



September 17, 2013

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*[Filed Electronically]*

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

Re: Money Market Fund Reform; Amendments to Form PF (Release No. 33-9408; IA-3616; IC-30551; File No. S7-03-13) (the "Release")

Dear Ms. Murphy:

Deutsche Investment Management Americas Inc. ("DIMA"), an affiliate of Deutsche Bank, A.G. ("DB AG"), appreciates the opportunity to submit this letter in response to the request for comments made by the Securities and Exchange Commission (the "Commission") in the Release.<sup>1</sup> We commend the Commission for engaging in such a comprehensive and thoughtful review of the proposal for money market funds with the objective to make the industry become even more resilient and sustainable. We are especially pleased that the Commission heeded input from industry participants and opted not to include a proposal that would include capital buffers, an option that DIMA strongly opposes. Given the scope of the Release, we have chosen to focus our comments on segments of the proposals where we believe either that we possess specific knowledge or that our unique perspective on a specific topic would be helpful to the Commission. For other topics, we have been actively engaged with various industry associations and service providers to ensure that our circumstances and clients' sentiments have generally been captured in their comment response letters that they have separately submitted to the Commission.

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<sup>1</sup> See *Money Market Fund Reform; Amendments to Form PF*, SEC Release No. IC-30551 (June 5, 2013), 78 FR 36834 (June 19, 2013), available at <http://www.sec.gov/rules/proposed/2013/33-9408.pdf>.



## **I. Executive Summary**

In summary, our significant comments are set out below:

- After assessing the two alternatives presented in the Release, DIMA believes that the Liquidity Fee/Temporary Gate proposal alone would be the most effective option to achieve each of the Commission's stated policy concerns. We believe the Liquidity Fee/Temporary Gate proposal would be the least costly and disruptive to the markets and provide the most flexibility for investors, especially for the majority of investors that remain in favor of the preservation of the Stable NAV, to choose the money market fund structure that best suits their investment goals.
- DIMA strongly believes that the two alternatives proposed should *not* be offered in combination, as it would limit investor choice and alienate a large number of money market fund investors. We also feel strongly that if a money market fund chooses not to adopt the penny rounding accounting methodology and instead offers a prime money market fund that values securities based on market prices and has a "floating" NAV, those investors should *not* be subject to the prospect of the Liquidity Fee/Temporary Gate proposal. We believe that the Floating NAV money fund, by design, mitigates a key incentive for large-scale redemptions (embedded losses) and also is designed to distribute realized losses to redeeming shareholders (market price) and treat shareholders equitably. It is our opinion that due to these features, the application of the Liquidity Fee/Temporary Gate to a money market fund that adopts a "floating" NAV would not be necessary and the costs would significantly outweigh any incremental benefit.
- Additionally, DIMA believes that the "two-fund" solution would be preserved with market acceptance achieved under the Liquidity Fee/Temporary Gate proposal set forth in the Release. We continue to believe that a "two-fund" solution that includes both Stable NAV money market funds and Floating NAV money market funds can be achieved through market evolution whereby investors make rational investment choices that consider the characteristics they desire to achieve and the tradeoffs among the features, benefits and risks of available investment products.
- DIMA believes that a partial gate, rather than a full gate, may be more useful in times of stress. Many investors find access to liquidity to be the most appealing aspect of money market funds. If there is potential for a full gate, many investors will leave the asset class entirely and seek their liquidity needs elsewhere. A partial gate (perhaps as much as 50%), on the other hand, may serve to satisfy investors by giving them access



to their investment in a time of market stress. DIMA also believes that a partial gate may keep investors from eschewing money market fund products entirely.

