

September 17, 2013

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

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Re: Money Market Fund Reform; Amendments to Form PF ("**Proposal**") (File No. S7-03-13)

Dear Ms. Murphy:

We are writing on behalf of T. Rowe Price Associates, Inc. ("**Price Associates**"), which together with other affiliates, serves as investment adviser to the T. Rowe Price family of mutual funds ("**Price Funds**"), and in particular, the Price money market funds to express our views on the proposed recommendations regarding money market mutual fund reform. Price Associates manages 11 taxable and tax-exempt money market mutual funds, which include eight funds offered to retail investors (with approximately \$15.1 billion in assets as of June 30, 2013), two internally managed money funds for the cash reserves of our mutual funds and other institutional clients, and one variable annuity money market portfolio, which collectively held approximately \$18.0 billion in assets as of June 30, 2013.

On June 5, 2013, the Securities and Exchange Commission ("**SEC**") proposed two alternatives for amending rules that govern money market mutual funds under the Investment Company Act of 1940 ("**1940 Act**"). The first alternative proposal would require a money market fund to transact at a floating net asset value ("**NAV**") based on the current market-based value of the fund's portfolio securities. The second alternative proposal would require a money market fund to impose a liquidity fee if the fund's weekly liquid assets fall below 15% of its total assets, unless the board determines that it is not in the best interests of the fund to charge a fee (or, alternatively, to charge a lower fee); and would permit the fund to temporarily suspend redemptions through the use of a "gate." According to the Proposal, the two alternatives, which could be adopted alone or in combination, are designed to address money market funds' susceptibility to heavy redemptions, and increase the transparency of their risks, while preserving, as much as possible, the key features and benefits of money market funds.

Maintain Stable NAVs for Government, Municipal and Retail Prime Money Funds

As an initial matter, we continue to believe that the 2010 amendments to Rule 2a-7 under the 1940 Act significantly increased the resilience of money market funds. This resilience was confirmed during 2011 when money market funds withstood the volatile markets related to the escalation of the crisis in the Eurozone, a U.S. debt ceiling standoff, and a downgrade of the U.S. government's credit rating by a rating agency. Thus, we believe that any reforms should be narrowly tailored to preserve the key features of money funds for investors and to target the primary SEC concerns, which relate to the risks of heavy redemptions and preventing the spread

of contagion. The SEC notes that the floating NAV alternative is designed primarily to address the heightened incentive shareholders have to redeem shares in times of financial stress and to improve the transparency of money market fund risks through more visible valuation and pricing methods. We understand the rationale and are supportive of this aspect of the SEC proposal to impose a floating NAV on institutional prime money funds.

We agree with the SEC that based on the weight of evidence and our past experience (as shown below), any reforms that impact the structure of money market funds should exclude U.S. government money funds. Moreover, we agree with the SEC that any proposal to require a floating NAV should exclude retail prime money funds, which in our experience, do not present the risks that a floating NAV is intended to address. We also believe that the SEC should explicitly exclude municipal or tax-exempt money market funds from any further structural reforms. The tax-exempt money market is retail-dominated, relatively small in size and non-systemic in risk. In addition, tax-exempt money market funds generally maintain between 50-70% of their portfolios in highly liquid daily and weekly securities. Finally, these funds also are well diversified with hundreds of issuers available in the municipal market,¹ factors which tend to diffuse systemic risks and insulate such funds from the threat of destabilizing runs. Our tax-exempt money funds exhibited no signs of destabilizing runs during the financial crisis or in particular times of market stress produced by past high-profile credit events. In short, we believe tax-exempt money funds should be treated similar to other government money funds and exempted from the floating NAV requirement.

Our Money Funds' Experience

Even at the height of the financial crisis in September 2008 and as evidenced by our own analysis related to the Price retail money funds discussed below, our retail funds, including our prime and U.S. Treasury money funds, did not experience the level of redemptions that were reportedly experienced by certain institutional prime money market funds. For example, our retail prime funds did not experience weekly net redemptions over 3% of fund assets during the period from September through December of 2008. Our municipal money funds generally showed similar redemption patterns during the crisis with no weekly net redemptions greater than 6% of fund assets. In contrast, our Treasury money market fund experienced significant net subscriptions during the same time period. We also note that these redemption patterns are comfortably below the weekly liquidity requirements imposed by the 2010 money fund reforms, which require money funds to hold 30% of their assets in securities that can be liquidated in 5 business days.

