Defined Contribution
Institutional Investment
Association

September 17, 2013

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

Re: Proposed Rule on Money Market Fund Reform; Amendments to Form PF (File No. Number S7–03–13)

Dear Ms. Murphy:

The Defined Contribution Institutional Investment Association ("DCIIA") appreciates the opportunity to comment on the proposal (the "Proposal") by the Securities and Exchange Commission (the "Commission") to amend rules that govern money market mutual funds ("money market funds") under the Investment Company Act of 1940.[1] DCIIA recognizes that money market funds play an important role in our economy and commends the Commission for its efforts to navigate this difficult topic.

By way of background, DCIIA is a non-profit association dedicated to enhancing the retirement security of American workers by promoting better defined contribution plan design and institutional investment management approaches. DCIIA is an industry association representing a wide array of service providers to the defined contribution system including investment managers, consultants, recordkeepers, trustees, and law firms. DCIIA is also guided by a plan sponsor advisory committee, which is made up of more than 30 senior thought leaders from the plan sponsor community.

DCIIA believes that money market funds play an important role in defined contribution plans, and that in implementing any aspect of the Proposal, the Commission should seek to minimize the negative consequences to participants in qualified participant directed retirement plans. DCIIA's members have expressed collective concern regarding the Proposal and, in particular, the potential risks and burden the Proposal poses to defined contribution plans and their participants. For the reasons set forth below, DCIIA believes that the Proposal would render prime money market funds far less desirable for defined contribution plans, thus limiting their role as a capital preservation/liquidity option available to plan participants.

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[1] Money Market Fund Reform; Amendments to Form PF; Proposed Rule, 78 Fed. Reg. 36834 (June 19, 2013)(the "Proposing Release").

DCIIA supports the SEC's effort to limit unintended consequences from the Proposal by targeting it application through the establishment of a "retail" exemption. However, we respectfully suggest that the exemption be expanded to cover defined contribution plan participants in order to achieve this goal. DCIIA believes that defined contribution plan participants, like retail investors, are much less likely to redeem their shares in response to market stresses. In fact, defined contribution plan participants generally pose a lesser risk of redemption than retail investors because a participants' ability to reallocate their investments within the plan are often limited to a specific menu of investment options, and they are subject to significant penalties for withdrawing funds from their account. As a result, investors in defined contribution plans do not present a risk of mass redemption that may arise with institutional investors. DCIIA therefore respectfully requests that the Commission consider expanding the proposed retail exemption to permit redemptions, without limitation and without the imposition of fees and gates, by investors through a participant-directed defined contribution plan. DCIIA believes that this would eliminate the communication and operational challenges faced by sponsors of defined contribution plans resulting from the Proposal and allow the continued inclusion of prime money market funds as an investment option for defined contribution plans.

Use of Money Market Funds by Defined Contribution Plans

A defined contribution plan is a retirement plan in which the employee or the employer (or both) contributes to the employee's individual account under the plan. Defined contribution plans, such as employer-sponsored 401(k), 403(b), and 457 plans, are the backbone of the U.S. retirement system, and the number of employees covered by these plans continues to increase. According to data from the Employee Benefits Security Administration (EBSA), the number of active participants in defined contribution plans was 73.7 million in 2011, with aggregate defined contribution plan assets of $3.83 trillion.[2] A participant in a defined contribution plan is able to choose from a specific menu of investment options selected by the employer in its capacity as plan sponsor. The value of the employee's account will fluctuate due to the changes in the value of the investments. Upon reaching age 59½, the employee ultimately will have access to the accumulated balance in the account, which is based on contributions plus or minus investment gains or losses. For plan participants younger than age 59½ however, defined contribution plans generally have limitations on trading activity and prescriptive requirements on the ability of an employee to withdraw funds from the plan. This includes, for example, a 10% federal tax penalty for a withdrawal by a participant prior to age 59½ (except in limited circumstances).

Sponsors of participant directed defined contribution plans are generally required to offer investment options with a range of risk profiles, and often provide participants with a money market fund investment option designed for capital preservation and/or liquidity.[3] Capital preservation and liquidity are particularly important for plan participants to support their income needs in retirement. Money market funds are included as an investment option in approximately

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[2] *See* Private Pension Plan Bulletin, Abstract of 2011 Form 5500 Annual Reports, Department of Labor (June 2013), available at: http://www.dol.gov/ebsa/pdf/2011pensionplanbulletin.pdf.
[3] *See* Section 404(c) of the Employee Retirement Income Security Act of 1974.

half of all defined contribution plans offered in the US, and utilization of these funds by DC participants is widespread.[4] According to a 2013 report produced by AonHewitt, within plans that offer money market funds as an investment option, 7% of assets are allocated to money market funds.[5]

In addition to serving as a direct investment option, money market funds are often used as an underlying component of a target date, target risk or other multi-strategy fund, to help manage cash flows and for liquidity needs. They are also used as a mechanism for supporting plan activity, such as distributions to participants, which is greatly simplified by the reliance on a constant $1.00 per unit value. The simplicity of being able to make purchases and redemptions from money market funds at a constant $1.00 per unit is a valuable feature for retirement plan sponsors and participants. Implementing either a floating NAV and/or the addition of gates and redemption fees would significantly increase the complexity of such offerings.

