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: Securities Industry and Financial Markets Association 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:

The Securities Industry and Financial Markets Association ("SIFMA") respectfully submits these comments on the proposed new and amended rules and forms relating to money market funds in the Release (the "Proposed Rules"). This letter has been prepared by the Asset Management Group of SIFMA and the Private Client Group of SIFMA, working together with SIFMA's Municipal Securities, Operations and Technology, Accounting and Taxation divisions. We appreciate the opportunity to provide our views to the Securities and Exchange Commission (the "Commission" or "SEC").

SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. These companies are engaged in communities across the country to raise capital for businesses, promote job creation and lead economic growth. The Asset Management Group ("AMG") is SIFMA's voice for the buy-side within the securities industry and the broader financial markets. AMG is comprised of asset management firms, including some of the largest and most influential money market fund managers in the United States, collectively, with assets under management exceeding $20 trillion.[1] SIFMA's Private Client Group ("PCG") is composed of private wealth management professionals who are dedicated to providing personalized investment advice to retail investors. SIFMA's PCG represents wealth management professionals at global, national, regional, independent contractor, and small firms. The PCG is committed to providing proactive guidance and recommendations to enhance investor trust and

[1] The clients of AMG member firms include, among others, registered investment companies, endowments, state and local government pension funds, private sector Employee Retirement Income Security Act of 1974 pension funds and private funds such as hedge funds and private equity funds.

confidence in the securities industry and to provide regulators and policy makers with a business perspective on legislative and regulatory proposals affecting individual investors.

We believe SIFMA offers a valuable and unique perspective on the Proposed Rules because, among other things, our members represent individuals and businesses that depend on money market funds as an essential cash management tool as well as issuers who depend on money market funds to create and maintain an active and robust market for the securities they issue. Our response combines the perspective of money market fund managers together with distributors of these products and intermediaries, as well as operations professionals, who focus on the technical and operational aspects of the proposed reforms, tax and accounting specialists and our Municipal Securities group who has looked at the Proposed Rules through the lens of the municipal securities market.

We support the Commission's goals of further reducing money market funds' susceptibility to heavy redemptions,[2] improving their ability to manage and mitigate potential contagion from such redemptions and increasing the transparency of their risks, while preserving, as much as possible, the benefits of money market funds.

As an initial matter, we express our support for the Commission as it fulfills its role as the primary regulator of money market funds. In November 2012, the Financial Stability Oversight Council ("FSOC") issued proposed recommendations to the Commission for reform of money market funds. These proposals were premature and potentially unhelpful, given the Commission's continuing exploration of money market fund reform. We continue to believe strongly, as set forth in our prior comments to FSOC in January 2013, that FSOC and its members should refrain from making recommendations to the Commission on money market fund reform while the Commission is fully engaged on the issue. As FSOC has pointed out, "The SEC, by virtue of its institutional expertise and statutory authority, is best positioned to implement reforms to address the risks that MMFs present to the economy."[3] We hope that FSOC will respect the jurisdiction, independence, subject-matter expertise and transparent regulatory processes of the Commission, which is the regulator that best understands money market funds and is best positioned to achieve the regulatory goals of money market fund reform.

We welcome the Commission's economic analysis of the proposed money market fund reforms and their potential costs and benefits. We also appreciate that the Commission has

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[2] While members support measures to strengthen money market funds, many of our members dispute that money market funds are generally susceptible to destabilizing runs.

[3] Proposed Recommendations Regarding Money Market Mutual Fund Reform (the "FSOC Proposed Recommendations") by FSOC available at http://www.treasury.gov/initiatives/fsoc/Documents/Proposed%20Recommendations%20Regarding%20Money%20Market%20Mutual%20Fund%20Reform%20-%20November%2013,%202012.pdf

refrained from proposing certain reforms that we believe would destroy the utility and benefit of money market funds without reducing vulnerability to runs, and has attempted to tailor reform to avoid unnecessary inconvenience to shareholders and disruption to the broader markets. Yet, we remain troubled that some of the Proposed Rules would go too far in endangering the vitality of money market funds as a product.

While we support the Commission's goals, we are very concerned that certain of the proposed reforms would either obstruct the operation of money market funds or alter their indispensable characteristics, harming shareholders who rely on them as a cash management tool and issuers who depend on money market funds as an important source of financing. Below we identify potentially harmful aspects of the reforms and recommend several modifications with the goal of better focusing the Proposed Rules towards strengthening the resilience of money market funds in the face of systemic pressures.

OVERVIEW

In the Release, the Commission proposes two alternative fundamental reforms of money market funds, along with other less fundamental, but very significant, reforms. The fundamental reform ("fundamental reforms") proposals would consist of either or both of the following:

- Require a floating net asset value ("NAV") for money market funds other than U.S. Government money market funds and retail money market funds (as defined in the Proposed Rules). The requirement would apply to all prime money market funds as well as certain tax-exempt money market funds (referred to in this letter as "municipal money market funds"),[4] unless those money market funds constitute retail money market funds.
- Impose two provisions that apply when the weekly liquid assets[5] of a money market fund, other than a U.S. Government money market fund, are reduced to less than 15% of total

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[4] As described in the Release, municipal money market funds primarily hold obligations of state and local governments and their instrumentalities, and pay interest that is generally exempt from regular federal income tax for individual taxpayers.

[5] 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

assets of the money market fund. First, the fund would be required to impose a liquidity fee of 2% on any redemption from the money market fund after the time the fee is imposed, unless the board finds either that such fee is not in the best interest of the money market fund or that a lower fee is in the best interest of the fund. Second, the board would also have authority to temporarily suspend redemptions if the board finds that such suspension is in the best interest of the money market fund. U.S. Government money market funds could voluntarily (but are not obligated to) implement either of these fundamental reforms.

In addition, the Commission has solicited comment on other potential reforms for money market funds, including significant changes to required disclosures to the public and to the Commission, portfolio diversification and stress testing.

EXECUTIVE SUMMARY

I. BOTH FUNDAMENTAL REFORMS

The Commission should not impose both the floating NAV and the liquidity fee and redemption gate fundamental reforms on any type of money market fund.

- A fund subject to both fundamental reforms is not a viable product.

The Commission should specifically exempt municipal money market funds from both fundamental reforms.

- Municipal money market funds should be exempted from both fundamental reforms for several compelling reasons. These funds have not shown susceptibility to destabilizing runs, due to the nature of the shareholder base for these funds. Also, municipal money market funds maintain weekly liquid assets well in excess of regulatory minimums. Further, their overall size, while not insignificant, when compared to the broader market, makes them unlikely to spur systemic contagion.

- As the Commission notes in the Release, shares of municipal money market funds are held mostly by retail investors, because the benefits of tax-exempt income typically accrue to individual investors. The Commission states that it believes most municipal money market funds would be covered by its retail money market fund exemption from the floating NAV proposal. However, the exemption from the floating NAV for retail money market funds does not adequately exclude municipal money market funds. Given the complexity of defining "retail," as described in this letter, the Commission should specifically exempt municipal money market funds from the floating NAV proposal (as well as the fee and gate proposal).

(v) Amounts receivable and due unconditionally within five business days on pending sales of portfolio securities.

The Commission should permit amortized cost valuation in stable NAV money market funds for securities that mature in more than 60 days.

- Forbidding amortized cost valuation for securities that mature in more than 60 days will generally preclude same day settlement of share transactions unless a fund sets an early closing time to allow for pricing. However, an early closing time will not adequately accommodate client needs and will have negative repercussions in the capital markets, so amortized cost valuation should continue to be permitted for these securities.

- Use of market valuations by money market funds will severely curtail an essential benefit of money market funds: same day settlement of share transactions.[6] Among distributor/intermediaries, 61% do not expect to be able to support operationally same day settlement in a money market fund that prices holdings at market values. Another 28% expect to provide same day settlement only once daily – less frequently than currently available. Of asset managers, 60% expect to price only once per day their money market funds that use market values.

II. OPERATIONAL IMPACTS

The Commission should consider the significant operational impacts of each reform as described in the results of our member survey of the operational impact of the Proposed Rules (the "Survey").[7] Some key findings of the Survey include the following. (These findings are set forth in this letter under the relevant caption for the related comment.)

Implementation costs[8] will be highly burdensome

- The estimated total initial cost to modify procedures, controls and systems associated with implementing the floating NAV as proposed are estimated to range from $2 million to $5 million according to 40% of respondents to the Survey, from $5 million to $10 million according to 12% of respondents, from $10 million to $15 million according to 8% of respondents and to exceed $15 million by 12% of respondents.

- The estimated total initial cost to modify procedures, controls and systems associated with developing the capability to impose the liquidity fee as proposed are $2 million or more,

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[6] As noted in this letter, this issue affects stable NAV money market funds as well as floating NAV money market funds under the Proposed Rules, as all money market funds would use market values to value their assets under the Proposed Rules.

[7] Information about the Survey is included in Appendix 1.

[8] Cost estimates provided via our Survey may be lower than actual costs, because many survey respondents did not have information on costs that would be charged to them by vendors, and they omitted those costs from their estimates.

according to 36% of Survey respondents (with 24% in the $2 million to $5 million range, 8% in the $5 million to $10 million range and 4% in the $10 million to $15 million range). For distributors/intermediaries who responded to the Survey, the estimated total initial costs will be particularly significant. Of those respondents, 60% estimate that the initial costs will be $2 million or more.

- The estimated total initial cost to modify procedures, controls and systems associated with developing the capability to impose the temporary redemption gate as proposed are $2 million to $5 million according to 17% of respondents, $5 million to $10 million according to 8% of respondents, and $1 million to $2 million according to 17% of respondents.

<u>Implementation periods must be extended</u>

Based on our Survey data, members will require the following implementation periods for the fundamental reforms:

- At least three years to implement the floating NAV fundamental reform.

- At least two years to implement redemption fee and gate fundamental reform

- At least two years to implement the other reforms in the Release

<u>Floating NAV money market funds are not compatible with sweep programs</u>

- Importantly, 96% of Survey respondents do not anticipate customer demand for floating NAV money market funds in sweep programs sufficient to justify their firm developing the infrastructure necessary to utilize sweep programs with floating NAV money market funds.

- We asked distributor/intermediaries whether they anticipate that their firms will make the procedural, control and system infrastructure investment to operationally support sweep programs that use a money market fund with a floating NAV, and 71% said no.

III. LIQUIDITY FEE AND REDEMPTION GATE

Members' views vary on this fundamental reform, but if it is adopted, the SEC should: (a) reduce the initial default level of the liquidity fee and (b) lengthen the implementation period.

- The liquidity fee should be reduced to 100 basis points, subject to reduction by the fund's board, to better align the amount of the fee with the costs to the money market fund of providing liquidity to redeeming shareholders in times of market stress.

- Our members will need at least two years to design, test and implement the liquidity fee fundamental reform, given the intricate required systems changes. In considering the implementation period for the liquidity fee, the Commission also must be aware of - and work with industry stakeholders to remedy - the substantial operational burdens of related tax issues.

IV. FLOATING NAV

Members' views vary on this fundamental reform, but, if it is adopted, regulators should: (a) consider and account for key transition issues; (b) recalibrate how retail funds would be determined; (c) sufficiently address tax, accounting and brokerage suitability issues; (d) eliminate basis point rounding; and (e) lengthen the implementation period.

- The transition to a floating NAV may trigger rapid redemptions, regardless of the level of the NAV that shareholders anticipate will take effect upon the conversion. It is unlikely that transitions across the industry will be sufficiently staggered over time to adequately minimize the potential for widespread redemptions.

- We believe that retail money market funds should not be required to adopt a floating NAV.

- The Commission's proposal to define retail funds which are exempt from the floating NAV based on a $1 million daily redemption limit per record shareholder is not the appropriate metric to identify retail funds. We urge the Commission to consider alternative criteria to identify retail money market funds. If the Commission adopts a redemption limit approach, the Commission should increase significantly the daily redemption limit that signifies a retail fund.

- Regulators should sufficiently address significant issues of tax, accounting and suitability. The proposed Internal Revenue Service Revenue Procedure relating to the "wash sale" rule does not reduce the burdens of compliance with that rule. In addition, we believe that the Commission and FINRA should, at a minimum, clarify that any money market fund reforms that are implemented will not, on their own, result in money market funds not being considered suitable investments for customer accounts.

- The Commission should not require basis point rounding, as it will serve little purpose, is likely to mislead shareholders and will be costly to implement.

- The Commission should lengthen the implementation period for the floating NAV to at least three years to allow adequate time for the massive operational modifications that will be necessary for industry participants to comply.

V. DISCLOSURE

The Commission should (a) clarify the proposed disclosure amendments regarding financial support received by money market funds; (b) eliminate certain of the proposed new disclosures; and (c) ease the filing deadlines for Form N-CR.

- Financial support received by money market funds - The Commission should (i) clarify that only financial support that occurs after the compliance date must be disclosed; (ii) not require disclosure of financial support of predecessor funds following reorganizations of funds in different fund complexes; and (iii) clarify the definition of "financial support."

