NORTH CAROLINA

OFFICE OF THE TREASURER

JANET COWELL, TREASURER

September 19, 2013

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

RE: Proposed Rulemaking – File Number S7-03-13, Money Market Reform

Dear Secretary Murphy,

Thank you for the opportunity to comment on the Securities and Exchange Commission (SEC) proposed rule for money market fund (MMF) reform. The North Carolina Department of State Treasurer greatly appreciates the SEC's continued diligence in making our capital markets safe and transparent for the investing public.

Since the financial crisis of 2008, the SEC has taken important steps to ensure that MMFs are regulated in a manner that protects investors and preserves the product for consumers and institutions alike. Importantly, the SEC acted in 2010 to improve the transparency and liquidity of the funds, as well as the credit quality of MMF holdings.

Our Department feels there is much to praise about the proposed rule that is the subject of this letter. Specifically, requiring MMFs to release more information to investors is yet another demonstration of the SEC's commitment to transparency. We also believe the SEC has taken the correct approach by recognizing that the floating Net Asset Value (NAV) and gating alternatives are not appropriate for treasury and government money market funds.

In the same manner in which you have excluded treasury and government MMFs, we ask that tax-exempt MMFs also be exempted from proposed floating NAVs and gating alternatives. We see the wisdom of such policies for institutional prime funds since they may be susceptible to heavy redemptions during times of stress. But the floating NAVs and gating alternatives are not essential for municipal MMFs and could lead to higher borrowing costs for North Carolina and its local governments, for the following reasons:

- During the peak of the financial crisis and in subsequent periods of financial market volatility, tax-exempt MMFs did not experience significant investor outflows and many even saw investor inflows.

- In addition to meeting the Rule 2a-7 limits on credit risk, tax-exempt MMFs maintain levels of weekly liquidity more than twice that of the current 30% requirement.

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- Those structural features make it very unlikely that tax-exempt MMFs would ever see the type of rapid investor redemption activity that a few institutional prime MMFs experienced during the financial crisis.

- Changing to a floating NAV likely will discourage local governments from investing in tax-exempt money market funds and instead will encourage them to choose competing bank products with fixed NAVs. Evidence for that belief is in the fact that North Carolina local governments overwhelmingly choose the fixed-NAV portfolio over the floating-NAV portfolio in the state's Local Government Investment Pool (LGIP).

- As an unintended consequence, the current form of the rule likely would make the pool of available funding for municipalities shrink and less capital would be available to finance public projects. The overwhelming majority of municipal short-term funding in North Carolina comes from MMFs. In 2012 North Carolina municipalities issued close to $60 million in low cost bond anticipation notes alone. If tax-exempt MMFs are no longer able to provide funding for those types of debt issuances, municipalities might be forced into less cost-effective means of financing.

We are proud that North Carolina's LGIP is an SEC-registered fund. We hope our example in choosing to be subject to this oversight demonstrates to other states that SEC registration is a transparent, productive regulatory relationship that protects investors and is a cost-effective source of municipal financing. However, if money market fund regulations were to fall out of sync with the LGIP market, we worry that LGIPs would find little benefit in SEC registration and that as a result, the market would become less transparent, rather than more so.

We appreciate the SEC's diligence in considering money market fund reforms. Again, we thank you for the opportunity to comment on this proposal.

Sincerely,

Janet Cowell

Janet Cowell,
Treasurer of North Carolina