- DIMA strongly opposes any solution that would mandate institutional prime and/or tax-exempt money market funds converting from a Stable NAV to a Floating NAV. In our opinion, a mandated transition under the Floating NAV proposal would pose the greatest risk of destabilizing the capital markets while achieving limited benefits.
- DIMA strongly believes that the additional reporting and stress testing measures set forth in the Release should not apply to a Floating NAV money market fund because the Floating NAV structure already offers optimal price transparency.
- DIMA urges the Commission to consider adopting guidance recognizing Floating NAV money market funds as cash and cash equivalents under U.S. generally accepted accounting principles (“GAAP”) as this would lend further support to a “two-fund” system.
- DIMA also agrees with the Commission’s proposal to exempt “retail” funds if it were to adopt the Floating NAV proposal. We believe, however, that defining retail funds through a redemption limit would be more onerous operationally and less investor-friendly than other possible methods. In discussing this with our vendors and intermediary clients, we believe the use of a maximum account balance limit would be more beneficial to investors, intermediaries, and fund sponsors. In looking at our underlying client shareholder data, we recommend that the maximum account limit for purposes of this definition be \$5 million.
- DIMA urges the Commission to consider reducing the weekly liquidity assets requirements for a Floating NAV money market fund from 30% to 20% of total assets. We believe that a Floating NAV money market fund has less reliance on assets categorized within the weekly liquid assets bucket to meet redemptions because the value of portfolio securities is transparent in the fund’s share price. As a result, investment managers will look at the entire portfolio when making decisions on what securities to sell to meet redemption requests as opposed to looking immediately to the most liquid assets held by the fund. We believe that a Floating NAV money market fund more properly aligns the interests of the redeeming shareholders’ needs for liquidity and the interest of those shareholders who elect to remain in the fund.
- DIMA finds the definition of “financial support” for disclosure purposes to be overly broad and would include the reporting of routine fund matters which we do not believe is the intended purpose of the additional disclosure. We therefore recommend that the Commission revise the definition of “financial support” to clarify that certain types of transactions (e.g., routine investments by affiliates or fee waivers or reimbursements) would not be deemed “financial support.”

## II. Background Information

DIMA is part of the Deutsche Asset & Wealth Management division of DB AG, which has approximately \$874 billion in assets under management, including approximately \$115 billion in cash and liquidity assets under management and administration globally as of June 30, 2013. We advise and administer money market funds for institutions and retail investors globally in US Dollar, Pound Sterling, Euro, Indian Rupee and Swiss Franc currencies. We have a broad client base that includes many of the world's largest multinational corporations, central banks, sovereign wealth funds, non-bank financials including insurance companies and broker dealers, and other bank and non-bank financial intermediaries that give us access to regional institutions and retail investors. In addition to money market funds, we also manage separately managed accounts and an insured bank deposit sweep for US retail cash sweep investors. Accordingly, we have a keen interest in financial reform that would allow us to continue to meet the cash investing needs of our vast array of clients within a properly operating global capital market in an effective manner. Given the wide variety of investors we serve, we believe we bring a unique perspective to the regulatory debate.

In September 2009, DIMA proposed that the Commission consider a "two-fund" solution that would preserve and strengthen the familiar stable net asset value ("Stable NAV") money market fund, while at the same time establish a prime institutional money market fund that would forgo the use of amortized cost valuation and effect shareholder transactions at a market-based net asset value, offer same day settlement to institutional investors, and continue to be managed in accordance with Rule 2a-7 under the 1940 Act, which governs the quality, maturity, diversity and liquidity of instruments in which the fund may invest ("Floating NAV").<sup>2</sup> We continue to believe that a Floating NAV fund category could evolve as a *complementary structure* under Rule 2a-7 and that such a two-fund solution would help to mitigate systemic risk, improve transparency and increase investor choice.

In 2009, we filed with the Commission an initial registration statement for the DWS Variable NAV Money Fund, a unique Floating NAV money market fund that is managed in accordance with Rule 2a-7 under the 1940 Act.<sup>3</sup> The DWS Variable NAV Money Fund

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<sup>2</sup> Our full recommendation is published on the Commission's website at <http://www.sec.gov/comments/s7-11-09/s71109-50.pdf>.