¹ For example, the T. Rowe Price Tax-Exempt Money Fund held money market securities representing over 200 issuers as of its latest reporting period.

Table 1 below presents the cash flow (net subscriptions (+) and net redemptions (-)) in our retail prime money market funds - Prime Reserve Fund (“**PRF**”) and Summit Cash Reserves Fund (“**SCR**”) during the height of the financial crisis.

Table 2 presents the cash flow in our US Treasury (“**UST**”) retail money market fund compared to our retail money market funds, PRF and SCR, during the same time periods.

Table 3 presents the cash flow (net subscriptions (+) and redemptions (-)) in our municipal money funds – California Tax-Exempt Money Fund (“**CAM**”), Maryland Tax-Exempt Money Fund (“**MDM**”), New York Tax-Exempt Money Fund (“**NYM**”), Summit Municipal Money Fund (“**SMM**”), and Tax-Exempt Money Fund (“**TEM**”), during the same time period.

Table 1: Rolling 5-day Net Cash Flows of TRP Prime Retail Money Funds

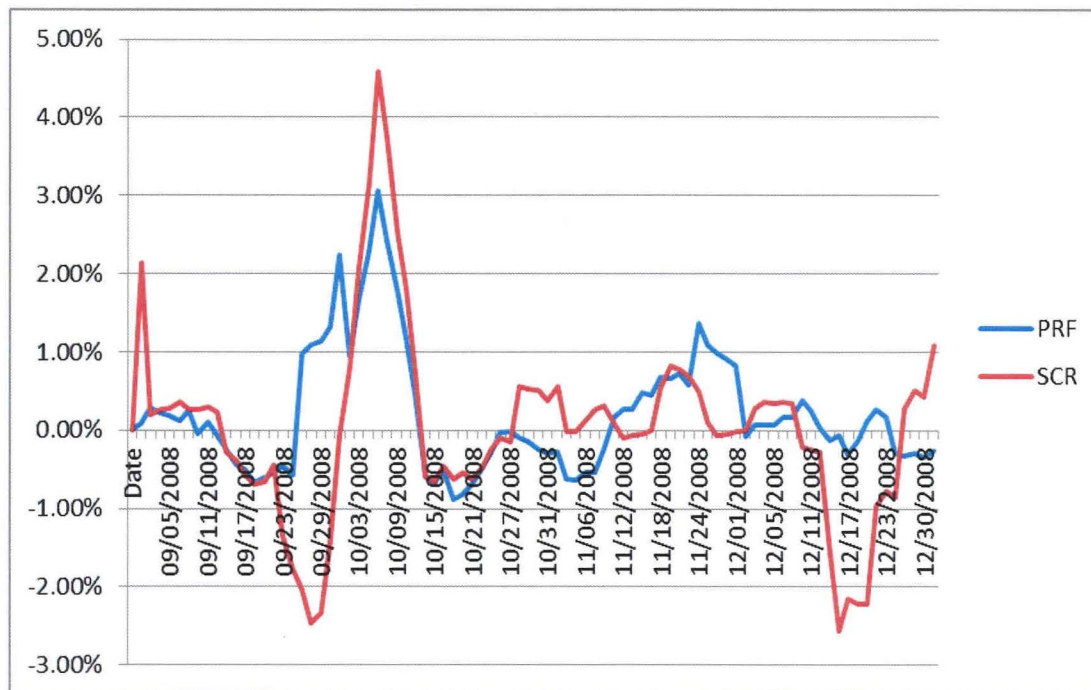


Table 2: Rolling 5-day Net Cash Flows of TRP Prime Retail Funds vs. Treasury Money Fund