- Sponsor financial statements – The Commission should not require this disclosure, as it implies that support may be given in the future, even though support is not and may not be required.

- Shareholder flows and shareholder concentration -- The Commission should not require this disclosure, but if any disclosure of flows is required, the disclosure should focus on net, not gross, amounts.

- Daily fund holdings - The Commission should not require this disclosure.

- Form N-MFP – The Commission should not require weekly filing, nor require weekly data.

- Form N-CR – The Commission should ease the filing deadlines.

- Statement of Additional Information and Form N-CR – The Commission should not require discussion of the board's analysis of its decision regarding imposing fees and gates.

VI. DIVERSIFICATION

The Commission should (a) retain the 25% diversification basket (as described in the Release, the "25% basket") for providers of guarantees and demand features, or otherwise ease this proposal to eliminate the basket; (b) clarify that money market funds need not treat sponsors of tender option bond programs[9] as guarantors of the tender option bonds for purposes of provider diversification testing; and (c) clarify that the Commission does not intend that a fund must aggregate exposure to one or more tender option bond trusts with fund exposure to the liquidity provider of the related tender option bond and its affiliates for issuer diversification purposes.

- Requiring diversification as to providers of guarantees and demand features with respect to 100% of assets (rather than 75%) may impede the construction of a high quality, diversified portfolio. Despite the Commission's statement in the Release that there exists a broad array of first tier quality providers of guarantors and demand features,[10] those providers do not currently, and it is not clear that they will, support money market securities on a scale that the Commission assumes.

- The Commission should clarify that sponsors of tender option bond programs need not be considered to be guarantors of the tender option bonds issued by their sponsored tender option bond programs, under the proposed requirement that sponsors of asset-backed securities be subject to provider diversification testing as guarantors. These bonds have not posed the risks that the Commission seeks to limit. Also, the Commission should clarify that tender option bond trusts and their liquidity providers need not be aggregated under the proposal to require aggregation of control parties when testing diversification.

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[9] For a detailed description of tender option bonds, see SIFMA's comment letter dated February 13, 2012 on the Volcker Rule proposed regulations addressed to the Board of Governors of the Federal Reserve and other regulators, available at http://www.sifma.org/issues/item.aspx?id=8589937356. In summary, in a tender option bond program, either the tender option bond sponsor or a third-party institutional investor acquires municipal securities available in the market and deposits them into a trust, which in turn issues two classes of securities: (a) floating rate certificates sold to municipal money market funds regulated by Rule 2a-7 ("Rule 2a-7") under the Investment Company Act of 1940, as amended, which may be tendered upon specified notice for repurchase by the tender option bond trust at par plus accrued interest, and (b) residual floating rate certificates issued to either the tender option bond sponsor (or an affiliate of the tender option bond sponsor) or such third-party investor. In this letter, we refer to the securities sold to money market funds as "tender option bonds."

[10] See Release p. 453 et seq.

VII. QUALITY

The Commission should either not require review of financial statements for issuers of guaranteed securities or should limit the requirement to issuers for whom such financial statements are available.

- Requiring review of financial statements of issuers of guaranteed securities will negatively impact small and infrequent issuers.

Stress testing – The Commission should not adopt the proposed amendments to the stress testing requirements.

SIFMA opposes removal of ratings from Rule 2a-7.

DETAILED COMMENTS

I. BOTH FUNDAMENTAL REFORMS

The Commission should not impose both the floating NAV and the liquidity fee and redemption gate fundamental reforms on any type of money market fund.

The Commission proposes that institutional municipal money market funds and institutional prime money market funds have a floating NAV and/or operate with a liquidity fee and a redemption gate. (We refer to money market funds that are subject to both these fundamental reforms as "reconstructed funds.") We urge the Commission not to impose both fundamental reforms on any type of money market funds.

Our members strongly believe that a reconstructed fund is not a viable product. Many investors oppose the floating NAV fundamental reform, even with the exemptions proposed in the Release. Our members report that the combined fundamental reforms will hold little appeal for their clients and are expected to drive investors from the reconstructed funds.[11] This reaction is consistent with survey data gathered before the Release was issued.[12]

With the benefits of the stable NAV eliminated and the threat of fees and gates in place, investors will have little incentive to remain in reconstructed funds, and instead will likely move

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[11] Also see for example, comment letter of Novelis CTP dated July 26, 2013 available at http://www.sec.gov/comments/s7-03-13/s70313-41.htm; the regarding opposition to the floating NAV, see comment letter of North Carolina Mayors Coalition dated July 24, 2013 available at http://www.sec.gov/comments/s7-03-13/s70313-42.pdf and many additional letters, available at http://www.sec.gov/comments/s7-03-13/s70313-31.htm

[12] See AFP 2013 Liquidity Survey, summary available at http://www.afponline.org/pub/pdf/2013_AFP_Liquidity_Survey_Introduction.pdf

to other potentially more risky and less liquid alternatives, such as short term bond funds, stable NAV funds outside the Commission's jurisdiction or banks (which offer non-diversified exposure). Investors who must have the stable NAV may migrate to U.S. Government money market funds. Broker-dealers who offer money market funds as an option for cash sweep functionality will likely choose U.S. Government money market funds as the only viable option to provide a stable NAV. This shift will result in lost yield to investors, a loss of credit to the private economy and higher financing costs to the private, state and municipal government sectors.

From a fund sponsor's standpoint, each fundamental reform will entail significant burdens of implementation and ongoing operation, as the Commission describes in its cost benefit analysis, and as illustrated in the results of our member Survey. In fact, 30% of Survey respondents who are asset managers do not anticipate customer demand for floating NAV money market funds (outside sweep programs) sufficient to justify their firm developing the infrastructure necessary to utilize floating NAV money market funds (outside sweep programs). A very high percentage of all Survey respondents, 96%, anticipate insufficient demand to justify the costs of the floating NAV within sweep programs. Regarding fees and gates, our members report that many of their clients react negatively to this fundamental reform as proposed.

We believe that many money market fund sponsors will decline to bear the costs of both fundamental reforms, in the face of a contracting asset base. Reconstructed funds will shrink dramatically, depriving investors of an investment option that they depend on for unparalleled convenience and transparency, carefully regulated diversification and liquidity and a history of stability.

Our member Survey focused on asset managers, distributors and intermediaries. But the impacts of the fundamental reforms will be significant outside these groups as well. Corporations, states, municipalities and universities, government-sponsored enterprises, treasury management system providers, transfer agents, fund accountants, sweep account providers and others will bear costs in order to continue to work with reconstructed money market funds. A recent analysis has detailed the burdens of the floating NAV on these and other industry participants.[13]

The Commission should specifically exempt municipal money market funds from both fundamental reforms.

We urge the Commission to exempt municipal money market funds from both the requirement to have a floating NAV and the requirement to implement a liquidity fee and

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[13] See "Operational Implications of a Floating NAV Across Money Market Fund Industry Key Stakeholders" by the U.S. Chamber of Commerce Center for Capital Markets Competitiveness with Treasury Strategies available at http://www.centerforcapitalmarkets.com/wp-content/uploads/2010/04/020831_CCMC_FloatingNAV_Final_8.2.13.pdf

redemption gate - whichever fundamental reform(s) is adopted. These exemptions are appropriate because experience has shown that municipal money market funds are significantly less susceptible to destabilizing runs than institutional prime money market funds.[14] As the Commission notes in the Release, municipal money market funds are expected to be covered by the retail exemption from the floating NAV proposal.[15] Further, municipal money market funds tend to have ample liquid assets and their overall size makes them not systemically important. In addition, these exemptions would be important to preserve the benefits of the stable NAV and full shareholder liquidity in municipal money market funds, to avoid driving investors away from this essential source of financing for state and local governments.

Municipal money market funds generally have been marked by fewer and less volatile investor rapid redemptions during various financial crises, including following the default by Orange County California on December 9, 1994, the financial crisis in 2008, the market dislocations during the summer of 2011 and also more recently following the Detroit, Michigan bankruptcy declaration. Following the Orange County bankruptcy, one money market fund that was heavily invested in municipal securities of issuers from California had outflows of 30% of its assets, and other California municipal money market funds had outflows as well. Yet, outside those instances, no systemic, destabilizing run occurred in municipal money market funds generally. For the five week period following the bankruptcy, municipal money market funds as a whole had significant inflows.[16]

During the 2008 financial crisis, the Reserve Fund's municipal money market funds and a Lehman-sponsored money market fund had significant outflows, but other municipal money market funds remained stable.[17] An academic study[18] has pointed out that the outflows from

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[14] The Commission has not suggested that municipal money market funds are susceptible to destabilizing runs.

[15] See the Release at page 69 et seq. As noted below under the caption "Floating NAV," the proposed retail exemption from the floating NAV proposal does not adequately exclude municipal money market funds from that fundamental reform.

[16] See Investment Company Institute comment letter to FSOC dated January 24, 2013 available at http://www.ici.org/pdf/13_fsoc_mmf_recs.pdf text around footnote 102 ("ICI Comment Letter to FSOC").

[17] ICI Comment Letter to FSOC, text around footnote 103. Also see data from imoney.net cited in comment letter of Fidelity Investments to FSOC dated February 14, 2013 showing very modest outflows during the 2008 financial crisis from municipal money market funds (p. 6) available at http://www.regulations.gov/#!documentDetail;D=FSOC-2012-0003-0105.

[18] See figure 1 in comment letter from Russell R. Wermers, University of Maryland at College Park, to FSOC, dated January 2, 2013, attaching a report "Runs on Money Market Mutual Funds," which summarizes research by Lawrence Schmidt, University of California, San Diego; Allan Timmermann, University of California, San Diego; and Russ Wermers, University of Maryland at College Park available at http://www.regulations.gov/#!documentDetail;D=FSOC-2012-0003-0126 (citing data from imoney.net). This information is consistent with Wermers' research finding that larger funds and funds with a larger proportion of institutional money exhibited greater outflows during the crisis week of 2008. See the report, text at note 3.

municipal money market funds during September 2008 were in the range of approximately 2-3%, as compared to outflows of 10-12% experienced by institutional prime money market funds during the same period. Similarly, in the midst of the market uncertainty during the summer of 2011, outflows from municipal money market funds were not significant.[19]

A more recent event supports that municipal money market funds are not susceptible to destabilizing runs: the bankruptcy declaration by the City of Detroit, Michigan on July 18, 2013. In the two weeks following the bankruptcy declaration, Michigan municipal money market funds experienced extremely modest outflows of well under 0.03% on a daily basis, and then these funds experienced inflows.[20] Shareholder flows of municipal money market funds generally (Michigan and other geographic areas) during that timeframe were affected, if at all, to an extremely minor extent.[21]

This stable shareholder base exists despite the prevalence of support by banks and other financial institutions for short-term municipal securities and tender option bonds held by municipal money market funds in their portfolios. That is, due to the liquidity, maturity and quality requirements of Rule 2a-7, many municipal money market securities are typically, though not exclusively, supported by demand features issued by banks and other financial institutions. We do not believe that this connection to the banking sector suggests treating municipal money market funds similarly to institutional money market funds with regard to fundamental reform, given the stability of municipal money market funds during systemic financial difficulties.[22]

The Commission itself notes in the Release that municipal money market funds are held mostly by retail investors, as the benefits of tax-exempt income typically accrue to individual investors.[23] The Commission states that it believes most municipal money market funds would

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[19] See the Commission's staff memorandum of meeting with representatives of Fidelity attaching slides (slide 7), available at http://www.sec.gov/comments/s7-03-13/s70313-68.pdf ("Fidelity Memorandum").

[20] Fund flows for municipal money market funds with "Michigan" in the name (compiled from imoneynet.com data). Also see Fidelity Memorandum (id), at slide 5, chart showing asset levels of Fidelity Michigan Municipal Money Market Fund. Another member has provided data showing stable asset levels in its Michigan municipal money market fund following the Detroit bankruptcy.

[21] Imoneynet.com.

[22] Also, consider that reforms implemented under the Basel Committee for Banking Supervision are expected to help assure that banks are well capitalized and well positioned to honor demands on their supports for tax-exempt securities. The Basel Committee's new liquidity coverage ratio (to be phased in between 2015 and 2019) is intended to assure that a bank has an adequate stock of unencumbered high quality liquid assets to meet its liquidity needs for a 30 calendar day liquidity stress scenario. See http://www.bis.org/press/p130106a.pdf and http://www.bis.org/publ/bcbs238.pdf

[23] See Release at p. 69 et seq. See also Release, footnote 181. ("We note that there are some tax-exempt money market funds that self-classify as institutional funds . . . [but] understand that these funds' shareholder base typically is comprised of omnibus accounts, with underlying individual investors.")

be covered by its retail money market fund exemption to the floating NAV proposal. However, given the complexity of defining "retail" as discussed further below, the Commission should specifically exempt municipal money market funds from the floating NAV proposal (and, for the other reasons noted in this Section, from the liquidity fee and redemption gate proposal). Also please consider the hardship on shareholders of municipal money market funds if they are inadvertently excluded from retail money market funds. If these shareholders move to other money market funds or to bank deposits, they will lose the tax advantages of the municipal money market fund investment.

