BY ONLINE SUBMISSION

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

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

COST IMPACT OF PROPOSED MONEY MARKET FUND REFORM ON TRUST INDUSTRY

AMENDMENTS TO FORM PF – Release No. 1C-30551

The SEC has recently proposed two alternatives in the above-named Release regarding the use of money market funds that will have significant impact on trust and custodial providers. The implementation of these proposals will lead to significant changes in trust and overall bank organizational technology, will require substantial changes in procedures, and will result in a significant cost for these institutions. This analysis reviews the potential impact of the proposed amendments to the trust and custody industry and identifies the potential magnitude of related costs.

The Alternatives outlined in the proposed amendments include the following:

Alternative I

- Organizations must identify the beneficial owner of all shares being traded to ensure that one beneficial owner does not trade more than $1 million within a retail fund. Any trades over $1 million must be conducted within a Prime corporate money market fund.

- All Prime corporate money market funds will need to replace the current fixed $1.00 share price with a floating net asset value share price. All tax-exempt and Prime corporate money market funds must use four decimal pricing unless they restrict customer redemptions to $1 million per day. (In this case, they would not be considered Prime Funds).
US government funds (those with at least 80 percent of their assets in US Government and US Government agency securities) will be able to maintain a stable $1.00 share price.

**Alternative II**

- Tax Exempt Funds and Prime Funds will be required to adopt redemption restrictions ("gates and fees") which the mutual fund board of directors will have the discretion to impose in order to prevent mass redemptions.

**Size of the Industry**

As of year-end 2012, approximately 1,350 organizations held approximately $900 billion in personal trust assets. The numbers of fiduciary and related accounts totaled over 15 million accounts. Based upon FDIC reporting, money market mutual funds comprise seven percent of overall managed fiduciary accounts. The impact of these amendments will be felt throughout the $2.6 trillion money market industry at varying levels.

According to the FDIC statistical reporting of the number of Fiduciary and related accounts, this analysis is representative of half of the top 25 financial institutions holding fiduciary and related accounts. On average, these institutions incur annual operating expenses of between $300-400 per account to support the business.

Spectrem conducted a study of one of these institutions to obtain representative costs estimates that would be incurred by these institutions if the proposed regulations are approved. The cost estimates included herein are based upon that analysis as well as Spectrem’s ongoing research and operational analysis of the industry.

**Impact of SEC Alternatives on Trust Industry**

**Alternative I - Funds which choose to remain at $1 value must limit redemptions of Beneficial Owners to $1 million per day**

The ability for corporate money funds to remain “retail” funds will become very difficult under the proposed rules because of the challenge of aggregating shareholder (“beneficial owner”) redemption information.

- It is uncertain how these beneficial owners will be identified, whether it is a social security number or other type of arrangement.

- It is unclear in the proposed amendment whether the redemptions made by a shareholder must be aggregated across multiple organizations or just within one organization. Arguably, the SEC is applying the redemption at the fund level. Thus the fund could theoretically be responsible for rejecting trades at
the fund level once they are all aggregated from various organizations at the end of the day. Unfortunately, there is currently no way for one organization to communicate the amount of funds being redeemed by a customer to other organizations. There is no industry-wide platform to identify a beneficial owner, either by tax identification number or other identifier, across the industry.

- Even the ability to aggregate trades across one organization will be exceedingly difficult. In most organizations, information in trust and wealth management is generally not combined with trades occurring in the brokerage unit. Additionally, any funds held in the retail area (including deposit accounts or savings accounts) are generally not linked to other accounts held in the bank. This is primarily due to past and current requirements regarding privacy and the original Glass-Stegall requirements. Few technology systems are integrated organization-wide.

- It is unclear whether assets held in a defined contribution accounts or similar vehicles should also be aggregated at the beneficial owner level. Trades in these retirement plans would need to be dis-aggregated and the identification number of each plan participant trading the money fund on that date would need to be identified.

