Public Comment on Potential SEC Money Market Fund Rule Changes

As submitted by The County of San Diego Treasurer-Tax Collector

As Chief Investment Officer ("CIO") for the County of San Diego's Local Government Investment Pool ("LGIP") or "Pool", I appreciate the opportunity to provide feedback regarding the proposal, drafted by the SEC, regarding Reforming Money Market Funds from your June 5, 2013 meeting. We understand the challenge that the SEC faces in attempting to craft legislation that will improve transparency and stability in the money fund market, while trying to maintain the usefulness of this critical investment vehicle to the investment management community.

Our Pool, like other state and local government investment pools, is charged with providing a highly secure, highly liquid investment vehicle to the various county offices, K-12 public schools, community colleges and other local agencies. California Government Code designates these LGIPs to be managed by the County Treasurer-Tax Collector. The Pool's objectives, established in state law, are preservation of principal, liquidity and return. Our Pool is currently rated 'AAAf' by Standard & Poor's. Our Pool size fluctuates between $6.0 billion to $7.0 billion, with a typical duration of between 1.0 years to 1.5 years.

As the sole working capital investment vehicle for over a hundred participants, each with multiple sub-accounts, we typically have hundreds of millions of dollars of daily Pool activity. We maintain a balance in two or three money market funds which totals about $50 million to $150 million. Each morning we invest on behalf of the Pool, based on estimates of the day's final anticipated bank balance. Once the day's actual bank balances are known, a "final trade", utilizing the money market funds, is placed with one or more of our money market funds to effectively bring our bank balance to zero. The importance of the availability of money market funds for this final trade cannot be overstated. Availability is critical for us to provide the necessary liquidity to the many public service entities that we serve and for us to avoid costly overdraft charges.

Alternative One would replace the current stable $1.00 NAV with a floating rate NAV for prime institutional funds. Our Investment Policy precludes us from purchasing a money market fund that trades on anything other than a stable $1.00 NAV. This prohibition is traced back to our primary objective of preservation of principal. The reclassification of those funds with counterparty risk from a fixed NAV structure to a floating NAV structure would provide a transparent and timely mechanism to pass-through credit degradation to buyers and sellers of the particular money market funds.

Impact of Alternative One: Unfortunately, Alternative One would preclude us from participating in this segment of the market going forward.

Alternative Two would allow funds to impose a redemption fee of up to 2%, if weekly liquid assets fall below 15%. Alternatively, funds could gate redemptions, delaying them for up to 30 days. We have a concern that the potential imposition of a redemption fee on money market funds might result in them being disallowed as a potential investment vehicle under California Government Code. Also, the potential for funds to delay redemption through a gating mechanism would, to our mind, preclude us from using them for our daily final trade. Anything other than same day settlement in money market fund vehicles would eliminate their viability for our purposes.

Impact of Alternative Two: Unfortunately, Alternative Two would preclude us from participating in this segment of the market going forward.

Our Recommendation:

We strongly support the preservation of the exemption for non-prime money market funds. The two proposed alternatives apply to "prime funds", that is, funds that have credit risk due to their holding non-U.S. Government obligations. The exemption of money market funds that invest, solely in U.S. Government obligations, would be highly desirable if one of the two alternatives, as currently proposed, were to be adopted. We have a high need for money market fund vehicles which trade on a stable $1.00 NAV and provides same day settlement and no potential imposition of a fee. **We are concerned with the impact of the supply and demand forces on the non-prime fund money market funds with the of the adoption of either of these alternatives.** If many money market fund participants are driven to these exempt funds, similar to our experience, we fear that yields would be significantly reduced and/or purchases would be subject to daily limits.