STRADLEY RONON
ATTORNEYS AT LAW

Stradley Ronon Stevens & Young, LLP
Suite 2600
2005 Market Street
Philadelphia, PA 19103-7018
Telephone 215.564.8000
Fax 215.564.8120
www.stradley.com

September 17, 2013

VIA E-MAIL RULE-COMMENTS@SEC.GOV

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

RE: Stradley Ronon Stevens & Young LLP ("Stradley Ronon") comments on Securities and Exchange Commission File Number S7-03-13, Release No. IC-30551, *Money Market Fund Reform; Amendments to Form PF* (the "Release")

Dear Ms. Murphy:

Stradley Ronon submits this letter in response to the Securities and Exchange Commission's (the "Commission" or "SEC") request for comments made in the Release. Stradley Ronon maintains one of the premier investment management practices in the United States, representing investment company clients with more than 700 separate funds and assets under management exceeding $1 trillion. This letter expresses the views of Stradley Ronon and not necessarily those of any client.

INTRODUCTION

In the Release, the Commission proposes two alternative fundamental reforms of money market funds, along with other less fundamental, but consequential, reforms. The fundamental reforms would, in summary:

- Require a floating net asset value ("NAV") for money market funds other than U.S. Government money market funds[1] and retail money market funds (as described in the proposals). The requirement would apply to prime money market funds[2] and tax-exempt

[1] Government money market funds principally hold obligations of the U.S. government, including obligations of the U.S. Treasury and federal agencies and instrumentalities, as well as repurchase agreements collateralized by government securities.

[2] Prime money market funds hold a variety of taxable short-term obligations issued by corporations and banks, as well as repurchase agreements and asset-backed commercial paper.

money market funds,[3] unless the funds fit within a proposed "exemption for retail money market funds." Specifically, a retail money market fund is one that "does not permit any shareholder of record to redeem more than $1,000,000 of redeemable securities on any one business day" (the "redemption limit"). We refer to this reform as the "FNAV proposal."

- Establish two provisions that operate when the weekly liquid assets[4] of a money market fund, other than a U.S. Government money market fund, fall below fifteen percent of total assets. The fund would be required to impose a liquidity fee of two percent of each redemption (the "liquidity fee"), unless the board finds that the fee is not in the best interest of the fund or that a lesser fee is in the best interest of the fund. The board would also have authority to temporarily suspend redemptions if the board finds the suspension is in the fund's best interest. U.S. Government money market funds could voluntarily operate under these requirements. We refer to this reform as the "fee/gate proposal."

The Commission may adopt either one or both of the reforms.[5] In addition, the Release proposes reforms for money market funds relating to, among other things, disclosure to the public and to the Commission, portfolio diversification and stress testing.

EXECUTIVE SUMMARY OF STRADLEY RONON COMMENTS

1. **FNAV proposal - application of the retail fund exemption from the floating NAV to feeder funds.** If the Commission adopts the redemption limit to define retail money market funds that are exempt from the floating NAV, the Commission should adopt an exception from the redemption limit for feeder funds when redeeming from their underlying master fund.

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[3] Tax-exempt money market funds primarily hold obligations of state and local governments and their instrumentalities, and hold themselves out as distributing income that is generally exempt from regular federal income tax.

[4] Weekly liquid assets are proposed to be defined as:
(i) Cash;
(ii) Direct obligations of the U.S. Government;
(iii) Government securities that are issued by a person controlled or supervised by and acting as an instrumentality of the government of the United States pursuant to authority granted by the Congress of the United States that:
(A) Are issued at a discount to the principal amount to be repaid at maturity without provision for the payment of interest; and
(B) Have a remaining maturity date of 60 days or less;
(iv) Securities that will mature, as determined without reference to the exceptions in paragraph (i) of this section regarding interest rate readjustments, or are subject to a demand feature that is exercisable and payable, within five business days; or
(v) Amounts receivable and due unconditionally within five business days on pending sales of portfolio securities.

[5] Our clients hold a variety of views on money market fund reform. Rather than advocating for or against either reform, we suggest certain modifications to the reforms, in the event either is adopted.