- The regulations must clarify whether the beneficiaries of a personal trust should be included in the calculation of trades by beneficial owners. If so, the identification numbers of the beneficiaries, not just the trust, will need to be shared across the organization and potentially otherwise.

- Omnibus trades must be broken into individual pieces in order to aggregate beneficial ownership across an organization. This will mitigate any cost savings or efficiencies created by the omnibus account.

- Many estates cannot have significant volatility within the accounts. This may force fiduciaries to invest cash into government funds to avoid volatility. This may not ensure the proper fiduciary decision based the level of return available in the government funds.

Moving clients into prime funds will require a significant amount of education for the client. Wealth managers and portfolio managers will need to meet with clients and educate them regarding the impact of these regulations.

**Recap of Costs:** In order to identify the costs associated with this issue, the regulations need to be clarified. Building technology to bridge across an organization will be a significant investment for most institutions. It is estimated that this investment will be tens of millions of dollars across the top financial institutions.
As mentioned, there is currently no platform available to compare mutual fund trades across multiple organizations. Stock trades can be tracked through DTC, but mutual funds have no similar platform. Basically, organizations will be forced to adapt all funds to the requirements of Alternative I to ensure that no beneficial owner is breaching the rules. Thus, corporate money funds will essentially be forced into becoming Prime funds.

**Alternative I – Impact of Changes to Floating Net Asset Value**

Prime money market funds will be required to price their shares using a more precise method of valuation, requiring funds to calculate the NAV to the fifth decimal place and then round to the fourth decimal place. Currently money market funds are priced at a share price of $1.00.

The proposed rules would change the rounding convention from penny rounding (from the nearest one percent) to “basis point” rounding (to the nearest 1/100th of one percent). “Basis point” rounding is significantly more precise than the 1/10th of one percent currently required for most mutual funds.

There are two significant issues regarding the implementation of this floating net asset value calculation for trust and custody providers. The first is the need to report the tax basis for corporate money market funds similar to other securities, and the second is the technology implications to add in the ability to round to the fifth decimal point.

**Tax basis reporting**

- The tax basis of money market fund shares will need to be reported each time a transaction occurs, similar to the manner in which the tax basis is reported for other securities. Reporting the tax basis for money market funds will impose additional daily operational requirements and reporting requirements for providers because money market funds are generally the “sweep” vehicle for any cash held within an account.

- The number of transactions processed each day will increase considerably because of the non-dollar value pricing. Each day tax lots will be created and charges will be made to the account for each transaction. Depending upon the types of contracts a trust provider may have with its trust systems or outsourcing provider, it may incur a significant number of additional transaction charges. Ultimately, these charges will be passed on to the customers.
Client statements are one of the items that will be the most drastically impacted by the regulations. Currently, client statements just show the net amount for the period for money market assets. The floating net asset value will require that gains and losses are shown on the statements. For example, each day a new tax lot will be created. This information will need to be reported and retained. This will significantly impact the length of the client statement. The majority of institutions with between 15,000 and 50,000 fiduciary and related accounts have chosen to outsource the statement creation and printing.

Client statements typically include charts and graphs, and the new tax basis reporting changes will require programming and man-hour costs. In general, industry per statement costs average between $1.00 and $1.50 per statement to create, print and mail. As a result of the proposed, this ongoing statement cost will increase by 10-15 percent, due to lengthened statements and higher postage costs due to increased page length. When this increased may be viewed as modest, many of these institutions mail over one million statements per year, incurring additional costs greater than $250,000 per institution.

**Addition of additional decimal place**

- Currently most of the systems that process these transactions do not have four decimal pricing for the money market funds and will need to be modified to allow for this pricing scenario. While many securities currently round to three decimal places, few systems round out to five decimal places. Therefore, all of the trust accounting systems will need to be modified. While many trust providers rely upon their systems providers to perform these types of enhancements, ultimately the cost will be passed back to the trust organization in some way.