<sup>3</sup> See post-effective amendment filed on behalf of DWS Variable NAV Money Fund, a series of Investors Cash Trust, on December 1, 2009 at <http://www.sec.gov/Archives/edgar/data/863209/000008805309001321/0000088053-09-001321-index.htm> and



commenced operations in April of 2011 with a \$10.000 share price. Today, the fund has over \$50 million in total assets, and as of September 16, 2013 had a share price of \$10.001. In terms of price volatility over the life of the fund, its share price has fluctuated in the range of \$10.000 to \$10.001 per share. In establishing the fund, we did incur some initial up-front costs, but these costs were not significant. In operating a Floating NAV money market fund, our experience has been that our service providers (i.e., transfer agent (TA) and pricing agent) have been able to operate the fund without any extraordinary operational costs. Since the fund's initial launch, we have worked with various money market fund stakeholders to adapt longstanding processes and procedures to accommodate the Floating NAV structure. As a result of these efforts, the fund has achieved a AAAM rating from Standard & Poor's Ratings Services and achieved the higher capital treatment from the National Association of Insurance Commissioners, obtaining an NAIC 1 designation. While broad acceptance of any new paradigm, like a Floating NAV money market fund, may take time, we believe the examples provided above are preliminary but significant steps in building a foundation for a new market segment.

In 2010, the Commission adopted amendments to Rule 2a-7 that sought to enhance an already strict regulatory regime for money market funds.<sup>4</sup> DIMA believes that the changes that were implemented in 2010 have been very effective in addressing many of the concerns that have been articulated by various regulators regarding the need for additional money market fund reform. While there has not been a financial crisis of the magnitude experienced in 2007-2008, there have been several significant events that have tested these reforms, including the US debt crisis and European banking crisis of 2010, that provide evidence to support their effectiveness.

Today, the Commission is proposing two alternatives for money market fund reform in the Release. One of two alternative approaches proposed would allow money market funds to continue to transact at a Stable NAV under normal market conditions, but under certain circumstances would require the money market funds to institute a liquidity fee and permit money market funds to temporarily suspend redemptions ("Liquidity Fee/Temporary Gate"). U.S. government money market funds (including Treasury money market funds) would generally be exempt from the Liquidity Fee/Temporary Gate proposal. The other proposed approach would require institutional prime and institutional tax-exempt money

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its current effective registration statement effective, December 1, 2012, can be found at [http://www.sec.gov/Archives/edgar/data/863209/00008805312001268/nb120112jcl\\_vnm.txt](http://www.sec.gov/Archives/edgar/data/863209/00008805312001268/nb120112jcl_vnm.txt).

<sup>4</sup> See *Money Market Fund Reform*, SEC Release No. IC-29132 (February 23, 2010), 75 FR 10060 (March 4, 2010).











class entirely and seek their liquidity needs elsewhere. A partial gate (perhaps as much as 50%), on the other hand, may serve to satisfy investors by giving them access to their investment in a time of market stress. DIMA also believes that a partial gate may keep investors from eschewing money market fund products entirely.

Based on our experience as an investment adviser and administrator to the DWS Variable NAV Money Fund, our client surveys, direct dialogue with a range of money market fund investors and the increased interest we have received about money market fund reform since the Release, we are more convinced today that given a clear regulatory framework, the market can and will adjust to accommodate a Floating NAV option for those investors who will *not* accept the Liquidity Fee/Temporary Gate.

## **V. Floating NAV Proposal**

DIMA strongly opposes any solution that would mandate institutional prime and/or tax-exempt money market funds converting from a Stable NAV to a Floating NAV. In our opinion, a mandated transition to a Floating NAV would pose the greatest risk of destabilizing the capital markets while achieving limited benefits. As we have noted, we continue to believe that a “two-fund” solution can be achieved through market evolution, whereby investors make rational investment choices that consider the characteristics they desire to achieve and the tradeoffs among the features, benefits and risks of available investment products. We believe a final rule that supports a natural, market-based transition anchored on these principles would maintain the stability of the funding system, minimize the cost of execution and be the least disruptive among the options presented.