As noted above, unlike institutional investors, defined contribution plan participants are much less likely to redeem or reallocate their shares in response to a market event. For example, research by Vanguard found that the during the worst months of the most recent financial crisis, the percentage of participants of defined contribution plans trading rose only slightly from 14% of participants in 2006 to 16% of participants in 2008, and that over the 2007-2010 period, only 3% of participants may have executed "panicked" trades (i.e., selling out of equities entirely).[6] Additionally, although investors in defined contribution plans generally are able to reallocate their investments within the plan, they are often limited in their ability to withdraw funds from their account and may be subject to certain penalties.

Expanded Exemption to Permit Unlimited Redemptions for Investors in Tax-Exempt Employer Sponsored Plans.

The Commission's first alternative in the Proposal generally would require money market funds to float their net asset value ("NAV"). Non-government institutional money market funds would be required to round their NAV to the nearest 1/100th of a penny, but "government" and "retail" money market funds could continue to round to the nearest penny. As a result, the market based NAV of government and retail money market funds could drop by up to one-half of one penny (50 basis points) and still round to an NAV of $1.00. This would allow shareholders of government and retail money market funds to continue to make purchases and redemptions at a constant $1.00 under normal market conditions. Under the Proposal, a "retail" money market fund would be one that limits direct or indirect redemptions by any shareholder to no more than $1 million per business day. If a shareholder invests through an intermediary, such as a defined contribution plan, the intermediary must establish policies and procedures to prevent any participant from redeeming more than $1 million in a single day.

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[4] Source: Callan Associates Inc.

[5] Source: AonHewitt, 2013 Trends and Experience in Defined Contribution Plans (preliminary).

[6] *See* Stephen P. Utkus & Jean A. Young, The great recession and 401(k) plan participant behavior, Vanguard research (March 2011), available at: https://institutional.vanguard.com/iam/pdf/CRRGR.pdf.

The Commission's second alternative in the Proposal would permit all money market funds to maintain a constant NAV of $1.00, but funds (other than a Government Fund) would be required to impose a "liquidity fee" on redeeming shareholders in certain circumstances and would be required to impose a "gate" (*i.e.*, temporarily suspend or limit redemptions) in similar circumstances.

In its request for comment, the Commission asked: "Should we treat certain intermediaries differently than others, perhaps allowing higher or unlimited redemptions for investors who invest through certain types of intermediaries such as retirement plans? What operational difficulties would arise if we were to provide for such differential treatment of intermediaries?"[7]

DCIIA respectfully suggests that the Commission expand the proposed retail exemption to permit a money market fund to maintain a constant NAV of $1.00 without limiting the participant-directed redemptions or reallocations by individual investors through a defined contribution plan and without the imposition of fees and gates.

While the vast majority of participants in tax-exempt employer sponsored plans would hold less than $1 million in a particular money market fund, and therefore not be impacted by a $1 million limitation on redemptions from a "retail" money market fund, there is a possibility that a particular participant would not qualify. Costly tracking systems would need to be built that could monitor all money market fund redemptions in all accounts in order to ensure compliance with the limit, even though there would be only rare instances when an individual plan participant would redeem over $1 million. Even in cases where an individual investor holds $1 million or more in a defined contribution plan, that investor is still an individual acting for his or her own account, not as an institutional investor.

DCIIA is concerned that the Commission's proposed money market reforms would negatively impact the stability of investments in defined contribution plans. More specifically, DCIIA believes that defined contribution plan sponsors seeking to provide an investment option designed for capital preservation or liquidity may deem it necessary to move away from offering prime money market funds by eliminating them altogether, turning towards government funds or stable value funds to provide the consistent investment, or turning towards higher yielding short term non-money market funds that may have a higher risk profile.

Additionally, DCIIA believes that the Proposal creates significant and costly operational and communication complexities for both money market funds and defined contribution plans. For example, a significant investment would need to be made to modify administrative and accounting systems to reflect floating NAVs to the fourth decimal place. The industry also would need to develop a robust system of policies and procedures to limit redemptions to $1 million. Similarly significant investment would need to be made to modify administrative and accounting systems to build capability to immediately turn "on" and "off" redemption fees and

[7] Proposing Release at 36862.

gates. These concepts are not easily communicated to plan participants and would be disruptive to plan operations. DCIIA is concerned that the ultimate cost of addressing these challenges would be borne by plan sponsors, and likely passed on to defined contribution plan participants in the form of increased fees.

DCIIA believes that its proposal – to permit redemptions without limit or the imposition of fees and gates for investors who invest in a money market fund through a defined contribution plan – provides the appropriate safe guards and would permit the investors to continue to invest in prime money market funds that have a constant $1.00 NAV under normal market conditions.

DCIIA welcomes the opportunity to discuss our comments further. Should you have any questions, please do not hesitate to contact me.

Sincerely,

Lew Minsky

Executive Director, DCIIA