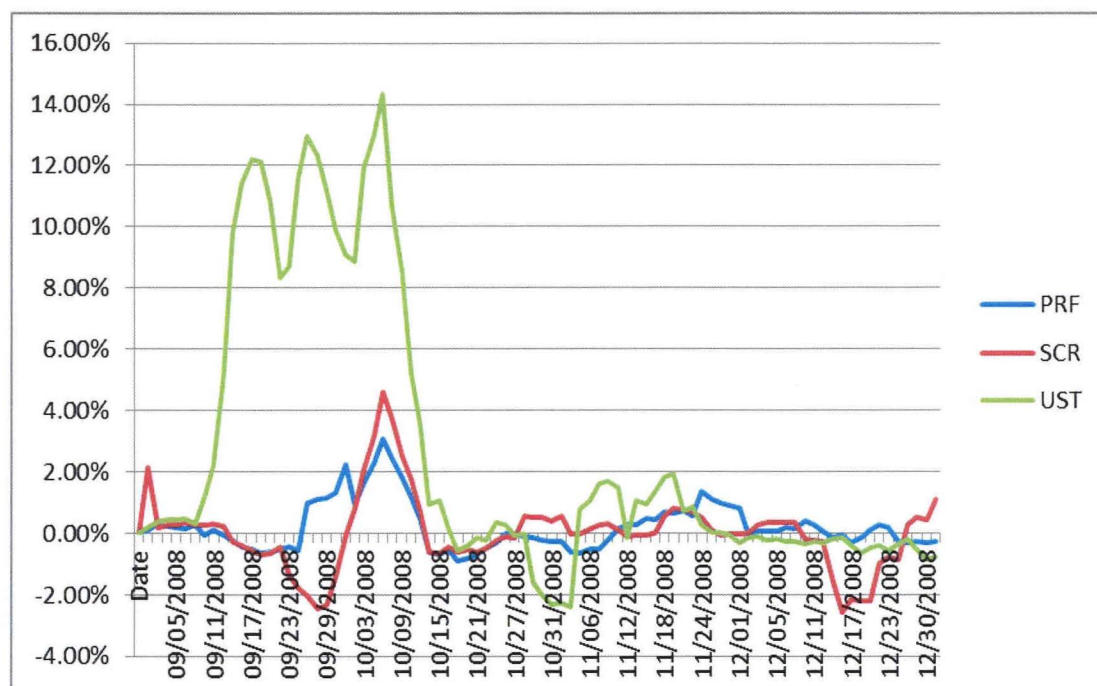
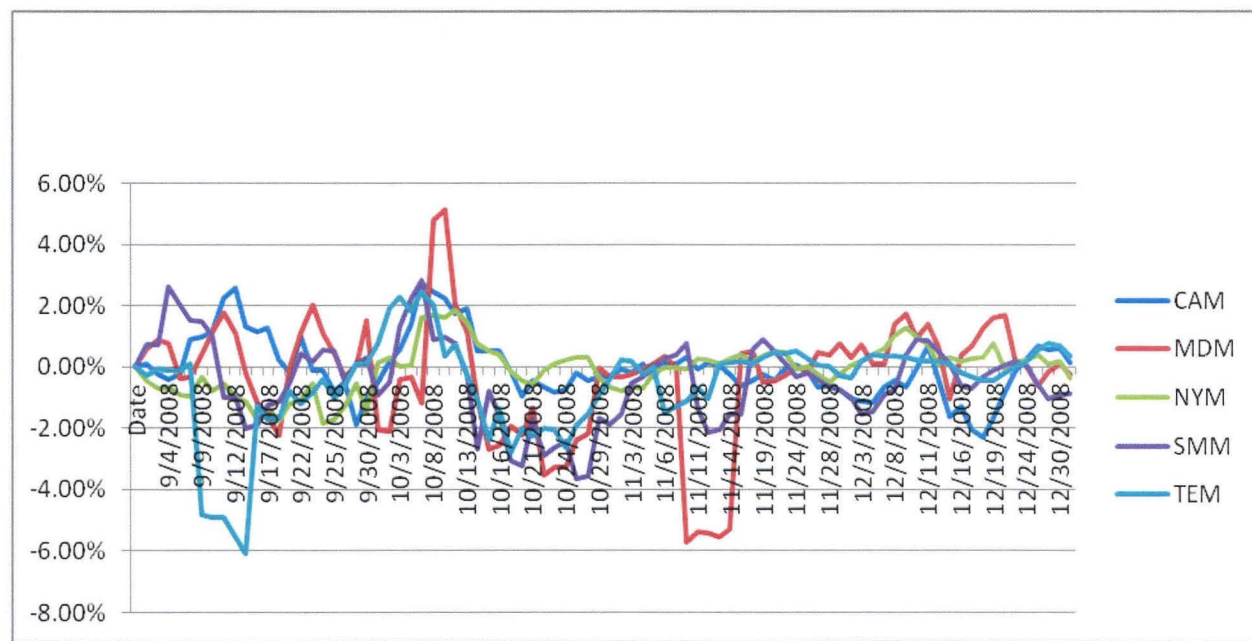


