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By Commission Website

September 17, 2013

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

**Re: File Number S7-03-13: Money Market Fund Reform; Amendments to Form PF,
78 Fed.Reg. 36834 (June 19, 2013)**

Dear Ms. Murphy:

The Futures Industry Association (“**FIA**”)¹ welcomes the opportunity to submit these comments in response to the Securities and Exchange Commission’s (“**Commission’s**” or “**SEC’s**”) proposed amendments to the rules governing money market mutual funds. As discussed in greater detail below, we believe that the 2010 amendments to SEC Rule 2a-7, adopted in response to the problems experienced by the Reserve Primary Fund, have significantly enhanced the safety and transparency of money market mutual funds and that no further amendments to the rules are necessary. However, if the Commission elects to move forward with additional revisions, we urge the SEC to take care not to inhibit the use of prime money market mutual funds by FCMs.

¹ FIA is the leading trade organization for the futures, options and over-the-counter (“**OTC**”) cleared derivatives markets. It is the only association representative of all organizations that have an interest in the listed derivatives markets. Its membership includes the world’s largest derivatives clearing firms as well as leading derivatives exchanges from more than 20 countries. As the principal members of the derivatives clearing organizations (“**DCOs**”), our member firms play a critical role in the reduction of systemic risk in the financial markets. They provide the majority of the funds that support these clearinghouses and commit a substantial amount of their own capital to guarantee customer transactions.

FIA’s core constituency consists of futures commission merchants (“**FCMs**”), the majority of which are either registered with the Securities and Exchange Commission as broker-dealers or are affiliates of registered broker-dealers. Our larger members are part of integrated financial services companies, with affiliates worldwide. The primary focus of the association is the global use of exchanges, trading systems and clearinghouses for derivatives transactions. FIA’s regular members, which act as the majority clearing members of the US exchanges, handle more than 90 percent of the customer funds held for trading on US futures exchanges.

Commodity Futures Trading Commission Rule 1.25

A number of the comments that have been filed with the SEC to date with respect to the proposed amendments have identified the attributes of money market funds that make them such an important investment alternative for state and local governments, pension plans and corporations, as well as individual investors: (i) preservation of principal; (ii) same day liquidity; (iii) risk diversification; and (iv) ease of administration. For these same reasons, money market mutual funds play an essential role in assuring that FCMs and DCOs have an effective and efficient means by which they may invest customer funds entrusted to their care.² Money market mutual funds are among the few instruments in which FCMs and DCOs, “consistent with the objectives of preserving principal and maintaining liquidity,”³ are authorized to invest customer funds under Commodity Futures Trading Commission (“CFTC”) Rule 1.25.⁴

The authority to invest in money market mutual funds under Rule 1.25 is subject to certain terms and conditions set forth in the rule, designed to promote diversification and further limit risk.⁵ Among other terms and conditions, Rule 1.25 provides that: (i) with the

² As of July 31, 2013, FCMs held, in the aggregate, approximately \$147 billion in customer funds required to be segregated in accordance with CEA section 4d(a)(2) and approximately \$35 billion in foreign futures and foreign options customer funds required to be held in secured accounts in accordance with CFTC Rule 30.7. Although it is difficult to estimate the amount of customer funds invested in money market mutual funds industry-wide, we understand that, for calendar year 2013, the amount of customer funds on deposit with the Chicago Mercantile Exchange (“CME”) that has been invested in prime money market mutual funds through the CME’s IEF Program has averaged approximately \$16.5 billion. (The average amount of customer funds on deposit with the Chicago Mercantile Exchange in 2013 has been approximately \$75 billion, of which 22 percent has been invested in money market mutual funds, of which 96 percent has been in prime money market mutual funds.)