2. **Liquidity fee – application of the liquidity fee to master feeder arrangements.** The Commission should permit a master fund and its board, but not a feeder fund and its board, to impose and set the terms of the liquidity fee. The feeder fund must implement the liquidity fee as and when imposed by the master fund.

3. **Redemption gate – application of the redemption gate to master feeder arrangements.** The Commission should permit a master fund board, but not a feeder fund board, to determine to impose and lift the redemption gate. The feeder fund must implement the redemption gate as imposed by the master fund.

4. **FNAV Proposal – Internal Revenue Service Revenue Procedure.** The Commission should be aware that the Internal Revenue Service's recent proposed Revenue Procedure regarding the application of the "wash sale" tax rule to floating NAV money market fund shares does not eliminate the operational challenges of compliance with the wash sale rule.

5. **FNAV Proposal - Transition to the floating NAV.** The transition to the floating NAV raises challenges that are not addressed by the length of the transition period.

6. **Statement of Additional Information and Form N-CR - Filing of description of the facts and circumstances leading to the decline in weekly liquid assets and the board's analysis regarding fees and gates.** The Commission should allow additional time for filing of the description of the facts and circumstances leading to the decline in weekly liquid assets and should not require filing of the board's analysis regarding a decision to impose (or not to impose) the fee or a decision to suspend redemptions.

7. **Basis point rounding of share price.** The Commission should not require basis point rounding.

8. **Elimination of amortized cost valuation for securities that mature in more than 60 days.** The Commission should consider the possible negative effects on issuers of money market instruments of eliminating amortized cost valuation for securities that mature in more than 60 days.

9. **Redemption gate.** The Commission should clarify whether the redemption gate may be imposed on multiple occasions within a 90 day period.

COMMENTS

1. **FNAV proposal - application of the retail fund exemption from the floating NAV to feeder funds**

Comment: If the Commission adopts the redemption limit to define retail funds which are exempt from the floating NAV, the Commission should adopt an exception from the redemption limit for feeder funds.

A "master feeder arrangement" is an arrangement in which one or more funds with identical investment objectives ("feeder funds") invest all their assets in a single fund ("master fund") with the same investment objective. Investors purchase securities in the feeder fund, which is an open-end fund and a conduit to the master fund.[6] For purposes of our comments, we define a feeder fund as a registered investment company, or series thereof, that invests, pursuant to section 12(d)(1)(E) of the Investment Company Act, in shares of a money market fund.

The Commission has proposed the redemption limit to describe retail money market funds that are exempt from the FNAV proposal. If the Commission adopts the redemption limit, in order to permit master feeder arrangements to continue to operate in their current form, the Commission must adopt an exception to the redemption limit for feeder funds, parallel to the exception that the Commission proposes for omnibus account holders. Under the Commission's proposed exception for omnibus account holders, a fund would not be required to impose its redemption limits on an omnibus account holder, provided that the fund has policies and procedures reasonably designed to allow the conclusion that the omnibus account holder does not permit any beneficial owner to directly or indirectly redeem more than $1,000,000 in a single day. Under the parallel provision that we recommend for a feeder fund, a master fund would not be required to impose its redemption limits on a feeder fund, provided that the master fund has policies and procedures reasonably designed to allow the conclusion that the feeder fund does not permit any beneficial owner to directly or indirectly redeem more than $1,000,000 in a single day.

In the Release, the Commission explains the need for the exception for omnibus account holders, and the explanation applies equally to feeder funds. Specifically, like an omnibus account, a feeder fund may consist of holdings of thousands of small investors, just one or a few institutional accounts, or a mix of the two. Feeder funds, like omnibus accounts, typically aggregate all the customer orders they receive each day, net purchases and redemptions, and they often present a single buy and single sell order to the master fund. Because the feeder fund (like an omnibus account holder) is the shareholder of record, to qualify as a retail fund under a direct application of the proposed redemption limit, a master fund would be required to restrict daily redemptions by feeder funds to no more than $1,000,000. Because feeder funds can represent hundreds or thousands of beneficial owners and their transactions, they would often have daily redemptions that exceed the limit even though no one beneficial owner's transaction exceeds the limit. In the Release, the Commission concludes that to implement a retail exemption from the FNAV proposal, the proposal must also address retail investors that purchase money market shares through omnibus accounts. Correspondingly, the Commission must address retail investors that purchase money market fund shares through feeder funds.

