HSBC

Global Asset Management

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

HSBC Global Asset Management
452 Fifth Avenue
New York, NY 10018
USA

17th September 2013

Via internet: http://www.sec.gov/rules/proposed.shtml

RE: Money Market Fund Reform; Amendments to Form PF (Release No. IC-30551; File No. S7-03-13)

Dear Ms Murphy,

We are pleased to submit HSBC Global Asset Management's public comment on the U.S. Securities and Exchange Commission's ("SEC") proposed "Rules to Implement Money Market Fund Reform and Amendments to Form PF". The SEC's thoughtful and very thorough efforts aimed at preserving the function and the value of the money market fund product while seeking practical solutions aimed at addressing "run" risk are appreciated. As an example, we are particularly encouraged that the proposal recognizes the value of liquidity fees and redemption gates as a serious reform option that would preserve the benefits of the product while providing an effective mechanism in times of stress.

Since 2009, HSBC has been consistent that further reforms are necessary and have continued to engage constructively in discussions about sensible reforms. Our letter provides a detailed description of HSBC's proposals for money market fund ("MMF") reform and attempts to respond directly to many of the questions raised in the Commission's consultation. HSBC appreciates the opportunity to share our perspectives on MMF reform and the SEC's willingness to consider our comments. We would be delighted to answer any questions regarding our submission and look forward to the opportunity to discuss our views on MMF reform further.

Yours sincerely,

Jonathan Curry
Global Chief Investment Officer - Liquidity
[redacted]

Chris Cheetham
Global Chief Investment Officer
[redacted]

Background to the HSBC Group

HSBC Group serves customers worldwide from around 6,600 offices in 80 countries and territories in Europe, the Asia-Pacific region, North and Latin America, and the Middle East and North Africa. With assets of US$2,645bn at 30 June 2013, the HSBC Group is one of the world's largest banking and financial services organisations. HSBC Bank USA, NA, with total assets of $183.9bn as of 31 March 2013, serves 3 million customers through retail banking and wealth management, commercial banking, private banking, asset management, and global banking and markets segments.

HSBC Global Asset Management, the core investment business of the HSBC Group, manages assets totalling US$416bn and is a leader in emerging markets funds, with more than US$144bn of assets managed in global, regional and country specific emerging markets strategies across a range of asset classes. HSBC Global Asset Management has a worldwide client base of private clients, intermediaries, corporates and institutions invested in both segregated accounts and pooled funds. HSBC Global Asset Management fulfils its purpose of connecting these customers with investment opportunities through an international network of offices in approximately 30 countries, delivering global capabilities with local market insight. (All figures are as at 30 September 2012). For more information see www.assetmanagement.hsbc.com

HSBC Global Asset Management's Money Market Fund ("MMF") business

HSBC Global Asset Management manages over USD 64bn in money market funds ("MMFs") and segregated money market mandates. We manage MMFs in 15 different jurisdictions and in 11 different currencies.

We have a unique perspective on the MMF industry due to the breadth of markets we offer MMFs and the fact that we are the only manager who has meaningful scale in the three largest markets for MMFs (US 2a-7 market, "international" market Dublin / Luxembourg and the French domestic market). We manage both Constant Net Asset Value ("CNAV") funds and Variable Net Asset Value ("VNAV") funds, adopting the same investment policies and investment process across our range of MMFs.

Summary of HSBC's Response to SEC proposed reforms

HSBC has consistently proposed since the 2009 global financial crisis, that further reforms were necessary for money market funds, especially to address "run" risk. We have continued to engage in discussions about sensible MMF reforms, including advocating liquidity fees as a reform proposal that can be embraced by investors, regulators and providers. In summary, we continue to recommend:

Liquidity reforms

- MMFs should be required to maintain 10% / 30% of their assets in instruments maturing overnight/within one week;
- MMFs should be required to manage shareholder concentration within a target range of [5-10%]

Redemption management reforms

- MMFs should be empowered to impose a liquidity fee on redeeming shareholders, if deemed necessary to ensure fair treatment of redeeming and remaining investors;
- MMFs should be able to limit repurchases on any trading day to 10% of the shares in issue;
- MMFs should be permitted to meet an investor's redemption request by distributing a pro-rata share of the assets of the fund rather than by returning cash to the investor i.e. an in-specie redemption

Structural reforms

- Sponsors should be prohibited from supporting their MMFs; and
- MMFs should be prohibited from being rated

HSBC Global Asset Management's principles when considering the need for further MMF reform

We fully support the 2010 enhancements made to rule 2a-7 in the US and the creation of a short-term MMF definition in Europe. Both sets of regulation have reduced the risk that investors in MMFs "run" and made them better able to operate during a period of market stress. The MMF definitions in Europe also provide clarity for investors and therefore enhance investor protection.

In our opinion there are additional reforms to MMFs that should be made to further enhance their ability to operate normally during a period of market stress. Our reform proposals are based on achieving the following objectives:

1. Provide MMFs with a greater ability to meet redemptions
2. Create a disincentive for investors to redeem
3. Remove any existing ambiguity of risk ownership
4. Reduce systemic risk created by MMF ratings

Additionally, it is important that any MMF reform adopted is proportional to the issue being addressed. It must be remembered that whilst the challenges that the MMF industry has had to meet over the last 5 years have been very significant, the fact remains that there has only been one systemic liquidity event in the MMF industry since they were created over 40 years ago.

Any reform mechanisms adopted to address regulators' concern of systemic liquidity risk in MMFs must also maintain MMFs in a form that remains attractive to investors to buy and for providers of MMFs to produce. If these objectives are not met then investors will no longer have access to a product that provides them with a solution to manage credit risk through diversification in an efficient manner. Investors in MMFs have a legitimate need for this product and continue to require access to it.

We believe our objectives are consistent with those of the regulatory community, although, the objectives of the regulatory community are not necessarily consistent across relevant regulators and appear to have morphed over time.

HSBC Global Asset Management's MMF reform proposals

Based on the objectives set out above, we propose the following reforms that will further improve MMFs ability to meet redemptions, create a disincentive to redeem to manage "run" risk, remove any ambiguity of risk ownership and remove systemic risk associated with MMF ratings. We believe these improvements meet regulators' objectives whilst maintaining the viability of MMFs both for investors and producers of MMFs.

1. Liquidity reforms

Some of the mechanisms we propose are already included in regulation in some jurisdictions or are at least common practice in the industry.

- **Minimum liquidity requirements** – All MMF regulation should state the minimum amount of liquidity funds are required to maintain overnight and within one week. Both US rule 2a-7 and IMMFAs Code of Practice were updated post the credit crisis to state these minimums. In addition, many MMF providers' internal investment guidelines stipulate minimum liquidity requirements that a fund is required to maintain. We believe requiring funds to hold minimum levels of natural liquidity (i.e. minimise the probability that asset sales are required to meet liquidity needs) will heighten MMFs ability to meet redemptions whilst minimising the impact of significant emergency asset sales on the broader financial system.
    - **A client concentration policy** – Current MMF regulation, MMF industry self-regulation and most MMF providers' internal investment guidelines focus on the liquidity of the assets in a fund with insufficient focus on a funds "liability" to its investors. Prudent liquidity risk management should also place controls on individual client and industry concentrations in a fund. This is to avoid a small number of individual investors, and investors from one, or a small number of industries, dominating the ownership of a fund. High client and/or industry concentration can place liquidity pressure on a fund if these investors were to redeem within a short timeframe. Designing prescriptive regulation in this area is challenging and therefore we propose that regulation require the Board of Directors of a fund (or its equivalent) to have a client concentration policy. The policy should set limits on individual client and industry concentrations. The policy must be more prescriptive than a simple "know your client" type policy. For example, the policy should set a target client concentration of 5%. The policy would need to set out how the MMF handles issues such as omnibus accounts and internal assets when calculating client concentrations.

2. Redemption management reforms

- **Limit the total number of shares repurchased on any trading day** – Regulation should allow MMFs to limit the total number of shares that a fund is required to repurchase on any trading day to 10% of the shares in issue. If enacted, the limitation will be applied pro-rata so that all shareholders redeeming on a particular business day realise the same proportion of their shares. The balance of shares not repurchased will be carried over to the next business day until all redemption requests have been met. This mechanism provides an extended period in which a fund can manage the redemption requests. In some jurisdictions this type of mechanism is allowed by regulation and many MMFs in those jurisdictions have language in their prospectus allowing the Board of Directors (or its equivalent) to enact this mechanism.

- **In-specie redemptions** – MMF regulation should allow a MMF to meet an investor's redemption request by distributing a pro-rata share of the assets of the fund rather than by returning cash to the investor i.e. an in-specie redemption. The benefit for the fund is that it is not required to use its immediate access liquidity, or to sell its more liquid assets, to meet a large redemption request. Due to the potential difficulty for some investors in MMFs to receive a share of the assets in the fund, a minimum redemption size should be set so that redemptions are only provided in-specie for "large" redemptions. However, a MMF should have the ability to process any redemption request in-specie if the fund and the shareholder both agree to it and it is in the interest of all shareholders. Due to the complexity of operating this mechanism in practice, the Board of Directors of the fund (or its equivalent) should be required to maintain a policy on the handling of in-specie redemptions.

3. Creating a disincentive to redeem to manage "run" risk

We believe a **trigger-based liquidity fee** would be a powerful mechanism for strengthening MMFs during a financial crisis. In particular, a liquidity fee would:

- Ensure the fair treatment of redeeming and remaining investors;
- Disincentivise redemptions; and
- Reinforce the 'investment fund'-like nature of MMFs.

What should 'trigger' the imposition of a liquidity fee?

We believe the 'acid test' for imposing a liquidity fee depends on whether redeeming investors are causing a disadvantage to remaining investors. After all, a MMF - like any other investment fund - is supposed to mutualise risk-taking amongst its investors; if redeeming investors are causing a disadvantage to remaining investors then, to that extent, risk-taking has been de-mutualised; imposing a liquidity fee in those circumstances would re-mutualise risk-taking; that would be appropriate, because it would be consistent with the prospectus investors had signed-up to.

Since investment fund boards have a fiduciary obligation to treat investors fairly, we believe it should be left to the board of MMF to decide when to trigger the imposition of a liquidity fee[1]. This would be consistent with the power many European boards already have to impose a dilution levy (which is economically equivalent to a liquidity fee) if they believe an investor is market-timing a fund.

[1] The classic account of bank runs ("Bank Runs, Deposit Insurance, and Liquidity", Diamond and Dybvig, Journal of Political Economy, June 1983) notes that: "…the demand deposit contract satisfies a *sequential service constraint*, which specifies that a bank's payoff to any agent can depend only on the agent's place in line and not on future information about agents later in line." This compares starkly with the fiduciary obligation of the board of an investment fund to treat all investors fairly. *In extremis*, the board of an investment fund might enforce that obligation by gating the fund, or by imposing a liquidity fee, as described above.

However, some commentators have suggested that a fund board may be too commercially conflicted to decide whether to impose a liquidity fee. They have therefore argued that a liquidity fee should be triggered by a 'rules-based' event.

In that case, we believe the most appropriate rules-based trigger event would be if the 'shadow price' of a CNAV fund fell to 0.9975, or the price of a VNAV fell by 25bps in one month (see our paper "Liquidity fees; a proposal to reform money market funds" for further information). This paper is available upon request.

We acknowledge other possible rules-based trigger events, but are concerned they might result in liquidity fees being inappropriately imposed. For example;

- If a liquidity fee was triggered when a fund's overnight/one week liquidity fell below [5%/15%], but there was no substantial lack of liquidity in secondary markets or material deviation in mid-value ('shadow price') of the MMF, then redeeming shareholders would not be causing any particular disadvantage to remaining shareholders and it would not be appropriate to impose a liquidity fee; or
- If a fee was triggered when a fund experienced net redemptions of more than [25%] in one week, but there was no substantial lack of liquidity in secondary markets or material deviation in mid-value of the MMF, then redeeming shareholders would not be causing any particular disadvantage to remaining shareholders and it would not be appropriate to impose a liquidity fee; or
- If a fee was triggered when *another* fund in the industry broke the buck, but that was an isolated incident which did not cause contagion to other funds or issuers (e.g. Community Bankers in 1994), then it would not be appropriate to impose a liquidity fee.

Some commentators have objected that a trigger-based liquidity fee would cause investors to seek to redeem prior to the imposition of the fee. We disagree with this argument, which misunderstands the cause of investor redemptions. As noted by IMMFA:

> *"…in September 2008 a series of headline events (e.g. relating to Fannie Mae and Freddie Mac, Merrill Lynch, American International Group, Washington Mutual Group, Bank of Ireland, Allied Irish Bank, Lloyds etc.) caused investors to lose confidence in the solvency of the financial system as a whole, and the banking system in particular. 'Prime' MMFs invest substantially all of their assets in deposits and securities issued by banks and other short-term issuers. US institutional investors therefore redeemed because they were worried about losses that prime MMFs might be exposed to, i.e. they redeemed from US prime MMFs because they no longer believed a diversified investment in the financial system was an effective way of managing credit risk. The majority of their redemption proceeds were used to subscribe to US Treasury MMFs (which invest in US Treasury bills). In other words, and contrary to much commentary, there wasn't a 'run' from US MMFs per se: rather investors sought to avoid losses by 'switching' their exposure from the banking system to the US government; there was a classic 'flight to quality'. The flight came to an end when the Federal Reserve's Temporary Guarantee*

Programme effectively made prime MMFs 'as good as' treasury MMFs and made further switching unnecessary

In other words: a loss of confidence in the banking system may cause a 'flight to quality' by some investors, including switching between prime and Treasury MMFs. A liquidity fee would be imposed *as a consequence of* investors' loss of confidence/flight to quality. It could not, therefore, be the cause of investors' loss of confidence/flight to quality.

How should a liquidity fee be calculated?

If the test for imposing a liquidity fee depends on whether redeeming investors are causing a material disadvantage to remaining investors, then it follows the fee should be calculated as that amount required re-mutualize risk taking. Therefore:

- In the case of a CNAV fund, the fee would be the amount required to equalize the mid-value of a MMF's portfolio before and after any redemption, assuming the sale of a 'horizontal slice' of the fund's portfolio to meet the redemption payment.
- In the case of a VNAV fund, the fee would be the difference between an investor's actual redemption proceeds and the proceeds that would have arisen if the fund had been bid-priced, and assuming the sale of a horizontal slice of the fund's portfolio.

A liquidity fee so calculated should also be acceptable to investors, because it can be rationalized in terms of investor protection[2]. (When we've presented the case for a liquidity fee in these terms to our investors, they have generally been receptive.)

How would a liquidity fee disincentivise redemptions?

We believe a liquidity fee imposed in these circumstances and calculated in this manner would disincentivise redemptions. This is helpful because redemptions can otherwise, in a self-fulfilling fashion, end up causing redeeming investors to disadvantage remaining investors. Consider the 'decision pair' facing an investor in a prime MMF which, during a financial crisis, had decided to impose a liquidity fee on redeeming investors in order to protect remaining investors. An investor could either:

- Remain in the prime MMF, in which case the investor would bear the remote chance of a loss if one of the fund's assets defaults; or
- Redeem from the prime MMF, in which case the investor would bear the irrecoverable cost of the liquidity fee, and subscribe the net proceeds into a Treasury MMF.

Faced with these options, we believe a risk adverse investor would be more likely to remain in the prime MMF than to redeem. Our belief is supported by research in behavioural finance which observes that, when having to decide between two negative choices ('bad choices') people tend to prefer *possible losses* over *sure losses*, even when the amount of the possible loss is significantly higher than the sure loss, i.e. an investor

[2] By contrast, a 'punitive' liquidity fee (i.e. that imposed a cost on a redeeming investor in excess of the amount required to equalise remaining investors) would represent a transfer of capital from redeeming to remaining investors. This would be inequitable, and we do not (??) believe investors would be prepared to invest in a MMF on that basis.

would tend to prefer the loss in the event of a default (a possible loss/a gamble) over a liquidity fee (a sure loss).

Consistent with this, and as noted in our earlier paper, there is anecdotal evidence in support of the disincentivising effect of a liquidity fee:

- In November 2007 redemptions were suspended from Florida's Local Government Investment Pool following redemptions from the MMF and a fall in assets from USD27b to USD15b. Subsequently the MMF was restructured with the fund split into two with a fixed liquidity fee of 2% charged on the fund that was created to hold the less liquid assets.
- In 2008, liquidity fees were applied to a suite of international enhanced cash funds. The funds in question were variably priced enhanced cash money market funds. But, accounting differences aside, we understand the funds applied a variable charge based on the estimated bid price of the assets.