³ *Investment of Customer Funds and Funds Held in an Account for Foreign Futures and Foreign Options Transactions*, 76 Fed.Reg. 78776 (December 19, 2011). As the Commission further explained: “The Commission has been, and continues to be, mindful that customer segregated funds must be invested in a manner that minimizes their exposure to credit, liquidity, and market risks both to preserve their availability to customers and DCOs and to enable investments to be quickly converted to cash at a predictable value in order to avoid systemic risk.” *Id.*

⁴ Other permitted investments include: (i) obligations of the United States and obligations fully guaranteed as to principal and interest by the United States (US government securities); (ii) general obligations of any State or of any political subdivision thereof (municipal securities); (iii) obligations of any United States government corporation or enterprise sponsored by the United States government (US agency obligations); (iv) certificates of deposit issued by a bank (certificates of deposit) as defined in section 3(a)(6) of the Securities Exchange Act of 1934, or a domestic branch of a foreign bank that carries deposits insured by the Federal Deposit Insurance Corporation; (v) commercial paper fully guaranteed as to principal and interest by the United States under the Temporary Liquidity Guarantee Program as administered by the Federal Deposit Insurance Corporation (commercial paper); and (vi) corporate notes or bonds fully guaranteed as to principal and interest by the United States under the Temporary Liquidity Guarantee Program as administered by the Federal Deposit Insurance Corporation (corporate notes or bonds). 17 CFR § 1.25(a)(1).

⁵ 76 Fed.Reg. 78776 (December 19, 2011).

exception of money market mutual funds comprised solely of government securities, investments in money market mutual funds may not exceed 50 percent of the total assets held in segregation by an FCM or DCO;⁶ (ii) investments in money market mutual funds comprising less than \$1 billion in assets or which have a management company having less than \$25 billion in assets may not exceed 10 percent of the total assets held in segregation by an FCM or DCO; (iii) interests in any single family of money market mutual funds may not exceed 25 percent of the total assets held in segregation by an FCM or DCO; and (iv) interests in any individual money market mutual fund may not exceed 10 percent of the total assets held in segregation by an FCM or DCO.⁷

Critically, Rule 1.25 further provides that a money market mutual fund “shall be legally obligated to redeem an interest and to make payment in satisfaction thereof by the business day following a redemption request.”⁸ Notwithstanding the foregoing, however, the rule also authorizes a fund to postpone redemption and payment in certain limited circumstances, including: (i) for any period that the SEC may, by order, permit for the protection of security holders of the fund; (ii) for any period during which the SEC has, by rule or regulation deemed that trading should be restricted or an emergency exists; and (iii) for any period during which each of the conditions of SEC Rule 22e-3(a)(1) through (3) are met.⁹

SEC Rule 2a-7

As noted earlier, we believe the SEC’s 2010 amendments to Rule 2a-7 significantly enhanced the safety and transparency of money market mutual funds, further assuring their liquidity in times of stress. In this connection, the amended rule: (i) reduces the weighted average maturity of a money market fund’s portfolio from 90 days to 60 days; (ii) provides that the average weighted life of a money market fund’s portfolio may not exceed 120 days; (iii) provides that second tier securities may not exceed 3 percent of a money market fund’s portfolio or more than 0.5 percent of any single issuer; (iv) provides that the remaining maturity of any second tier security may not exceed 45 days; (v) provides that at least 10 percent of its assets must be “daily liquid assets,” *i.e.*, cash, direct obligations of the United States, and securities (including repurchase agreements) that will mature or are subject to a demand feature that is exercisable and payable within one business day; and (vi) more generally, requires a money market fund to hold securities that are sufficiently liquid to meet reasonably foreseeable shareholder redemptions. In complying with this latter requirement,

⁶ Money market mutual funds comprising solely US government securities are not subject to any concentration limits.

⁷ 17 CFR § 1.25(b)(3).

⁸ 17 CFR § 1.25(c)(5). Although payment is not required until the business day following a redemption request, many FCMs rely on the intraday liquidity offered by money market mutual funds to meet intraday margin calls and customer requests to withdraw excess margin.

⁹ *Id.*

money market mutual funds are expected to consider the characteristics of the fund's investors and their likely redemptions as a factor in determining liquidity needs.