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6 See *Money Market Reform,* SEC Release. No. IC-28807 (June 30, 2009) available at http://www.sec.gov/rules/proposed/2009/ic-28807.pdf, n. 193. Feeder funds are distinct from funds of funds and asset allocation funds, as feeder funds typically have no investment advisory agreement because they invest substantially all of their assets in a master fund. In contrast, funds of funds and asset allocation funds typically have an investment advisory agreement because they can hold a mix of shares of several master funds, other mutual funds, and other securities.

2. Liquidity fee – application of the liquidity fee to master feeder arrangements

Comment: The Commission should permit a master fund and its board, but not a feeder fund and its board, to impose and set the terms of the liquidity fee. The feeder fund must implement the liquidity fee as and when imposed by the master fund.

Under the fee/gate proposal:

> If, at the end of a business day, the money market fund has invested less than fifteen percent of its total assets in weekly liquid assets, the fund must institute a liquidity fee, effective as of the beginning of the next business day, as described in paragraphs (c)(2)(i)(A) and (B) of this section, unless the fund's board of directors, including a majority of the directors who are not interested persons of the fund, determines that imposing the fee is not in the best interest of the fund.

Paragraph (A) sets the liquidity fee at two percent of total assets, except that the board of directors, including a majority of the directors who are not interested persons of the fund, may vary the level of the liquidity fee from time to time (but not higher than two percent) if it determines that the new fee level is in the best interest of the fund. Paragraph (B) authorizes the board, including a majority of the directors who are not interested persons of the fund, to set the duration of the fee, within limits.

We recommend that the requirement that a fund impose the liquidity fee, and the board's authority with respect to the fee, exclude a feeder fund and its board. Further, we expect that a feeder fund will institute a liquidity fee on the value of its shares redeemed at the times and in the amounts instituted by the master fund, and will remit that fee to the master fund.

These changes are necessary to clarify that the feeder fund board may not, independently of the master fund, charge a separate liquidity fee on the feeder fund shareholders and that the feeder fund board may not decide the amount of or when to eliminate the fee. In practical terms, the feeder fund must implement the fee on redemptions by the feeder fund's shareholders, as imposed by the master fund.

The Commission should view feeder funds similarly to omnibus accounts with respect to the liquidity fee for the same reasons noted above with respect to the redemption limit. Specifically, feeder funds, like omnibus accounts, may represent the accounts of multiple investors, they aggregate orders of those they represent and they are shareholders of record in the master fund. With respect to omnibus accounts, the Commission states in the Release that,

> For beneficial owners holding mutual fund shares through omnibus accounts, we understand that, with respect to redemption fees imposed to deter market timing of mutual fund shares, financial intermediaries generally impose any redemption fees themselves to record or beneficial owners holding through that intermediary. We understand that they do so often in accordance with contractual arrangements between the

fund or its transfer agent and the intermediary. We would expect any liquidity fees to be handled in a similar manner. . .[7] [footnotes omitted.]

Similarly, master and feeder funds may have arrangements with respect to implementation of the liquidity fee by the feeder fund as imposed by the master fund.

It is imperative that the liquidity fee be imposed (and reduced or eliminated) only at the direction of the master fund board. Typically, only the master fund has an investment adviser. The adviser's expertise and advice regarding liquidity management will be critical to the board's decision as to timing and amount of the liquidity fee. Feeder fund boards cannot draw on that expertise, because the master fund adviser reports to and is subject to oversight by the master fund board, and not by the feeder fund board. Also, the master fund adviser will structure its management approach for the master fund in light of the liquid assets the fund will glean from the redemption fee. The master fund's adviser and board will need to communicate and collaborate closely to set and adjust the liquidity fee in the fund's best interest. It would impede portfolio management for the feeder fund board (possibly multiple feeder fund boards) to exercise authority over this central element of fund management, when there is no formal regulatory relationship between the feeder fund board and the master fund adviser. In short, a feeder fund, by investing in a master fund, has determined to rely on the master fund, and must depend on the master's management and board decisions.

