately elect to adopt such reforms, SSgA has a number of observations and recommendations:

- SSgA agrees that the scope of a floating NAV reform should be strictly limited to prime money market funds. We strongly support the continuance of the stable NAV paradigm for all non-prime money market funds, including tax-exempt institutional money market funds. We believe that there is little value, from a market stability perspective, derived from expanding the scope of floating NAV reform beyond prime money market funds.
- We agree that the scope should be limited to those holders of prime money market funds who are expected to transact at significantly high asset amounts. However, we believe that the current proposal of \$1 million in a single business day as a threshold is not appropriate. In our view, it is doubtful that fund withdrawals at the \$1 million level across even multiple investor accounts would be sufficient to result in instability in the money markets given the daily transaction volume in money market instruments. We recommend that the Commission consider a substantially higher threshold for daily transactions to delineate between a floating net asset value money market fund and a stable net asset value money market fund. We believe that \$5 million is a more appropriate threshold.
- We recommend that the Commission consider a longer implementation period for the adoption of a floating NAV for prime money market funds. We believe that properly effecting the changes necessary to address the scope and scale of the proposed changes would require more than two years. We recommend that the Commission allow for at least two years following the implementation of final tax and accounting resolutions relating to the treatment of floating NAV money market funds to research, develop, adopt, test and implement the myriad changes which would be required.
- We urge the Commission to consider whether, following any such adoption, the portfolio restrictions adopted in 2010 are still necessary, and query whether money market funds subject to a floating NAV would be permitted to revert to the pre-2010 Rule 2a-7 parameters. After all, since Rule 2a-7 “facilitates money market funds’ ability to maintain a stable net asset value,”<sup>5</sup> should not there be a concession to money market

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<sup>5</sup> *Money Market Fund Reform*, 75 Fed. Reg. 10060 (March 4, 2010) (Final Rule) (the “**2010 Amendments**”).



funds which are not able to rely on the rule to maintain such a stable net asset value? If prime money market funds were forced to adopt a floating NAV standard, the Commission should consider whether such funds should remain subjected to the risk-tightening provisions set forth in the 2010 Amendments.

Notwithstanding the above recommendations, SSgA remains firm in its opposition to the adoption of a floating NAV requirement for money market funds.

### **III. Liquidity Fees and Temporary Gates**

SSgA opposes the adoption of liquidity restrictions on its clients. SSgA believes that such withdrawal restrictions would render money market funds a substantially less attractive investment option for our clients, and thereby meaningfully detract from the size and quality of the universe of investors in money market funds. SSgA believes that the 2010 Amendments significantly reduced the risks associated with money market funds, and as such, believes that liquidity fees and temporary gates are generally not necessary. However, we would concede that the liquidity fees and temporary gates proposal (“**Fees and Gates**”) is more likely than other proposals to halt a run on a money market fund. We are not aware of any way that would more effectively or definitively halt redemptions from a money market fund than a redemption gate. Clearly, suspending the ability of shareholders to redeem will squelch outflows from a fund. Should the Commission determine that some reform continues to be necessary, SSgA would be more supportive of the Fees and Gates approach than other proposed alternatives.

SSgA supports the idea that any Fees and Gates would result only from extreme circumstances. SSgA believes that the involvement of the money market fund’s Board of Trustees in making the determination as to whether to implement the Fees and Gates approach provides a good “reality check” threshold, rather than an automatically triggered, irreversible, result.

SSgA has significant reservations about certain elements of the Fees and Gates proposal. We are concerned about the attractiveness in the marketplace of a liquidity vehicle for which the fundamental element, liquidity, can be severely compromised with little notice. More specifically, many users of money market funds depend on the ability to redeem out of such funds with regularity to meet various financing needs. Should money market funds be subject, at any given time, to a lock-up of up to 30 days, that critical feature would disappear, thus significantly eroding the appeal of money market funds to their users.