The amended rule also further enhances transparency with respect to the securities held by each money market mutual fund, thereby facilitating an FCM's and DCO's ability to conduct appropriate due diligence before investing in a money market mutual fund.¹⁰ The rule requires a money market mutual fund, within five business days of each month-end, to post on its website a report listing the name of the issuer, the category of investment, the CUSIP number, the principal amount, the maturity date as determined under Rule 2a-7 for purposes of calculating weighted average maturity, the final maturity date, the coupon or yield, and the amortized cost value. Funds must also post the weighted average maturity and weighted average life of their portfolios. This information must be maintained on the fund's website for at least six months.

Separately, the money market mutual fund is required to file a monthly report with the SEC on Form N-MFP within five business days of each month-end. The Form N-MFP contains both fund-specific and portfolio specific information. The fund-specific information includes the shadow price per share for the fund and each of its classes. The portfolio-specific information includes the category of investment of each portfolio security, the designated NRSROs and ratings, the maturity date, the market value, and whether the portfolio security is illiquid. The SEC compiles the reports filed by each money market mutual fund into a central data base and makes the reports publicly available 60 days after the end of the relevant month.

The Proposed Amendments

The Commission has proposed two alternative approaches to amending its rules governing money market mutual funds. Broadly, the first alternative would require prime institutional money market funds to adopt a floating net asset value (NAV).¹¹ The second alternative would permit a fund to maintain a stable value NAV but require the fund's bylaws to authorize the board of directors, in extraordinary circumstances, either to impose a liquidity fee of up to 2 percent or suspend redemptions for up to 30 days.¹² As noted above, we believe neither alternative is necessary. More important, however, each alternative has weaknesses that may inhibit the ability of FCMs to invest in money market funds and DCOs to allow money market mutual funds as margin deposits.

¹⁰ FCMs and DCOs have an obligation to conduct appropriate due diligence before investing customer assets in any investment, including money market mutual funds.

¹¹ Money market funds that invest primarily in government securities and funds that are designed for retail investors would be exempt from the proposed amendment.

¹² Money market funds that invest primarily in government securities, but not prime funds that are designed for retail investors, would be exempt from the proposed amendment.

A number of commenters have discussed the tremendous costs — operational, accounting, tax and legal — that mutual funds with a floating NAV would impose on investors.¹³ We agree with those commenters and add, further, that a floating NAV would likely prevent money market mutual funds from providing the intraday liquidity that is essential for many FCMs.

Although the second alternative reduces many of the administrative costs of a floating NAV, we are concerned that the requirement that a board of directors have the authority to suspend redemptions for up to 30 days in certain extraordinary circumstances, however unlikely, could cause the CFTC to conclude that money market mutual funds could no longer be a permitted investment under Rule 1.25. As discussed above, Rule 1.25 further provides that, except in certain limited circumstances, a money market mutual fund “shall be legally obligated to redeem an interest and to make payment in satisfaction thereof by the business day following a redemption request.” If the SEC were to elect to move forward with this alternative, therefore, we encourage the SEC to consult closely with the CFTC and to modify the gating provisions as necessary to assure that FCMs and DCOs could continue to invest in money market mutual funds.

Thank you, again for the opportunity to submit these comments. If the Commission has any questions or comments regarding the matters discussed in this letter, please contact Barbara Wierzynski, FIA’s Executive Vice President and General Counsel, at 202.466.5460 or bwierzynski@futuresindustry.org.

Sincerely,



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¹³ See, e.g., letter from Barbara G. Novick and Richard K Hoerner, CFA, BlackRock, Inc., dated September 12, 2013; letter from John D. Hawke, Jr., Arnold and Porter, on behalf of Federated Investors, September 11, 2013; letter from Maurine Day, Government Investment Officers Association, September 10, 2013; letter from David Hirschmann, Center for Capital Markets Competitiveness, August 1, 2013.