After the liquidity fee is paid by the underlying shareholder to the feeder fund, the feeder fund should remit the liquidity fee to the master fund. Liquidity and NAV at the feeder fund is ultimately dependent on liquidity and NAV at the master fund, so that the master fund is the proper repository for the fee. Remittance of the fee to the master fund will assure that the fee serves its purpose to restore liquidity and NAV[8] within the entire master feeder complex, without causing a mismatch between the NAV of the feeder fund and the NAV of the master fund.

3. Redemption gate - application of the redemption gate to master feeder arrangements

Comment: The Commission should permit a master fund board, but not a feeder fund board, to determine to impose and lift the redemption gate. The feeder fund must implement the redemption gate as imposed by the master fund.

The fee/gate proposal states the following:

If, at the end of a business day, the money market fund has invested less than fifteen percent of its total assets in weekly liquid assets, the fund's board of directors, including

[7] See the Release, text around footnote 401.

[8] As the Commission points out, if the fee exceeds the master fund's cost of providing liquidity to the redeeming shareholder, the fee can help increase the master fund's net asset value for remaining shareholders. This will have a restorative effect if the fund has suffered a loss. See the Release, text below note 351.

a majority of the directors who are not interested persons of the fund, may determine to suspend the right of redemption temporarily, effective at the beginning of the next business day, if the board determines that doing so is in the best interest of the fund.

The fee/gate proposal also empowers the board to restore the right of redemption and sets the time limit for the suspension.

We recommend that the board of a feeder fund not have the authority to suspend the right of redemption, except under the circumstances contemplated in the proposed amendments to Rule 22e-3: when the feeder fund owns shares of a money market fund that has suspended redemptions of shares under Rule 22e-3. As noted under the preceding caption, the master feeder structure comprises one pool of assets, managed by the master fund's investment adviser, under the oversight of the master fund's board of directors. The redemption gate, like a liquidity fee, is a tool help the master fund manage its liquidity on behalf of the entire master feeder complex, and, as such, should be used in a feeder fund solely when imposed by the master. A feeder fund would be in a similar position to an omnibus account shareholder with respect to suspension of redemptions. Just as the omnibus account shareholder would need to suspend redemptions upon suspension of redemptions by a money market fund in which it invests, a feeder fund would need to suspend redemptions upon suspension of redemptions of its master money market fund.

4. <u>FNAV Proposal – Internal Revenue Service Revenue Procedure</u>

Comment: The Commission should be aware that the Internal Revenue Service's ("IRS") recent proposed Revenue Procedure ("Rev. Proc.") regarding the application of the "wash sale" tax rule to floating NAV money market fund shares does not eliminate the operational challenges of compliance with the wash sale rule.

In the Release, the Commission notes that the "wash sale" tax rule will burden floating NAV money market funds and their shareholders.[9] In the Release, the Commission points out that the Treasury and the IRS were actively considering administrative relief under which redemptions of floating NAV money market fund shares that generate losses below a de minimis threshold would not be subject to the wash sale rules.[10] Since the date of the Release, the IRS has issued a proposed Rev. Proc.[11] that deals with the wash sale rule, as applied to floating NAV money market funds. In considering the burdens of the floating NAV, the Commission should be aware that the Rev. Proc. does not eliminate the operational challenges of the wash sale rule.

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[9] Under this rule, the IRS prohibits investors from using losses on the sale of a security to offset gains if the sold security had been purchased within the previous 30 days or is repurchased within the next 30 days. More specifically, Section 1092(a) of the Internal Revenue Code disallows a loss realized by a taxpayer on a sale of securities if, within a period beginning 30 days before and ending 30 days after the date of the sale, the taxpayer acquires substantially identical securities (a "wash sale"). Instead, losses on sales must be added to the basis of the replaced securities.

[10] See the Release, text above footnote 268.

[11] Available at http://www.irs.gov/pub/irs-drop/n-13-48.pdf

The proposed Rev. Proc. sets forth circumstances under which a shareholder's loss on redemption of a floating NAV money market fund share will not be disallowed as a wash sale. The proposed Rev. Proc. states that redemptions of shares of money market funds, which have relatively stable values even when share prices float, do not give rise to the concern that the wash sale disallowance is meant to address, and tracking wash sales of money market fund shares will present shareholders of floating NAV money market funds with significant practical challenges.