In addition to a stable shareholder base, municipal money market funds hold significant amounts of weekly liquid assets,[24] helping them withstand rapid redemptions without the additional fundamental reforms. Our members report that typically municipal money market funds hold far in excess of 30% of total assets in weekly liquid assets, which is the required level under Rule 2a-7. Starting well in advance of the effective date of the 2010 amendments to Rule 2a-7 through at least September 3, 2013, municipal money market funds have held, on average, over 70% of assets in weekly liquid assets.[25]

Another aspect of municipal money market funds' holdings that makes these funds less generally susceptible to destabilizing redemptions is that many municipal money market securities generally can be sold at amortized cost value due to their interest rate reset features. Many of these securities have an interest rate that resets weekly. The rate reset stabilizes their value. In contrast, taxable commercial paper generally has a fixed rate to its maturity.

In addition, municipal money market funds lack a vital measure of systemic importance: size. At September 4, 2013, municipal money market funds comprised slightly over 10% of total money market fund assets ($268.28 billion).[26] Also, the assets are distributed among a large number of separate municipal money market funds, with geographically diverse holdings.[27] The

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[24]We believe that weekly, rather than daily liquid assets, remains the appropriate indicia of liquidity for municipal money market funds. The supply of tax-exempt municipal securities and tender option bonds with a daily demand feature remains limited, and municipal money market funds do not generally enter into repurchase agreements. Thus, we do not believe that the tax-exempt market has changed materially in that regard from 2010 when the Commission previously exempted municipal money market funds from the daily liquidity requirement. *See* Money Market Fund Reform, Investment Company Act Release No. 29132 (Feb. 23, 2010) at notes 240-243 and accompanying text, available at http://www.sec.gov/rules/final/2010/ic-29132.pdf.

[25] Member data compiled from imoneynet.com data. Also see the Investment Company Institute's *Narrowing the Focus to Prime Money Market* Funds dated March 25, 2013, available at http://www.ici.org/viewpoints/ci.view_13_mmfs_reid_prime.print and the Fidelity Memorandum (supra note 19), at slide 2.

[26] As reported by ICI Global available at http://www.ici.org/research/stats/mmf/mm_09_05_13. Also see the Fidelity Memorandum (id), at slide 4.

[27] The Investment Company Institute reported 180 separate tax-exempt money market funds in its *2013 Mutual Fund Fact Book* (p. 179).

municipal securities market is highly diverse, with the number of municipal issuers (including states, counties, cities, towns, and state and local government agencies) estimated to range from 46,000[28] to 78,000.[29] There is little benefit to be gained by forcing fundamental reform on this well diversified corner of the market.

Despite their modest asset levels, municipal money market funds serve a disproportionately important role in the financing of state and local governments. Accordingly, the Commission should avoid fundamental reforms that will make these funds less attractive to investors. State and local governments and agencies issue municipal securities to finance hospitals, education, transportation, housing and many other projects that are critical to the infrastructure and functioning of the country. Money market funds, municipal money market funds in particular, help maintain a robust and active market for this state and municipal debt. In the fourth quarter of 2012, money market funds were the largest investor in short-term municipal securities (with $322 billion in short-term municipal debt securities, which accounted for 76% all outstanding short-term municipal debt).[30] According to data as of June 30, 2013, municipal money market funds held the vast majority of municipal variable rate demand obligations and tender option bonds that were held by money market funds.[31] If municipal money market funds shrink, demand for short-term municipal securities will decline, resulting in increased financing costs for state and local governments.[32]

[28] Municipal Securities: Overview of Market Structure, Pricing and Regulation, Report to Congressional Committees of the United States General Accountability Office (January 2012) at 6, available at http://www.gao.gov/assets/590/587714.pdf.

[29] See Letter commenting on the Volcker Rule proposed regulations to the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Securities and Exchange Commission from Citigroup Global Markets Inc. (January 27, 2012) at 3, available at http://www.fdic.gov/regulations/laws/federal/2011/11c41ad85.PDF.

[30] See comment letter to the Commission from National Conference of Mayors dated July 18, 2013 available at http://www.sec.gov/comments/s7-03-13/s70313-30.pdf Also see comment letter of Government Finance Officers Association to FSOC dated February 13, 2013 available at http://www.regulations.gov/#!documentDetail;D=FSOC-2012-0003-0102 citing Bloomberg and ICI data; and Fidelity Memorandum, supra note 19, at slide 9.

[31] Compiled from Crane Data, Bloomberg and member data.

[32] Demand for long-term municipal securities may decline as well. Consider that municipal money market funds are an important purchaser of tender option bonds. As described in note 8, tender option bonds are created by the deposit of long-term municipal bonds into a trust, which issues Rule 2a-7-eligible short-term securities. An estimated $75 billion to $100 billion of long-term municipal securities are financed in tender option bond trusts. A recent review of publicly reported holdings of municipal money market funds as of June 30, 2013 shows that municipal money market funds hold approximately $52.8 billion of tender option bonds issued by the eight largest tender option bond programs. Further, total municipal money market fund holdings of tender option bonds were $62.3 billion spread across the active fifteen tender option bond programs shown by such data. (Crane Data and Bloomberg)

The Release underestimates the significant ramifications for municipal issuers if municipal money market funds shrink. The Commission staff has reported that during the period from the end of 2008 to the end of 2012 -- when municipal money market funds decreased their holdings of municipal debt -- municipalities found other sources of financing, such as longer term debt, banks and insurance companies.[33] Importantly, however, other sources of financing typically can be costlier, and therefore substitute poorly for municipal money market funds. For example, the bank loan rate is generally the prime rate or higher, and the prime rate is normally more than 300 basis points above the rates paid for funding from municipal money market funds. The cost disadvantage may become more pronounced and troublesome when interest rates increase above their current historically low levels. Outflows at municipal money market funds resulting in higher financing costs for state and local governments may translate into reduced services offered by local governments, increased state and local taxes and broader negative effects on the economy as public sector projects are curtailed.

The Commission should permit amortized cost valuation in stable NAV money market funds for securities that mature in more than 60 days.

Our members expect that same day settlement of money market fund share transactions will be impossible for funds that value assets at market value -- unless the deadline for submitting orders for same day settlement is advanced to 11 a.m. or noon.[34] Same day settlement for late day transactions is a core feature for shareholders, and funds that close early are an inadequate substitute. Late day transactions are important in sweep vehicles, where transactions occur in the cash remaining after other transactions during the day have settled. The earlier deadline will be necessary to allow time for funds to obtain market values of holdings sufficiently early to calculate NAV for settlement that day. The Release refers to two floating NAV money market fund prospectuses that disclose that they offer same day settlement. However, one of these fund families has not commenced operations of its floating NAV money market funds, and the other fund is relatively small in size. Our members do not believe that same day settlement will be practical on a larger scale.

The earlier deadline for same day settlement will reduce efficiencies for parties to a wide range of transactions, from corporations (who count on same day settlement for payroll and transactions with suppliers) to personal trust and investment advisory firms (who count on same

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[33] See, Release, text around footnote 600. It is relevant to note that during that period, the Build America Bond program was in effect, creating an alternative source of financing for municipal issuers. The Build America Bond program has since expired, such that this avenue of alternative financing is no longer available to municipal issuers.

[34] The impediment to same day settlement will arise for stable NAV money market funds as well as floating NAV money market funds under the Proposed Rules, because both types of funds will be required to value assets that mature in more than 60 days at market value, rather than at amortized cost. Accordingly, stable NAV money market funds, like floating NAV money market funds, also will be unable to settle share transactions on a same day basis, unless the deadline for submitting orders is advanced to 11 a.m. or noon.

day settlement for securities transactions, distributions associated with trust terminations, purchases on behalf of accounts or scheduled payments to beneficiaries).

Our members also expect that the prohibition on amortized cost valuation for securities maturing in more than 60 days will change the investment behavior of portfolio managers, with negative consequences in the capital markets. Portfolio managers will be motivated to limit investments to those maturing within 60 days. Consequently, issuers may find it more difficult to find a market for their longer-term (but still Rule 2a-7-eligible) debt.[35]

Among distributor/intermediaries who responded to our Survey, 61% do not expect to be able to support operationally same day settlement in a money market fund that prices holdings at market values. Another 28% expect to provide same day settlement only once daily – less frequently than currently available. Of asset managers, 60% expect to price only once per day their money market funds that use market values -- far more limited than currently offered by many money market funds. For those distributors/ intermediaries that expect to be able to offer same day settlement of floating NAV money market fund shares more than once per day, the cost to offer same day settlement is expected to be significant – a $500,000 to $1 million initial cost according to 75% of respondents and $1 million to $2 million initial cost according to 25% of respondents, with ongoing annual costs of 10% to 15% of the initial cost, according to 66% of distributor/intermediary respondents.

Consider also that "market values" for many money market fund securities do not, in fact, represent market transactions, but instead are evaluated prices, based on estimates and models.[36] These algorithms and estimates may provide less transparency than amortized cost valuation -- which is, in fact, based on the actual acquisition cost of a security. Market valuation may not be

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[35] Also consider that requiring amortized cost valuation may impede the market for particular types of securities that mature in more than 60 days, such as commercial paper, including callable commercial paper. Callable commercial paper was structured, in part, to reduce short-term liquidity draws on banks but also in an attempt to ameliorate banks' costs to satisfy a new liquidity coverage ratio imposed by the Basel Committee for Banking Supervision. The increased costs would stem from the requirement for the bank to post high-quality liquid assets against its obligation to provide liquidity for commercial paper that has reached the 30th day prior to its maturity. Callable commercial paper is structured to be redeemable (and replaced with a subsequent issuance) prior to the 30th day from maturity, to prevent potential surcharges for issuers under the related liquidity facility. The requirement for money market funds to value callable commercial paper at market value may harm this nascent and potentially important market.

[36] For instruments for which there are no market quotations, an independent pricing vendor generally compares each instrument to a homogeneous set of instruments in the market (for example, instruments with similar ratings, interest rates and maturities), to derive a valuation that the vendor believes reflects current market conditions. Valuations for individual instruments are dependent on how the pricing vendor's evaluators group portfolio instruments with other instruments in the market, and a variety of factors that involve estimates and judgments. For instruments purchased by a money market fund during the day and instruments for which the vendor does not provide valuation, the money market fund's accounting service provider may obtain a valuation for the instrument, using its own comparative data and/or by accessing the pricing vendor's website.

any more precise than amortized cost valuation given the lack of real-time asset prices for some money market fund assets. Since money market funds generally hold assets to maturity, the amortization of acquisition cost of assets provides the most appropriate valuation.

II. OPERATIONAL IMPACTS

The Commission should consider the significant operational impacts of each fundamental reform as estimated in the results of our Survey. Key cost estimates in the Survey results include the following.[37]

The estimated total initial cost to modify procedures, controls and systems associated with implementing the floating NAV as proposed are estimated to range from $2 million to $5 million according to 40% of respondents to the Survey, from $5 million to $10 million according to 12% of respondents to the Survey, from $10 million to $15 million according to 8% of respondents and to exceed $15 million by 12% of respondents. (The Commission has estimated initial costs of $1.2 to $2.3 million.) Ongoing annual costs are estimated as 10% to 15% of the initial cost by 28% of respondents, 15% to 20% by 4% of respondents and at over 20% of initial cost by 20% of respondents. Based on respondents' estimated initial costs, these ongoing costs mean that 52% of respondents estimate ongoing annual costs of $200,000 or more, with about half of those respondents estimating ongoing annual costs over $500,000. (The Commission has estimated ongoing annual costs of 5% to 15% of initial costs.)

The estimated total initial cost to modify procedures, controls and systems associated with developing the capability to impose the liquidity fee as proposed are $2 million or more, according to 36% of Survey respondents (with 24% in the $2 million to $5 million range, 8% in the $5 million to $10 million range and 4% in the $10 million to $15 million range). For distributors/intermediaries who responded to the Survey, the estimated total initial costs will be particularly significant. Of those respondents, 60% estimate that the initial costs will be $2 million or more (with 40% estimating $2 million to $5 million, 13% estimating $5 million to $10 million and 7% estimating $10 million to $15 million). For asset managers the estimated total initial costs are estimated to be between $2 million and 5% million by 40% of respondents, between $500,000 and $1 million by 10% of respondents and under $500,000 by 50% of respondents. (The Commission estimated an initial cost of $1.1 million to $2.2 million for both the liquidity fee and redemption gate, subject to certain assumptions.)