SSgA is further concerned that this proposal could render those money market funds which are even potentially subject to a gate as “illiquid,” with negative downstream impacts not only for money market funds but for other investment companies which are subject to a limitation on their ability to hold illiquid investments. Where an illiquid asset is one which cannot be sold or disposed of in the ordinary course of business within seven days at approximately the value at which the mutual fund has valued the investment on its books, we are concerned that a money market fund which might, at any time, be subject to a gate of up to 30 days, could be considered illiquid. Mutual funds invest in money market funds for a variety of reasons, including “sweeping” cash positions and holding money market funds as cash positions in anticipation of redemptions. Should a money market fund be considered illiquid, the former positions held as cash equivalents would almost certainly be invested in higher-risk investment vehicles, thus potentially altering the risk profile of the investing fund. A proclamation that money market funds potentially subject to a gate (exclusive of money market funds actually subject to a gate)



would still be considered liquid for purposes of the federal securities laws would be useful. We believe that there are far-flung potential implications on this point, and urge the Commission to consider them carefully.

Should the SEC ultimately elect to adopt the Fees and Gates reforms, we recommend that it consider a longer implementation period (*e.g.*, 2 years). We believe that effecting changes necessary to address the scope and scale of the proposed changes would require more than one year.

#### **IV. Combination of Floating NAV and Fees and Gates**

SSgA strongly opposes any proposal that would combine a floating NAV with the Fees and Gates proposal. Just as we are opposed to the adoption of the reforms as separately proposed, we are opposed to the adoption of the proposed reforms in conjunction with one another.

#### **V. Additional Amendments**

SSgA supports the efforts of the SEC to increase transparency and strengthen the resiliency of the money market fund industry. However, we urge the SEC to consider the substantial administrative, operational and expense burdens of proposed amendments. We further believe that the additional disclosure and reporting requirements should be predicated on the maintenance of a stable NAV. We address certain of the proposals below:

- *Website Disclosure* – SSgA supports increased transparency of money market fund portfolio holdings.
- *New Material Event Disclosure* – SSgA recommends that the required time frame for disclosure of material events be extended to allow for all relevant parties to contribute to and review for accuracy, the information to be reported on a newly required SEC form.
- *Disclosure of Sponsor Support* – SSgA supports this requirement.
- *Form N-MFP* – While SSgA supports increased disclosure, it urges the Commission to consider the substantial increase in costs associated with quadrupling the required filings, and questions what the benefits would be to such increased frequency.
- *Amendments to Form PF* – SSgA opposes the requirement that private liquidity fund advisers file information on Form PF. SSgA urges the Commission to consider the significant costs associated with such filings, and questions the potential benefits.
- *Diversification:*
  - *Aggregation of Affiliates* – SSgA supports this proposal.
  - *Asset-Backed Securities (“ABSs”)* – While SSgA believes that the proposed 10% rule is appropriate from a diversification perspective, we are not broadly supportive of the proposal as it would require funds to assume sponsor support of ABSs. SSgA believes that credit analysis with regard to ABSs should not solely rely upon sponsor support, and thus does not support aggregation for purposes of the 10% limit.

- *Removal of 25 percent basket* – As other provisions of the proposed reform seek to offer significant protections for investors, we are not supportive of this restriction as it could limit a fund’s ability to access credit-appropriate liquidity in both normal and stressed market environments.
- *Additional Alternatives* – We are not supportive of the additional alternatives as we believe that the existing diversification limits are challenging, since they conflict with the short-term market’s current supply structure.
- *Issuer Transparency* – While we are generally supportive of full financial disclosure for all holdings, guarantees can be used to remediate for reporting deficiencies of issuers (specifically in the municipal sectors) while continuing to provide alternative sources of diversification. As a result, we are not supportive of this proposal.
- *Enhanced Stress Testing* – While SSgA supports stress testing of money market funds in general, we ask the Commission to consider the substantial increase in costs associated with instituting the proposed changes, which are substantially more complex and data-driven than the current requirements. Implementing a robust and supportable process would take a significant amount of time and infrastructure to complete, and we urge the Commission to consider the benefits of this enhanced requirement to investors against the expense.

## **VI. Conclusion**

SSgA appreciates the opportunity to comment on the proposed reforms and commends the Commission and its staff for their efforts in reviewing the regulation of money market funds. Should you have any questions about our comments, please do not hesitate to contact me at 617.664.4050.

Sincerely Yours,

A handwritten signature in blue ink, appearing to read "Phillip S. Gillespie".

Phillip S. Gillespie  
Executive Vice President and  
General Counsel  
State Street Global Advisors