We are in the process of rolling out the ability for the Board of Directors to impose trigger based liquidity fees in our MMFs where current regulation allows. At this time we are working on implementation in our flagship "Global Liquidity Fund" range domiciled in Dublin. Feedback from clients to date has broadly been neutral or supportive. The main reason cited by our clients for support of liquidity fees is the fact that they will be treated fairly in the event of a market dislocation that triggers the implementation of a liquidity fee.

4. Structural reforms

- **Prohibition of sponsor support of MMFs -** MMFs are an investment product where the risks and rewards belong to its investors. The investor's risks of ownership of a MMF are clearly stated in its prospectus and in its marketing materials. There is no legal basis for an investor in a MMF to transfer the downside risk of ownership to a fund's sponsor (unless it can be proved the sponsor has been negligent in its responsibilities).

  However, a level of ambiguity about who owns the risk when investing in a MMF has developed amongst some investors. This ambiguity has developed due to the sponsor support of MMFs that has taken place prior to, and during, the credit crisis. Some investors have been encouraged to *expect* sponsors to support their MMFs. Such expectations cannot be enforced, since managers are under no obligation to support their funds, and consequently leads some investors to misunderstand and misprice the risks they are subject to. The mispricing of risk created by sponsor support should be addressed. The ambiguity of risk ownership is also exacerbated by Fitch Ratings' decision to bake an assumption of a fund sponsor's willingness and ability to support their MMFs into their rating methodology for MMFs.

  There is an incentive for both fund sponsors and, arguably, regulators to maintain a level of ambiguity of risk ownership in a MMF. We believe any ambiguity of risk ownership must be removed so risk is correctly priced. We therefore propose a prohibition on MMF sponsors providing support to their MMFs. This will make clear to all investors that they are buying an investment product and own the risks and rewards of that investment. A prohibition on sponsor support would also address the comments that have been made that MMF sponsors must have “skin in the game” to ensure they are encouraged to manage risk and not to focus on higher returns. Prohibiting support of MMFs will remove any risk to the sponsor / parent that the provision of support can create.

Sponsor support can take a number of different forms depending on whether the issue seeking to be addressed is credit or liquidity related. If the sponsor is looking to reduce the volatility of the NAV due to an outright credit loss or a mark-to-market loss, a capital support agreement, buying an asset out of the fund at above market prices or a capital injection could be used. If a fund is experiencing liquidity challenges, the sponsor or an affiliate could purchase shares in the fund to inject liquidity. In all these cases it involves the sponsor or an affiliate entering into a transaction or agreement with the fund. Regulators are therefore able to prohibit sponsor support by prohibiting sponsor of affiliate transactions and agreements with its MMFs. In the US, there are explicit restrictions in respect of transactions between the sponsor or an affiliate and the fund. Whilst US federal securities law does not completely prohibit sponsor support, the US Securities and Exchange Commission has an effective mechanism to monitor the use of sponsor support in the US MMF industry.

- Prohibition of the use of MMF ratings - The use of MMF ratings has grown significantly over the last 15 years as fund sponsors and credit rating agencies (“CRAs”) have promoted the benefits of a MMF rating. The level of adoption has been most significant in markets where a regulatory definition of a MMF did not exist. For example, MMF ratings have been of particular benefit to investors in the EU where, until recently, there was no pan-European regulatory definition of a MMF, and investors had to rely on national definitions which often imposed relatively weak constraints on credit, market or liquidity risk.

Investors value MMF ratings as they provide additional risk constraints and oversight by the CRAs. This is understandable in an environment where any regulatory oversight is deemed insufficient and/or there is limited transparency to investors of the assets held by MMFs. Both these issues have been addressed post the crisis and, arguably, the need for a MMF rating has been significantly reduced. We have had discussions on this subject with a number of investors in our MMFs who have confirmed that robust regulation and heightened transparency create a credible alternative to a MMF rating.

Whilst there are some benefits to MMFs being rated, there are also significant systemic risks:

Firstly, with the banking sector long-term ratings predominately in the single-A rating category, the probability of a MMF rating being placed on review for downgrade or downgraded has increased significantly. As many investors’ treasury policies stipulate a MMF must be triple-A rated, we are concerned that downgrade action by a CRA will lead to significant redemption activity. Indeed, a UK domiciled MMF complex whose MMF ratings were recently placed on review for downgrade by Fitch Ratings experienced redemptions of almost 50% of the assets under management of its sterling MMF within the space of one week. In this instance the fund manager was able to meet the redemptions. If this had not been possible, or the downgrade had impacted a larger number of funds, or one of the larger fund complexes, the impact on the money markets could have been systemic.

Secondly, and as a consequence of the above, there is enormous pressure on MMFs to maintain their ratings. Those ratings depend on MMFs satisfying CRAs' ratings criteria, which manage credit risk with reference to the ratings of the funds' underlying issuers. If an issuer is put on ratings watch or downgraded, then it may no longer be an eligible investment for a rated MMF, notwithstanding the fund's own assessment of credit worthiness. This is significant: issuer ratings are supposed to be mere opinions; but if CRAs rate both funds and issuers, then they change from being opinions to being soft forms of regulation. Indeed, as pressure is brought to bear on CRAs to behave 'consistently', they have less latitude even to permit rated downgraded assets from rolling-off, and instead require MMFs to make forced sales in order to maintain the fund rating.

Thirdly, there is a lack of understanding amongst investors on MMF ratings. Investors appear to assume that the ratings of different CRAs are interchangeable, whereas in fact they are increasingly diverse. Broadly speaking, Standard & Poor's rating relates to credit risk; Moody's to credit and liquidity risk; and Fitch's to credit and liquidity risk, and to an assessment of the likelihood of sponsor support. Investors also appear to assume the highest MMF ratings can be 'read across' to a long-term triple-A rating. That is understandable given the symbology the CRAs have used: AAAm in the case of Standard & Poor's; Aaa-mf in the case of Moody's; and AAAmmf in the case of Fitch. The suffix (m, mf, mmf) is intended to distinguish the rating as a MMF rating, and not a long term rating, but that subtlety seems to be lost on most investors who instead prefer to focus on the prefix (AAA). This lack of knowledge creates a systemic risk as MMF investors may not understand the risk of the investment they are making.

The broadening and strengthening of regulation of MMFs and increased transparency to investors on the investments made by MMFs reduces the need for a fund rating. Coupled with the significant risks created by MMFs being rated, we propose that MMFs are prohibited from being rated. This will require a period of time before implementation to allow investors in MMFs to update their treasury policies and for fund sponsors to provide additional transparency to investors to provide a credible alternative to a MMF rating.

Responses to the questions raised by the Commission in your consultation

Conversion to a floating NAV

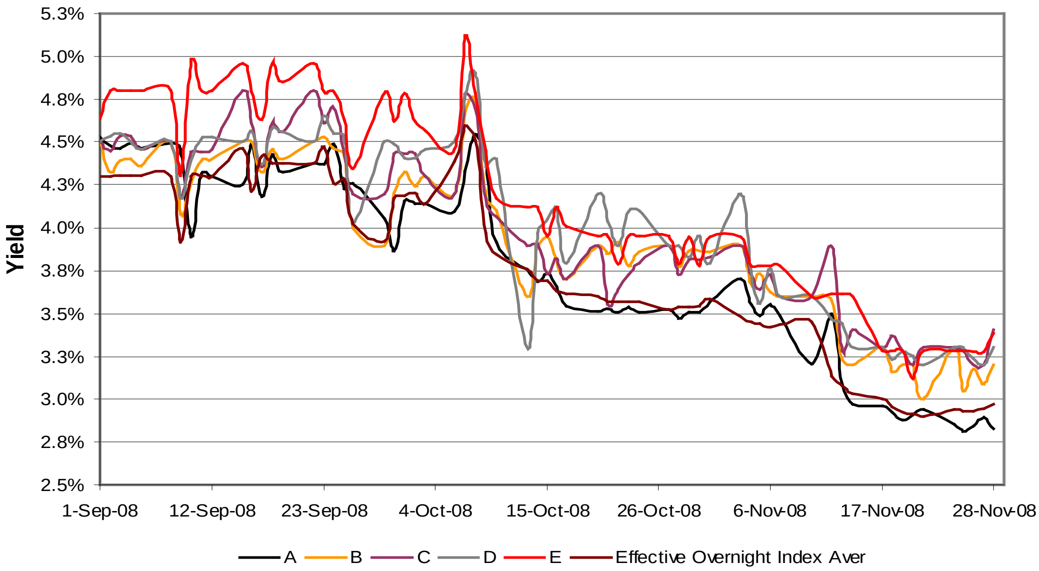
Question 1 - Do commenters agree that floating a money market fund's NAV would lessen the incentive to redeem shares in times of fund and market stress that can result from use of amortized cost valuation and penny rounding pricing by money market funds today?

We have conducted detailed analysis on whether converting CNAV MMFs to a floating net asset value will reduce the run risk in MMFs. This takes into account publically available data on the behaviour of VNAV funds during the credit crisis and our multiple year experience of managing both CNAV and VNAV MMFs. It is important to note that we make no differentiation between the CNAV and VNAV funds we manage including the investment policies of the funds and the investment process. The reason for maintaining this consistency across funds with different accounting treatments is that they are all investment products, with the same objectives and risks inherent in managing them and investors who behave consistently.

The FSOC paper on MMF reform suggests that: *"a requirement that MMFs use floating NAVs could make investors less likely to redeem en masse when faced with the prospect of even modest losses by eliminating the "cliff effect" associated with breaking the buck. Regular fluctuations in MMF NAVs likely would cause investors to become accustomed to, and more tolerant of, fluctuations in NAVs. A floating NAV would also reduce the first-mover advantage that exists in MMFs today because investors would no longer be able to redeem their shares for $1.00 when the shares' market-based value is less than $1.00."* Whilst interesting theories, they do not appear to match the actual behaviour of investors in CNAV and VNAV funds during the credit crisis.

Since the most developed market for VNAV funds is in France, we have looked at the share prices of six of the largest French VNAV 'monétaire' funds (as at June 2007) over a ten year period (from January 1999 to September 2009). Since these funds only offer accumulating shares, we assessed the variability of their share price by looking at the daily yield of the fund; a negative yield implies that the day's accumulation of income was more than offset by a mark-to-market loss.

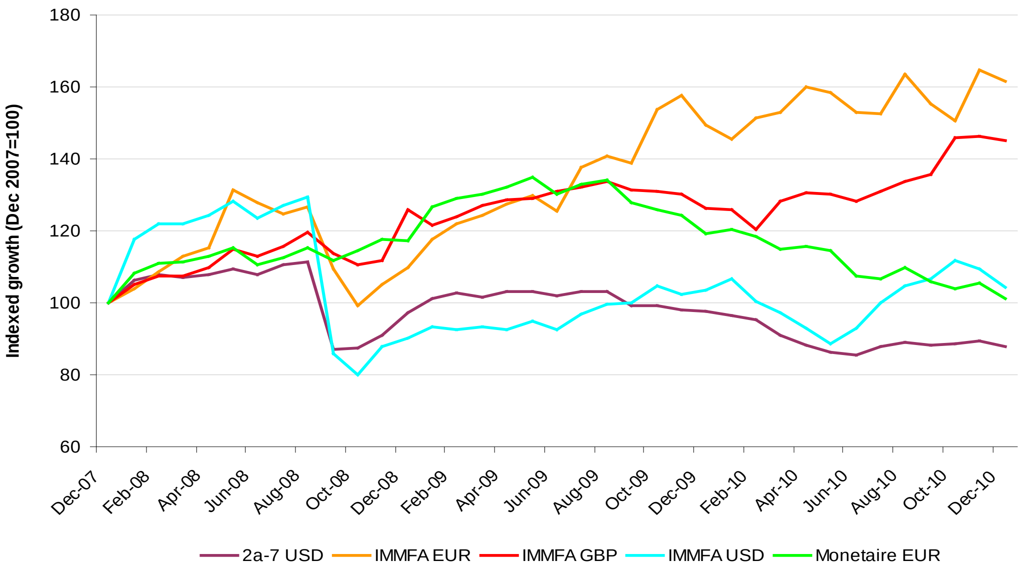
In the case of five of those six funds, at *no point* during the ten year period did they post a negative yield, i.e. daily mark-to-market losses were never substantial enough to cause the price of the funds to fall. This includes the period between September and November 2008 illustrated below, when markets were significantly dislocated. In other words, from an investor's perspective, these funds behaved much the same as if they were CNAV.



Source: Bloomberg

We also compared MMF flows between 2008 and 2010 to assess whether CNAV funds demonstrated larger and more sudden redemptions than VNAV funds. For the purpose of our analysis, CNAV funds comprised: 2a-7 prime funds; IMMFA USD funds; IMMFA EUR funds; and IMMFA GBP funds. VNAV funds comprised French monétaire funds. We found that in 2008, run risk appears to be correlated by currency rather than by pricing mechanism: USD denominated MMFs suffered runs, whereas EUR and GBP denominated MMFs funds did not.

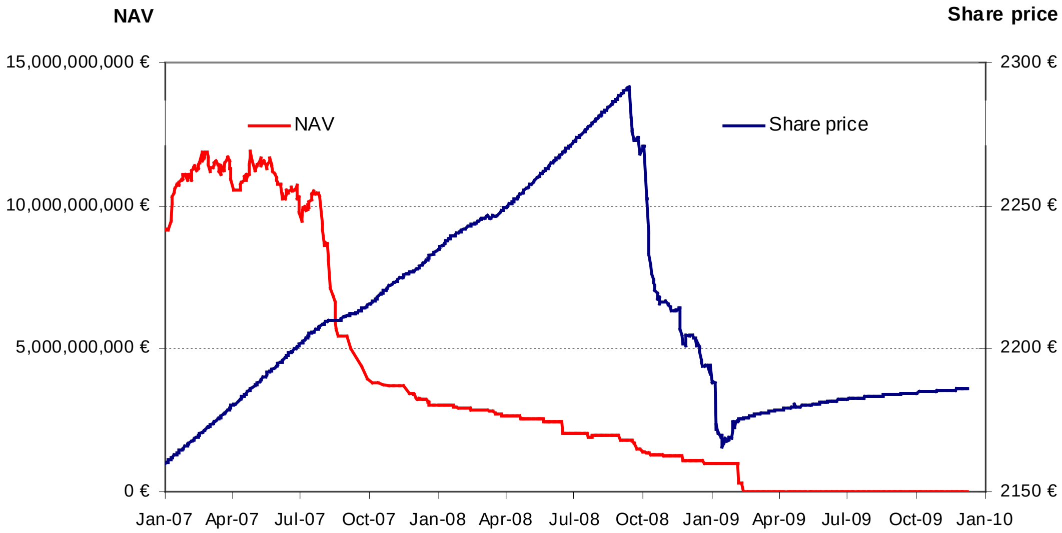
MMF indexed asset growth 2007-2010



Source: iMoneynet, Europerformance

Furthermore, neither did we find that investors are more sanguine to losses in VNAV than CNAV MMFs.

Of the six French VNAV monétaire funds we surveyed, one did post a negative yield in September 2008. Investors largely redeemed from that fund in the year before the decline in its share price, and what few shareholders remained in the fund redeemed after the decline in its share price. Either way, this fund clearly experienced a run notwithstanding that it was a VNAV fund.



Source: Bloomberg

In conclusion, we cannot find any evidence for the argument that there are substantial differences between CNAV and VNAV funds, which cause CNAV funds to be more prone to run risk than VNAV funds.

Question 2 - What would be the effect of the other incentives to redeem that would remain under a floating NAV with basis point pricing requirement?

See our answer to question 1 above.

Question 3 - Would floating a money market fund's NAV provide sufficient transparency to cause investors to estimate more accurately the investment risks of money market funds?

See our answer to question 1 above.

Question 4 - Do commenters believe that daily disclosure of shadow prices on fund websites would accomplish the same goal without eliminating the stable share price at which fund investors purchase and redeem shares? Why or why not? Is daily disclosure of a fund's shadow price without transacting at that price likely to lead to higher or lower risks of large redemptions in times of stress? If the enhanced disclosure requirements proposed elsewhere in this Release were in place, what would be the incremental benefit of the enhanced transparency of a floating NAV?