For all survey respondents in the aggregate, ongoing annual costs of implementing the liquidity fee are estimated as 10% to 15% of initial costs for 17% of respondents, 15% to 20% of initial costs by 12% of respondents and 20+% of initial costs by 8% of respondents. For distributor/intermediary respondents, ongoing annual costs are estimated as 10% to 20% of initial costs by 29% of distributor/intermediary respondents (evenly split between those who

[37] Additional findings are set forth in this letter as they relate to the other issues we discuss.

estimate 10% to 15% of initial cost and those who estimate 15% to 20%). For asset managers, ongoing annual costs are estimated to be 10% to 15% of initial costs by 20% of respondents, 15% to 20% of initial costs by 10% of respondents and 20+% of initial costs by 20% of respondents. (The Commission estimated ongoing annual costs of 5% to 15% of initial costs.)

The estimated total initial cost to modify procedures, controls and systems associated with developing the capability to impose the temporary redemption gate as proposed are $2 million to $5 million according to 17% of respondents, $5 million to $10 million according to 8% of respondents, and $1 million to $2 million according to 17% of respondents. Ongoing annual costs are estimated as 10% to 20% of initial cost by 33% of Survey respondents (evenly split between those who estimate 10% to 15% of initial cost and those who estimate 15% to 20% of initial cost).

III. LIQUIDITY FEE AND REDEMPTION GATE

Members views vary on this fundamental reform, but if it is adopted, we believe that the SEC should: (a) reduce the initial default level of the liquidity fee and (b) lengthen the implementation period.

Some members believe that the proposed liquidity fee and redemption gate are the best tools to address redemption pressures in money market funds without destroying the benefits of the stable NAV. These members argue that a gate is the best way to halt a run on a fund, and the liquidity fee should help funds prevent or address the liquidity strains of rapid redemptions. Further, these reforms retain the fundamental characteristics of money market funds, except when liquidity is severely challenged. Some members maintain that their customers appreciate the objective nature of the trigger for the fee and gate, to allow some measure of predictability under exigent circumstances.

On the other hand, some have expressed concern that a fee or gate will encourage preemptive runs by shareholders who exit the fund before the fee or gate is imposed, as the fund approaches the liquidity trigger for the fee or gate. To help alleviate this risk, some of these members believe that the fee and gate should be imposed at the board's discretion, rather than based on an objective trigger. Or, the fee could be imposed at the board's discretion when weekly liquid assets fall below a specified level, but be imposed at a default level when weekly liquid assets fall to a specified lower level (e.g., below 15%), but still subject to the board's authority to reduce or eliminate the fee at that lower level of weekly liquid assets. Other members believe that the concern with pre-emptive runs is overstated.[38]

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[38]These members point out that if a fund's liquidity breaches the trigger level, the gate and fee, themselves, will stem any exodus and damper its effect. Also, these members believe the existence of the liquidity trigger for the fee and gate will motivate fund managers to maintain fund liquidity well in excess of the trigger level, to avoid triggering the fee or gate. That is to say, the mere existence of the potential for the fee or gate will result in enhanced liquidity in money market funds.

Members also have varying views on the maximum length of time the gate should be permitted to remain in place. Some members believe that a gate for a shorter time period than 30 days would be more consistent with the liquidity needs of investors in money market funds and also with the requirements of the Investment Company Act of 1940, as amended. A lengthy period for the gate may impose a hardship on shareholders. Further, these members are concerned that curtailing liquidity available to shareholders for a lengthy period may exacerbate any dislocations in the broader market that precipitated the gate. Others members believe that it is important to allow a 30 day period, to help assure that a fund will have adequate time to replenish its liquidity as securities mature. These members point out that even with a maximum date period of 30 days, a fund board can exercise its discretion to eliminate the gate earlier, if that would be in the fund's best interest.

In any event, if the Commission pursues this proposal, the Commission should implement the following modifications.

(a) Liquidity Fee – Reduce the initial default level of the fee.

It is important to set the initial default level[39] for the liquidity fee at a level that deters redemptions in a crisis, yet low enough to avoid needlessly burdening shareholders who wish to redeem despite the cost. Fund sponsors do not want to overcharge shareholders for the cost of liquidity. We understand that the proposal would allow the fund board to reduce the level of the fee, but we are concerned that the fund board may be hesitant to reduce the fee out of fear of being second-guessed -- especially given the proposed requirement that the board disclose its analysis of a decision to reduce the fee. Our members' consensus is that a redemption fee of 100 basis points will adequately compensate a money market fund for the costs of liquidating assets to honor redemptions in times of market stress, and avoid imposing a punitive charge on shareholders. The Commission could authorize the board to increase the fee as high as 200 basis points, if it deems that would be in the best interest of the fund and shareholders. Our members have noted, however, that the fact that the initial and subsequent level of the fee is subject to change compounds the operational challenge of implementing this fundamental reform.

(b) Liquidity fee and redemption gate - Lengthen the implementation period.

Our members will need at least two years to design, test and implement the liquidity fee and redemption gate fundamental reforms, given the intricate systems modifications that will be necessary.

[39] The 2% fee is imposed as a default level, unless the fund board sets a lower fee. While the board can set a lower fee, the default level still is important, because when a fund breaches the liquidity trigger, it may be impossible to convene the board in time to change the fee from the default level before the fee initially goes into effect. Also, as indicated in this Section, the board may feel pressured not to lower the fee below the default level.

In considering the implementation period for the liquidity fee, we ask the Commission to recognize the substantial operational and reporting burdens of related tax issues. If the liquidity fee causes the fund's NAV per share to reach $1.005, the fund may need to distribute the amount of the fee to shareholders to prevent the fund from breaking the dollar on the upside (that is, rounding share price to $1.01). This distribution would be treated as a dividend to the extent that the money market fund has earnings and profits. To the extent that the distribution exceeds earnings and profits, however, the distribution would be treated as a return of capital, which would reduce the shareholder's basis in the shares and result in unrealized gains. In this event, the shareholder, the fund and intermediaries may be subject to tax payment or reporting obligations. Specifically, fund groups or their intermediaries may need to track the holding period and the tax basis of fund shares as the basis changes due to any return of capital distributions, and shareholders would need to report in their annual tax filings any gains or losses upon the sale of affected fund shares. It is not clear whether the current law exemptions for money market funds to report redemptions of shares and returns of capital will continue to apply. These new reporting and recordkeeping burdens will not only lengthen the implementation period, but also will impose operational costs that ultimately will be borne by fund shareholders. In order to avoid such burdens, we recommend that the Department of Treasury ("Treasury") and Internal Revenue Service ("IRS") issue guidance that deems a money market fund that must distribute excess liquidity fees to have sufficient earnings and profits to support distributions. If Treasury and the IRS issue such guidance, shareholders would have to pay income taxes at ordinary rates on such distributions. The guidance would ameliorate reporting burdens, because ordinary income treatment will not affect shareholders' cost basis, and therefore information reporting would not be necessary.

IV. FLOATING NAV

Members' views vary on this fundamental reform, but, if it is adopted, regulators should (a) consider and account for key transition issues; (b) recalibrate how retail funds would be determined; (c) sufficiently address tax, accounting and brokerage suitability issues; (d) eliminate basis point rounding; and (e) lengthen the implementation period.

Many of our members believe that the floating NAV will be ineffective to reduce the susceptibility of money market funds to destabilizing runs,[40] and that it is critically important to money market fund investors that the stable NAV be preserved. These members point out that the Commission may foster investor understanding of the risks of money market funds by requiring disclosure of the market-based value of a share, without imposing the substantial burdens of requiring transactions at the floating NAV. Shareholders might be less likely to sell fund shares during the occurrence of negative market events if they could confirm that their

[40] As the SEC concedes in the Release, "We recognize that a floating net asset value may not eliminate investors' incentives to redeem fund shares, particularly when financial markets are under stress and investors are engaging in flights to quality, liquidity, or transparency." See the Release at footnote 148.

investment was not affected by such events on a next-day basis. The disclosure alone, without a floating NAV, also might impose market discipline on portfolio managers.

Other members believe that a narrowly-applied, properly structured floating NAV could ameliorate run risk by, among other things, reducing shareholder incentive to redeem ahead of other shareholders.

Our members tell us that floating NAV money market funds will be particularly unattractive for sweep vehicles. Respondents to our Survey expect to offer clients alternatives other than money market funds for sweep vehicles if the Commission adopts the floating NAV, but the alternatives may involve drawbacks. As an alternative to floating NAV money market funds for sweep vehicles, almost all distributor/intermediary respondents to our Survey tell us it is highly likely they will make available U.S. Government money market funds or bank deposit products, and almost all asset manager respondents tell us it is highly likely they will offer U.S. Government money market funds. As compared to prime money market funds, bank deposit products offer undiversified exposure and U.S. Government offer lower yields.

Importantly, 96% of Survey respondents do not anticipate customer demand for floating NAV money market funds in sweep programs sufficient to justify their firm developing the infrastructure necessary to utilize sweep programs with floating NAV money market funds. We asked distributor/intermediaries whether they anticipate their firms making the procedural, control and system infrastructure investment to operationally support sweep programs that use a money market fund with a floating NAV and 71% said no.

Regardless of their view on the floating NAV, our members are concerned about the transition to a floating NAV if it is adopted, and strongly believe that regulators should carefully address several key issues raised by this fundamental reform, as described further below.

(a) Floating NAV - Consider transition issues.

The transition to a floating NAV raises the specter that shareholders may redeem rapidly in advance of the transition, in anticipation that, upon conversion, the NAV will drop below \$1.00. Or, equally troubling, if investors anticipate that the floating NAV will exceed \$1.00 upon conversion, investors may purchase shares for \$1.00, with the intention promptly to redeem following the conversion. Moreover, regardless of the NAV, shareholders may redeem as the conversion approaches due to uncertainty about other shareholders' intentions to redeem or other concerns about the changes. Rapid redemptions across multiple funds simultaneously could be particularly problematic. In any case, the Commission must properly consider and account for transitional changes if a floating NAV is adopted.

Regarding the transition, the SEC says:

> We believe th[e] [two year transition period that the SEC proposes] 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.

This language may imply that money market funds can time a transition to the floating NAV to coincide with market-based NAV that approximates $1.0000, and that funds will stagger their transitions over the two year period. Though possible, it is very unlikely for funds to time a conversion to coincide with the ideal NAV level (if any), and, as noted, the potential for industry-wide redemptions exists as the conversion approaches, regardless of the NAV. Further, we do not believe that funds can or will coordinate transitions to adequately minimize the potential for simultaneous redemptions. Even providing a sufficiently long compliance period does not fully address all the substantial concerns regarding the transition, though it may mitigate, to some extent, the bunching of conversions. Accordingly, the Commission must appropriately provide for the transition issues described herein if it elects to adopt a floating NAV requirement.

(b) Floating NAV – Recalibrate how retail money market funds would be distinguished from institutional money market funds for purposes of applying a floating NAV, if that reform is adopted.

The Commission has proposed that a retail money market fund (that may retain a stable NAV) be distinguished from an institutional money market fund (that must adopt a floating NAV) by a new requirement that the stable NAV money market fund limit daily redemptions by any record shareholder to $1 million (the "redemption limit"). We do not believe that this approach is the appropriate way to distinguish retail money market funds from other money market funds. Our members are concerned that the proposed redemption limit will inadvertently subject certain retail shareholders to the floating NAV, when those shareholders are not the type that poses redemption risk to the fund. As further detailed below, if the redemption limit were applied, the limit must be significantly higher.

As a threshold matter, we believe that the Commission should change its approach and consider identifying institutional funds that will be subject to the floating NAV, rather than identifying retail funds that can continue to maintain a stable NAV. Institutional funds generally have certain characteristics that distinguish them from retail funds – high initial investment minimums, lower management fees and generally smaller number of shareholders with higher concentrations. Accordingly, an approach that focuses on these criteria will be less likely to be over-inclusive than the approach of defining retail funds. Importantly, this approach targets those funds that the Commission intends to reform.

If the Commission remains focused on defining retail funds, many of our members have concerns regarding the proposed redemption limit. Rather than reflecting a benchmark that identifies a retail money market fund, the redemption limit imposes a constant, partial redemption gate on money market funds. Each fund family will need to decide which of its funds will impose the partial gate. Essentially, the redemption limit is a structural reform of money market funds, which each fund board will apply (or not apply) to a universe of its money market funds selected by it, in its discretion. Some of our members have said they have no appetite to offer this limited liquidity money market fund, which they expect will be unappealing to investors.

If the Commission pursues a definition of retail money market funds based on a redemption limit applied within each fund family to the funds the board selects, our members urge the Commission to set the daily redemption limit significantly higher. Our members report that retail money market funds regularly bear daily redemptions by record holders in excess of $1 million. Significantly raising the redemption limit would make the limit a somewhat more accurate criterion to identify retail funds and would assist with shareholder relations issues, as further described below. But, this modification would not solve the operational issues and the concern that the reform eliminates full liquidity - a core characteristic of a money market fund investment, and an essential feature for any money market fund used as a sweep investment vehicle.

