



September 18, 2013
Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F. Street, NE
Washington, DC 20549-1090

Subject: Money Market Fund Reform, File # S7-03-13

Dear Ms. Murphy:

In connection with the SEC's Money Market Reform proposal, DST Systems, Inc. respectfully submits our comments for your consideration.

Executive Summary

DST is the lead transfer agency systems provider serving the mutual funds industry for over forty years. The objective of our comment letter is to provide evidence to the Commission with regard to cost impacts of the proposed money market reform. Our reason for commenting is to highlight two of the primary drivers within the proposed reform that comprise a majority of the one-time systems costs involved.

We will limit our comments to Alternative One, with respect to Floating NAV. From a systems and operations perspective these requirements are inconsistent with the normal functions of a mutual fund transfer agency system.

DST Systems, Inc. – Role in the Mutual Fund Industry

DST Systems, Inc. provides sophisticated information processing solutions and services to support the global asset management, insurance, retirement, brokerage and healthcare industries. DST's shareholder recordkeeping system is the largest third party recordkeeping system in the U.S. mutual fund industry with 57% of the market of shareholder accounts (Mutual Fund Service Guide, January 2013). Per Crane Data as of July 31, 2013, two of the top three money market fund managers in the industry are our clients, with their shareholder recordkeeping and operations being performed using our software platform.

It is from this role in the mutual fund industry and perspective that we feel compelled to provide this comment letter highlighting the cost impacts which proposed reform will have on systems and operations.

Intraday Pricing

The accounting implications of the reform will result in an implied expectation for funds to provide intraday pricing. In practical terms, an accrual rate is determined once per day in the current

environment. We are drawing an assumption that it could become three distinct prices per day per CUSIP under proposed reform. Intraday pricing adds complexity to an existing high risk process, with billions of dollars routinely in flight in a typical prime money market institutional player's accounts on a daily basis. The scale of money movement and volume of underlying transactions processed within tight time frames would require even further precision based on the time stamp of the trade. Floating NAV reform, as written, would triple the level of daily servicing effort and roughly triple the processing risk by introducing complexities and reconciliation requirements.

- Time stamp sensitivity—Tracking of trade time stamps around market close for investor processing would need to be modified to a higher level of standard of time cut-offs within the day. Assuring accuracy and transparency of investors receiving the proper time stamp is further exacerbated by omnibus accounting. The oversight model in place for Funds is delicate, at best, with multiple levels of intermediaries and servicing model complexities prevalent in the industry today.
- Additional storage and reflection of price per day—Transfer agency and other shareholder recordkeeping systems would need to be modified to collect, verify and store more pricing information per CUSIP than they do today. There may also be a requirement to store both the four-digit NAV along with the two-digit NAV. Each line of shareholder transaction history will need to be enhanced in shareholder recordkeeping systems to track these additional data points not required for all other mutual fund product shareholder transactions.
- Data transmissions—Modifications, testing and maintenance would all be increased between money market funds and their web of service providers. The volume of transmissions, monitoring and maintenance, and risk attributed to data hand offs between the funds, their pricing agents, transfer agents and broker dealers through the DTCC would be tripled.
- Adding complexity to money movement—The amount of cash that moves electronically on a daily basis with the money market servicing structure is staggering. Billions of dollars move daily between money funds and their institutional clients, fund custody accounts and transfer agency operating accounts, and fund transfer agency operating accounts and the DTCC net settlement process with aggregated due to/due from amounts netted between broker dealers and fund transfer agents. Adding another layer of pricing associated with these movements based on time of day increases risk to an already complex, high risk and highly automated ecosystem. The daily work of all money movements received and sent will need to be categorized by time of day and used to balance against shareholder recordkeeping systems transactions priced based on their respective time stamps within the day.
- Reconciliation—Introducing additional layers of prices per day adds significant complexity to balancing protocols and internal controls required to adjust for the increased risk. Corrective processing across time intervals within the same day will become common place with the multiple potential points of failure between timeframes, transaction delivery mechanisms and systems/parties involved. Risk management processes in place to police trade date assignment would need to be expanded.