We do not support the disclosure of shadow prices beyond the frequency required by current SEC 2a-7 regulation. We continue to follow the existing requirements for disclosure of a 2a-7 funds shadow price. Frequent publication of the shadow price of MMFs will increase 'run' risk during a period of market stress. During benign market conditions investors will not monitor the daily shadow prices as evidenced by comments on client behaviour from MMF providers who have moved to daily publication of shadow prices. Our expectation is that during a period of market stress investors will monitor the shadow price of any MMF they are invested in. If they begin to see the shadow price fall they will be heavily incentivised to redeem at the stable price of 1.0000. It is difficult to predict with a high level of confidence the magnitude of fall in the shadow price that would lead investors to redeem as we do not have past experience to rely on. However, our expectation is that investors will redeem well before a fund reaches the 0.9950 level and probably in the range of 0.9985 – 0.9990.

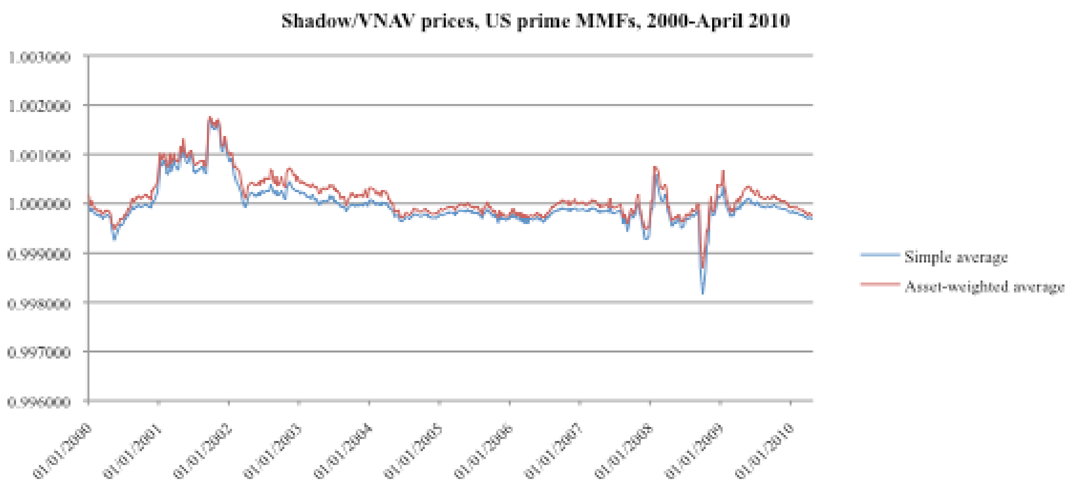
If an investor has a preference to see the daily movement in mark-to-market prices of the assets in a mutual fund in which they are invested then they should invest in a fund that is structured in this way. That being said, it is our understanding that the decision by some 2a-7 MMF providers to publish daily the shadow price of their MMFs was not driven by investors demanding this information.

Question 5 - Are there other places to disclose the shadow price that would make the disclosure more effective in enhancing transparency?

We do not support disclosure of the shadow price beyond what is currently stipulated in regulation. See our answer to question 5 above.

Question 6 - If the fluctuations in money market funds' NAVs remained relatively small even with a $1.0000 share price, would investors become accustomed only to experiencing small gains and losses, and therefore be inclined to redeem heavily if a fund experienced a loss in excess of investors' expectations?

Research by the ICI shows that, between 2000 and April 2010 the average price of a USD prime VNAV fund would have been 0.999977 (i.e. an average variation from the CNAV of 0.23bps). During that period, the highest average price would have been 1.0020 (i.e. +20bps variation from the CNAV) and the lowest average price would have been 0.999980 (i.e. -20bps variation from the CNAV). We fail to see how such tiny variations could desensitize investors to losses of, say, 300bps in the case of default by a security that represents 3% of a MMF's portfolio.



Source: ICI

Question 7 - Would investors in a floating NAV money market fund that appears likely to suffer a loss be less inclined to redeem because the loss would be shared pro rata by all shareholders? Would a floating NAV make investors in a fund more likely to redeem at the first sign of potential stress because any loss would be immediately reflected in the floating NAV?

See our response to question 1 above.

Question 8 - Would floating NAV money market funds treat non-redeeming shareholders, and particularly slower-to-redeem shareholders, more equitably in times of stress?

One of the benefits of a floating NAV MMF is that price fluctuations based on mid-market pricing are reflected in the price each day the fund is open for business. This means any investor subscribing or redeeming is trading at a mid-market price rather than a stable price. By definition a mid-market price is a truer reflection of the value of the assets in the fund. However, as we have noted in our introduction to the response to this consultation, this benefit does not outweigh the other arguments we have made against a transition to a floating NAV model and would not deliver the objectives we believe the SEC is looking to achieve.

In addition, during a period of market stress where the mid to bid spread typically widens, the widening is not reflected in a floating NAV MMF. However, this spread widening is captured if a liquidity fee using our recommended design is used. .

Question 9 - Would money market fund sponsors voluntarily make cash contributions or use other available means to support their money market funds and thereby prevent their NAVs from actually floating? Would larger fund sponsors or those sponsors with more access to capital have a competitive advantage over other fund sponsors?

It is not possible for us to predict the behavior of fund sponsors making cash contributions to support a floating NAV MMF. Past behavior of support by sponsors of CNAV MMFs tells us support is probable if the fall in the NAV of a floating NAV MMF were to be above the expectation of the clients in the fund. The same reputational risk exists with floating NAV MMFs as it does with CNAV MMFs and therefore the same incentives exist to support. We also have anecdotal evidence of sponsors supporting floating NAV MMFs and enhanced cash funds in Europe during the financial crisis.

We look at the issue of sponsor support differently as outlined in our introduction. MMFs are an investment product where the risks and rewards belong to its investors. The investor's risks of ownership of a MMF are clearly stated in its prospectus and in its marketing materials. There is no legal basis for an investor in a MMF to transfer the downside risk of ownership to a fund's sponsor (unless it can be proved the sponsor has been negligent in its responsibilities).

However, a level of ambiguity about who owns the risk when investing in a MMF has developed amongst some investors. This ambiguity has developed due to the sponsor support of MMFs that has taken place prior to, and during, the credit crisis. Such expectations cannot be enforced, since managers are under no obligation to support their funds, and consequently leads some investors to misunderstand and misprice the risks they are subject to. The mispricing of risk created by sponsor support should be addressed. The ambiguity of risk ownership is also exacerbated by

Fitch Ratings' decision to embed an assumption of a fund sponsor's willingness and ability to support their MMFs into their rating methodology for MMFs.

There is an incentive for both fund sponsors and, arguably, regulators to maintain a level of ambiguity of risk ownership in a MMF. We believe any ambiguity of risk ownership must be removed so risk is correctly priced. We therefore propose a prohibition on MMF sponsors providing support to their MMFs. This will make clear to all investors that they are buying an investment product and own the risks and rewards of that investment. A prohibition on sponsor support would also address the comments that have been made that MMF sponsors must have "skin in the game" to ensure they are encouraged to manage risk and not to focus on higher returns. Prohibiting support of MMFs will remove any risk to the sponsor / parent that the provision of support can create.

Sponsor support can take a number of different forms depending on whether the issue seeking to be addressed is credit or liquidity related. If the sponsor is looking to reduce the volatility of the NAV due to an outright credit loss or a mark-to-market loss, a capital support agreement, buying an asset out of the fund at above market prices or a capital injection could be used. If a fund is experiencing liquidity challenges, the sponsor or an affiliate could purchase shares in the fund to inject liquidity. In all these cases it involves the sponsor or an affiliate entering into a transaction or agreement with the fund. Regulators are therefore able to prohibit sponsor support by prohibiting sponsor or affiliate transactions and agreements with its MMFs. In the US, there are explicit restrictions in respect of transactions between the sponsor or an affiliate and the fund. Whilst US federal securities law does not completely prohibit sponsor support, the SEC has an effective mechanism to monitor the use of sponsor support in the US MMF industry.

Redemptions during a period of illiquidity

Question 10 - Do commenters believe that a floating NAV is sufficient to address the incentive to redeem caused by liquidity concerns in times of market stress? Would other tools, such as redemption gates or liquidity fees, also be necessary?

Please see the introduction and our responses to questions 1-9.

During a period of market stress the bid offer spread on money market assets is likely to widen. During a period of extreme market stress, for example during the financial crisis of 2007-2008, the spread can widen significantly. This leads to a significant deviation between the mid-market value and the bid and offer prices. In this instance, it can be argued that to ensure the fair treatment of investors a liquidity fee (payable to the fund) should be charged on redeeming investors to reflect the large deviation between the mid-market and bid price.

Question 11 - Did the 2010 amendments, including new daily and weekly liquid asset requirements, address sufficiently the incentive to redeem in periods of illiquidity?

We believe the 2010 amendments to rule 2a-7 went a significant way to addressing what was learnt from the financial crisis to make MMFs more resilient. As noted in our introduction above, we believe there are further reforms that should be enacted to make MMFs even more resilient to 'run' risk. These include MMFs being required to a have a client concentration policy, the ability of a MMF to offer in-specie redemptions, the ability for a MMF to process partial redemptions and the ability for a MMF to gate redemptions. Please see our introduction above for further details.

Empirical evidence of other floating NAV markets / funds

Question 12 - Do commenters agree with the preceding discussion of what may have caused investors to heavily redeem shares in some floating value money market funds in other jurisdictions and in U.S. ultra-short bond funds during the 2007-2008 financial crisis? Are there other possible factors that we should consider?

Investors redeemed shares from certain mutual funds during the financial crisis 2007-2008 when they lost confidence in the underlying assets in these funds. This was true not only for CNAV and VNAV mutual funds with a low risk profile such as MMFs and 'enhanced cash funds', but also mutual funds with a high risk profile such as real estate funds. There are many reasons that have been cited as to why this behaviour occurred, many of which are credible and could be debated indefinitely. For this reason the focus of the reform of MMFs should first ensure the risk profile of a MMF defined by regulation is appropriate to give the highest degree of confidence that the objectives of preservation of capital and liquidity can be delivered to investors. Secondly, MMF reform should ensure MMFs have the necessary powers (e.g. liquidity fees, gates, partial gates, in-specie redemptions) to manage an event that brings into question a funds ability to deliver these objectives. If these powers fail to return stability to a MMF it must have the power to wind down in an orderly manner.

Question 13 - Do commenters agree with the distinctions we identified between money market funds under our proposed floating NAV and money market funds in other jurisdictions and U.S. ultra-short bond funds? Are there similarities or differences we have not identified?

As per our response to question 12 above, we do not believe that the limited risk differentials between MMFs, 'enhanced cash funds' and ultra-short duration bond funds alters our view that converting constant NAV MMFs to floating NAV will not reduce run risk. In the instances where mutual funds in these sectors experienced challenges during the financial crisis they typically faced heavy redemptions or sponsor support was required to avert this outcome.

Question 14 - Do commenters believe that the risk limiting requirements of rule 2a-7 would deter heavy redemptions in money market funds with a floating NAV because of the restrictions on the underlying assets?

Whilst the risk limiting requirements of rule 2a-7 reduce the probability of heavy redemptions occurring they do not remove the possibility. Further powers are required to allow MMFs and their Boards to manage heavy redemptions were they to occur. See our answer to question 12 above and the introduction section above.

Question 15 - Do commenters believe that money market funds attract very risk averse investors? If so, are these investors more or less likely to rapidly redeem in times of stress to avoid even small losses?

By definition MMFs attract investors that are looking for a low risk investment product whose objectives are to deliver preservation of capital and liquidity. The investors in MMFs are "risk averse" in terms of the assets they have invested in a MMF. We do not believe it can simply be implied that they are therefore “more or less likely to rapidly redeem in times of stress”. During the financial crisis there were heavy and rapid redemptions in some hedge funds and real estate funds which are at the opposite end of the risk spectrum to a MMF.

MMF pricing

Question 16 - What level of precision in calculating a fund’s share price would best convey to investors that floating NAV funds are different from stable price funds? Is “basis point” rounding too precise? Would “10 basis point rounding” ($1.000 for a fund with a $1.00 target share price) provide sufficient price transparency? Or another measure?

We would support “basis point” rounding if 2a-7 MMFs are required to convert to a floating NAV. This level of precision would avoid “step” moves in the price which would be a particular issue at the current low level of interest rates.

Question 17 - Would requiring funds to price their shares at $1.0000 per share effectively alter investor expectations regarding a fund’s NAV gains and losses? Would this in turn make investors less likely to redeem heavily when faced with potential or actual losses? Would “basis point” rounding better reflect gains and losses? Would it help eliminate incentives for investors to redeem shares ahead of other investors when prices are less than $1.0000?

See our answer to question 1 above. “Basis point” rounding would better reflect gains and losses but would not help eliminate incentives for investors to redeem.

Question 18 - Should we require that all money market funds price their shares at $1.0000, including those funds that currently price their shares at an initial value other than $1.00? Do commenters agree that, regardless of a fund’s initial share price, under our proposal all money market funds would be required to price fund shares to an equivalent level of precision (e.g., “basis point” rounding)?

All MMFs should be required to price fund shares to an equivalent level of precision to avoid investor confusion. MMFs should be allowed to offer shareclasses that either distribute income or retain income and “roll it up” into the price of the fund. There is no evidence from the MMF industry in Europe, where constant NAV MMFs typically offer “stable” and “accumulating” price share classes that investors behaved differently during the financial crisis.

Exemption to a floating NAV requirement for Government MMFs

Question 19 - Do commenters agree with our assumption that money market funds with at least 80% of their total assets in cash, government securities, and government repos are unlikely to suffer losses due to credit quality problems correct? Is our assumption that they are unlikely to be subject to significant shareholder redemptions during a financial crisis correct?

We believe that a “Treasury” and “Government” MMF are less likely to be subject to significant shareholder redemptions during a financial crisis. The nature of the securities in these types of funds typically benefit from a “flight to quality” as they did during the financial crisis of 2007-2008. We would expect these types of funds to experience the same benefit in any future systemic market events. Of course these types of fund would be impacted by an idiosyncratic event related to US Treasury and GSE debt.

There are two important caveats to our comments above. Firstly, our opinion only applies if 100% of the assets in a fund are invested in US Treasury or “government” securities. Our understanding is that the majority of “Treasury” and “Government” funds had not used the flexibility to invest 20% of their assets in “credit” and were 100% invested in “Treasury” and “Government” securities. We therefore propose that any exemption only apply to those funds that invest 100% of their assets in “Treasury” and “Government” securities (including repos). In addition, allowing a 20% allocation to credit in a “Treasury” or “Government” fund risks causing confusion of investors who would naturally expect to be investing 100% in “Treasury” or “Government” securities when investing in a MMF that uses one of these labels.

Secondly, we do not support your proposal that requires MMFs to publish the daily shadow price based on mark-to-market prices for the reasons we highlighted in question 4 above.

Question 20 - Should government money market funds be exempt from the floating NAV requirement? Why or why not? Are there other risks, such as interest rate or liquidity risks, about which we should be concerned if we adopt this proposed exemption to the floating NAV requirement? If so, what are they and how should they be addressed?

Interest rate risk must be considered before an exemption to the floating NAV requirement for government MMFs is adopted. However, the maximum weighted average maturity (“WAM”) of 60 days for all 2a-7 MMFs does reduce this risk. If a MMF was running a WAM at or close to the 60-day maximum it would require a parallel shift in the yield curve of circa 300bp to breach 0.9950 or 1.0050 and a parallel shift in the yield curve of circa 150bp to breach 0.9975. The latter has been noted as it is a shadow price point where a credit rating agency would consider placing a rated MMF on “watch” or downgrading it. Analysis of yield curve shifts in the USD money market yield curve show the probability of shifts in the yield curve of the magnitude above are very rare.

Question 21 - Would the costs imposed on government money market funds if we required them to price at a floating NAV be different from the costs discussed below?

We do not believe the costs imposed on a government MMF if it were required to transition to a floating NAV would be materially different than for any other type of MMF that was required to transition to a floating NAV. If anything the cost would be lower due to the homogeneity of the assets held in this type of MMF.

Question 22 - Are the proposed criteria for qualifying for the government money market funds exemption to the floating NAV requirement appropriate? Should government money market funds be required to hold more or fewer than 80% of total assets in cash, government securities, and government repos? If so, what should it be and why?

We believe a government MMF should be required to hold 100% of its assets in cash, government securities and government repos. Our rationale is explained in question 19 above.

Question 23 - What kinds of risks are created by exempting government money market funds from a floating NAV requirement where the funds are permitted to maintain 20% of their portfolio in securities other than cash, government securities, and government repos? Should there be additional limits or requirements on the 20%? Would investors have incentives to redeem shares ahead of other investors if they see a material downgrade in securities held in the 20% basket? Would such an incentive create a significant risk of runs?

See our answers to questions 19 and 22 above.