Accordingly, the proposed Rev. Proc. states that a redemption of a floating NAV money market fund that results in a de minimis loss will not be treated as part of a wash sale. For this purpose, a "de minimis loss" means a loss that is not more than 0.5 percent of the taxpayer's basis in the shares.

As the Commission recognizes in the Release, even with a de minimis threshold for loss disallowance, "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." Our clients confirm that these significant operational challenges will remain even if the IRS finalizes the Rev. Proc. To truly eliminate these challenges, redemptions of money market fund shares would be exempted from the wash sale provisions. This appears to be a reasonable approach, given the nature of money market portfolios: short-term (with a weighted average maturity of no more than 60 days), highly diversified, and subject to additional risk-limiting requirements. These provisions generally result in no more than minimal fluctuations in a money market fund's NAV.

5. <u>Transition to the floating NAV</u>

Comment: The transition to the floating NAV raises challenges that are not addressed by the length of the transition period.

We are greatly concerned that the transition to a floating NAV may cause precisely the result that regulators hope to avoid by reforming money market funds: rapid redemptions in money market funds. Shareholders may redeem for a variety of reasons, regardless of the expected market-based NAV upon conversion, for example if shareholders do not wish to hold floating NAV shares or are concerned that other shareholders may redeem upon the conversion. Shareholders may also see opportunities to benefit by redeeming, depending on the expected NAV upon conversion. (If the market-based NAV of a fund is less than $1.00 as the time of conversion to a floating NAV approaches, the transition to a floating NAV may trigger redemptions by shareholders who anticipate that the NAV will be less than $1.00 at the conversion date. Or, if the market-based NAV exceeds $1.00 as the time of conversion to a floating NAV approaches, investors may purchase shares in advance of the conversion, with the intention of redeeming shortly after the conversion to realize a gain.) Simultaneous redemptions across the industry may exert downward pressure on money market fund share value and the value of money market fund holdings. Even money market funds that are not converting to a floating NAV (such as retail money market funds) could suffer declines in share value as a result.

Regarding the conversion, the Commission says:

> We believe th[e] [two year transition period that the SEC would allow] would benefit money market funds and their shareholders by allowing money market funds to make this transition at the optimal time and potentially not at the same time as all other money market funds (which may be more likely to have a disruptive effect on the short-term financing markets, and thus not be perceived as optimal by funds). . . . We recognize, however, that shareholders might still preemptively redeem shares at or near the time that the money market fund converts from a stable value to a floating NAV if they believe that the market value of their shares will be less than $1.00. We expect, however, that money market fund sponsors would use the relatively long compliance period to select an appropriate conversion date that would minimize this risk. [emphasis added.]

However, we do not believe that the two year time period will meaningfully reduce the potential for redemptions by shareholders who may exit the fund for any number of reasons in anticipation of the conversion. We also believe it is unlikely that money market funds can or will stagger their transitions over the two year period.

6. Form N-CR and Statement of Additional Information - Filing of description of the facts and circumstances leading to the decline in weekly liquid assets and the board's analysis regarding fees and gates

Comment: Allow additional time for filing on Form N-CR of the description of the facts and circumstances leading to the decline in weekly liquid assets and do not require filing of the board's analysis regarding a decision to impose (or not to impose) the fee or a decision to suspend redemptions.

Under the fee/gate proposal, a money market fund must file an initial report on Form N-CR within one business day following specified triggering events, including the initial date on which the fund invested less than fifteen percent of its total assets in weekly liquid assets, the date on which the fund instituted the liquidity fee, and the date on which the fund initially suspended redemptions. The fund then must file an amended report within four business days following the event, including a brief description of the facts and circumstances leading to the fund's investing less than fifteen percent of total assets in weekly liquid assets and a short discussion of the board's analysis supporting its decision that imposing a liquidity fee (or not imposing such a fee) would be in the best interest of the fund or supporting its decision to suspend redemptions. Disclosure of this information in the statement of additional information in Form N-1A is required as well.