For example, the Commission notes that municipal money market funds are generally intended for individual investors, because the tax advantages of their securities are only applicable to individual investors. "[A]ccordingly, a retail exemption would likely result in most such funds seeking to qualify for the proposed exemption." However, the $1 million limit will be inadequate to exempt many municipal money market funds[41] (as well as many retail-type prime money market funds). A higher limit may better target the reform where it will be most effective, without eliminating the valued benefits of the stable NAV for retail shareholders for whom the floating NAV will be unhelpful.

Our members do not have one consensus view on how to define retail money market funds.[42] To help inform the Commission's views in the event the Commission pursues the approach of defining retail funds, we have described below the disadvantages of the redemption limit as proposed and have offered two alternative methods to identify retail funds that would be

[41] For compelling reasons set forth above, municipal money market funds should be exempted entirely from the fundamental reforms. If the Commission adopts that exemption, the retail exemption need not be structured to address municipal money market funds.

[42] Some members believe that one reason to avoid the floating NAV fundamental reform entirely is the near impossibility of properly and narrowly determining the universe of funds which will bear its substantial burdens.

exempt from the floating NAV requirement, that would allow shareholders full access to their account balances.

Disadvantages of the redemption limit

The redemption limit, as a partial, constant gate, eliminates one of the core advantages of all mutual funds, which is required by the Investment Company Act of 1940, as amended, and which is a particularly important characteristic of money market funds: shareholders have full access to their cash on a daily basis. The Commission has recognized that the ability to redeem is central to shareholder protection. In adopting Rule 22e-3, which permits suspension of redemptions, the Commission said that the restriction on redemption must be limited to "circumstances that present a significant risk of a run on the fund and potential harm to shareholders."[43] The proposed redemption limit is not carefully circumscribed.

A continuous partial gate limits the utility of money market funds as a viable cash investment for many shareholders. Survey data has shown that money market fund reform measures that would reduce daily liquidity could cause a significant number of retail investors to shift assets out of money market funds.[44]

Members report that broker-dealers intermediaries who use money market funds as a vehicle for sweep investment are likely to abandon limited liquidity funds in their programs. Sweep accounts are passive investment vehicles, in that the daily activity in a sweep account is the result of activity in other accounts of the shareholder. Specifically, under a sweep program, uninvested cash balances in another account after all other transactions have been posted are swept into a money market fund (or other vehicle), typically at the end of the day. Or, the sweep program may set a target balance in the other account above which all funds are swept into the money market fund or below which funds are swept out of the money market fund at the end of the day. A money market fund that may not be capable of redeeming the entire amount required by the sweep account will require changes in functionality for a sweep program that are costly and time consuming to develop.[45]

The proposed redemption limit on retail funds that are exempt from the floating NAV is expected to be costly to implement when considered alone (in isolation from other aspects of the floating NAV). Of distributors/intermediaries responding to the Survey, 50% estimated an initial

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[43] See *Money Market Fund Reform*, SEC Release No. IC-29132 (February 23, 2010) available at http://www.sec.gov/rules/final/2010/ic-29132.pdf.

[44] See, for example, "The Investor's Perspective," dated February 3, 2012, reflecting research by Fidelity Investments, available at https://www.sec.gov/comments/mms-response/mmsresponse-34.pdf.

[45] See "Operational Implications of a Floating NAV Across Money Market Fund Industry Key Stakeholders" by the U.S. Chamber of Commerce Center for Capital Markets Competitiveness with Treasury Strategies, supra footnote 9.

cost of modifying procedures, controls and systems to implement this feature alone to be $2 million or more (with 43% estimating $2 million to $5 million and 7% estimating $5 million to $10 million). Of distributor/intermediary respondents, 43% estimated ongoing annual costs to implement the $1 million redemption limit to be 1% to 5% of initial costs, 14% estimated ongoing annual costs of 5% to 10% of initial costs, 29% estimated ongoing annual costs of 10% to 15% of initial costs, and 7% each estimated 15% to 20% and 20% to 25% of initial costs.

In light of those costs and anticipated low demand, if the redemption limit is imposed, some sweep programs may pursue alternatives to offering limited liquidity funds. The programs may opt to place a limit on account size for participation in the program to less than $1 million or may substitute U.S. Government money market funds in the program, which are exempt from the requirement to float the NAV, rather than applying the redemption limit. Investor choice will be significantly limited.

To avoid imposing the redemption limit, some fund sponsors may create separate funds, each of which limits investments to $1 million each day, that together allow a shareholder to redeem more than $1 million each day in the aggregate. This may also be an approach that broker-dealers would be required to follow so that they can offer money market funds that have limited liquidity as a sweep option for clients who may have larger sweep account balances. Any such solution will favor larger fund sponsors who have the resources and scale to create this structure, over smaller fund sponsors and potential new entrants to the money market fund field. It would also defeat the Commission's purpose of distinguishing retail from institutional money market funds.[46]

For a money market fund that does not structure such a solution to the redemption limit, the redemption limit could raise daunting shareholder relations issues. Funds would need to consider how to satisfy shareholder redemption needs, particularly for a shareholder whose account grows in size, over time, to exceed the limit. Notwithstanding adequate disclosure, a shareholder who is accustomed to complete liquidity may be sorely disappointed (and his or her financial needs thwarted) to find suddenly that his or her redemption of the full account is blocked.

The redemption limit imposes a substantial operational challenge particularly with regard to omnibus accounts that are held on a money market fund's shareholder records. To make use of the retail fund exemption based on the redemption limit, money market funds will need to create and implement new systems to monitor redemptions by underlying record shareholders. Our members believe that many omnibus holders will stop offering money market funds rather than adding staff, modifying systems and reviewing and updating processes and procedures to allow funds to monitor redemptions.

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[46] It will still be necessary to address the possibility of "work arounds" if the Commission adopts a higher redemption limit.

The redemption limit poses substantial challenge to implement as an initial matter, because fund families often do not segregate their retail and institutional shareholders into separate funds, and certainly not based on a redemption limit. On the contrary, in recent years, some funds have taken the opposite approach, combining retail and institutional investors in the same fund. To apply the redemption limit in a meaningful way, funds will be forced to segregate shareholders who currently are in the same fund into separate funds to which the redemption limit does or does not apply. To accomplish this segregation, funds may need to solicit proxies to obtain a shareholder vote. Money market funds frequently find it exceedingly difficult and costly to obtain a quorum of shareholders to vote in a proxy solicitation due to the typically widely-dispersed shareholder base. In our Survey, 57% of asset manager respondents estimated the costs of the shareholder vote to segregate retail from institutional investors could range from $2 million to $5 million. Another 14% of asset manager respondents estimated those costs at $1 million to $2 million.

The SEC staff recognizes the significant costs of implementing the retail exemption, estimating that the one-time costs to implement the retail exemption to the floating NAV proposal, including various organizational, operational, training and other costs would range from $1 million to $1,500,000 for each fund that chooses to take advantage of the exemption.

Under this alternative, funds would also have the challenge of matching accounts where the fund or the transfer agent has reasonably available identifying information showing that multiple accounts have the same owner, such as where a shareholder owns the same fund's shares in an account held directly with the fund and also through an individual retirement account. The fund would need to aggregate redemption requests from all accounts held by that shareholder of record on each day, and impose the daily redemption limit to the total redemptions. The fund would need policies and procedures to deal with aggregate redemptions that exceed $1 million by a shareholder who has several accounts. The fund will need to determine which account will suffer a blocked redemption – a significant operational and shareholder relations issue. Broker-dealers that maintain omnibus accounts with a fund for all client positions would be required to develop systems to track the same related account holdings and redemptions. In addition, brokers would be unable to identify fund shares held by a shareholder in accounts at multiple brokers. Accordingly, it may not be possible to accurately detect redemptions exceeding $1 million per day, particularly if the redemptions were completed in accounts held through different brokers.

The Commission asked how funds would ensure that omnibus account holders impose the redemption limit. We have included data on that issue from our Survey in Appendix 3.

<u>Possible Alternatives to the Redemption Limit</u>

In light of these considerations, our members urge the SEC to consider the following alternatives to the redemption limit.

(1) Social security number or tax identification number. A retail fund may be a fund whose shareholders have social security numbers rather than tax identification numbers.[47] This approach uses data that asset managers and intermediaries already collected from their customers and ensures that the actual investor is an individual person, whether investing directing in a fund, through an intermediary who certifies that all underlying holders have social security numbers or as part of a tax-deferred retirement or savings plan or trust which has all underlying beneficiaries using a social security number. Half of respondents to our Survey said that implementing this approach would be less challenging, operationally, than implementing the redemption limit.

(2) Minimum initial investment. A fund that imposes a minimum initial investment below a specified dollar amount could be considered to be a retail money market fund. A minimum initial investment criterion is simple and clear. Further, this approach is operationally feasible, because minimums already exist in each fund, so that no change to fund structure would be necessary. Of respondents to our Survey, 63% said that implementing this approach would be less challenging, operationally, than implementing the redemption limit. A possible drawback to this approach is that institutional investors may migrate to funds with low minimum initial investments to avoid the floating NAV, defeating the Commission's purpose of imposing the floating NAV on shareholders who pose greater redemption risks.

In certain cases, omnibus accounts held at a fund should be treated as retail based on the nature of the omnibus account regardless of the investment minimum. For example, consider an employer-sponsored retirement plan or college savings account (each referred to as a "plan") held directly at a fund where the plan itself is subject to an initial investment minimum exceeding the dollar threshold level to invest in the fund. Plan holdings should be excluded from testing under the minimum initial investment criterion.

(c) Floating NAV – Sufficiently address tax, accounting and brokerage issues.

Money market funds with a floating NAV will lack the tax convenience, accounting simplicity and operational convenience of money market funds in their current form. Our members feel strongly that a floating NAV will be untenable unless certain tax and accounting issues are fully addressed in advance of adoption of fundamental reforms, and regulators provide guidance on the application of suitability standards for investment of brokerage accounts in floating NAV money market funds.

Tax

Reporting gains and losses on share redemptions and complying with the tax code's "wash sales rule" will be burdensome for money market funds and their shareholders, given the

[47] Funds can look to an intermediary to certify that all of the underlying participants have social security numbers, to facilitate this criterion as an accurate indication for individuals that purchase through a plan, omnibus account or other intermediary.

frequency of trading in money market fund shares as a cash management tool. Many share redemptions may result in a gain or loss (though in minute amounts), especially if the Commission requires basis point rounding (discussed under the next caption below). Shareholders would need to determine what method to use to identify the cost of the particular shares being redeemed, if the shareholder had purchased shares on different dates (FIFO, LIFO, average cost or specific identification). Parties would need to begin tracking whether gains and losses are short-term or long-term gains and losses. New reporting on Form 1099 will be required for certain shareholders to comply with these requirements.[48] Some of these burdens may be reduced, the Commission points out, if Treasury and IRS modify forms and guidance to allow net information reporting by funds of realized gains and losses for sales of money market fund shares and allow summary income tax reporting by shareholders. 45% of respondents to our survey estimated the initial cost of implementing tax reporting of gains and losses at under $500,000 and roughly a quarter of respondents each estimated initial costs of $500,000 to $1 million and $1 million to $2 million, respectively.

It is important that the IRS and Treasury effect these changes before the Commission moves forward with the floating NAV, if it elects to do so. Nevertheless, even with these changes in place, the systems and reporting burdens described will be somewhat reduced, but not eliminated. Consider also that these burdens may yield little revenue for the IRS. For example, the redemption of 100,000 shares in a money market fund following a one basis point decline in the fund's NAV would result in a $10.00 loss.

Under the "wash sale" tax rule, the IRS forbids 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. Instead, losses on sales must be added to the basis of the replaced securities. Since most money market fund shareholders reinvest dividends monthly, most redemptions will be within 30 days of a purchase, and therefore subject to wash sale disallowance. The IRS has issued a proposed Revenue Procedure (Rev. Proc.)[49] that deals with the wash sale rule. The Rev. Proc. proposes a de minimis exception from the loss disallowance rule for losses realized on redemption of a share of stock the amount of which (expressed as a positive number) is not more than one half of one percent (0.5%) of the taxpayer's basis in that share.[50] However, this proposed solution does not reduce the burden created by a floating NAV. Funds and intermediaries will need to construct systems to track and measure wash sales under

[48] Currently, no information reporting on Form 1099 is required to report redemptions of shares in money market funds that maintain a stable net asset value. See §§ 1.6045-1(c)(3)(vi), 1.6045A-1(a)(1)(v), and 1.6045B-1(a)(5) of the Income Tax Regulations.

[49] See IRS Notice 2013-48 at http://www.irs.gov/pub/irs-drop/n-13-48.pdf.