Table 3: Rolling 5-day Net Cash Flows of TRP Municipal Money Market Funds



Floating Net Asset Value Alternative

According to the SEC, the floating NAV is designed to reduce the incentives investors have to redeem ahead of others if there are potential losses in the fund because the NAV will reflect the current market value of the fund, and to minimize investor expectations that money market funds are without risk because the gains and losses will be readily observable. Although we are aware of no direct evidence that a floating NAV will meet the SEC's goal of preventing a run on money market funds, and because a stable NAV is a critical feature of money funds generally, we agree with the SEC that the requirement for a floating NAV should be narrowly applied to ameliorate run risk in only those funds that may be subject to such a risk. Money market funds that do not present these concerns, including the likelihood for investors to rapidly redeem their investments, should be permitted to continue to maintain a stable NAV. As discussed above, our Treasury, retail prime, and tax-exempt money funds did not experience the type of rapid and coordinated redemption activity that the SEC is trying to address.

Therefore, we agree with the SEC that retail prime money market funds should be exempt from the floating NAV requirement. Our view is also informed by the fact that our retail shareholders use money market funds as a cash management tool that provides a high degree of liquidity, stability of principal and short-term income. These goals may require frequent cash movement for check writing, cash sweep, and exchanges into other T. Rowe Price funds for their long-term investments -- all of which are best served by \$1.00 NAV funds. Thus, retail shareholders value the convenience and simplicity of the stable \$1.00 NAV, which is also essential for efficient operations, since typically these funds handle more transaction activity than the typical mutual fund. Finally, we would note that money funds were innovative precisely because of the \$1.00 NAV feature and the fact that they gave retail investors access to the commercial paper and other short-term debt markets - - markets that only institutional investors have historically been able to access directly. Therefore, because retail money fund shareholders have not demonstrated run behavior in the past and are unlikely to present the same characteristics as institutional money fund shareholders in the future, retail shareholders should be able to continue to utilize money market funds for the purposes outlined above.

Definition of Retail Investor

We believe, however, that the proposed definition of "retail" money market funds, which would limit each shareholder of record from redeeming more than \$1 million per business day, may not appropriately allow for retail shareholders to continue benefiting from a stable NAV. Based on our internal research, shareholders holding shares directly in the T. Rowe Price retail money market funds have redeemed over \$1 million more than 500 times in the last year (this does not include redemptions by shareholders holding shares through intermediaries). Also, retail customers often use money funds to temporarily consolidate their cash in the context of a retirement plan distribution or rollover or a major financial transaction such as a real estate purchase, all of which may exceed the \$1 million redemption limit. For this reason, we believe an alternative definition of "retail" money market funds such as the definition proposed by the Investment Company Institute ("ICI") in its comment letter based on accounts associated with a social security number ("SSN") would be more appropriate because it is synonymous with the

identity of a retail shareholder and is operationally less difficult to implement for funds and intermediaries than a per day limitation on redemptions.

Accounts with a SSN generally represent individual shareholders; and therefore, a SSN approach would create consistency throughout the industry and would provide objective onboarding criteria for both funds and intermediaries. Because such a restriction would only need to be enforced when the account is established, it would be easier to implement and less disruptive to shareholders than the SEC's proposed definition. Although there are certain retail accounts that may not have a SSN, at least 97.7% of the accounts in the T. Rowe Price retail money market funds, including SCR and PRF, the T. Rowe Price prime money market funds, are associated with a SSN. Therefore, we believe that a SSN approach would provide the most efficient method of characterizing retail funds for both funds and intermediaries. If necessary, intermediaries should be able to easily certify to funds that they have policies and procedures in place to restrict underlying accounts to shareholders associated with SSNs.