- Brokerage accounts also do not generally round out to the fifth decimal place. Similar to the trust systems providers, the brokerage units will be required to rely upon the organization providing their system (generally a third party) to enhance their system. Few trust and brokerage organizations currently share the same systems. Therefore, enhancements will be required to both systems.

- A large number of organizations have created a “data warehouse” that is used by various wealth managers, portfolio managers and brokers within the organization. The data warehouse often is able to aggregate some of the account information to be able to gain greater understanding of a client’s relationship throughout the organization. These systems will also need to be modified to accommodate the extra decimal point required by Prime money market funds.
The trading platforms used by brokerage and trust organizations will also need to be modified to accommodate the additional decimal place.

**Recap of Costs:** To implement additionally required tax basis reporting and modify existing systems to accommodate rounding to the fourth decimal place for money market pricing will require trust institutions to incur substantial implementation costs and higher ongoing expenses. If the institutions maintain their own trust accounting and related systems and operate with in-house personnel, this expense will average between $30-100 per account or $450,000 to $5 million per institution, depending upon the size of the institution. Additionally, the ongoing cost of operations for these institutions will increase by an additional 10-15 percent above their existing costs, or up to $1,000,000 to $2,000,000.

If the institution utilizes an outside party for their systems and/or operations and the system provider cannot adapt to these changes, it will force these institutions to bring the operations back in-house, incurring potentially tens of millions of dollars in implementation expense and negating any cost savings that had resulted from outsourcing operations.

**Alternative II – Overview of “Gating” Issue**

The requirement for funds to adopt contingent temporary redemption restrictions will also have an impact on the technology and operational procedures of trust providers.

The primary implication for providers will be for their technology systems to recognize when a mutual fund has adopted redemption restrictions. Trust and custody providers will need to review each technology platform to determine how to stop trades on a specific security. All systems involved in trading and reporting will need to be reviewed and the ability to restrict the trade of a specific security, in this case a specific fund, will need to be reviewed. For many of these systems, that capability already exists.

Trust providers will need to assign a particular unit to have responsibility for identifying funds subject to “gating” and be responsible for notifying appropriate groups throughout the organization of the redemption restrictions should they be enacted. The regulations currently do not clarify how the market will be notified should a mutual fund board enact the restrictions.

It is currently unknown if the proposed amendments would allow pending trades to clear in a “gated” fund or if the trade would be rejected. Providers will need to clarify procedures upon the rejection of the trade.
Recap of Costs: To conform to Alternative 2, financial institutions could incur up to several million dollars per institution in technology expense, both for reviewing code as well as changing systems code to adhere to the proposal. Additionally, institutions will incur ongoing additional expense up to $500,000 per year to create, monitor and audit procedures that would be required under the proposal.

SUMMARY

Implementation of the Proposed Amendments to Form PF will have significant implications for the trust industry. While both Alternative I and Alternative II will have implementation costs, the start-up and ongoing costs for Alternative I far exceed the costs for Alternative II. The estimated total costs for implementation as well as ongoing additional costs of Alternative I and II are as follows:

**Alternative 1:** $450,000 to $5 million per institution to implement the required tax lot reporting, rounding to the fourth decimal and increased statement costs; plus ongoing higher expenses of potentially $1 to $2 million annually. Additionally, tens of millions of dollars will be required to link systems together to identify trades by individuals across portions of the organization and potentially the industry.

**Alternative 2:** Up to several million dollars per institution in implementation expense, plus higher ongoing expense of up to $500,000.

These costs are estimates only and are based upon the assumptions outlined in this report. Estimates were compiled through a best efforts basis of identifying all areas within the bank and operations groups and related systems that would be impacted by the proposed regulations. It is important to recognize that it is likely that these costs may increase due to the inability to identify all of the systems and procedures that may be impacted upon the actual implementation of these regulations.