However, the success of a “two-fund” money market fund system is dependent on the ability to maintain a Floating NAV product category regulated under the framework of Rule 2a-7. As a result, DIMA strongly believes that the additional reporting and stress testing measures set forth in the Release should not apply to a Floating NAV money market fund because the Floating NAV structure already offers optimal price transparency. Additionally, we believe that because the Floating NAV structure is market based, such a structure offers more options to provide liquidity across the entire portfolio as opposed to almost exclusively relying on assets that qualify for the seven-day liquidity bucket within a Stable NAV product. Due to this fact, a Floating NAV fund maintains the ability to shrink in size while maintaining consistent risk characteristics by reducing exposure on a pro-rata basis across the portfolio as opposed to possible distortions caused by a significant reduction of available liquidity buckets to avoid realizing losses on longer dated securities due to negative accounting implications. For these reasons, we believe that the stress tests and additional



reporting requirements designed to monitor these risks specific to a Stable NAV money market fund would offer limited benefits for investors in a Floating NAV money market fund.

Additionally, DIMA urges the Commission to consider adopting guidance recognizing Floating NAV money market funds as cash and cash equivalents under U.S. generally accepted accounting principles (“GAAP”), as this would lend further support to a “two-fund” system. Recognizing the importance of classifying money market fund investments as cash equivalents, the Commission stated in the Release its belief that money market funds would continue to qualify as cash equivalents under GAAP, notwithstanding the growth of a Floating NAV. As a basis for this belief, the Release states that “fluctuations in the amount of cash received upon redemption would likely be insignificant and would be consistent with the concept of a ‘known’ amount of cash.” DIMA urges the Commission to issue a staff accounting bulletin or other formal pronouncement to this effect. We also believe the Financial Accounting Standards Board and the Governmental Accounting Standards Board should address this issue to ensure consistent treatment across private companies and governmental entities. As we indicated, 55% of the respondents to our survey stated that the likelihood of their investing in a Floating NAV money fund would increase if it was considered cash or a cash equivalent for accounting purposes. We believe that such action will help to facilitate the acceptance of the Floating NAV money market fund as a potential solution for certain institutional investors.

If the Commission were to adopt the Floating NAV proposal, DIMA believes that tax-exempt money market funds should *not* be included in the Floating NAV proposal. We do not find any evidence during the 2008 crisis or any of the recent adverse news with respect to certain municipalities (e.g., the Detroit bankruptcy) that tax-exempt money market funds are vulnerable to significant redemptions. Given their relatively small size in the overall market, we do not believe they are systemically important to the overall money market industry; however, they do play an important role in the funding of municipalities. Finally, tax-exempt money market funds typically hold enormous amounts of liquidity.<sup>7</sup>

DIMA also agrees with the Commission’s proposal to exempt “retail” funds if it were to adopt the Floating NAV proposal. We believe, however, that defining retail funds through a redemption limit would be more onerous operationally and less investor-friendly than other possible methods. In discussing this with our vendors and intermediary clients, we believe the use of a maximum account balance limit would be more beneficial to investors,

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<sup>7</sup> Tax-exempt money market funds have weekly liquidity far in excess of the 30% required under Rule 2a-7, and as of March 2013, had approximately \$213 billion in weekly liquidity, amounting to 78% of their total assets.



intermediaries, and fund sponsors. In looking at our underlying client shareholder data, we recommend that the maximum account limit for purposes of this definition be \$5 million. Money market funds and intermediaries would need to monitor the account opening process to ensure that investors do not attempt to circumvent the account balance limit by opening up multiple accounts in the same money market fund. DIMA believe that the account balance threshold could be coupled with a shareholder of record requirement (e.g., based on a single tax identification number or social security number). Account maximum restrictions would also apply to all positions at all times in a particular money market fund and would be less burdensome than building the limit based on net redemptions.