Question 24 - Is penny rounding sufficient to allow government money market funds to maintain a stable price? Should we also permit these funds to use amortized cost valuation? If so, why? Should we permit money market funds to continue using amortized cost valuation for certain types of securities, such as government securities? Why?

See our answers to question 4 and 19 above

Question 25 - Should we provide other exemptions to the floating NAV requirement based on the characteristics of a fund's portfolio assets, such as funds that hold heightened daily or weekly liquid assets? If so, why and what threshold should we use?

We have considered the proportionality of the different reform proposals relative to the magnitude of the issue being addressed. For example, we consider the proposal that MMFs adopt a floating NAV and the use of capital as reforms that, as well as not achieving the desired outcome, is disproportionate to the issue being addressed. All parties involved in the debate on further MMF must continue to bear in mind that there has only ever been one systemic industry event in over 40 years. For this reason we think it is prudent to consider an exemption for an MMF that is run at a lower risk profile than the existing 2a-7 rules. This could include a lower WAM / WAL limit, a lower maximum maturity for individual assets, higher minimum liquidity requirements or all of the above. We would be happy to discuss suitable changes to the risk profile to design a MMF that would be considered eligible for an exemption to the floating NAV.

Exemption to the floating NAV requirement for Retail money market funds

Question 25 - Are we correct in our understanding that retail investors are less likely to redeem money market fund shares in times of market stress than institutional investors? Or are they just slower to participate in heavy redemptions? Does the evidence showing that retail investors behave differently than institutional investors justify a retail exemption? Is this difference in behaviour likely to continue in the future?

A number of commentators have noted the different behaviour during the financial crisis of retail investors compared to institutional investors in MMFs. Whilst we recognise that retail investors were less prone to redeem from MMFs during the crisis we do not support creating funds with different regulations for different investor types. Whilst the credit crisis of 2008 is an important data point to compare investor behaviour, there are other data points in history and across geographies that show that retail investors do 'run' from investments (banks and other types of mutual fund) during times of market crisis. There are also practical challenges such as defining and identifying different types of investor and preventing the “gaming” of any regulation. Any differentiation also assumes all institutional investors have the same propensity to ‘run’ which was not our experience during the crisis. Pension funds for example tended to be stable investors in MMFs throughout the credit crisis. If the reforms ultimately adopted equalize the treatment of shareholders arguably differentiation between different types of investors is not required.

A further consideration of creating an exemption for retail investors, which applies to any exemption, is that it will naturally lead to a bifurcation of existing assets in MMFs. This will have implications for MMFs that have lower assets under management (AUM) levels (i.e. those with circa USD 10-15bn or less in AUM). We expect to see a bifurcation of the industry if a requirement to move to a floating NAV is adopted due to the proposed exemptions for government funds and retail investors, some investors leaving MMFs and moving into deposits or direct market investments and some investors leaving MMFs and moving to segregated account structures. This bifurcation will mean that the MMFs that exist after the split will have insufficient scale of AUM for many investors and will therefore become unviable. This will lead to further consolidation in the industry, a reduction in competition and a reduction in choice for investors.

Affiliate purchases or “sponsor support”

Question 26 - Do commenters believe affiliated person support is important to funds, investors, or the securities markets even under our floating NAV proposal? Do commenters agree with our assumptions that liquidity concerns are likely to remain significant even with a floating NAV and that fund sponsors should continue to have this flexibility to protect shareholder interests? We note that rule 17a-9 was established and then expanded in 2010, in the context of stable values. If money market funds are required to float their NAVs, should we limit further the circumstances under which fund sponsors or advisers can use rule 17a-9? If so, how?

We have a clear position on the question of affiliate purchases or “sponsor support” which we apply to both constant NAV and floating NAV MMFs.

MMFs are an investment product where the risks and rewards belong to its investors. The investor’s risks of ownership of a MMF are clearly stated in its prospectus and in its marketing materials. There is no legal basis for an investor in a MMF to transfer the downside risk of ownership to a fund’s sponsor (unless it can be proved the sponsor has been negligent in its responsibilities).

However, a level of ambiguity about who owns the risk when investing in a MMF has developed amongst some investors. This ambiguity has developed due to the sponsor support of MMFs that has taken place prior to, and during, the credit crisis. Some investors have been encouraged to expect sponsors to support their MMFs. Such expectations cannot be enforced, since managers are under no obligation to support their funds, and consequently leads some investors to misunderstand and misprice the risks they are subject to. The mispricing of risk created by sponsor support should be addressed. The ambiguity of risk ownership is also exacerbated by Fitch Ratings’ decision to bake an assumption of a fund sponsor’s willingness and ability to support their MMFs into their rating methodology for MMFs.

There is an incentive for both fund sponsors and, arguably, regulators to maintain a level of ambiguity of risk ownership in a MMF. We believe any ambiguity of risk ownership must be removed so risk is correctly priced. We therefore propose a prohibition on MMF sponsors providing support to their MMFs. This will make clear to all investors that they are buying an investment product and own the risks and rewards of that investment. A prohibition on sponsor support would also address the comments that have been made that MMF sponsors must have “skin in the game” to ensure they are encouraged to manage risk and not to focus on higher returns. Prohibiting support of MMFs will remove any risk to the sponsor / parent that the provision of support can create.

Sponsor support can take a number of different forms depending on whether the issue seeking to be addressed is credit or liquidity related. If the sponsor is looking to reduce the volatility of the NAV due to an outright credit loss or a mark-to-market loss, a capital support agreement, buying an asset out of the fund at above market prices or a capital injection could be used. If a fund is experiencing liquidity challenges, the sponsor or an affiliate could purchase shares in the fund to inject liquidity. In all these cases it involves the sponsor or an affiliate entering into a transaction or agreement with the fund. Regulators are therefore able to prohibit sponsor support by prohibiting sponsor of affiliate transactions and agreements with its MMFs. In the US, there are explicit restrictions in respect of transactions between the sponsor or an affiliate and the fund. Whilst US federal securities law does not completely prohibit sponsor support, the US Securities and Exchange Commission has an effective mechanism to monitor the use of sponsor support in the US MMF industry.

Sponsor support also distorts markets in a number of ways to the detriment of all participants in the financial markets and the system as a whole. For example, implicit sponsor support distorts pricing in the market and means that risk is not correctly priced. This mispricing of risk can mask the true risk of a MMF to investors. Implicit sponsor support can also add to volatility at the time of a crisis. As any support of a MMF is implicit an investor does not have clarity whether a sponsor will provide support or not. This means that during a crisis investors are encouraged to speculate whether different MMF providers will support their funds by redeeming from those funds they believe are less likely to provide support and to invest in those MMFs where they believe the sponsor is more likely to provide support. If support is actually provided the investor no longer needs to speculate and can switch to the MMF or MMFs that have provided support. This behaviour creates additional volatility in MMF AUM adding to a market that is already dysfunctional.

In this regard, a lesson can be learnt from the recent experience in the Indian MMF industry when compared to the events in the US and European MMF industry during the financial crisis (accepting there are many differences between these different MMF industries). The Indian MMF industry has a hybrid floating NAV pricing model but in practice NAVs of MMFs have not dropped since the financial crisis and clients do not expect the price of the MMFs to drop. In July short term money market interest rates rose by 250bp in one day meaning all the assets in Indian MMFs were below the 10bp threshold from their amortised cost price. All participants decided not to provide any form of sponsor support which led to a fall in the price of MMFs across the industry. As all MMFs decided to adopt the same approach there was no incentive for investors to switch between MMFs and exacerbate an already volatile and fractious market. We believe the consistent approach taken by MMF providers is one of the main reasons why the market event did not lead to a ‘run’ on Indian MMFs

We therefore propose the removal of rule 17a-9.

Question 27 - Does permitting affiliated purchases for floating NAV money market funds reduce the transparency of fund risks that our floating NAV proposal is designed, in part, to achieve? If so, does the additional disclosure we are proposing mitigate such an effect? Are there additional ways we can mitigate such an effect?

See our position on affiliated purchases and sponsor support in question 26 above.

Question 28 - Should we allow only certain types of support or should we prohibit certain types of support? For example, should we allow sponsors to purchase under rule 17a-9 only liquidity-impaired assets, or should we prohibit sponsors from purchasing defaulted securities? Why or why not? If yes, what types of support should be permitted and what types should be prohibited? Why?

See our position on affiliated purchases and sponsor support in question 26 above.

Question 29 - Would the ability of fund sponsors to support the NAV of floating funds affect the way in which money market funds are structured and marketed? If so, how? Would it affect the competitive position of fund sponsors that are more or less likely to have available capital to support their funds?

See our position on affiliated purchases and sponsor support in question 26 above.

Question 30 - Instead of retaining 17a-9, should we instead repeal the rule and thereby prohibit certain types of sponsor support of money market funds? If so, why?

See our position on affiliated purchases and sponsor support in question 26 above.

Question 31 - Instead of retaining 17a-9, should we instead repeal the rule and thereby prohibit certain types of sponsor support of money market funds? If so, why?

See our position on affiliated purchases and sponsor support in question 26 above.

Suspension of redemptions

Question 32 - Do commenters believe that the ability to suspend redemptions (under the circumstances we propose) would be important to floating NAV funds, their investors, and the securities markets?

All MMFs should be permitted to suspend redemptions as this provides the Board and the fund sponsor the best opportunity to manage a ‘run’ if it were to occur and to best protect investors. As we note in our response to question 12 above, the Board of a MMF should have all “sensible” powers available to them that will allow them to protect investors during a financial crisis or an idiosyncratic event on the MMF.

Question 33 - Would this ability be important to a retail or government money market fund even though we are proposing to exempt these funds from the floating NAV requirement, in part, because they are less likely to face heavy redemptions in times of stress?

As noted in our answer to question 32 above, all MMFs should be permitted to suspend redemptions.

Question 34 - Is it appropriate to allow a money market fund to suspend redemptions and liquidate if its level of weekly liquid assets falls below 15% of its total assets? Is there a different threshold based on daily or weekly assets that would better protect money market fund shareholders? What is that threshold, and why is it better? Is there a threshold based on different factors that would better protect money market fund shareholders? What are those factors, and why are they better? If so, is such suspension then appropriate only in connection with liquidation, or should it be broader?

We support all the Commission's recommendations on the suspension of redemptions.

Question 35 - Is our conclusion correct that it will impose no costs nor have any effects on competition, efficiency, or capital formation?

We agree with the Commission's conclusion that permitting a fund to suspend redemptions will impose no costs nor have any effects on competition, efficiency, or capital formation

<u>Tax and accounting implications of floating NAV MMFs</u>

Question 36 - Would investors continue to invest in floating NAV money market funds absent administrative relief from the Treasury Department and IRS relating to wash sales? What would be the effect on the utility of floating NAV money market funds if the anticipated administrative relief is not provided? Would investors be able to use floating NAV money market funds in the same way or for the same purposes absent the anticipated administrative relief?

Based on a dialogue with the investors in our 2a-7 MMFs, a conversion to floating NAV without any administrative relief from the Treasury department and IRS would create a significant impediment to our investors continued use of MMFs. Any detrimental change in the tax position of investors created by a conversion to a floating NAV, on an absolute basis or relative to other investment options, would lead to many investors stopping their use of MMFs. It is difficult to predict the magnitude of the impact on AUM in our MMFs as further dialogue and time to adapt to the change could reduce the expected impact. However, we would expect at least a 50% reduction in AUM.

Question 37 - Would shareholders be less likely to invest in floating NAV money market funds if the shares held were classified for financial statement purposes as an "investment" rather than "cash and cash equivalent?"

Whilst classification of their MMF investment as cash and cash equivalent is not a requirement for all our investors, for those that require this classification it is a 'must have' for their continued investment in MMFs. Quantifying the impact is again challenging but we would expect that the classification is relevant to well over 50% of investors in our MMFs.

Operational implications of floating NAV MMFs

Question 38 - To what extent would transfer agents, fund accounting departments, custodians, and intermediaries need to develop and implement additional controls and procedures or modify existing ones under our floating NAV proposal?

Clearly a change of this magnitude would require transfer agents, fund accounting departments, custodians and intermediaries to develop and implement additional controls and procedures or to modify existing ones. However, with sufficient time (2-3 years) the necessary changes will be able to be made. For the majority of these stakeholders the cost of making the necessary changes will not be prohibitive and in most cases will be a one off and absorbed by the stakeholder or shared with the MMF provider. There are changes that will lead to a permanent increase in costs. At this stage we are not able to predict whether stakeholders, MMF providers or investors will pick up some or the entire rise in costs.

Whether the requirement to adopt a floating NAV is adopted or not, there is an opportunity now to enhance the current 2a-7 regulation by requiring intermediaries to provide look through to the MMF provider of key features of the underlying investors in an omnibus account (where utilized by the intermediary). The information provided should include the size of each underlying investor as a percentage of the omnibus account, the investor type, the sector of each institutional investor and the history of their investment in the fund. This is vital information for the MMF provider to help them better manage liquidity risk in the MMF and is typically not available to MMF providers today.

Question 39 - Would an extended settlement cycle impose costs on money market fund investors? If so, what kinds of costs and how much? Would extending the settlement cycle cause investors to leave or not invest in money market funds?

An extended settlement cycle would remove some of the utility value currently enjoyed by investors in MMFs that offer same day settlement and could lead to a reduction in usage of the product. That being said, a conversion to a floating NAV could see investors use MMFs in a different way in the future by extending the holding period they invest in a fund particularly during a period of rising interest rates. As noted before, we would not expect this to apply if an investor had lost confidence in some or all of the assets in a MMF. If this pattern were borne out in practice then next day settlement may not in itself lead to a reduction in usage of MMFs. We would also concur with the observation that moving to next day settlement will increase the settlement risk of the MMF to its investors from intraday to next day and increase the costs and impact of overdrafts and/or unplanned excess cash balances in the banking system.

Question 40 - Do commenters agree that money market funds generally could still offer same-day settlement if required to use a floating NAV? Would money market funds extend the settlement cycle or would they exercise either of those other options?

No position on this question at this time.

Question 41 - Are shareholder systems in fact unable to accommodate a floating NAV, even if the NAV typically fluctuates very little (a fraction of a penny) on a day-to-day basis?

This is dependent on the type of investor. For example, we do not believe that the majority of corporate treasury systems will be able to convert to a MMF with a floating NAV without some development of their treasury system. There are other investors, such as pension funds, that we would not expect to be impacted operationally by this change as they are used to accounting for assets whose prices fluctuate. We expect at least 50% of institutional investors in MMFs will require some systems development to be able to invest in a MMF whose NAV fluctuates. Sufficient time to make the necessary system changes will be a more important factor than the cost of the change in determining on-going usage of MMFs for many corporate treasury investors. That being said, for some investors this additional cost and resource burden will be too much for them to justify their continued investment in MMFs. It is difficult for us to quantify this impact without further analysis by our investors which they are not prepared to conduct at this time as they do not know whether this change will ultimately be required.

Disclosure statement

Question 42 - Would the disclosure statement proposed to be used by floating NAV funds adequately alert investors to the risks of investing in a floating NAV fund, and would investors understand the meaning of each part of the proposed disclosure statement? Will investors be fully aware that the value of their money market fund shares will increase and decrease as a result of the changes in the value of the underlying portfolio securities? If not, how should the proposed disclosure statement be amended?

We support the disclosure statement outlined for floating NAV MMFs. In addition we recommend adding a bullet point that references the “risk warnings” that are typically outlined in a MMFs prospectus. For example, “Investors should read the ‘Risk Warnings’ section of the prospectus that outlines some other risks that an investor should be comfortable with before investing in the MMF.”

Question 43 - Would the disclosure statement proposed to be used by government and retail money market funds, which are not subject to the floating NAV requirement, adequately alert investors to the risks of investing in those types of funds, and would investors understand the meaning of each part of the proposed disclosure statement? If not, how should the proposed disclosure statement be amended?

We support the disclosure statement outlined for government and retail MMFs. In addition we recommend adding a bullet point that references the “risk warnings” that are typically outlined in a MMFs prospectus. For example, “Investors should read the ‘Risk Warnings’ section of the prospectus that outlines some other risks that an investor should be comfortable with before investing in the MMF.”

Question 44 - Would different shareholder groups or different types of funds benefit from different disclosure statements? For example, should retail and institutional investors receive different disclosure statements, or should funds that offer cash management features such as check writing provide different disclosure statements from funds that do not? Why or why not? If yes, how

should the disclosure statement be tailored to different shareholder groups and fund types?

The disclosure statements as outlined and with our additional bullet point are clear and concise and appropriate for all types of investor sophistication.