[50] We believe that the amount of a loss which is excepted from loss disallowance should be as much as 1.0%. Consider that a money market fund's NAV may move from $0.995 to just under $1.005 without the money market fund "breaking the dollar." Transactions within that range should be subject to wash sale disallowance.

the exception. Exempt taxable recipients that do not receive information reporting statements on Form 1099-B will similarly need to build their own systems to track and report wash sales. To better address the issue, we recommend that the IRS provide a broad exemption from wash sales reporting for money market fund shares. This approach is consistent with policy concerns, as the IRS recognizes that redemptions of money market fund shares "do not give rise to the concern that [the wash sale provision] is meant to address."

Accounting Issues

Regarding accounting issues, the Release does not provide sufficient certainty as to whether shareholders of floating NAV money market funds may continue to categorize the shares of floating NAV money market funds as "cash equivalents" on their financial statements. The Commission states that the adoption of a floating NAV alone would not preclude shareholders from classifying their investments in money market funds as cash equivalents under Generally Accepted Accounting Principles, but requests comment on this conclusion. We ask that the Commission work with the Financial Accounting Standards Board to provide definitive advice on this issue prior to reform if the Commission requires a floating NAV.

Brokerage suitability and other issues

The Release also raises potentially significant issues for broker-dealers pertaining to suitability and sweep account transfers. Under Financial Industry Regulatory Authority ("FINRA") Rule 2111, a member broker-dealer must have a reasonable basis to believe that a recommended securities transaction or investment strategy is suitable for its customer, considering such factors as time horizon and liquidity needs. This includes customer recommendations to purchase or sell money market fund shares.

Questions have arisen as to how broker-dealers will be expected to meet this obligation in light of the proposed amendments, particularly with respect to stable NAV money market funds that convert to floating NAV money market funds. While our members believe that floating NAV money market funds will remain suitable investments for current customer accounts (including those used to write checks and pay bills), to avoid any uncertainty, we urge the Commission or FINRA to affirmatively weigh in on the issue. At a minimum, we believe that the Commission and FINRA should clarify that any money market reforms that are implemented will not, on their own, result in money market funds not being considered suitable investments for customer accounts.[51] We believe that this will minimize any potential significant

[51] A similar suitability issue arises for money market funds that have a redemption fee or a gate, and we urge the Commission or FINRA to provide its view on suitability in that context as well.

redemptions from floating NAV money market funds in brokerage accounts due to uncertainty over suitability.[52]

(d) Floating NAV – The Commission should not require basis point rounding, as it will serve little purpose, may confuse shareholders and will be costly to implement.

The Commission proposes that money market funds that have a floating NAV price their shares using a rounding convention that is ten times more precise than other mutual funds. The proposal would require funds to price and transact in their shares at an NAV that is calculated to the fourth decimal place for shares with a target NAV of one dollar (*e.g.*, \$1.0000). The Commission refers to this rounding as "basis point rounding." Other floating NAV mutual funds are required to round to the nearest tenth of a penny on a \$1.00 share.

We urge the SEC not to require basis point rounding for floating NAV money market funds, as it will serve little purpose and may confuse shareholders. Funds that use basis point rounding are likely to experience fluctuations in their share value on a more regular basis than funds that use the normal rounding convention, though in minute amounts. In fact, the consensus of our members in our operations group is that a basis point rounded floating NAV would likely change daily, given historical mark to market fluctuations. A shareholder may find that the money market fund shares he or she owns fluctuate in value more frequently (that is, on more days within a given period), than shares of an ultra-short term bond fund that he or she owns

[52] Moreover, in the event floating NAV money market funds are deemed unsuitable for certain investors (or undesirable or impractical for reasons other than suitability, such as for use as a sweep account vehicle), broker-dealers would face challenges in moving shareholders out of the funds. These challenges would be particularly acute in the case of floating NAV money market funds held through sweep arrangements. For example, those brokers seeking to replace floating NAV money market funds with fixed NAV money market funds would be required to either obtain prior written authorization from all impacted brokerage customers under NASD Rule 2510(b) or effect the transactions as bulk exchanges through the negative consent letter process in accordance with the terms of NASD Conduct Rule 2510(d)(2). To take advantage of the bulk exchange process, broker-dealers could not implement the exchanges until at least 30 days after the negative consent letter is sent to customers.

Finally, conversions of fixed NAV money market funds to floating NAV money market funds could raise operational issues even for those broker-dealers, if any, that continue using the converted floating NAV money market funds as sweep vehicles for their customers. For example, under recent amendments to Rule 15c3-3, broker-dealers that invest customer free credit balances through sweep programs in money market funds must provide 30 days advance written notice before making any "changes to the terms and conditions of a product currently available through the Sweep Program." (Rule 15c3-3(j)(3)(i)(A).) The conversion of a fixed NAV money market fund to a floating NAV money market fund offered through a sweep program could be deemed a product change necessitating 30 days advance prior written notice to all impacted customers.

It is important to note that the amended rule also requires 30 calendar days advance written notice to any changes, additions or deletions of products available through a sweep program (Rule 15c3-3(j)(3)(i)(C).) Thus, broker-dealers that discontinue offering floating NAV money market funds arguably would be required to provide advance written notice of such deletions.

which holds similar securities. A shareholder may well wonder why this is so. We do not believe that the fluctuations that occur in the hundredths of a penny column are more consequential for a money market fund than for other types of mutual funds.

Further, the more precise rounding may imply a pricing precision that does not reflect a market reality. As the Release states,

> the 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.[53]

Different pricing services may provide prices for the same security that differ from each other in the fourth decimal place, due to different algorithms or estimates used to determine the price. Given the lack of market transactions in many money market fund securities, it seems unwise to encourage investors to view basis point price changes as a meaningful reflection of risks within a money market fund or the markets in which its securities trade, particularly when that approach does not apply to other mutual funds.

To the extent that fluctuations in the fourth decimal place are intended to serve an educational purpose regarding share value (by altering investor expectations regarding changes in share value), this purpose could be equally as well served by <u>disclosure</u> of value to the fourth decimal place, rather than requiring share <u>transactions</u> with this precision. Furthermore, shareholders in the funds that have a floating NAV – institutional funds – are more sophisticated and generally not in need of this precision for educational purposes. In any event, we are concerned that rounding to an additional two decimal places is as likely to result in shareholder confusion as to enhance shareholder knowledge.

Also consider the substantial cost associated with implementing basis point rounding. 27% of our Survey respondents estimated the initial cost of implementing basis point rounded floating NAV to range from $2 million to $5 million, 5% estimated initial costs of $5 million to $10 million, and 18% estimated initial costs of $1 million to $2 million. Ongoing costs are estimated at 10% to 15% of initial costs by 19% of respondents, 15% to 20% of initial costs by 14% of respondents and at 20+ % of initial costs by 10% of respondents.

(e) Floating NAV – Lengthen the Implementation Period.

The Commission should lengthen the implementation period for the floating NAV to at least three years to allow adequate time for the massive operational modifications that will be necessary for industry stakeholders to comply. An implementation period of at least three years

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[53] See Release at p. 15. See additional information regarding matrix pricing in footnote 36 above.

is necessary to design, test and implement the redemption limit for retail funds that are exempt from the floating NAV, isolated from the move to a floating NAV generally.

V. DISCLOSURE

The Commission should (a) clarify the proposed disclosure amendments regarding financial support of money market funds; (b) eliminate certain of the other proposed new disclosures; and (c) ease the filing deadlines for Form N-CR.

Financial support received by money market funds - The Commission should (i) clarify that only financial support that occurs after the compliance date must be disclosed; (ii) not require disclosure of financial support of predecessor funds following reorganizations of funds in different fund complexes; and (iii) clarify the definition of "financial support."

Post Compliance Date. The Release proposes amendments to Form N-1A that would require money market funds to disclose in the statement of additional information ("SAI") those instances in the past ten years in which the fund has received financial support from a sponsor or fund affiliate. The Commission states that "the proposed disclosure also 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 urge the Commission to clarify that a fund need only provide this information with respect to instances that occur after the compliance date for the amendments, because instances prior to the compliance date are unlikely to predict the sponsor's future willingness to support the fund. During 2010, a rating agency noted that a fund sponsor's willingness to support a money market fund might decline from levels during the 2008 financial crisis due to changed market circumstances.[54] Since that time, further events have rendered prior sponsor support even less relevant to an understanding of whether further sponsor support will be forthcoming. For example, tightened money market fund regulation and new banking regulation applicable to affiliates of many money market fund sponsors have modified the analysis for support of sponsored funds.

Predecessor Fund Financial Support. The Commission proposes that if a money market fund has participated in a merger with another investment company during the last ten years, the surviving fund must provide in its SAI the required disclosure of financial support with respect to the acquired investment company. This disclosure should not be required for reorganizations between funds in different fund complexes, because this information is unlikely to predict the acquiring fund sponsor's financial position or management style going forward. Further, this disclosure requirement could dissuade potential acquiring funds from acquiring targets with a history of

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[54] These changes include significant increases in fund size, low recoveries on some defaulted securities and compressed profits of fund sponsors. See "Sponsor Support Key to Money Market Funds" prepared by Moody's Investors Service dated August 9, 2010 available at http://www.alston.com/files/docs/Moody's_report.pdf.

sponsor support; the acquiror may be reluctant to blemish its record in its own SAI. This unintended consequence of the disclosure could defeat the best interests of shareholders of potential acquisition targets, who might otherwise benefit from merging into a stable acquiring fund.

Definition of Financial Support. We urge the Commission to clarify the definition of "financial support" in the proposed disclosure in the SAI and Form N-CR to avoid triggering meaningless and misleading disclosure of transactions unrelated to alleviating stress in a fund. These clarifications also are necessary to standardize disclosures across the industry. Specifically, the Commission should clarify that the purchase of shares of a money market fund, the waiver of fees or reimbursement of fund expenses or inter-fund lending constitutes financial support only if the transaction is to provide liquidity or alleviate other distress in the fund. Fund affiliates frequently engage in the foregoing transactions unrelated to support transactions. Also, we request that the Commission clarify the "amount" of the support which is required to be stated in the SAI and the Form N-CR. For example, we believe it may be misleading to require the amount of a purchase of fund shares to be considered the amount of support. Rather, some funds may calculate the value of that support as the increase in NAV that results from the purchase. In any event, the Commission should provide instructions that specify the information to be disclosed, to assure comparable disclosures across the industry. Similarly, a capital support agreement does not necessarily provide support in the amount of the securities supported under the agreement. In this regard, please clarify that the SEC staff's prior interpretations of the valuation of capital support agreements are applicable for purposes of the SAI and Form N-CR disclosure.[55]

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[55]See the Staff Responses to Questions about Rule 30b1-7 and Form N-MFP updated July 29, 2011, available at http://www.sec.gov/divisions/investment/guidance/formn-mfpqa.htm The following advice in the Responses should govern the "amount" of capital support agreements purposes of disclosure in the SAI:

Question II.D.1.

Q: Several items of Form N-MFP require the market value of each security to be reported separately, including and excluding the effect of any capital support agreement. How should a money market fund disclose the effect of a capital support agreement that does not relate to a particular security, such as an agreement to purchase, from time to time, any one of a number of securities as necessary to support NAV or to provide liquidity?

A: The value of a capital support agreement that does not relate to a particular security should not be reflected in the value of any particular security. Rather, the value of the support agreement itself (if any, as of the date of valuation) should be disclosed on Form N-MFP. Each item in Part 2 of Form N-MFP should be completed for the capital support agreement, as a separate security. If the capital support agreement has a value less than its maximum value (or no value) as of the date of valuation, the capital support agreement should be listed at its current value (or as having a value of zero).

Question II.D.2.

Q: Items 45 and 46 of Form N-MFP require disclosure of the value of a money market fund share, including and excluding the effect of any capital support agreement. The value of certain capital support agreements will be determined only at such time as a loss is determined. (For example, an affiliate may agree to provide sufficient

<u>Disclosure of sponsor financial statements – The Commission should not require this disclosure as it implies that support may be given in the future, even though support is not and may not be required</u>.

The Commission asks whether, instead of, or in addition to, requiring funds to disclose historical information about financial support received from a sponsor or fund affiliate in the fund's SAI, the Commission should require a fund sponsor to publicly disclose its financial statements, to permit non-shareholders to evaluate the sponsor's capacity to provide support. We strongly oppose this suggestion. Each money market fund is financially and legally independent from its sponsor, and the sponsor has no obligation to provide support. The disclosure might mislead investors to purchase fund shares on an expectation that a financially strong sponsor will support the fund. Conversely, forcing disclosure of sponsor financial statements might encourage fund shareholders to exit a fund based on a decline in the fund sponsor's financial strength. This would defeat regulators' goal to reduce destabilizing redemptions. Further, the disclosure could have anti-competitive effects for funds managed by smaller fund sponsors. The small sponsor's assets may not measure up to those of larger fund sponsors, but this may not correlate to the risk profiles of the funds they manage.

<u>Disclosure of shareholder flows and shareholder concentration - The Commission should not require this disclosure, but if any disclosure of flows is required, the disclosure should focus on net, not gross, amounts</u>.