We also agree with the ICI that certain tax-advantaged saving accounts should be carved out of any definitional restrictions placed on retail money market funds or their shareholders. For example, accounts that are established for retirement or education savings, including individual retirement accounts, defined contribution plans and college and education savings plans, are used by individual investors and are typically subject to tax and other transaction restrictions which prevent rapid, coordinated redemption activity. These types of accounts and plans should automatically be eligible to invest in or use a stable value money fund as an investment option and should not be subject to any proposed definitional limitations for retail funds.²

Regardless of the definition of a "retail" fund, fund families and intermediaries holding shares in the retail funds will likely need to make system enhancements and adopt policies and procedures to enforce the retail fund limitations or restrictions. The SEC would not require retail money market funds to enter into explicit agreements with omnibus account holders, but would allow money funds to determine how to manage compliance with any retail limits. We are concerned that there is not sufficient guidance in the Proposal with respect to how money market funds will ensure that intermediaries are monitoring compliance with the limitations imposed on retail funds, and that the Proposal puts too much of the burden on funds to ensure intermediary compliance, particularly if the definition of "retail fund" is uniform across the industry. We believe that any rule should explicitly state that intermediaries that utilize retail money funds for

² Defined contribution plans in which participants direct investments illustrate the challenge. Few plan fiduciaries would engage in rapid redemption activity because of the importance of communication with participants about the investments offered through the plan; plan-wide movements of this kind are not only disruptive to plan operations, but are subject to DOL rules requiring advance notice of 30 days unless such notice is impracticable. To the extent that redemption activity reflects individual investor behavior, a redemption limit is also unworkable. Significant systems enhancements would be required to define and implement hierarchies on which transactions could be honored, and which would be pended. The possibility of pending transactions and imposing a hierarchy on redemptions would need to be communicated to participants, with attendant cost and complexity. It is difficult to conclude that money market funds would continue to be offered in defined contribution plans under these circumstances.

their underlying customers should cooperate with fund sponsors to monitor any SEC-imposed limits or qualifications for retail investors. While there are a number of ways that funds could ensure intermediary compliance, we think the release should acknowledge that it is acceptable to use a certification process, for example, with omnibus intermediaries.

Finally, we believe that before the implementation of any changes to Rule 2a-7 by the SEC that includes a requirement for a floating NAV, the SEC should work with the appropriate regulatory authorities to resolve any tax, accounting and operational issues that may result from a floating NAV. We believe that the resolution of these issues by various regulators is integral to an assessment of the costs and benefits and implementation of the floating NAV.

Liquidity Fees and Gates Alternative

We believe that if the SEC narrowly limits the requirement to float the NAV to those funds that may have created systemic risk in the past, they would not need to adopt the fees and gates alternative for other money market funds. The release suggests that the fees and gates alternative is designed to address the contagion effects of heavy redemptions in money market funds that had a significant impact on investors, funds, and the markets during the financial crisis. The SEC believes that regardless of the incentives to redeem, a liquidity fee would force the redeeming shareholders to pay for the costs of liquidity and gates can respond to a run by stopping redemptions.

In the discussion of the combination of the two proposals, the SEC notes that requiring funds with a floating NAV to also be able to impose standby liquidity fees and gates may be unnecessary to manage the risks of heavy redemptions in times of crisis. We agree with the SEC that if the floating NAV significantly changes investor expectations regarding money market fund risk and the prospect of suffering losses for those funds that experienced significant redemptions during 2008, the imposition of fees and gates should not be necessary. In fact, we believe that if the SEC adopts a floating NAV requirement for institutional prime money market funds and exempts Treasury, Government and tax-free money market funds, the potential systemic risk would be significantly reduced if not eliminated. Further, we are concerned that once liquidity fees or gates are imposed, they may not be so easily lifted without triggering a run, encouraging the very type of shareholder behavior that they were designed to prevent. Therefore, we think a floating NAV as applied to institutional prime funds is sufficient for purposes of further money fund reform.

However, if the SEC believes that it is necessary to adopt this alternative, we believe that a money market fund's board should be provided full discretion to determine when and if they should impose fees and gates. Under the current proposal, a money market fund would be *required* to impose a 2% liquidity fee if the fund's weekly liquid assets fall below 15% of the fund's total assets, *unless* the fund's board determines that the fee is not in the best interest of the fund or that a lesser liquidity fee is in the best interest of the fund. This default option, however, is illusory, as in practice, it does not provide true discretion to the board. Because the option mandates a 2% liquidity fee, we fear that boards that determine not to impose the fee (or to impose a lower fee) could be subject to potential backward-looking regulatory and shareholder scrutiny. Rather, the board should have full discretion to impose a liquidity fee or redemption

gate, depending on the circumstances of the overall market and the specific environment for the fund's portfolio securities. This would be consistent with the discretion that is traditionally assumed by mutual fund boards in other contexts, such as the decision to impose a redemption fee and the amount of the fee in order to protect a fund from excessive trading.