We recommend against the proposed revisions to Form N-1A and the provisions of Form N-CR which require the disclosure and filing of a discussion of the board's analysis supporting its decision to suspend the fund's redemptions or supporting its decision that imposing a liquidity fee (or not imposing such fee) would be in the interest of the fund. Also, we recommend that the deadline for filing a description of the facts and circumstances regarding depletion of weekly liquid assets be lengthened to seven business days, rather than four business days.

Regarding the filing deadline, given the complexity and importance of this description and analysis, it is critical to provide adequate time for accurate and thorough preparation and review of this disclosure. This longer time frame will allow a fund to draft the proposed description, circulate the draft for comment by management and subsequently for comment by board members, prepare a revised draft, and, finally, incorporate the information in a form that must be reviewed by fund management and, in all likelihood, one or more counsels. Allowing additional time will better allow for accurate information, without negatively impacting shareholders – who will have the benefit of proposed daily disclosure of NAV and liquidity information about the fund. Funds with the capability to file the description and analysis more quickly will be incentivized to do so, because market pressures for information likely will be intense in the exigent circumstances that give rise to the filing.

Regarding the filing and disclosure of the board's analysis of it decisions regarding imposition of the liquidity fee and redemption gate, the Commission says that

> The required disclosure would permit current and prospective shareholders to assess, among other things, any patterns of stress experienced by the fund, as well as whether the fund's board has previously imposed fees and/or redemption gates in light of significant drops in portfolio liquidity. This disclosure also would provide investors with historical information about the board's past analytical process in determining how to handle liquidity issues when the fund experiences stress, which could influence an investor's decision to purchase shares of, or remain invested in, the fund.

We do not believe it is necessary to disclose the board's analysis to disclose patterns of stress in a fund. Patterns of stress will be disclosed more directly via the proposed disclosures of historical sponsor support and liquidity shortfalls. We also believe that the disclosure is unlikely to provide shareholders with a meaningful understanding of the board's analytical process going forward. The facts of any circumstance that triggers this disclosure likely will be unique, so that the disclosure does not help investors to judge the board's future decision-making. Further, the Commission concedes that disclosure of the board's deliberation regarding the fee and gate would be subject to "considerations regarding the confidentiality of board deliberations." The disclosure accordingly may be less complete than under ideal circumstances.

7. <u>Basis point rounding of share price</u>

Comment: The Commission should not require basis point rounding.

Under the FNAV proposal, a fund must calculate the floating NAV to the nearest hundredth of a percent (the fourth decimal place on a $1.00 share). Money market funds currently calculate NAV to the nearest one percent, and non-money market funds with a $1.00 NAV are required to calculate NAV to the nearest tenth of a percent under existing SEC precedent.[12] Accordingly, the new rounding requirement would be 10 times more sensitive to

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[12] See *Valuation Of Debt Instruments By Money Market Funds And Certain Other Open-End Investment Companies*, SEC Release No. ASR-219, Release No. IC-9786 (May 31, 1977) available at http://www.sec.gov/rules/interp/1977/ic-9786.pdf

fluctuations than the rounding convention under existing precedent for non-money market funds and 100 times more sensitive to fluctuations than under current Rule 2a-7. We understand this amended rounding convention will require costly systems modifications, and we believe the change will yield little benefit to shareholders. We recommend that the Commission allow rounding to the tenth of a percent for floating NAV money market fund shares, as would be required for non-money market funds with a $1.00 NAV (ten basis point rounding).

Basis point rounding may be misleading to shareholders, without providing meaningful information. Consider a shareholder who owns shares of both a floating NAV money market fund that uses basis point rounding and shares of a short term bond fund that rounds NAV to the tenth of a penny, and that hold similar securities. The share value of the floating NAV money market fund may fluctuate on more days within a given period than the share value of the short term bond fund, due to the different rounding conventions, with no meaning attached to the more frequent fluctuation.