Question 45 - Will the proposed disclosure statement respond effectively to investor preferences for clear, concise, and understandable language?

See our answer to question 44 above.

Question 46 - Would investors benefit from requiring the proposed disclosure statement also to be included on the front cover page of a money market fund's prospectus (and on the cover page or beginning of any summary prospectus, if used)?

We agree it would be helpful to draw investor's attention to the disclosure statement by having the statement on a separate page and as the first page after the front cover.

Question 47 - Would investors benefit from any additional types of disclosure in the summary section of the statutory prospectus or on the prospectus' cover page? If so, what else should be included?

We do not see any benefit of additional types of disclosure beyond those typically seen in the "Risk Warnings" section of a MMF prospectus. This can remain in the body of the prospectus but referenced as a bullet point in the disclosure statement.

Question 48 - Should we provide any instruction or guidance in order to highlight the proposed disclosure statement on fund advertisements and sales materials (including the fund's website) and/or lead investors efficiently to the disclosure statement? For example, with respect to the fund's website, should we instruct that the proposed disclosure statement be posted on the fund's home page or be accessible in no more than two clicks from the fund's home page?

To ensure the disclosure statement is prominent and consistent in all marketing materials including websites then guidance should be provided.

<u>Disclosure of transition to floating NAV</u>

Question 49 - Besides requiring a fund that transitions to a floating NAV to update its registration statement by filing a post-effective amendment or prospectus supplement, should we also require that, when a fund transitions to a floating NAV, it must notify shareholders individually about the risks and operational effects of a floating NAV on the fund, such as a separate mailing or email notice? Would shareholders be more likely to understand and appreciate these risks and operational effects (disclosure of which would be included in the fund's registration statement, as discussed above) if they were to receive such individual notification? If so, what information should this individual notification include? What would be an appropriate time frame for this notification? How would such notification be accomplished, and what costs would be incurred in providing such notification?

We support the requirement for a MMF that transitions to floating NAV to notify shareholders individually about the change. The change to a floating NAV is significant and investors must understand the change and what it could mean for them. This will enable them to make an informed decision as to the appropriateness of the new fund for them. The notification should advise the investor of the increased volatility in the NAV that will now occur on a daily basis leading to both rises and falls in the price of the fund. The notification should recommend that investors seek their own independent advice on any tax or accounting implications of the change. All shareholders should be written to at the address listed on the shareholder register. If the fund sponsor is aware of an additional address for any shareholder they should also write to the shareholder at any other known address. Whilst the majority of shareholders will be aware of the new MMF reforms once they have been finalised, it would be appropriate to communicate 3-months prior to the final implementation date of the new reforms.

Question 51 - Are any of the proposed disclosure requirements unduly burdensome, or would they impose any unnecessary costs? We request comment on the staff's estimates of the operational costs associated with the proposed disclosure requirements. We request comment on our analysis of potential effects of these proposed disclosure requirements on efficiency, competition, and capital formation.

We do not see any meaningful cost or any other impact of the proposed disclosures.

Request for comment on MMF names

Question 52 - Given that, under our floating NAV proposal, some funds' share prices would increase and decrease as a result of changes in the value of the securities in which the fund invests, should we require new terminology in money market fund names to reduce any risk of investor confusion that might result from both stable price money market funds and floating NAV money market funds using the same term "money market fund" in their names? For example, should we require money market funds to use either the term "stable money market fund" or "floating money market fund," as appropriate, in their names? Why or why not?

We agree that it would be prudent to have terminology that makes it clear whether a MMF is expected to be "stable" or to "fluctuate". Relying on an investor being aware that "Government" and "Retail" MMFs are stable and other MMFs price will fluctuate is not sufficient to remove the risk of investor confusion. The terms suggested seem appropriate.

Transition period

Question 53 - Do commenters agree that a compliance period of 2 years is sufficient to address operational issues associated with converting funds to floating NAVs? Should the compliance period be shorter or longer? Why? Would a 5-year transition period, consistent with FSOC's proposed floating NAV recommendation, be more appropriate?

We believe that a 2 year transition period is the minimum timeframe to deliver the changes required to convert to a floating NAV and a 3 year transition period is the maximum required. We do not believe a 5 year transition period is necessary and would lead to uncertainty for too long. We therefore recommend a 3 year transition period due to the magnitude of the change and the unexpected issues that will certainly arise once MMFs begin the transition process in earnest.

Question 54 - Should we provide a grandfathering provision, in addition to, or in lieu of, a relatively long compliance date? If we adopted a grandfathering provision, how long should the grandfathering period last? Would a grandfathering provision better achieve our objective of facilitating an orderly transition?

If a 3 year transition period is adopted we do not see a requirement for a grandfathering provision.

Liquidity fees and gates

Question 55 - Would our proposal on liquidity fees and gates achieve our goals of preserving the benefits of stable share price money market funds for the widest range of investors and the availability of short-term financing for issuers while enhancing investor protection and risk transparency, making funds more resilient to mass redemptions and improving money market funds' ability to manage and mitigate potential contagion from high levels of redemptions? Are there other benefits that we have not identified and discussed?

We have supported liquidity fees since we first wrote on the subject in November 2011.

2a-7 funds provide an important service to investors (including corporate treasurers, financial institutions, sovereign wealth funds and others who have large cash balances they wish to place). These investors often prefer to diversify their cash investments in order to manage credit risk. 2a-7 funds offer an attractive solution, providing diversification and a small degree of term premium, both of which might be difficult for investors to achieve on a standalone basis.

In most respects an investment in a 2a-7 fund is like that in any other investment fund; the monies invested are unambiguously at the investor's risk, and returns are equal to the return on the fund as a whole. However, there are two subtle, but important differences between the operation of a 2a-7 fund and a typical investment fund.

First, the pricing mechanism of a 2a-7 fund means that an investor who invests today and then experiences a sudden need for cash tomorrow can redeem with minimal risk of loss of principal, even if interest rates and/or credit spreads have risen in the intervening period.

Second, and more generally, there is a de facto mutualisation or cross subsidisation of risk and return between the investors in a 2a-7 fund: in essence, term premium accrues to all regardless of holding period whilst at the same time all investors have immediate access to their cash.

These two features work well and to the mutual benefit of all investors in almost all circumstances. However, in some circumstances they fail to appropriately price risk, and therefore can result in risk transference. Specifically, when markets are dislocated, costs that ought to be attributed to a redeeming shareholder are externalised on remaining shareholders and on the wider market.

A liquidity fee is intended to internalise those costs, and ensure they are paid by the redeeming shareholder and not transferred elsewhere. Since this will result in more effective pricing of risk (in this case, liquidity risk) we believe it will act as a market-based mechanism for improving the robustness and fairness of 2a-7 funds.

Like any other investment fund, the value of a share in 2a-7 fund is a function of the value of its portfolio. Since shares in 2a-7 funds are priced to two decimal places, they are sensitive to mark-to-market movements of 50bps (half of one percent) or more in the underlying portfolio. Because it is rare for the portfolio of a 2a-7 fund to move by as much as 50bps, its share price tends to remain constant, hence the description of the fund as tending to have a ‘constant’ NAV.

In September 2008, funding pressure on the banking system meant that the market value of 2a-7 prime funds deteriorated - but not by as much as 50bps. Therefore, investors were able to continue to redeem from the funds at a constant price, and switch their proceeds into 2a-7 treasury funds, or elsewhere. But in fact, investor redemptions exacerbated the funding pressure of the banking system, which caused a further deterioration in the market value of 2a-7 prime funds. In effect, investors had a free option to switch, by externalising the cost of their redemptions on remaining investors in the fund, and on the market as a whole.

The objective of a liquidity fee is to internalise those costs, i.e. to remove the free option and ensure that the costs associated with redemptions are borne by redeeming investors. This will have three important consequences:

First, a liquidity fee makes redemptions less likely. Specifically, since redemptions will be properly priced, investors will consider their needs more carefully; unless they believe that certain cost of the liquidity fee is less than the potential cost of remaining in a fund, then they will be unlikely to redeem.

Second, a liquidity fee eliminates the ‘run dynamic’. Specifically, in the absence of a liquidity fee, there is a first mover advantage, i.e. investors who redeem before mark-to-market movements reach 50bps will receive USD1.00 proceeds, which will cause the average mark-to-market value to dilute at the expense of remaining investors; therefore, all investors are incentivised to redeem first. This creates a run. By requiring investors to pay the full cost of their redemption, the first mover advantage is eliminated, as is the run dynamic.

Third, a liquidity fee enhances investor protection, because even if investors do decide to redeem, their decision will be valued in such a way as to equalise remaining investors in the MMF.

We believe a liquidity fee would disincentivise redemptions. This is helpful because redemptions can otherwise, in a self-fulfilling fashion, end up causing redeeming investors to disadvantage remaining investors. Consider the ‘decision pair’ facing an investor in a prime MMF which, during a financial crisis, had decided to impose a liquidity fee on redeeming investors in order to protect remaining investors. An investor could either:

- Remain in the prime MMF, in which case the investor would bear the remote chance of a loss if one of the fund's assets defaults; or
- Redeem from the prime MMF, in which case the investor would bear the irrecoverable cost of the liquidity fee, and subscribe the net proceeds into a Treasury MMF.

Faced with these options, we believe a risk adverse investor would be more likely to remain in the prime MMF than to redeem. Our belief is supported by research in behavioural finance which observes that, when having to decide between two negative choices ('bad choices') people tend to prefer *possible losses* over *sure losses*, even when the amount of the possible loss is significantly higher than the sure loss, i.e. an investor would tend to prefer the loss in the event of a default (a possible loss/a gamble) over a liquidity fee (a sure loss).

Question 56 - Would a liquidity fee provide many of the same potential benefits as the proposed floating NAV? If not, what are the differences in potential benefits? Would it result in a more effective pricing of liquidity risk into the funds' share prices and a fairer allocation of that cost among shareholders? Would a liquidity fee that potentially restores the fund's shadow price reduce some remaining shareholders incentive to redeem?

A liquidity fee has many similarities to a floating NAV. Adopting a liquidity fee could be seen as combining options 1 and 2 whilst avoiding the pitfalls of moving to a floating NAV.

The liquidity fee option would mean the NAV would not "float" during periods of market stability and only during a period of market stress would a liquid fee be likely to be required. If a liquidity fee were charged the NAV would effectively "float" - i.e. a downward only "float". In other words, with a floating NAV an investor would sell at the market price. With a liquidity fee, in times of stress, the investor would sell and a pay a "fee" that's equivalent to the sale price. If a liquidity fee is properly structured, the outcome is essentially the same.

The negative impact of floating the NAV includes the creation of a number of additional costs (tax, accounting, and operational). In addition, there is less shareholder equity as the floating NAV fund is priced at mid-market, so remaining shareholders have more incentive to run and redeem.

Positively, a liquidity fee protects remaining shareholders reducing any incentive to redeem, creates a greater disincentive to redeem and addresses the tax and accounting issues since they're not raised (in good times and bad).

Conclusion - If the liquidity fee is a close economic equivalent to a floating NAV and mimics the downward float whilst providing shareholder equity and solving the tax and accounting issues, it essentially acts as combination of both proposals in a more proportional and elegant manner.

Question 57 - Would the prospect of a fee or gate encourage investors to limit their concentration in a particular fund? Would an appropriately structured threshold for liquidity fees and gates provide an incentive for fund managers to monitor shareholder concentration and flows as well as portfolio composition to minimize the possibility of a fund applying a fee or gate? Would it encourage better board monitoring of the fund? Would it encourage shareholders to

monitor and exert appropriate discipline over the fund? Would shareholders underestimate whether a fee or gate would ever be imposed by the board? How would the prospect of a fee or gate affect shareholder behaviour?

Both MMF providers and investors have learned many things from their experience during the financial crisis including the importance of managing shareholder concentration to support liquidity risk management. Many of the institutional investors in our MMFs who have sufficient scale to own a meaningful percentage of the MMF already set their own concentration level (typically 10%). The prospect of a fee or gate could reduce this concentration level to 5% or, more likely, increase the number of investors who adopt a concentration limit in their investment policy.

A MMF will not want to be in the position that it is required to apply a liquidity fee or gate. For this reason there is an incentive to manage the fund in a way that reduces the probability of this occurring. With the liquidity fee structured in the way set out in the consultation, it will encourage MMFs to keep a “liquidity buffer” above the 15% threshold and to address early any reduction in the liquidity levels in the fund driven by client redemption activity. We therefore believe it will lead to better monitoring by the manager and the board of the MMF.

Our experience tells us that investors increase their monitoring of MMFs when there is a systemic market stress. For example, we understand that those providers who have decided to publish the ‘shadow NAV’ on a daily basis have seen limited interest in the data from their investors to date. However, we would expect investors to monitor this much more closely if there was a systemic market event which led to the ‘shadow NAVs’ to drop. We would expect the same behaviour if trigger based liquidity fees were adopted i.e. we would expect limited interest in the liquidity levels of MMFs during a benign market but for interest to rise during a market dislocation.

As noted in question 55 above, there are a number of ways in which a liquidity fee or gate will impact investors which are noted for completeness below:

The objective of a liquidity fee is to internalise those costs, i.e. to remove the free option and ensure that the costs associated with redemptions are borne by redeeming investors. This will have three important consequences:

First, a liquidity fee makes redemptions less likely. Specifically, since redemptions will be properly priced, investors will consider their needs more carefully; unless they believe that certain cost of the liquidity fee is less than the potential cost of remaining in a fund, then they will be unlikely to redeem.

Second, a liquidity fee eliminates the ‘run dynamic’. Specifically, in the absence of a liquidity fee, there is a first mover advantage, i.e. investors who redeem before mark-to-market movements reach 50bps will receive USD1.00 proceeds, which will cause the average mark-to-market value to dilute at the expense of remaining investors; therefore, all investors are incentivised to redeem first. This creates a run. By requiring investors to pay the full cost of their redemption, the first mover advantage is eliminated, as is the run dynamic.

Third, a liquidity fee enhances investor protection, because even if investors do decide to redeem, their decision will be valued in such a way as to equalise remaining investors in the MMF.

Question 58 - How will the liquidity fees or gates affect the fund’s portfolio choices? Will it affect the way funds manage their weekly liquid assets?

As noted in question 57 above, a MMF will not want to be in the position that it is required to apply a liquidity fee or gate. For this reason there is an incentive to manage the fund in a way that reduces the probability of this occurring. With the liquidity fee structured in the way set out in the consultation, it will encourage MMFs to keep a "liquidity buffer" above the 15% threshold and to address early any reduction in the liquidity levels in the fund driven by client redemption activity. We therefore believe it will lead to heightened monitoring of liquidity levels and investor trading activity by the manager and the Board of the MMF. Assuming markets remain liquid the "liquidity threshold" could become a self-correcting mechanism for a MMFs liquidity levels.

Question 59 - Funds currently have the ability to delay the payment of redemption proceeds for up to seven days. Are there considerations that make funds hesitant to impose this delay that would also make funds hesitant to impose fees or gates? What are those factors?

As noted in questions 57 and 58 above, a MMF will want to avoid applying a liquidity fee or gate if possible. This will have the benefits noted above. However, the possibility would remain that a MMF has to apply a liquidity fee or gate. Since investment fund boards have a fiduciary obligation to treat investors fairly, we believe it should be left to the board of a MMF to decide when to trigger the imposition of a liquidity fee[3]. This would be consistent with the power many European boards already have to impose a dilution levy (which is economically equivalent to a liquidity fee) if they believe an investor is market-timing a fund.

However, some commentators have suggested that a fund board may be too commercially conflicted to impose a liquidity fee. They have therefore argued that a liquidity fee should be triggered by a 'rules-based' event.

In that case, we believe the most appropriate rules-based trigger event would be if the 'shadow price' of a CNAV fund fell to 0.9975, or the price of a VNAV fell by 25bps in one month (see our paper "Liquidity fees; a proposal to reform money market funds" for further information - this paper is available upon request). However, we recognize that with the development of the daily publication of the 'shadow NAV' of MMFs by many providers in the market one of the benefits of using this 'trigger' i.e. the benefit that it is difficult to 'game', has been removed. That being said, we continue to support the use of a 'trigger' if deemed necessary by regulators.

We support the discretion provided to the Board in your proposal to determine that imposing a liquidity fee would not be in the best interest of shareholders despite the "liquidity threshold" being met. We also support the discretion provided to the Board in your proposal to determine that a lower fee (than 2%) would be in the interest of the fund. We recommend that if the "liquidity threshold" were met and the Board decided not to apply a liquidity fee, or to apply a fee lower than 2%, that it be required to report this to the SEC outlining the rationale for its decision. This will also help to address the concerns that exist amongst some commentators that a fund Board may be too commercially conflicted.