The Commission proposes to require website disclosure of daily net shareholder inflows and outflows and Form N-MFP disclosure of weekly and monthly shareholder gross inflows and gross outflows. Our members strongly believe that disclosure of shareholder flows will negatively impact shareholders, by encouraging redemptions in reaction to volatile flows, even when the fund is not under stress. Money market funds frequently experience volatile shareholder flows unrelated to stress in the fund, for example at quarter-end, surrounding tax payment dates and seasonally related to holidays. Or, the fund may have advance notice of an impending significant redemption. As part of funds' "know your customer" procedures, funds frequently are in contact with shareholders about expected flows, and are fully prepared to handle them. It will not be practical (nor, in some cases, consistent with shareholder confidentiality) to disclose the reasons for redemptions on a daily basis, and, without that information, shareholder flow information is unhelpful.

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capital, up to a maximum, to bring a fund's NAV to $.995, if a loss occurs.) How should a fund reflect the value of such an agreement?

A: If an affiliate has agreed to provide sufficient capital up to a maximum to bring a fund's NAV to $.995, for example, then the value of the support agreement is the amount necessary to bring the fund's shadow NAV up to $.995. If the fund's shadow NAV is $.995 or above, then the support agreement has no value for purposes of Form N-MFP.

Further, the flow information is not necessary to a shareholder's understanding of fund liquidity. New requirements to disclose daily the fund's daily liquid assets and weekly liquid assets will assure transparency regarding liquidity management without encouraging shareholders to redeem based on the redemption decisions of others.

If the Commission does require disclosure of shareholder flows, we urge the Commission to require disclosure only of the net redemption or purchase amount, rather than separate disclosure of gross purchases and gross redemptions. A focus on the net amount would prevent needlessly (and misleadingly) confusing shareholders with a redemption amount that has no effect on fund liquidity, because it is balanced by a commensurate purchase amount.

Separately, the Commission proposes to require disclosure in Form N-MFP of the total percentage of shares outstanding held by the 20 largest shareholders of record. Our members object to this proposed disclosure. Item 18(b) of Form N-1A currently requires disclosure which already satisfies the need for concentration information. Form N-1A requires disclosure of the name, address, and percentage of ownership of each person who owns of record or is known by a fund to own beneficially 5% or more of any class of the fund's outstanding equity securities. Requiring disclosure of the 20 largest shareholders also raises privacy concerns and may require further explanation to put it in the appropriate context. Twenty is also too large a number to be valuable in many cases. For example, a shareholder of a small percentage of a fund's shares (who would not expect his or her name to appear in a public filing), may be the subject of this disclosure in a widely dispersed money market fund. The benefit of the proposed disclosure is unclear given currently required disclosures.

Disclosure daily of fund holdings – The Commission should not require this disclosure.

Our members believe that the Commission should not require daily disclosure of fund holdings. Our members fear that, in some cases, more frequent disclosure of portfolio holdings also might lead to "front running" of the portfolio, where other investors could trade ahead of money market fund purchasers, or "free riding," where other investors mirror the investment strategies of the money market fund. Some fund complexes have moved voluntarily towards weekly or daily disclosure of holdings where investors have wanted that information and the funds believed they can supply it without surrendering a competitive advantage. This decision is best left to the discretion of each fund, which can consider the wishes of its shareholders and its particular portfolio management techniques, as well as appropriate lag time.

Disclosure on Form N-MFP – The Commission should not require weekly filing, nor require weekly data.

The Commission proposes that certain information on Form N-MFP be reported on a weekly basis: NAV per share, daily liquid assets, weekly liquid assets and shareholder inflows or outflows. The Commission also asks whether weekly filing of Form N-MFP should be required. We oppose both the weekly information gathering proposals and the suggestion to require weekly filing.

The weekly information gathering will increase fund costs and compliance burdens, but the benefit appears to be speculative. The Commission says that, "Increased periodic disclosure of the daily and weekly liquid assets on Form N-MFP would provide increased transparency into how funds manage their liquidity, and it may also impose market discipline on portfolio managers." The Commission states that weekly reporting will fill in "gaps" in information. But the benefit from this additional data is not stated. Money market funds already are significantly more transparent and subject to more market discipline than other mutual funds, due to required website disclosures of holdings and other information, and filings on Form N-MFP. Each of the items proposed to be reported weekly would also be subject to daily reporting on the fund's website, resulting in double reporting. This would result in additional cost, with no clear benefit.

Further, a money market fund, like all registered investment companies, is subject to disclosure obligations designed to assure that investors receive material information in connection with share purchases.

Disclosure on Form N-CR – The Commission should ease the filing deadlines.

We recommend that the one business day deadline be extended to at least three business days for an initial filing on new Form N-CR and that the four business day deadline be extended to at least seven business days for a supplemental filing of the description of the facts and circumstances and the board's analysis of its decisions regarding fees and gates.[56] Those extensions are necessary to ensure that the filings will be accomplished accurately and the analysis is prepared thoughtfully. A fund likely will draw on multiple parties within multiple organizations that service the fund company to prepare and review the form, making the one and four business day deadlines unrealistic. Also, board members may need additional time to review the description of their analysis. In addition, allowing a more realistic time for the filing will better enable personnel to focus on the first priority: implementing any actions that are authorized by the fund's board to address the exigent circumstances. Also consider that the fund's actions and the triggering event for the Form N-CR filing may require prospectus disclosure or notification to the Commission under other rule provisions, so that in many cases the Form N-CR filing will be duplicative of existing disclosure and notice requirements.

Disclosure in the Statement of Additional Information and Form N-CR – The Commission should not require discussion of board analysis.

Our members strongly recommend that the proposed revisions to Form N-1A and the provisions of Form N-CR which require the filing of a discussion of the board's analysis supporting its decision to suspend the fund's redemptions or supporting its decision that

[56] We also believe that the requirement to file the board's analysis should be eliminated entirely. See caption immediately below.

imposing a liquidity fee (or not imposing such fee) would be in the interest of the fund be deleted. 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.

Requiring disclosure of the board's analysis is not necessary to achieve disclosure of patterns of stress in a fund. Patterns of stress will be apparent in the other more directly relevant disclosures proposed by the Commission of historical sponsor support and liquidity shortfalls. We also believe that the disclosure is unlikely to be either meaningful or succinct, as an indication of the board's analytical process going forward. The facts of any exigent circumstance that triggers this disclosure are likely to be so unique and complex, that they do not provide a proper basis for investors to judge the board's decisions going forward. Also, the Commission points out that disclosure would need to "tak[e] into account considerations regarding the confidentiality of board deliberations." This consideration may make it difficult to provide the most complete disclosure.

Further, the disclosure will likely be tailored to preempt shareholder plaintiffs counsel who might target boards for liability in connection with their decisions. Unfortunately, litigation is likely in the exigent circumstances to which the disclosure will relate. This unfortunate fact may encourage lengthy, but not necessarily useful, disclosure.

Further, a requirement to disclose the board's analysis that is otherwise memorialized in fund minutes is unique, outside of advisory contract approval.[57] We oppose setting a precedent that could imply that board analysis must be publicly disclosed for each important decision made for a fund. Advisory contract approval is governed by Section 15(c) of the Investment Company Act, which specifically requires a fund's directors to request and evaluate, and an investment adviser to a fund to furnish, such information as may reasonably be necessary to evaluate the terms of any advisory contract. Based on that statutory requirement, Form N-1A requires the fund to "discuss in reasonable detail" in its shareholder report "the material factors and the conclusions with respect [. . . to approval of an advisory agreement] that formed the basis for the board's approval." There is no parallel statutory requirement to justify the unusual disclosure requirement relating to the liquidity fee and redemption gate.

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[57] Board considerations also are required to be disclosed in unusual circumstances that require a proxy statement to seek shareholder approval. In that case, disclosure of the board's considerations is necessary to help shareholders decide how to vote on the proposal.

The unusual approach to disclosure raises the question of whether the board is being held to a different or higher standard in its decisions on liquidity fees and redemption gates than for other matters within its discretion. The board's analysis regarding the liquidity fee and redemption gate will be protected by the business judgment rule. This standard provides, in summary, that the board will not be subject to liability for its decisions so long as it (i) acted in good faith; (ii) was reasonably informed; and (iii) reasonably believed that the actions it took were in the best interests of the fund and its shareholders. A different standard should not be implied – for example the standard that would govern shareholders' decision whether or not to invest in a fund.

VI. DIVERSIFICATION

The Commission should (a) retain the 25% basket for providers of guarantees and demand features, or otherwise ease the proposal to eliminate this basket; (b) clarify that money market funds need not treat sponsors of tender options bond programs as guarantors of the tender option bonds for purposes of provider diversification testing; and (c) clarify that the Commission does not intend that a fund must aggregate exposure to one or more tender option bond trusts with fund exposure to the liquidity provider of the tender option bond and its affiliates for issuer diversification purposes.

Under current Rule 2a-7, up to 25% of a money market fund's assets may be invested in securities supported by demand features or guarantees ("credit supports") by a single institution (each a "credit support provider"). The remainder of the fund's assets must be diversified as to credit supports.[58] The Commission proposes to eliminate the 25% basket, so that 100% of a fund's assets would be required to be diversified as to credit supports (resulting in a 10% limit per credit support provider for the entire portfolio). Our members recommend against elimination of the 25% basket. Eliminating the basket would make it significantly more difficult for funds to maintain an appropriate level of exposure to the most stable liquidity providers that provide credit support for their portfolio securities. That is, removing the 25% basket may increase diversification but may also force funds to take exposure to less creditworthy (though still Rule 2a-7-eligible) credit support providers.

The Commission suggests that eliminating the 25% basket will not be problematic for funds, stating that there are a total of 98 first tier guarantors available to support money market fund securities, and funds only use 13 of such institutions currently.[59] The Commission says, essentially, that many providers are "untapped." However, those providers do not currently, and it is not clear that those first tier providers will, support money market fund securities on a scale the Commission assumes. That is possible, but far from certain, given the opportunities these firms have already had to enter the market following the 2008 financial crisis.

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[58] Exposure to second tier credit support providers is limited to 2.5% of total assets.

[59] Release at p. 453.

With respect to municipal money market funds specifically, given the unique market, there has historically been a relatively narrow core group of banks and other financial institutions consistently providing much of the liquidity in the short-term municipal securities and tender option bond markets. Other credit support providers exist for short-term municipal securities and tender option bonds, but they often tend to be either opportunistic, limited in the type of credit support provided, or provide credit support in limited amounts. Some institutions that formerly provided credit supports have ceased doing so, due to changes in bank regulation and other reasons. Statistics illustrate that a small number of institutions support a significant percentage of municipal debt. At June 1, 2013, the top two liquidity providers for tax-exempt securities accounted for over 25% of the market.[60] Member data at a recent date shows that four banks support more than 40% of outstanding municipal variable rate demand notes.[61] The top ten guarantors of variable rate demand notes and tender option bonds comprise 46% of those markets, leading an industry professional to observe that "[The lack of diversity of guarantors] is particularly acute for tax-exempt funds. . ."[62]

Municipal money market funds typically make use of the 25% basket. As of June 30, 2013, data shows that 75% of municipal money market funds made use of the 25% basket.[63] If the 25% basket is eliminated, funds will need to trim certain credits; to replace those credits, funds may be forced to add exposure to other credits that they consider to be less desirable (though they are still eligible under Rule 2a-7).[64]

Lastly, relating to tender option bonds, there are a limited number of active and sizeable tender option bond programs in the municipal securities marketplace. As such, there is a limited number of credit support providers related to these programs. Municipal money market funds, of necessity, tend towards selecting these providers.[65] Tender option bonds are an important component of the weekly liquid assets held by municipal money market funds. If the 25%

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[60] Data compiled from Thompson Reuters.

[61] Compiled by imoneynet.com.

[62] See W. Alexander Roever, CFA, J.P. Morgan *Short Term Market Outlook and Strategy* dated July 29, 2013, at p. 4 et seq.

[63] Data compiled from Crane Data and Bloomberg.

[64] The Commission recognizes the possibility that if the 25% basket is eliminated, money market funds (including municipal money market funds) may need to move to different, potentially riskier, credit support providers. (See the Release at page 453.) In a strong credit market environment (and in an ultra-low rate environment), the impact of this change may be more muted. But in a deteriorating credit environment, this proposal may be counterproductive, because it will not allow municipal money market funds to manage their exposures to less risky providers as the fund "bumps up against" the new diversification limit.

[65] For example, municipal money market funds hold approximately $31 billion of tender option bonds issued by the three largest tender option bond programs. (Crane Data and Bloomberg)

basket is removed, it may be difficult for portfolio managers to acquire sufficient liquid assets in their municipal money market funds.

If the Commission does not retain the 25% basket, the Commission should consider otherwise easing diversification as to credit supports. For example, the Commission could permit exposure to a provider of demand features or guarantees up to 15% of total assets in a fund, rather than 25% of total assets (essentially, a "15% basket"). The appropriate percentage should preserve necessary flexibility for managers of money market funds.