Furthermore, DIMA strongly believes that the two alternatives proposed should *not* be offered in combination, as it would limit investor choice and alienate a large number of money market fund investors. We also feel strongly that if a money market fund chooses not to adopt the penny rounding accounting methodology and instead offers a prime money market fund that values securities based on market prices and has a “floating” NAV, those investors should *not* be subject to the prospect of the Liquidity Fee/Temporary Gate proposal. We believe that the Floating NAV proposal, by design, mitigates a key incentive for large-scale redemptions (embedded losses) and also is designed to distribute realized losses to redeeming shareholders (market price) and treat shareholders equitably. It is our opinion that due to these features, the application of the Liquidity Fee/Temporary Gate to a money market fund that adopts a “floating” NAV would not be necessary and the costs would significantly outweigh any incremental benefit. As noted above, an overwhelming number of respondents to our survey (80%) agreed with the position that due to the nature of a mark-to-market portfolio, a mandatory liquidity fee or the imposition of a gate should not be necessary.

Finally, DIMA urges the Commission to consider implementing reform that we believe would assist investors in distinguishing Floating NAV funds from Stable NAV funds. While not part of the Commission’s proposal, a more flexible set of investment requirements for a floating NAV money market fund could provide investors with the opportunity for greater diversification, liquidity options and the potential for increased yield. This would facilitate the ability of investors to segment cash investments based on their risk tolerance and provide them with the risk mitigation features and transparency necessary to understand and monitor the associated risk. In particular, DIMA urges the Commission to consider reducing the weekly liquidity assets requirements for a Floating NAV money market fund from 30% to 20% of total assets. We believe that a Floating NAV money market fund has less reliance on assets categorized within the weekly liquid assets bucket to meet redemptions because the value of portfolio securities is transparent in the fund’s share price. As a result, investment managers will look at the entire portfolio when making decisions on what securities to sell to meet redemption requests as opposed to looking immediately to the most liquid assets held by



the fund. We believe that a Floating NAV money market fund more properly aligns the interests of the redeeming shareholders' needs for liquidity and the interest of those shareholders who elect to remain in the fund.

While the U.S. money market system is a powerful funding source for corporations and governments under the amended Rule 2a-7 requirements, the effectiveness of this funding source would be further diminished if final rules cultivated a structure that primarily emphasized liquidity. This has the effect of creating supply/demand imbalances and the unintended consequence of diminished diversification, greater concentration and ultimately lower potential yields. A further consequence is the possible migration of investor cash to alternative, unregulated solutions. For example, it is likely that investment managers will not just meet the minimum 30% weekly liquidity criteria. Instead – and especially under the proposal that if a Stable NAV fund's weekly liquid assets fall below 15% of total assets, the next business day the Stable NAV fund will be subject to a liquidity fee – money funds would hold between 40% and 50% in the weekly liquidity bucket. Such an allocation to liquid assets could create a systemic problem in the short end of the market. Furthermore, the money market industry will be migrating to shorter-term assets at a time where other regulations, for example Basel III and rules adopted as a result of the Dodd-Frank Act, are encouraging issuers of money market securities to rely less on short-term and to secure more longer-term funding. Therefore, DIMA believes that reducing the weekly liquid assets criteria for a Floating NAV money market fund will help support a "two-fund" solution by providing investors with a choice based on their individual needs.

## **VI. Disclosure of Financial Support**

In the Release, the Commission is proposing to amend Form N-1A to require a money market fund to disclose historical instances in which the fund has received financial support from a sponsor or fund affiliate during the last 10 years. Under the proposal, the term "financial support" would include but not be limited to: (i) any capital contribution, (ii) purchase of a security from the fund in reliance on Rule 17a-9, (iii) purchase of any defaulted or devalued security at par, (iv) purchase of fund shares, (v) execution of a letter of credit or letter of indemnity, (vi) capital support agreement (whether or not the fund ultimately received support), (vii) performance guarantee, or (viii) any other similar action to increase the value of the fund's portfolio or otherwise support the fund during times of stress.