The Commission expresses concern that less sensitive rounding may contribute to pressure for rapid redemptions in money market funds. The Commission suggests that basis point rounding will help avoid arbitrage opportunities that may exist if share transactions occur at a price lower than $1.0000 which is calculated with less sensitive rounding.[13] However, this same opportunity exists in other floating NAV funds, and it has not been shown to trigger runs. It appears speculative that the more precise rounding will prevent runs on funds by reducing incentives to redeem ahead of other shareholders. As the Commission staff has reported in its analysis of redemptions from money market funds during the 2008 financial crisis, there are numerous other possible explanations for the rapid redemptions, such as flight to quality, liquidity, transparency or performance.[14] Or, shareholders may redeem because they fear losses in excess of those they are willing to bear. These causes for rapid redemptions will not be addressed by a change in the rounding convention used by money market funds. Even if rounding were a contributing factor to rapid redemptions, ten basis point rounding should be less likely to cause rapid redemptions than the current rounding convention for money market funds, without the need to go further and impose basis point rounding.

The Commission states another possible benefit of basis point rounding. It "should allow [shareholders] to appreciate that some money market funds may experience greater price volatility than others, and thus that there are variations in the risk profiles of different money market funds." However, we believe that volatility at the uniquely precise level of basis point

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[13] The Commission says that basis point rounding "should help reduce incentives for investors to redeem shares ahead of other investors when the shadow price is less than $1.0000 as investors would sell shares at a more precise and equitable price than under the current rules. At the same time, it should help reduce penalties for investors buying shares when shadow prices are less than $1.0000. 'Basis point' rounding should therefore help stabilize funds in times of market stress by deterring redemptions from investors that would otherwise seek to take advantage of less precise pricing to redeem at a higher value than a more precise valuation would provide and thus dilute the value of the fund for remaining shareholders."

[14] See *Response to Questions Posed by Commissioners Aguilar, Paredes, and Gallagher, a report by staff of the Division of Risk, Strategy, and Financial Innovation* (Nov. 30, 2012), available at http://www.sec.gov/news/studies/2012/money-market-funds-memo-2012.pdf.

rounding is not meaningful. Consider that the prices of many money market fund securities are evaluated prices calculated by pricing services, rather than market values. The Commission states:

> [T]he vast majority of money market fund portfolio securities are not valued based on market prices obtained through secondary market trading because the secondary markets for most portfolio securities such as commercial paper, repos, and certificates of deposit are not actively traded. Accordingly, most money market fund portfolio securities are valued largely through "mark-to-model" or "matrix pricing" estimates.

Accordingly, the minute fluctuations are less likely in money market funds than in other funds to represent an actual change in market value. Accordingly, treating money market funds differently from other floating NAV mutual funds in this regard may be an ineffective means to provide meaningful information to shareholders or to discourage rapid redemptions.

8. <u>Elimination of amortized cost valuation for securities that mature in more than 60 days</u>

Comment: The Commission should consider the possible negative effects on issuers of money market instruments of eliminating amortized cost valuation for securities that mature in more than 60 days.

Under the FNAV proposal, amortized cost valuation would be eliminated, except for securities that mature within 60 days. If the Commission adopts that reform, we expect that some funds may shift their portfolio towards securities that mature within 60 days in order to avoid the need to use market values. We recommend that the Commission consider the possible broader systemic implications. Specifically, it may become more difficult for issuers of money market instruments to find a market for their longer term, yet still Rule 2a-7 eligible securities.

9. <u>Redemption Gate</u>

Comment: The Commission should clarify whether the redemption gate may be imposed on multiple occasions within a 90 day period.

Under the fee and gate proposal, the fund may not suspend the right of redemption for more than thirty days in any ninety-day period. Please clarify whether the thirty days may occur in multiple separate periods within any ninety-day period (as well as consecutively), and if so, whether the ninety-day period is a rolling period which is recalculated on a daily basis. This clarification can be included either within the rule or in commentary in the release.

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We appreciate the opportunity to comment on the proposed amendments. If you have any questions about Stradley Ronon's comments or would like any additional information, please contact the undersigned at 215-564-8015.

Yours truly,

Joan Ohlbaum Swirsky

Joan Ohlbaum Swirsky

cc: The Honorable Mary Jo White
The Honorable Daniel M. Gallagher
The Honorable Kara M. Stein
The Honorable Luis A. Aguilar
The Honorable Michael S. Piwowar
Norm Champ, Director
Division of Investment Management