---

[3] The classic account of bank runs ("Bank Runs, Deposit Insurance, and Liquidity", Diamond and Dybvig, Journal of Political Economy, June 1983) notes that: "…the demand deposit contract satisfies a *sequential service constraint*, which specifies that a bank's payoff to any agent can depend only on the agent's place in line and not on future information about agents later in line." This compares starkly with the fiduciary obligation of the board of an investment fund to treat all investors fairly. *In extremis*, the board of an investment fund might enforce that obligation by gating the fund, or by imposing a liquidity fee, as described above.

Question 60 - Would the expected imposition of a liquidity fee or gate increase redemption activity as the fund's liquidity levels near the threshold? Would the prospect of a liquidity fee or gate create an incentive to redeem during times of potential stress by shareholders fearing that such a fee or gate might be imposed, thus inciting a run? If so, do commenters agree that in such a case the redemptions would trigger a fee or gate and slow or halt redemptions? If not, are there ways in which we could modify our proposed threshold for liquidity fees and gates such that a run could not arise without triggering fees or gates? What information would be needed for investors to reliably predict that a fund is on the verge of imposing fees or gates? Would the necessary information be readily available under our proposal?

To address the first two parts of this question we would refer the Commission to the paper commissioned by the Institutional Money Market Fund Association ('IMMFA') titled "Money Market Funds, Bank Runs and the First-Mover Advantage"[4]. We believe this is the most comprehensive paper on the issue of "first mover advantage" and sites academic research on bank runs often quoted by central bankers who, in general, do not support the concept of a liquidity fee as they believe it will lead to pre-emptive 'runs'.

Whilst our proposal on liquidity fees recommends adopting the 0.9975 level of the shadow NAV as a 'trigger', one merit of the "liquidity threshold" that the Commission has adopted is that it will be self-correcting if investors do redeem.

Our original paper on liquidity fees proposed using the 0.9975 shadow NAV price as the 'trigger' to apply a liquidity fee. The rationale for this approach is highlighted in the introduction section on our reform proposals and in this section on liquidity fees and gates. As noted previously, one of the reasons for adopting this proposal related to "first mover advantage". The following is an extract from our paper:

*"**First mover advantage***
We have proposed that the Board of a 2a-7 fund should be required to decide whether or not to impose a liquidity fee if the mid-value of the fund's portfolio falls below a specified threshold, for example 0.9975. It has been objected that this creates a 'first mover' advantage prior to that point, i.e. investors who redeem as the mid-value approaches 0.9975 will receive USD1.00 proceeds, which will cause the mid-value to dilute at the expense of remaining investors; therefore, all investors are incentivised to redeem first. The same objection has been made to the entire basis of pricing 2a-7 funds, i.e. that investors are incentivised to redeem prior to the mid-value approaching 0.9950 when a fund 'breaks the buck'. By that reasoning, a liquidity fee simply 'shifts the goal posts' of the first redeemer advantage from 0.9950 to 0.9975.

In an arithmetic sense, it is undeniable that there is a first redeemer advantage. However, we remain sceptical that this observation provides any real insight on investor behaviour:

- *First, in order to achieve a first mover advantage, investors need to know the mark-to-market mid-value of the fund. But that is not public information. Indeed, although the SEC now requires 2a-7 funds to publish their mid-value per share, it has required that publication to be made sixty-days in arrears precisely to avoid creating a first mover advantage. (To further manage this*

[4] Hannam, Mark, Money Market Funds, Bank Runs and the First Mover Advantage (January 4, 2013). Available at SSRN: http://ssrn.com/abstract=2187818 or http://dx.doi.org/10.2139/ssrn.2187818

risk, we recommend the SEC should prohibit publication of the mid-value per share more frequently than sixty-days in arrears.)

- *Second, even if the mid-value per share was publicly available information or could be imputed, the deterioration in mark-to-market mid-values to 0.9975 is a cliff-edge phenomenon: there is insufficient time to be a first mover.*
- *Third, and as described elsewhere in this paper, investors actually redeemed in 2008 because they were worried about the exposure of 2a-7 funds to bank credit, not because of any supposed first mover advantage. That can be seen by virtue of redemptions from enhanced cash funds during the early stages of the crisis in 2007, which are truly variably priced and so provide no such 'first redeemer' advantage.*
- *Finally, many 2a-7 funds are now rated, and ratings agents will now consider downgrading 2a-7 funds whose mid-price is 0.9975. Therefore a trigger event at that price level already exists.*

In our opinion, a liquidity fee removes the first mover advantage that currently provides investors with a free option to redeem and to externalise the cost of their redemption on remaining investors, and on the market as a whole."

As noted in question 59 above, we recognize that with the development of the daily publication of the 'shadow NAV' of MMFs by many providers in the market the benefit of using this 'trigger' i.e. the benefit that it is difficult to 'game', has been removed. That being said, we continue to support the use of a 'trigger' if deemed necessary by regulators.

To allow a MMF provider and its Board wider powers to manage a pre-emptive run we recommend that the Commission clarifies that a Board has the power to apply a liquidity fee or gate before any trigger is met.

Question 61 - Are some types of shareholders more likely than other types of shareholders to attempt to redeem in anticipation of the imposition of the fee or gate? Are there ways that we could reduce the risk of pre-emptive redemptions? Would imposition of a fee or gate as a practical matter lead to liquidation of that fund? If so, should this be a concern?

Without direct experience of applying a liquidity fee or gate to a MMF we are not able to answer this question based on actual events. However, if any type of shareholder is likely to pre-empt the imposition of a fee or gate it will be a small minority of wholesale investors. We would not expect the Commission to place much credence on this answer or any answer to this question as for the vast majority of the MMF industry, or other commentators, their response is merely speculation.

Please see our response to question 60 above for part two of this question.

We recognise that if there is an idiosyncratic event that requires a MMF to impose a liquidity fee or gate, or if a small number of MMFs applied a liquidity fee or gate, the probability would rise that the fund, or funds, would ultimately be required to liquidate. We do not believe that the application of a liquidity fee would ultimately lead to the liquidation of MMFs if over a short timeframe (1-5 days) all, or the majority, of MMFs in the industry were required to apply a liquidity fee. If a MMF was ultimately liquidated after the imposition of a liquidity fee or gate it is likely to have been achieved in an orderly manner due to the ability of the MMF to apply a liquidity fee or gate.

Question 62 - Should we prohibit advisers to money market funds from charging management fees while the fund is gated? How might this affect advisers' incentives to make recommendations to the board when it is considering whether to not impose a liquidity fee or gate?

If the Board of a MMF deem it necessary to apply a gate as it is in the best interest of the shareholders then we see no rationale for penalising this decision by prohibiting advisers to charge a management fee. As the ability to apply a gate would be clearly articulated in the prospectus and other relevant fund documentation, the Board would be acting within its powers that had clearly been articulated to the investors in the fund. If the requirement to apply a gate and therefore for the fund not to meet one of its objectives of provision of daily liquidity was ultimately proven to have been driven by negligence then this would be dealt with separately.

Question 63 - Should we continue to allow this type of sponsor support of money market funds, given the enhanced transparency requirements? Would allowing sponsor support prevent or limit this proposal from achieving the goal of enhancing investor protection and improving money market funds' ability to manage high levels of redemptions? If so, how? Should we instead prohibit sponsor support under this option? If so, why? If we prohibited sponsor support, how would this advance investor protection if such support would protect the value or liquidity of the fund? Should we modify rule 17a-9 to limit or condition sponsor support?

We have a clear position on the question of affiliate purchases or "sponsor support" which we apply to both constant NAV and floating NAV MMFs.

MMFs are an investment product where the risks and rewards belong to its investors. The investor's risks of ownership of a MMF are clearly stated in its prospectus and in its marketing materials. There is no legal basis for an investor in a MMF to transfer the downside risk of ownership to a fund's sponsor (unless it can be proved the sponsor has been negligent in its responsibilities).

However, a level of ambiguity about who owns the risk when investing in a MMF has developed amongst some investors. This ambiguity has developed due to the sponsor support of MMFs that has taken place prior to, and during, the credit crisis. Some investors have been encouraged to expect sponsors to support their MMFs. Such expectations cannot be enforced, since managers are under no obligation to support their funds, and consequently leads some investors to misunderstand and misprice the risks they are subject to. The mispricing of risk created by sponsor support should be addressed. The ambiguity of risk ownership is also exacerbated by Fitch Ratings' decision to bake an assumption of a fund sponsor's willingness and ability to support their MMFs into their rating methodology for MMFs.

There is an incentive for both fund sponsors and, arguably, regulators to maintain a level of ambiguity of risk ownership in a MMF. We believe any ambiguity of risk ownership must be removed so risk is correctly priced. We therefore propose a prohibition on MMF sponsors providing support to their MMFs. This will make clear to all investors that they are buying an investment product and own the risks and rewards of that investment. A prohibition on sponsor support would also address the comments that have been made that MMF sponsors must have "skin in the game" to ensure they are encouraged to manage risk and not to focus on higher returns. Prohibiting support of MMFs will remove any risk to the sponsor / parent that the provision of support can create.

Sponsor support can take a number of different forms depending on whether the issue seeking to be addressed is credit or liquidity related. If the sponsor is looking to reduce the volatility of the NAV due to an outright credit loss or a mark-to-market loss, a capital support agreement, buying an asset out of the fund at above market prices or a capital injection could be used. If a fund is experiencing liquidity challenges, the sponsor or an affiliate could purchase shares in the fund to inject liquidity. In all these cases it involves the sponsor or an affiliate entering into a transaction or agreement with the fund. Regulators are therefore able to prohibit sponsor support by prohibiting sponsor of affiliate transactions and agreements with its MMFs. In the US, there are explicit restrictions in respect of transactions between the sponsor or an affiliate and the fund. Whilst US federal securities law does not completely prohibit sponsor support, the US Securities and Exchange Commission has an effective mechanism to monitor the use of sponsor support in the US MMF industry.

Sponsor support also distorts markets in a number of ways to the detriment of all participants in the financial markets and the system as a whole. For example, implicit sponsor support distorts pricing in the market and means that risk is not correctly priced. This mispricing of risk can mask the true risk of a MMF to investors. Implicit sponsor support can also add to volatility at the time of a crisis. As any support of a MMF is implicit an investor does not have clarity whether a sponsor will provide support or not. This means that during a crisis investors are encouraged to speculate whether different MMF providers will support their funds by redeeming from those funds they believe are less likely to provide support and to invest in those MMFs where they believe the sponsor is more likely to provide support. If support is actually provided the investor no longer needs to speculate and can switch to the MMF or MMFs that have provided support. This behaviour creates additional volatility in MMF AUM adding to a market that is already dysfunctional.

In this regard, a lesson can be learnt from the recent experience in the Indian MMF industry when compared to the events in the US and European MMF industry during the financial crisis (accepting there are many differences between these different MMF industries). The Indian MMF industry has a hybrid floating NAV pricing model but in practice NAVs of MMFs have not dropped since the financial crisis and clients do not expect the price of the MMFs to drop. In July short term money market interest rates rose by 250bp in one day meaning all the assets in Indian MMFs were below the 10bp threshold from their amortised cost price. All participants decided not to provide any form of sponsor support which led to a fall in the price of MMFs across the industry. As all MMFs decided to adopt the same approach there was no incentive for investors to switch between MMFs and exacerbate an already volatile and fractious market. We believe the consistent approach taken by MMF providers is one of the main reasons why the market event did not lead to a 'run' on Indian MMFs

We therefore propose the removal of rule 17a-9.

Question 64 - Would sponsors provide support to prevent a money market fund from breaching a liquidity threshold? Would sponsors be more willing and able to provide support to stabilize the fund under the liquidity fees and gates proposal than they were to support money market funds before the 2007-2008 financial crisis? Why or why not?

Based on past behaviour it is likely that some sponsors would provide support to prevent a fund from breaching a liquidity threshold. Therefore we support a prohibition on sponsor support for MMFs for the reasons outlined above.

Question 65 - Should the imposition of a liquidity fee or gate be fully discretionary or should it have a completely automatic trigger? Why?

See our response to question 59 and 60 above.

Question 66 - Would a money market fund's board of directors impose a fully discretionary fee or gate during times of stress on the money market fund despite its possible unpopularity with investors and potential competitive disadvantage for the fund or fund group if other funds are not imposing a liquidity fee or gate? On the other hand, would a fund's board of directors be able to best determine when a fee or gate should be imposed rather than an automatic trigger?

See our response to question 59 above.

Question 67 - What operational complexities would be involved in a fully discretionary liquidity fee? Would fund complexes and their intermediaries be able to program systems in advance to accommodate the immediate imposition of a liquidity fee whose trigger and size were unknown in advance?

Any change of this nature will require operational change. In this case the fund provider, the Board, the custodian and administrator of the fund, intermediaries and clients will be required to change operational procedures in order to manage the change. We are in the process of creating the ability to apply liquidity fees in our Dublin domiciled MMF complex. We have engaged with all the stakeholders listed above to develop a process that will allow the application of a liquidity fee if required. Whilst this has created costs, these have not been prohibitive. It has taken time for all parties to make operational changes (particularly on the part of the custodian and administrator) hence our recommendation for a 2-3 year implementation period for any of the reforms ultimately adopted.

Question 68 - What should be the trigger either for a default liquidity fee or for a board's ability to impose a gate? Rather than our proposed trigger based on a fund's level of weekly liquid assets, should it be based on the fund's shadow price or its level of daily liquid assets? Should it be based on a certain fall in either the fund's weekly liquid assets or shadow price? Why and what extent of a fall? Should it be based on some other factor? Should it be based on a combination of factors?

We believe the 'acid test' for imposing a liquidity fee depends on whether redeeming investors are causing a disadvantage to remaining investors. After all, a MMF - like any other investment fund - is supposed to mutualise risk-taking amongst its investors; if redeeming investors are causing a disadvantage to remaining investors then, to that extent, risk-taking has been de-mutualised; imposing a liquidity fee in those circumstances would re-mutualise risk-taking; that would be appropriate, because it would be consistent with the prospectus investors had signed-up to.

Since investment fund boards have a fiduciary obligation to treat investors fairly, we believe it should be left to the board of MMF to decide when to trigger the imposition of a liquidity fee[5]. This would be consistent with the power many European boards

[5] The classic account of bank runs ("Bank Runs, Deposit Insurance, and Liquidity", Diamond and Dybvig, Journal of Political Economy, June 1983) notes that: "…the demand deposit contract satisfies a *sequential service constraint*, which specifies that a bank's payoff to any agent can depend only on the agent's place in line and not on future information about agents later in line." This compares starkly with the fiduciary obligation of the board of an

already have to impose a dilution levy (which is economically equivalent to a liquidity fee) if they believe an investor is market-timing a fund.

However, some commentators have suggested that a fund board may be too commercially conflicted to decide whether to impose a liquidity fee. They have therefore argued that a liquidity fee should be triggered by a 'rules-based' event.

In that case, we believe the most appropriate rules-based trigger event would be if the 'shadow price' of a CNAV fund fell to 0.9975, or the price of a VNAV fell by 25bps in one month (see our paper "Liquidity fees; a proposal to reform money market funds" for further information). This paper is available upon request.

As noted in question 59 above, we recognize that with the development of the daily publication of the 'shadow NAV' of MMFs by many providers in the market one of the benefits of using this 'trigger' i.e. the benefit that it is difficult to 'game', has been removed. That being said, we continue to support the use of a 'trigger' if deemed necessary by regulators.

Question 69 - Should we permit a fund board to impose a liquidity fee or gate even before a fund passes the trigger requiring the default fee to be considered if the board determines that an early imposition of a liquidity fee or gate would be in the best interest of the fund? Would that reduce the benefits discussed above of having an automatic default trigger? What concerns would arise from permitting imposition of a fee or gate before a fund passes the thresholds we may establish?

We believe the Board discretion should be symmetric i.e. they should be given discretion to apply a liquidity fee before a 'trigger' is met and they should be given discretion not to apply a liquidity fee if a trigger is met if they deem either action in the best interest of the shareholders of the fund. As noted above we recognise a commercial conflict may exist and recommend that if a Board decides not to apply a fee if a trigger is met then this must be reported to the Commission with a rationale for the decision taken.

Question 70 - What extent of decline in weekly liquid assets should trigger consideration of a fee or gate and why? Should it be more or less than 15% weekly liquid assets, such as 10% or 20%?