DIMA finds the definition of "financial support" for disclosure purposes to be overly broad and would include the reporting of routine fund matters which we do not believe is the intended purpose of the additional disclosure. For example, the reference to "purchase of fund shares" under (iv) would seem to include reporting of routine purchases of money



market fund shares by affiliates. The disclosure of routine purchases of money fund shares might lead to the conclusion a fund is under stress or in need of financial support, an incorrect inference that could be harmful to the fund if investors were to redeem as a result. As a global organization, we have numerous instances where our affiliates may be investing in one or more of our money market funds on behalf of their customers. For example, DIMA, like many other organizations, is affiliated with a registered broker-dealer that may post its collateral on behalf of its customers' accounts in shares of money market funds that are advised by DIMA. We believe these routine purchases could be frequent and would result in recurring disclosures. Another routine matter that could result in unwarranted disclosure is fee waivers and reimbursements. The catch-all language under (viii) would appear to include situations in which a fund's operating expenses or management fees are waived—information that is currently disclosed elsewhere and is not related to the Commission's interest in requiring the disclosure. We therefore recommend that the Commission revise the definition of "financial support" to clarify that these types of situations would not be deemed "financial support."

## **VII. Conclusion**

DIMA appreciates the ability to comment on the Commission's release. Given the Commission's two alternatives for consideration, the Floating NAV for institutional prime and tax-exempt money market funds and, or in conjunction with, the Liquidity Fee/Temporary Gate proposal, we believe the Liquidity Fee/Temporary Gate proposal to be the most viable solution to address the stated goals of the Commission while being the least disruptive to funding markets and least costly for investors and intermediaries that serve them to implement. Many institutional investors and financial intermediaries indeed favor the convenience characteristics of a Stable NAV and will leave the market if Stable NAV money market funds were mandated to transition to a Floating NAV. The Liquidity Fee/Gate alternative will preserve these investors in the market.

DIMA recognizes the value of the Floating NAV alternative as a complement to Stable NAV money market funds (i.e., the "two-fund" solution), and we have advocated the evolution of a Floating NAV market since we first responded to the Commission about money market fund reform in 2009. Many of the clients we serve, especially large institutions, simply will not accept any potential obstruction to their cash investments and will eschew any product that contains provisions contemplated in the Liquidity Fee/Temporary Gate proposal. For these investors, a Floating NAV money market fund alternative is a preferred option for prime fund investing; provided, however, that it is not accompanied with the Liquidity Fee/Temporary Gate proposal. DIMA agrees, and



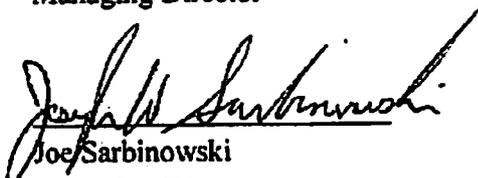
accordingly, we do not favor a combination of the mandated Floating NAV *and* Liquidity Fee/Temporary Gate proposals.

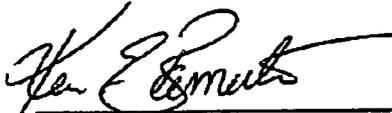
We believe that a “two-fund” solution, as contemplated in this letter, will provide risk mitigation, greater transparency, and increased investor choice. It will allow a healthier market to evolve naturally rather than realize the potentially disruptive unintended consequences of a policy mandated solution.

We look forward to remaining engaged in the final rules and encourage the Commission to contact us should it have any questions.

Sincerely,

  
Joe Benevento  
Managing Director

  
Joe Sarbinowski  
Managing Director

  
Kevin Bannerton  
Managing Director