We also recommend the Commission clarify that tender option bonds are excluded from the proposed requirement that money market funds consider for provider diversification purposes that the sponsors of asset-backed securities are guarantors of those securities. A sponsor has no obligation to guarantee the tender option bond.[66] There are a limited number of sponsors of tender option bonds, and requiring diversification as to these entities will impair the ability of a municipal money market fund to structure a high quality portfolio. We note that the Commission's concerns about asset-backed securities in the Release focus on asset-backed securities other than tender option bonds (particularly, structured investment vehicles). Tender option bonds have not given rise to the concerns raised by the Commission, relating to rapid downgrades of the underlying assets.

For purposes of issuer diversification testing, the Commission proposes to require money market funds to aggregate exposure to issuers that are control parties, and count those issuers as one exposure. Control for this purpose would mean ownership of more than 50% of an entity's voting securities. We request that the Commission clarify that it does not intend that a fund aggregate its exposure to a tender option bond trust with exposure to the liquidity provider that supports the tender option bonds for this purpose. We recommend this clarification, because under certain circumstances, the liquidity provider may own more than 50% of the securities issued by the tender option bond trust, but the trust is not part of the corporate family of the liquidity provider.[67] Further, the money market fund likely will not have a way to determine when the liquidity provider owns more than 50% of the securities issued by a tender option bond trust, as they are purchased in connection with their provision of ongoing liquidity.

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[66] We expect that funds may make a determination that they are not relying on the sponsor for any purpose under Rule 2a-7, in which case the Rule permits the fund to dispense with diversification (and other) testing as to the sponsor. (See Rule 2a-7(c)(6).

[67] Also, a money market fund likely is testing issuer exposure to the tender option bond trust as exposure to the issuer of the underlying bonds. Aggregating the exposure to the underlying bonds with exposure to the liquidity provider does not seem appropriate.

VII. QUALITY

The Commission should either not require review of financial data for issuers of guaranteed securities or should limit the requirement.

The Commission asks whether to require money market funds to obtain financial data on the underlying issuers of securities that are subject to a guarantee. We recommend that the Commission not adopt this requirement. If it is adopted, we urge the Commission to modify the requirement so that funds are required to obtain this information only when it is available. Our members believe that the requirement, as proposed, would pose a hardship on smaller or infrequent, particularly municipal, issuers for whom the cost of preparing and providing financial information would be unduly burdensome and would be an impediment to their access to financial markets. Investment advisers to funds are able to analyze the credit of the guarantor, the structure of the transaction and other factors to determine whether to invest in securities without issuer financial information. Market forces will determine whether the issuer must provide financial data to issue its guaranteed securities to funds seeking to comply with Rule 2a-7.[68] If the Commission adopts this requirement, to avoid hardship on existing issuers, the requirement should apply only on a going-forward basis to new issuances of securities.

Stress testing – The Commission should not adopt the proposed amendments to the stress testing requirements.

Our members' believe that the Commission should not adopt the proposed amendments that multiply the stress events that a fund must test under Rule 2a-7[69] and that mandate the nature of board reporting on the stress tests. The Commission states that it has observed disparities in the stress testing approaches of various firms, and, in the Release, the Commission apparently seeks to make testing more uniform among fund groups. However, our members believe that it is to be expected that stress tests differ between funds. Testing will differ based on the funds' holdings, the shareholder base, management style and other factors. Requiring tests that are not meaningful for a particular fund may yield results in a report that show no risk of breaking the dollar or of impaired liquidity. The board will not find those results helpful. Stress testing

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[68] For a discussion of certain types of small and infrequent municipal issuers for whom a financial data requirement would be overly burdensome, see *The Disclosure Dilemma for VRDOs Secured by a Letter of Credit* by J. Hobson Presley, Bond Lawyer (Summer 2011) at p. 42. The article generally discusses municipal issuer disclosure issues in light of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended. Rule 15c2-12 may be a more appropriate vehicle to address required disclosures by municipal issuers than Rule 2a-7.

[69] Specifically, the Commission proposes that a fund stress test for the effects of redemptions, reflecting how the fund will likely meet the redemptions, taking into consideration assumptions regarding the prices for which portfolio securities could be sold, historical experience in handling redemptions, the relative liquidity of the fund's securities, and any other relevant factors; the widening and narrowing of spreads among the indices to which interest rates of portfolio securities are tied; and other movements in interest rates that may affect fund portfolio securities, such as parallel and non-parallel shifts in the yield curve.

requirements should be flexible, as they currently are, to allow each fund to adopt the approach that is most meaningful for it and to allow stress tests to evolve as markets evolve. Also, please consider that the fund board may not request additional stress tests because the board relies more heavily on other information provided by the adviser, rather than on the stress tests. It is not advisable to make stress tests the preferred format for providing risk information to the board. Members expended substantial resources to introduce and refine stress testing after the 2010 amendments to Rule 2a-7, and are reluctant to implement costly but ineffective modifications.

Lastly, our members object to the proposed requirement that boards receive "such information as may reasonably be necessary for the board to evaluate testing conducted by the adviser and the results of the testing." Each board already receives a myriad of information about each money market fund over time, including reports on holdings, fund liquidity and management style and will receive more under other elements of the Proposed Rules. The board is free to request additional information it believes is necessary. The proposed catch-all requirement is superfluous, and could have the unintended consequence of encouraging needless clutter in board reports as funds seek to comply with this vague mandate.

SIFMA opposes removal of ratings from Rule 2a-7.

In the Release, the Commission states that it is not rescinding its outstanding 2011 proposal (the "Ratings Proposal")[70] to remove references to credit ratings from two rules and four forms under the Investment Company Act, as amended, including rule 2a-7 and Form N-MFP, under section 939A of the Dodd-Frank Act. The Commission says it intends to address that matter at another time. SIFMA submitted a letter dated April 18, 2011[71] on the Ratings Proposal, opposing the removal of ratings from Rule 2a-7 and from Form N-MFP. We reiterate here our views expressed in that letter, namely:

- The directive in Section 939A of the Dodd-Frank Act to review regulations that require an assessment of credit-worthiness does not apply to Rule 2a-7. That Section requires the Commission to substitute a different standard in light of the purposes for which regulated entities "rely" on ratings. Rule 2a-7 does not require reliance on ratings as an assessment of creditworthiness. Indeed, Rule 2a-7 forbids such reliance.

- While we understand that the Commission feels compelled to eliminate ratings provisions in Rule 2a-7 to satisfy Section 939A of the Dodd-Frank Act, we nevertheless wish to reiterate our view that the ratings provisions in Rule 2a-7 should be retained in the Rule. These provisions benefit shareholders and serve an important purpose as a quality floor, different from ratings provisions in other regulations.

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[70] *See* References to Credit Ratings in Certain Investment Company Act Rules and Forms, Investment Company Act Release No. 29592 (Mar. 3, 2011) , available at http://www.sec.gov/rules/proposed/2011/33-9193.pdf.

[71] Comment letter available at http://www.sec.gov/comments/s7-07-11/s70711-4.pdf.

- Even if the Commission concludes that Section 939A of the Dodd-Frank Act requires removal of references to ratings in Rule 2a-7, Section 939A of the Dodd-Frank Act does not apply to Form N-MFP, which is a disclosure form, rather than a requirement for a quality assessment. Therefore, questions relating to ratings should be retained in that Form.

- If the Commission concludes that Section 939A of the Dodd-Frank Act requires elimination of references to ratings in the Rule, we support efforts to urge Congress to amend Section 939A of the Dodd-Frank Act so that it will direct regulators to require that ratings-based determinations be accompanied by additional credit risk analysis, rather than requiring removal of references to ratings. Rule 2a-7 already includes a requirement for additional risk analysis – the requirement that each security present minimal credit risks as determined by a fund's board of directors or its delegate.

CONCLUSION

SIFMA respectfully urges the Commission to carefully consider our comments, as SIFMA believes that certain of the proposed amendments are not in the best interests of money market fund shareholders and money markets generally, and would create additional risks and impose substantial unnecessary costs on money market fund sponsors and their shareholders that would far outweigh the potential benefits. Money market funds are essential to a well-functioning financial system, and we hope any reforms will strengthen them and preserve their benefits.

If you have any questions or require additional information, please do not hesitate to contact either Tim Cameron at 212-313-1389, Matt Nevins at 212-313-1176 or John Maurello at 212-313-1241. Thank you for your attention to these comments.

Sincerely,

Timothy W. Cameron
Managing Director
SIFMA Asset Management Group

John Maurello
Managing Director
SIFMA Private Client Group

Matthew J. Nevins
Managing Director and Associate General Counsel
SIFMA Asset Management Group

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

Appendix 1
About the SIFMA Member Survey
of the Operational Impacts of Money Market Fund Reform

In August 2013, the SIFMA conducted a detailed survey on the operational impact of money market fund reform among members. SIFMA received 28 responses from its members, including 10 asset managers and 18 distributor/intermediaries. 9 of the 10 asset managers who responded to the Survey advise funds which are among the top 20 largest money fund families,[72] together managing over $1.3 trillion in assets. The survey was administered via a web-based application. Where stated in our comment letter, the responses formed the basis of our comments on operational impacts of money market fund reform.

Among survey respondents, a small number used operational platforms for their money market funds that were either 100% internally sourced or 100% sourced from external vendors, and the remainder of respondents had operational platforms that included some combination of internal and external (vendor) sourcing.

Note that in some cases where we provide percentages of respondents who provided specified responses to our Survey questions, the figure represents a percentages of respondents who responded to the particular question. Not all respondents responded to every question.

[72] Crane Data

Appendix 2

Certain Component Costs of the Floating NAV

Our Survey respondents isolated certain of the component costs of the floating NAV as follows.

Costs associated with account statements

40% of respondents estimated initial costs of under $500,000
25% of respondents estimated initial costs of $500,000-$1 million
25% of respondents estimated initial costs of $1 million-$2 million
10% of respondents estimated initial costs of $2 million-$5 million

42.11% of respondents estimated ongoing annual costs of 1% to 5% of initial costs
15.79% of respondents estimated ongoing annual costs of 5% to 10% of initial costs
5.26% of respondents estimated ongoing annual costs of 10% to 15% of initial costs
21.05% of respondents estimated ongoing annual costs of 15% to 20% of initial costs
15.79% of respondents estimated ongoing annual costs of 20%+ of initial costs

Costs associated with confirmation statements

65% of respondents estimated initial costs of under $500,000
15% of respondents estimated initial costs of $500,000-$1 million
15% of respondents estimated initial costs of $1 million-$2 million
5% of respondents estimated initial costs of $2 million-$5 million

38.89% of respondents estimated ongoing annual costs of 1% to 5% of initial costs
11.11% of respondents estimated ongoing annual costs of 5% to 10% of initial costs
5.56% of respondents estimated ongoing annual costs of 10% to 15% of initial costs
11.11% of respondents estimated ongoing annual costs of 15% to 20% of initial costs
33.33% of respondents estimated ongoing annual costs of 20%+ of initial costs

Costs associated with reporting tax gains and losses

45.45% of respondents estimated initial costs of under $500,000
27.27% of respondents estimated initial costs of $500,000-$1 million
22.73% of respondents estimated initial costs of $1 million-$2 million
4.55% of respondents estimated initial costs of $2 million-$5 million

33.33% of respondents estimated ongoing annual costs of 1% to 5% of initial costs
14.29% of respondents estimated ongoing annual costs of 5% to 10% of initial costs
14.29% of respondents estimated ongoing annual costs of 10% to 15% of initial costs
19.05% of respondents estimated ongoing annual costs of 15% to 20% of initial costs
19.05% of respondents estimated ongoing annual costs of 20%+ of initial costs

Costs associated with performance reporting

65% of respondents estimated initial costs of under $500,000
25% of respondents estimated initial costs of $500,000-$1 million
10% of respondents estimated initial costs of $1 million-$2 million

42.11% of respondents estimated ongoing annual costs of 1% to 5% of initial costs
26.32% of respondents estimated ongoing annual costs of 5% to 10% of initial costs
10.53% of respondents estimated ongoing annual costs of 10% to 15% of initial costs
15.79% of respondents estimated ongoing annual costs of 15% to 20% of initial costs
5.26% of respondents estimated ongoing annual costs of 20%+ of initial costs

Appendix 3

How Asset Managers Would Assure That
Omnibus Account Holders Impose the Redemption Limit
on Retail Fund Shareholders

Of asset manager respondents to this question in our Survey, the following percentages expect to use the following methods to ensure that the omnibus account holder imposes the redemption limit:

Contractual provision	100%
Transparency into omnibus account holder transactions	28.57%
Certification from omnibus account holder	71.43%
Auditor report on controls (SSAE 16)	57.14%
Financial Intermediary Controls and Compliance Assessment	28.57%
On-site audit	42.86%
Other	14.29%