When considering an appropriate liquid assets trigger level, our objective has been to recommend a level that suggests a MMF could be under early liquidity stress and to avoid a level where the imposition of a liquidity fee is unnecessary. We recommend that the liquid assets trigger for consideration of the application of a liquidity fee or gate should be when the weekly liquid assets drop to 10%. The 10% level, rather than the proposed 15%, is a level that is more likely to suggest a fund may be under some liquidity stress. At the 15% level it could lead to too high a percentage of Boards overriding the trigger and not applying the fee and thus reducing the power of the fee or gate to ensure the right behaviours by the manager and the investors. However, selecting an appropriate level is more of an art than a science.

Question 71 - What should be the amount of the liquidity fee? Should it be a default amount, a fixed amount, or an amount directly tied to the cost of liquidity in times of stress? If as proposed, we adopt a default fee, should it be

---

investment fund to treat all investors fairly. *In extremis*, the board of an investment fund might enforce that obligation by gating the fund, or by imposing a liquidity fee, as described above.

2%, 1%, or some other level? Should we give boards discretion to impose a higher fee if the board determines that it is in the best interest of the fund? Commenters are requested to please provide data to support your suggested fee level.

If the test for imposing a liquidity fee depends on whether redeeming investors are causing a material disadvantage to remaining investors, then it follows the fee should be calculated as that amount required to re-mutualize risk taking. Therefore, in the case of a CNAV fund, the fee would be the amount required to equalize the mid-value of a MMF's portfolio before and after any redemption, assuming the sale of a 'horizontal slice' of the fund's portfolio to meet the redemption payment.

A liquidity fee so calculated should also be acceptable to investors, because it can be rationalized in terms of investor protection[6]. When we've presented the case for a liquidity fee in these terms to our investors, they have generally been receptive. We are concerned that a flat fee of 2% that is likely to be a "punitive" level will not be accepted by investors. This would remove one of the benefits of the liquidity fee that it addresses regulator's concerns of 'run' risk in MMFs whilst preserving many of the existing benefits to investors.

With the discretion provided to a Board to apply a lower fee than 2%, it is possible that a Board may determine that to meet their responsibility to treat shareholders fairly they will be required to charge a fee lower than 2% if the estimated cost of liquidity is below this threshold. Whilst we would support this outcome as we do not support a liquidity fee that is likely to be punitive, we believe it is simpler to adopt our recommendation for the calculation of the fee as in practice this will occur anyway.

Question 72 - If the amount of the liquidity fee is tied to the cost of liquidity at the time of the redemption, how would that amount be determined? Would a liquidity fee that changes depending on market circumstances provide shareholders with sufficient transparency on the size of the fee to be able to affect their purchase and redemption behaviour? If the size of the liquidity fee changed depending on market circumstances, would money market funds be able to determine readily the amount of the liquidity fee during times of market dislocation? Would such a fee affect one type of investor more than another type of investor?

We propose that a liquidity fee should be calculated as that amount required to equalise the mid-value of a 2a-7 fund's portfolio before and after any redemption, assuming the sale of a 'horizontal slice' of the fund's portfolio to meet the redemption payment. The liquidity fee would be subtracted from the redeeming investors' proceeds, and retained as part of the net assets of the fund.

Basing the liquidity fee on the sale of a 'horizontal slice' of assets is equitable to both redeeming and remaining investors. However, in a dislocated market this may well require the estimation of the bid value of assets that that are not actively traded. It will therefore be necessary to have a robust bid pricing policy in place, which is agreed by the Board and implemented by the administrator to ensure independence.

[6] By contrast, a 'punitive' liquidity fee (i.e. that imposed a cost on a redeeming investor in excess of the amount required to equalise remaining investors) would represent a transfer of capital from redeeming to remaining investors. This would be inequitable, and we do believe investors would be prepared to invest in a MMF on that basis.

The liquidity fee would change each day and would be communicated to any redeeming investors via information carried on any online trading portal or by voice if the investors transact via telephone. The liquidity fee would be based on closing bid prices on T-1 for application on T. The level of the liquidity fee would be available to any investor at the start of the trading day on T.

We believe our proposed method is the simplest and most equitable way of calculating the liquidity fee that ought to be paid by redeeming investors.

The arithmetic behind a liquidity fee is best illustrated by way of example:

Illustration of the calculation of a liquidity fee
Assume a 2a-7 prime fund with 1 million shares in issue received a 10% redemption request. Assume further that at the time of the redemption request, the mid-value of its portfolio was 0.9974, and the bid-value 0.9965.

In the absence of a liquidity fee, in order to fund the $100,000 redemption payment, and given a bid-value of 0.9965, the fund would have to sell assets with a book value of $100,351 ($100,000/0.9965). This in turn would cause the mid-value to fall to 0.9970 (($1,000,000-$100,351) x 0.9974 / $900,000)). The fall in the mid-value represents the externalisation of costs by the redeeming investor onto remaining investors.

In the presence of the liquidity fee, the mid-value would necessarily remain the same, and therefore the cost of the fee can be deduced as $351 (i.e. 100,000 – (100,000 x 0.9965)) or 0.35%. (In effect, the liquidity fee is equal to the difference between the bid-value of the fund's portfolio, and par, in this case 1.0000-0.9965 = 35bps.)

The consequence of imposing the liquidity fee is that the mid-value of remaining investors is unaffected by the redemption, and remains 0.9974 ((($1,000,000-$100,351+351) x 0.9974) / $900,000).

Question 73 - Is a flat, fixed liquidity fee preferable to a variable fee that might be higher than the flat fee? Will the fund's ability to choose a lower liquidity fee result in any conflicts of interest between redeeming shareholders, non-redeeming shareholders, and the investment adviser?

Please see our answer to question 72 above.

Question 74 - How should we weigh the risk that a flat liquidity fee may be higher or lower than the actual liquidity costs to the money market fund from the redemption, against the risk that a market-based liquidity fee may not provide sufficient advance transparency to shareholders and may be difficult to set appropriately in a crisis?

Please see our answer to question 72 above. As previously highlighted, shareholder equity is imperative in all scenarios when evaluating this reform option. In addition, calculating a fee on an estimated cost of liquidity is more likely to be accepted by investors as the shareholders are being treated fairly.

Question 75 - How difficult would it be for money market funds and various intermediaries in the distribution chain of money market fund shares to handle from an operational perspective a liquidity fee that varied?

The challenge to overcome for MMF providers, intermediaries, custodians and administrators is to update operating systems to handle a liquidity fee. The fact that a liquidity fee is static or variable has marginal implication. The additional work required due to a liquidity fee being variable fee is simply to input into the operating system the new fee each business day. Assuming the liquidity fee is available in a timely manner (see question 72 above) a variable liquidity fee should not create any impediment.

Question 76 - Should the implicit ordering in the proposed rule be reversed, with a default of the fund imposing a gate once the fund has crossed the weekly liquid asset threshold, unless or until the board determines to re-open with a liquidity fee? Why?

We support the Commission's opinion that a liquidity fee would be applied before a gate. We see the natural order as follows:

1. A MMF will look to its immediate access liquidity and liquidity ladder to meet redemption activity.
2. If the "natural" liquidity in the fund is insufficient to meet liquidity demands and maintain required liquidity levels then the MMF would look to sell assets.
3. If the MMF needed to meet further redemptions it would apply a liquidity fee that would allow it to sell assets with the cost of the sales being met by the liquidity fee applied.
4. If the liquidity fee did not allow the fund to meet its redemption requests, perhaps due to the market being 'frozen' then the MMF would apply a gate.

We believe a liquidity fee is less impactful on investors and the financial system than a gate as it still allows the investor to access their money, all be it a cost, rather than having their investment frozen for a period. We would not expect, although we could not rule it out, that a Board would want to apply a gate before a liquidity fee.

Question 77 - Does a 30-day limit appropriately balance these objectives? Should there be a shorter time limit, such as 10 days? Should there be a longer time limit, such as 45 days? Why?

As with determining the appropriate level of the "liquidity threshold", determining the timeframe after when a Board must lift a gate is more an art than a science. We support the proposed timeframe and the rationale used for determining the level.

Question 78 - Will our proposed limit on the number of days a fund can be gated in any 90-day period effectively prevent "gaming" of the 30-day gate limitation? Should it be a shorter window or larger window? 60 days? 120 days?

We appreciate the concerns expressed by the Commission that an investor's investment should not be tied up indefinitely. There is a balance here between providing a MMF and its Board with the tools to manage a stress event whilst ensuring the reasonable treatment of shareholders. An alternative to setting a 30-day limit within a 90-day period could be to limit the number of times a gate could be imposed over a 90-day period? An additional control the Commission could consider is that if a MMF breaches the stipulated control it is required to liquidate the MMF.

Question 79 - Do commenters agree with our view that liquidity fees likely will be handled by intermediaries in a manner similar to how they currently impose redemption fees? If not, how would liquidity fees be applied to shares held through financial intermediaries? Is our understanding correct that financial intermediaries generally apply any liquidity fees themselves to record or beneficial owners holding through that intermediary? Would they do so based

on existing contractual arrangements or would funds make contractual modifications? What cost would be involved in any contractual modifications?

Whilst not underestimating any of the operational issues that arise from the proposed reforms, our opinion is that these issues can be solved for if the industry, and all its stakeholders, have sufficient time to implement the operational changes. There will be costs incurred by intermediaries for example but we do not see these as prohibitive to the on-going annuity they would receive if the industry operates with the level of AUM that it currently enjoys. We recommend a 3 year transition period to allow the industry and stakeholders to adapt.

Question 80 - Is this exemption appropriate, particularly in light of the redemptions from government funds in late June and early July 2011? Why or why not?

The probability of a government fund needing to apply a liquidity fee or a gate is lower than that of a Prime fund. However, we believe all MMFs should be required to have the power to apply a liquidity fee or gate so that the MMF provider can manage a low probability but high impact event. We also believe it is better to have a level playing field across the different types of MMFs so an investor's decision as to which type of MMF to invest in is driven by their risk tolerance rather than being influenced by different product features of each type of MMF.

Question 81 - Is it appropriate to give government money market funds the option to have the ability to impose fees and gates so long as they disclose the option to investors? Why or why not? What factors might lead a government fund to exercise this option?

See our response to question 80 above.

Question 82 - Should retail money market funds (including tax-exempt money market funds) or retail investors be exempt from any liquidity fee or gate provision? Should there be an exemption for small redemption requests, such as redemptions below $10,000? If so, below what level? If a retail money market fund crossed the thresholds we are proposing for board consideration of a fee or gate, is there a reason not to allow the fund's board to protect the fund and its shareholders through the use of a liquidity fee or gate? Would investors "game" such exemptions?

See our response to question 80 above.

Question 83 - Should we create an exemption for shareholders that submit an irrevocable redemption request at least a certain period in advance of the needed redemption? Why or why not? With what period of advance notice? For each of these exemptions, could funds track the shares that are not subject to the fee or gate? What operational costs would be involved in including such an exemption? Would shareholders "game" such exemptions?

We do not support any exemption for shareholders that pre-notify their need to redeem as we believe this would be difficult to implement and monitor to ensure each shareholder had been treated as per their notification. This risk outweighs the theoretical benefit of allowing an exemption of this sort.

Question 84 - Would the proposed disclosure statement adequately alert investors to the risks of investing in a money market fund, including a fund

that could impose liquidity fees or gates under certain circumstances? Would investors understand the meaning of each part of the proposed disclosure statement? If not, how should the proposed disclosure statement be amended? Would the following variations on the proposed disclosure statement be any more or less useful in alerting shareholders to potential investment risks?

- **Removing or amending the following bullet in the proposed disclosure statement: "The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.**
- **Including additional disclosure of the possibility that a temporary suspension of redemptions could become permanent if the board determines that the fund should liquidate.**
- **Including additional disclosure to the effect that retail shareholders should not invest all or most of the cash that they might need for routine expenses (e.g., mortgage payments, credit card bills, etc.) in any one money market fund, on account of the possibility that the fund could impose a liquidity fee or suspend redemptions.**
- **Amending the final bullet in the proposed disclosure statement to read: "Your investment in the Fund therefore may experience losses."**

We support the disclosure statement outlined for MMFs that impose a liquidity fee. We recommend that disclosure bullet points 2 and 3 read as follows:

- "The Fund may impose a fee upon sale of your shares when the Fund is under considerable stress in order to protect shareholders of the Fund."
- "The Fund may temporarily suspend your ability to sell shares of the Fund when the Fund is under considerable stress in order to protect shareholders of the Fund."

In addition we recommend adding a bullet point that references the "risk warnings" that are typically outlined in a MMFs prospectus. For example, "Investors should read the 'Risk Warnings' section of the prospectus that outlines other risks that an investor should be comfortable with before investing in the MMF."

Question 85 - Will the proposed disclosure statement respond effectively to investor preferences for clear, concise, and understandable language?

See our answer to question 84 above.

Question 86 - Would investors benefit from requiring this disclosure statement also to be included on the front cover page of a non-government money market fund's prospectus (and on the cover page or beginning of any summary prospectus, if used)?

We agree it would be helpful to draw investor's attention to the disclosure statement by having the statement on a separate page and as the first page after the front cover.

Question 87 - Should we provide any instruction or guidance in order to highlight the proposed disclosure statement on fund advertisements and sales materials (including the fund's website) and/or lead investors efficiently to the disclosure statement?436 For example, with respect to the fund's website, should we instruct that the proposed disclosure statement be posted on the

fund's home page or be accessible in no more than two clicks from the fund's home page?

To ensure the disclosure statement is prominent in all marketing materials including websites then guidance should be provided.

Question 88 - Should we require disclosure to investors of the particular risks associated with buying fund shares when the fund or market is stressed, especially when the fund is imposing either a liquidity fee or a gate?

We recommend that any new investor that is considering opening an account with a MMF that is applying a liquidity fee at the time of the account opening be advised that the fund is currently applying a liquidity fee.

We recommend that any new investor that is considering opening an account with a MMF that is applying a gate at the time of the account opening be advised that the fund is currently applying a gate.

Question 89 - Besides requiring a money market fund that imposes a liquidity fee or gate to file a prospectus supplement and include related disclosure on the fund's website, should we also require the fund to notify shareholders individually about the effects of the fee or gate? Should we require a fund to engage in any other supplemental shareholder communications, such as issuing a press release or disclosing the fee or gate on any form of social media that the fund uses?

We support the requirement for a MMF to notify shareholders individually about the change to the prospectus etc to allow a MMF to apply a liquidity fee or gate. The change to apply a liquidity fee or gate is significant enough to justify this communication to ensure investors understand the change and what it may mean for them. This will also enable them to make an informed decision as to the appropriateness of the fund for them. The notification should advise the investor of the purpose of having an ability to apply a fee or gate, when a fee or gate could apply, how it will be calculated, that the fund benefits from any fee paid and how the investor will be advised of a fee or gate being in place. All shareholders should be written to at the address listed on the shareholder register. If the fund sponsor is aware of another address for a particular shareholder they should also write to the shareholder at any other known address. Whilst the majority of shareholders will be aware of the new MMF reforms once they have been finalised, it would be appropriate to communicate 3-months prior to the final implementation date of the new reforms.

Question 90 - How will the disclosure of the imposition of a fee or gate affect the willingness of current or prospective investors to purchase shares of the fund? How will this disclosure affect investors' purchases and redemptions in other funds? How will it affect other market participants? Will these effects differ based on the number of funds that concurrently impose fees and/or gates?

We have not performed a systematic survey of all our clients to determine their acceptance of a liquidity fee. We have engaged in a detailed dialogue with some of our larger investors to explain our liquidity fee proposal and the benefit of the proposal for shareholders. After initial scepticism from some investors, all the investors we have engaged with in a detailed, face-to-face dialogue have understood the rationale for a liquidity fee. Once investors understand the benefit of the fair treatment of investors and that the proceeds of a liquidity fee are paid to the fund to equalise remaining shareholders they understand and accept the proposal. We would not expect liquidity fees to have a significant impact on investor's appetite for MMFs.

Question 91 - Would the proposed disclosure requirement assist current and prospective fund investors in comparing the risks and potential costs of investing in different money market funds, and would retail investors as well as institutional investors benefit from the proposed disclosure? Would the proposed requirement to include a short discussion of the board's analysis supporting its decision whether to impose a fee or suspend redemptions result in meaningful and succinct disclosure? Should any more, any less, or any other disclosure be required to be included in the fund's SAI? Should the disclosure instead be required in the prospectus?