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- Shareholder media—Confirmations, statements, internet access screens, automated response systems and account representative access mechanism all would need to be upgraded to present multiple prices for the same day.
- Performance calculations, literature—Intraday pricing will add to the complexity of tracking performance calculations and tying to industry benchmarks.

Four-digit NAV

It is our contention that most, if not all, shareholder recordkeeping platforms supporting the money market industry cannot presently calculate money market or other mutual fund shareholder transactions out to four digits to the right of the decimal place. We do believe that most, if not all, platforms are capable of calculating out to three digits to the right of the decimal. This nuance in precision carries a heavy cost in upgrading systems universally in the industry to accommodate the requirement. Major systems considerations of a four-digit NAV requirement are outlined below.

- Transaction posting—All dollar transactions are presently rounded to three-digit shares. The posting process would need to be updated and tested for both dollar and share transactions. This posting process is core to our recordkeeping system; the testing and complexity of this process will be vast.
- Data transmissions—Modifications, testing and maintenance would all be increased between money market funds and their web of service providers. The volume of transmissions, monitoring and maintenance, and risk attributed to data handoffs between the funds, their pricing agents, transfer agents and broker dealers through the DTCC would be tripled.
- Shareholder media—Confirmations, statements, internet access screens, automated response systems and account representative access mechanism all would need to be upgraded to present shares and NAV to four digits for the same day.

Implementing Retail Exemption of Floating NAV

On page 107 of the proposed reform, costs are presented to establish separate funds, modify systems and related procedures and controls, and update disclosure in the prospectus/advertising materials and ongoing operational costs.

- One time—While the topic of the appropriate way to define retail continues to be carefully analyzed by industry players, it appears a consensus is forming among our clients to prefer defining retail based on the SSN or minimum account balance. Delineating retail versus institutional along either of these methods is not presently part of traditional transfer agent systems functionality. Systems and operational updates to incorporate a maximum account balance administration and reporting system, or other identifier, would be required.

Implementing Floating NAV

On page 126 of the proposed reform, costs are presented to modify existing procedures, controls impacted by the proposal, including calculation, communication, transacting and reporting basis. If

assuming intraday pricing and calculating to the fourth decimal place, we project the following cost drivers:

- One time
 - The ability to store three prices per day per money market fund using a four-digit NAV and calculate shares on money market transactions to four digits to the right of the decimal place is not part of existing shareholder recordkeeping systems in the mutual funds industry.
 - Our clients have defined requirements to store both a four-digit NAV along with a two-digit rounded NAV. Traditional systems do not have existing features for storing multiple prices per day.
 - Intraday pricing results in the need to modify systems to be able to apply different prices intraday based on the time stamp of the trade, which does not exist today in transfer agency systems.
 - Enhancements to support cost basis including wash sales also require systems enhancements.

Shareholder Communications - Floating NAV

On page 129 of the proposed reform, costs are presented associated with programs and systems modifications to access information online, through automated phone systems and on shareholder statements and other forms of media.

- One time
 - Traditional systems will need to be updated to provide the applicable price in each line of shareholder transaction history.

MMF Institutional Shareholder Systems Changes

On page 135 of the proposed reform, costs are presented to modify existing systems, procedures and controls related to recordkeeping, accounting, trading, cash management, bank reconciliation and training.

- One time
 - Updates are required for transmissions, including the DTCC.
 - Options to allow timestamps within a transmitted record to override intraday time stamp-based prices applicable to trades received directly at the transfer agent are necessary.

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Conclusion

The aggregated one-time cost estimate for updating our transfer agency shareholder recordkeeping system is estimated to be \$9,450,000. It is important to consider that our shareholder recordkeeping platform is one of many in the industry that provide servicing to the end shareholder, particularly when factoring in intermediaries.

Costs of reform could be dramatically decreased by removing the four-digit pricing feature and reconsidering the accounting requirements that result in intraday pricing.

DST is available should the Commission have additional questions. We are also available to meet with the Staff in person upon request. Please contact Nick Horvath at (816) 843-7615 or email nnhorvath@dstsystems.com at your convenience.

Sincerely,



Stephen C. Hooley
Chief Executive Office and
President