Enhanced Disclosure and Stress Testing Requirements

The SEC has proposed to require stable NAV money funds to disclose prominently on their websites each day the funds' daily market-based NAV as well as daily and weekly liquid assets, and net inflows and outflows for a rolling six-month period. We support disclosure of a daily market-based NAV, which will provide additional transparency into any stresses in the portfolios. However, we feel that disclosure of daily and weekly asset levels and net inflows and outflows will not be understood or utilized by retail investors, and that the costs of updating these disclosures on a daily basis would outweigh any benefits. Investors already receive monthly portfolio holdings disclosure, and when coupled with a daily market-based NAV, this should provide retail investors with enough information to judge the current health of a money fund portfolio.

The SEC has also proposed to expand the stress tests conducted by money funds to include the impact of stresses on the level of weekly liquid assets, different combinations of various stress tests, and other information. We agree with the ICI's comment letter that further changes to the stress testing rules are unnecessary. Our current stress testing reports as mandated by Rule 2a-7 are robust and informative, covering what we believe are the major risks to a money fund (our typical board report summarizes five different stress tests and is 20 pages in length). We are concerned that adding additional tests on issues of lesser importance will detract from the stress testing and obfuscate the more important information. The SEC should not mandate further types of testing; rather, they should allow the board to determine what additional testing, if any, is necessary based on their interactions with the fund adviser and its risk management personnel.

Money market funds would be required to promptly disclose (within one business day) certain events on new Form N-CR. One of the events would include disclosure of sponsor support, which would include a money market fund sponsor's purchase of fund shares. Sponsor support can take many forms, such as purchases of a stressed portfolio security, a loan to the fund, an infusion of cash, or even a waiver of fund fees. In most cases, however, sponsors purchase shares of a proprietary money market fund or waive management fees and/or limit expenses for various reasons outside of supporting a fund's NAV. Fund sponsors, for example, may choose to invest available corporate cash in a proprietary money fund. We do not believe that the use of a proprietary money market fund for managing the corporate investments of a fund sponsor should be subject to the new reporting requirements on Form N-CR. However, if the sponsor is investing in its own fund in order to support the NAV, we agree that the SEC could consider requiring disclosure if a money market fund's NAV has dropped below a certain threshold and the sponsor's investment in the fund materially changes the market-based NAV.³ We believe

³ We would also note that these circumstances would be very unusual as it would take a disproportionately large purchase of fund shares by a fund sponsor to move a money fund's NAV (i.e., in order to increase a \$ 1 billion money market fund's NAV by 25 basis points, a fund sponsor would have to buy approximately \$49 billion of fund shares to bring the fund's NAV back to \$1.0000, stated to 4 decimal places.)

that the SEC should clarify that the routine investments by a money market fund sponsor in a proprietary money market fund or other actions taken that are not intended to support the NAV, would not require immediate disclosure on Form N-CR or in the fund's Statement of Additional Information.

Transition Period and Implementation

Regardless of which definition the SEC pursues with respect to a retail money fund, implementation of account restrictions and limitations will require extensive process and systems changes. We agree with the SEC that the transition period for the floating NAV requirement, including the retail exception, should be at least two years. In addition, we would recommend that existing accounts in a retail money fund that do not meet the new criteria be allowed to remain open after the effective date, provided that further purchases in such accounts would be prohibited. We are concerned that our funds would not have the legal right to force a shareholder to redeem in the event an account did not meet the new retail criteria. We believe assets in these accounts will dwindle over time anyway, and that if stop purchase restrictions were in place, they would not be utilized on a day-to-day basis for cash management purposes. Also, we do not believe institutional investors would open new accounts prior to the effective date of the new rules with knowledge that they would be subject to stop purchase restrictions after the effective date.

We appreciate the opportunity to comment on the Proposal. If you have any questions concerning our comments or would like additional information, please feel free to contact Darrell Braman at (410) 345-2013.

Sincerely,



Edward Bernard

Director and Vice President



Joseph Lynagh

Vice President