We support the Commission's proposed disclosure requirements which will provide investors with useful information regarding the frequency of the MMF breaching the "liquidity threshold", whether a liquidity fee or gate was applied, the level of the fee etc. This will allow investors to make informed decisions when determining whether to invest in MMFs and when comparing different MMFs.

Question 92 - Keeping in mind the compliance period we propose, should the "look-back" period for this historical disclosure be longer or shorter than 10 years?

We support the Commission's proposal for a 10-year "look back" period for the historical disclosure. A 10 year period should capture a number of different market stresses delivering a meaningful sample.

Question 93 - Should we require this historical disclosure to be included anywhere else, for example, on the fund's website?

We believe disclosure of this historical data in the SAI's is sufficient and appropriate. It must be remembered that a liquidity fee and a gate is a positive feature of a MMF designed to protect shareholders of the fund. It is important that investors understand the implication of a liquidity fee and gate. Over disclosure risks suggesting that the mechanism is something an investor should be concerned about.

Question 94 - Would shareholders find it instructive for funds to disclose the proposed liquidity fee in the prospectus fee table? Why or why not? If we were to require money market funds to include liquidity fees in the fee table, how should the fee table account for the contingent nature of liquidity fees and inform investors that liquidity fees will only be imposed in certain circumstances? Should the possibility of a liquidity fee be disclosed in a footnote of the fee table? Should a cross-reference to the fund's SAI disclosure regarding historical occasions on which the fund has imposed liquidity fees be disclosed in a footnote of the fee table?

We do not support the inclusion, or reference of, a liquidity fee in the fee table in the prospectus. The fee table relates to fees applied for the management of the fund and any fees that accrue to a third party. Including or referencing liquidity fees in this section risks confusing investors that the liquidity fee accrues to the investment advisor or some other third party rather than the fund. As noted in our response to question 93 above, it is important that investors understand the implication of a liquidity fee but disassociating a liquidity fee with fees paid to third parties.

Question 95 - Would the proposed SAI amendments requiring disclosure of the historical occasions on which the fund has imposed liquidity fees be an effective way for shareholders to compare the extent to which money market funds have historically imposed liquidity fees, and analyze the probability that a fund will impose such fees in the future?

Please our response to question 91 and 92 above.

Question 96 - Are any of the proposed disclosure requirements unduly burdensome, or would they impose any unnecessary costs?

We do not consider the disclosure requirements burdensome or that they would impose unnecessary costs.

Question 96 - Should we adopt rule amendments that would just permit money market funds to institute liquidity fees or just permit these money market funds to institute a gate? Why might it be preferable to allow only a fee or only a gate? If we allowed only a fee or only a gate, should there be different parameters or restrictions around when the fee or gate could be imposed or lifted than what we have proposed? If so, what should they be and why?

Please see our various responses to the questions above on liquidity fees and gates that support both mechanisms and comment on the Commission's proposals on this subject.

Questions 97 - Should we allow partial gates? If so, why? Under what conditions and of what nature? Should they limit each shareholder's redemptions to a certain percentage of his or her shareholdings (e.g., 10% or 25%), to a certain percentage of the fund's outstanding shares (e.g., 1% or 5%), or to a certain dollar amount per day (e.g., $10,000 or $50,000)? If so, what percentage or dollar amount and why?

Regulation should allow MMFs to limit the total number of shares that a fund is required to repurchase on any trading day to 10% of the shares in issue. If enacted, the limitation will be applied pro-rata so that all shareholders redeeming on a particular business day realise the same proportion of their shares. The balance of shares not repurchased will be carried over to the next business day until all redemption requests have been met. This mechanism provides an extended period in which a fund can manage the redemption requests. In some jurisdictions this type of mechanism is allowed by regulation and many MMFs in those jurisdictions have language in their prospectus allowing the Board of Directors (or its equivalent) to enact this mechanism. The mechanism provides the Board of a MMF with another tool to manage heightened redemption activity. We would envisage a "partial gate" being potentially being employed after a liquidity fee but before a full gate as a progressive step in the process. Providing investors in a MMF access to a part of their investment is less impactful than a full gate.

Question 98 - If we allowed partial gates, should they be allowed in addition to liquidity fees and full gates or in lieu of fees or full gates? What operational and other costs would be involved if we allowed partial gates in addition to or in lieu of fees and/or full gates?

We would expect a partial gate to be employed less frequently than a liquidity fee or a full gate. In practice if a liquidity fee has not been successful in managing heightened redemption activity then we would expect a fund to need to apply a full gate. That being said we would not want to disregard a tool that is designed to protect investors despite the probability of its use being limited.

Question 99 - Are there other alternatives that we should consider? Do commenters agree with our discussion about the advantages and disadvantages of the various alternatives? Do commenters agree with our discussion of their potential benefits and costs and other economic effects?

MMF regulation should allow a MMF to meet an investor's redemption request by distributing a pro-rata share of the assets of the fund rather than by returning cash to the investor i.e. an in-specie redemption. The benefit for the fund is that it is not required to use its immediate access liquidity, or to sell its more liquid assets, to meet a large redemption request. Due to the potential difficulty for some investors in MMFs to receive a share of the assets in the fund, a minimum redemption size should be set so that redemptions are only provided in-specie for "large" redemptions. However, a MMF should have the ability to process any redemption request in-specie if the fund and the shareholder both agree to it and it is in the interest of all shareholders. Due to the complexity of operating this mechanism in practice, the Board of Directors of the fund (or its equivalent) should be required to maintain a policy on the handling of in-specie redemptions.

Potential benefits of combining the two proposals

Question 100 – Various questions on the benefits and drawbacks of combining the two proposals.

Rather than listing the numerous questions under this section we have decided to address the concept of combining the proposals in a single response.

As we have outlined in our introduction section we believe there are reforms, including liquidity fees and gates that will address MMFs susceptibility to 'run' risk. The reforms we have outlined do not support a transition to a floating NAV for the reasons highlighted in this response to the Commission's consultation. However, if the Commission does proceed with the requirement for MMFs to transition to a floating NAV we would support these funds being required to adopt the power to apply liquidity fees and gates for the reasons highlighted above. We also support the adoption of the power to apply liquidity fees and gates to retail and government funds for the reasons outlined above. We recognise that combining the reform proposals under the scenario highlighted above will incur both sets of costs and operational issues. We see the costs and operational issues of creating the ability for a MMF to apply a liquidity fee or gate as low compared to transitioning to a floating NAV and they do not outweigh the benefits of providing these powers to a Board of a MMF.

Our rationale for giving the Board of a floating NAV MMF the power to apply a liquidity fee is because the spread between the mid-market valuation of money market assets and the bid side valuation of money market assets can widen significantly during a period of severe market stress such as the financial crisis of 2007-2008. During normal market conditions it is reasonable to use the mid-market price to value assets in a floating NAV MMF. To ensure a floating NAV MMF is able to meet its fiduciary responsibility it should have the power to charge a liquidity fee during a period of market stress to reflect mid to bid price spread widening. Charging a liquidity fee would remove the incentive for investors to redeem during a period of market stress to avoid paying the true cost of liquidity and passing the cost on to remaining investors in the fund.

As noted above, in the case of a VNAV fund, the fee would be the difference between an investor's actual redemption proceeds and the proceeds that would have arisen if the fund had been bid-priced, and assuming the sale of a horizontal slice of the fund's portfolio. Consistent with our proposal for a trigger based liquidity fee for CNAV MMFs, a floating NAV MMF would also require a trigger. Our proposal for a trigger is a 25bp fall in the price of the MMF over a one month period. A "liquidity threshold" as proposed by the Commission could also be used in combination with our NAV trigger.

In 2008, liquidity fees were applied to a suite of international enhanced cash funds. The funds in question were variably priced enhanced cash money market funds. Accounting differences aside, we understand the funds applied a variable charge based on the estimated bid price of the assets to ensure redeeming investors were paying the heightened cost to liquidate assets during the financial crisis and the cost of those redeeming was not being borne by the investors who remained in the fund.

We recommend that a floating NAV MMF would also be required to have the power to apply a full gate (see our response to question 78 above), a partial gate (see our response to questions 97 and 98) and in-kind redemptions (see our response to question 99 above).

Combining a floating NAV MMF with a liquidity fee and gates does not change our opinion expressed in our responses above on sponsor support, pricing precision, disclosure requirements and the compliance period.

Question 101 - What advantages and disadvantages would result from permitting a choice between a transition to floating NAV or adoption of liquidity fees and gates?

Our preference would be for regulation to adopt a single model to maintain the current simplicity. A dual model risks investor confusion and raises costs for MMF providers that could be passed on to investors. However, in this instance, as we do not believe a transition to a floating NAV will deliver the objective of reducing 'run' risk in MMFs we would prefer a choice if the Commission proceeds with adopting a floating NAV model. We do not believe the inclusion of a floating NAV option would deliver the objectives the Commission seeks for those MMF providers choosing this option but also having the option to choose liquidity fees and gates would allow us to adopt a model that we believe is in the best interests of the shareholders in our MMFs and will achieve the Commission's goals.

Macroeconomic effects of the proposals

Question 102 - Do commenters believe that the likely effect of either our floating NAV proposal or our liquidity fees and gates proposal would be to cause some investors to shift their money market fund investments to alternative products and thus reduce the amount of money market fund assets under management? If so, to what extent and why? To what extent would these shifts vary depending on whether the investor was retail or institutional and why?

Due to the significance of the proposed reforms and the change it will create for investors we expect a reduction in the size of the money market fund industry. We would expect a transition to floating NAV to lead to a larger reduction in AUM than adoption of liquidity fees and gates. The reduction in AUM would be greatest from institutional investors currently invested in Prime MMFs if the exemptions for Government funds and retail investors are maintained in the final reforms.

A transition to a floating NAV will require an institutional investor invested in a Prime MMF to consider the following before determining whether the new MMF structure is a suitable investment for them:

1. Understand and accept the frequent, although small, volatility in the NAV
2. Consider any tax implications of the change
3. Consider any change to the "cash and cash equivalents" status for those investors who require this accounting treatment
4. Consider the operational impact and costs of adapting systems and processes to the new structure

Any one of these could lead to an investor determining that a floating NAV MMF does not offer the features they require to make the fund a viable investment when compared to other investment options available. We expect that a change in the tax treatment and / or accounting treatment will be the most impactful for investors in MMFs.

In our opinion the significance of the change of adopting liquidity fees and gates in Prime MMFs for retail and institutional investors is less impactful on these investors as, except for in extremis circumstances, MMFs will continue to function as they do today. The dialogue we have had with a subset of the institutional investor base in our MMFs supports this view. The investors we have engaged have been comfortable with the addition of the ability for a MMF to apply a liquidity fee or gate to the existing powers the Board has.

At this time, our views have not been based on a systematic survey of all our investors but by an in-depth dialogue with a subset of our client base. We are sceptical about the true insight that mass mailing surveys provide. Due to the significance and complexity of the proposed changes we believe a dialogue, supported by data, is required to properly explain the benefits and drawbacks of each reform proposal in order for an investor to make an informed judgement. Simply asking an investor whether they would prefer reform "A" or reform "B" will not provide an accurate insight into what an investor could ultimately be comfortable with.

Question 103 - Would either of our proposals result in any reduction in the number of money market funds and/or consolidation of the money market industry? How many funds and what types of money market funds would leave the industry? What would be the effect on assets under management of different types of money market funds if we adopt either our floating NAV or liquidity fees and gates proposal?

We expect all of the proposals in their current form to lead to industry consolidation and a reduction in the number of MMFs. The reform proposals will lead to a bifurcation of existing assets in MMFs in Prime MMFs. This will have implications for MMFs that have lower AUM levels (i.e. those with circa USD 10-15bn or less in AUM). As the Commission has noted, we also expect to see a bifurcation of the industry if a requirement to move to a floating NAV is adopted due to the following:

1. Proposed exemptions for government funds and retail investors
2. Investors leaving MMFs and moving into deposits
3. Investors leaving MMFs and moving into direct market investments
4. Investors leaving MMFs and moving to segregated account structures.

This bifurcation will mean that the smaller MMFs, post the expected bifurcation, will have insufficient scale of AUM for many investors and will therefore not be viable. This will lead to consolidation in the industry, a reduction in competition and a reduction in choice for investors.

At this time we do not have sufficient insight to accurately predict the magnitude of the industry consolidation and reduction in MMFs in the market of our opinion on consolidation.

We expect the following directional change in AUM in the different type of MMFs based on the two reform proposals (all other drivers of AUM remaining equal):

Reform proposal	Prime	Retail	Government
Floating NAV	Reduction	Unchanged	Increase
Fees and gates	Reduction	Small reduction	Increase

Question 104 - Do commenters agree with our analysis of the likelihood that certain shareholders would seek out particular investment alternatives in the event we adopted either of our floating NAV or liquidity fees and gates proposals? For example, would institutional investors be unlikely to shift assets to bank deposits (because of depository insurance limits) or local government investment pools, short-term investment funds, or offshore money market funds (because of the significant investment restrictions)? Do commenters agree with our analysis with respect to some or all of these alternatives? Why or why not?

Please see our comments on bifurcation of the industry in our response to question 103.

Question 105 - Are there aspects of any investment alternatives other than operational costs discussed in sections III.A.7 and III.B.6 above or the factors we have identified in this section that would affect whether money market fund investors would be likely to use other investment alternatives in lieu of money market funds under either of our proposals? We request that commenters differentiate between short-term effects that would occur as the industry transitions to one in which money market funds use floating NAVs or liquidity fees and gates and the long-term effects that would persist thereafter.

Please see our response to question 102 above.

Question 106 - What would be the net effect of our proposal on competition in the money market fund industry?

Please see our response to question 103 above.

Question 107 - How would these guidelines (board approved investment guidelines) and other constraints affect investors' use of floating NAV money market funds or those that could impose fees or gates? Could institutional

investors change their guidelines or policies to invest in either floating NAV money market funds or funds that could impose fees or gates, if appropriate? If not, why not? If so, what costs might institutional investors incur to change these guidelines and policies?

We would not expect existing investment policies or guidelines that, for example, stipulate that “only funds that display a stable NAV are permissible”, to ultimately affect investor use of floating NAV MMFs or MMFs than could impose a liquidity fee or gate. Assuming an investor understands the proposals and can accept the changes that these proposals would bring, for the majority (estimated 90-95%) of investors changing investment policies and guidelines is a step in the process that simply requires sufficient time to implement. We would not expect the cost to institutional investors of making these changes to be significant. The cost is the time taken to write a business case to justify the change, and will also likely require them to review the tax and accounting treatment of their MMF investments (and determine whether MMF investments would continue to be appropriate). The majority of the rationale and data to create the business case would have been provided by MMF providers in their explanation and justification of the changes originally provided to the investor.

Question 108 - How would either reform proposal affect issuers in the short-term financing markets, whether through a smaller money market fund industry or through fewer highly risk-averse investors holding money market funds shares?

Based on our expectations of investor behaviour in relation to the different proposals, we expect the following impact on issuers in the money markets:

Issuer type	Supply of funding	Duration of funding	Cost of funding
US Treasury	Increase	No change	Reduction
US GSEs	Increase	No change	Reduction
Agencies – foreign	Reduction	Reduction	Increase
Banks			
US money centre	Increase	Reduction	Unknown
US regional	Increase	Reduction	Unknown
Foreign	Reduction	Reduction	Increase
Corporates	Reduction	Reduction	Increase

The following assumptions have been made to arrive at the predictions above:

1. US government funds will increase in popularity leading to an increase in supply of funding and therefore a reduction in the cost of funding for the US Treasury and US GSE’s. We would not expect any change in duration of funding.
2. Investors will focus on issuers head quartered in the US as the lack of credit resource at most investors will lead to a focus on issuers that are deemed “too big to fail” and that investors are familiar with. This will lead to a reduction in supply of funding to foreign banks and foreign agencies and an increase in supply of funding to US money centre and regional banks.
3. Lack of credit resource will lead investors to focus on issuers that they believe have an implied government guarantee (namely GSEs, US money centre and large regional US banks) and reduce supply of funding to corporates.
4. The duration of funding will reduce for all issuer types except the US Treasury and GSEs. With the reduction in the liquidity benefits of pooling created by investing in a MMF, an investor must shorten the funding they provide directly

to issuers to maintain the same access to liquidity compared to when they were invested in a MMF.

5. As total supply of funding to foreign agencies, foreign banks and corporates will reduce and they will have to pay more for longer term funding from other sources, this will lead to a rise in their cost of funding.
6. US money centre and regional banks will see a reduction in their cost of funding due to an increase in the supply of funding. This will be offset by the increase in the cost of longer term funding which they will need to source from a different investor base.