



THE DREYFUS CORPORATION

J. Charles Cardona
President

March 5, 2014

Via Electronic Submission on www.sec.gov

U.S. Securities and Exchange Commission
Attn: Ms. Elizabeth M. Murphy, Secretary
100 F Street, NE
Washington, D.C. 20549-1090

RE: Proposed Money Market Fund Reform Proposals - SEC File Number S7-03-13

Dear Ms. Murphy:

The Dreyfus Corporation ("Dreyfus") appreciates the opportunity to provide additional comments on the U.S. Securities and Exchange Commission's (the "Commission") June 2013 money market fund ("MMF") reform proposals (the "Proposals"). The comments in this letter are limited to the Proposals related to municipal money market funds ("Municipal MMFs") and supplement the comments we provided in our comprehensive comment letter in response to the Proposals filed with the Commission on September 17, 2013.

A. Background – Our September 17th Comment Letter.

Dreyfus supported the Commission's overall policy goals to lessen MMFs' sensitivity to excess redemption activity, increase MMFs' ability to manage through and mitigate potential contagion from high levels of redemptions, impose transparency and risk management overlays, and preserve, as much as possible, the utility of MMFs. We also welcomed the Commission's intent to tailor any proposed reforms to the types of funds that demonstrated stress during the financial crisis and to preserve the intrinsic value of MMFs by excluding U.S. Government money market funds ("Government MMFs") from the proposed mandates of a variable net asset value ("VNAV") and standby liquidity fees and gates structures (collectively, the "Structural Proposals") as well as providing a "retail exception" from the VNAV alternative that would allow for certain funds to maintain a constant net asset value ("CNAV").

Our letter emphasized three Proposals most concerning to us because we viewed each as likely to diminish, rather than preserve, the overall utility of MMFs for MMF investors. These Proposals were (a) the VNAV alternative; (b) the Commission's decision not to exclude Municipal MMFs from the Structural Proposals as the Commission proposed to exclude Government MMFs; and (c) eliminating amortized cost as a means for valuing certain portfolio securities owned by CNAV MMFs. With respect to Municipal MMFs, we commented that Municipal MMFs should be excluded from the Structural Proposals to the same extent as Government MMFs.



B. We believe the Commission should not rely on the proposed retail exclusion to preserve the value of Municipal MMFs for investors.

The Commission's reliance on a proposed retail exception for preserving the CNAV structure for Municipal MMFs appears to be based on a more narrow understanding of the range of Municipal MMF investors than is in fact the case. We believe a clearer understanding of the diversity of Municipal MMF investors will demonstrate that a retail exception only will preserve the value of Municipal MMFs for some investors. This understanding is critical to the Commission's cost-benefit analysis regarding its proposed MMF reforms as they are to be applied to Municipal MMFs.

As more fully discussed in the section below, we believe the Proposal and the Commission's related statements¹ and cost-benefit analysis fail to recognize the diversity of Municipal MMF investors. For example, the belief that most Municipal MMFs can qualify under the proposed retail exception, we believe, reflects an oversimplified cost-benefit analysis. We urge the Commission to recognize that Municipal MMF investors are not limited to individuals or "natural persons"² and instead also serve a broad range of institutional investors (e.g., banks and other corporations) that maintain consistently large account balances in Municipal MMFs and that this institutional shareholder base can take advantage of tax benefits afforded by "exempt dividends" distributed by Municipal MMFs. Accordingly, this letter seeks to provide deeper insight into the diversity and behavior of investors that use Municipal MMFs to help appropriately balance the relevant cost-benefit analysis.

C. Survey evidence supports the assertion that Municipal MMFs are not used solely by individual investors. To the contrary, institutional investors regularly invest in Municipal MMFs.

Dreyfus has managed, sold, and serviced institutional money market funds since the 1980s. Dreyfus Tax Exempt Cash Management, our largest institutional tax exempt money fund, was launched in 1985. We have approximately 30 years of experience with serving institutional cash management investors and we are well-versed in the type and breadth of institutions that make significant use of Municipal MMFs. Importantly, our experience tells us that a retail exception defined by accounts registered exclusively to persons with a social security number or by reference to a "natural persons" definition will not accommodate these long-time Municipal MMF investors.³

¹ See, e.g., page 36860 of the Release (Federal Register version, June 19, 2013), in which the Commission states: *"We note that most money market funds that invest in municipal securities (tax-exempt funds) are intended for retail investors, because the tax advantages of those securities are only applicable to individual investors, and accordingly, a retail exemption would likely result in most such funds seeking to qualify for the proposed exemption."*

² In this comment letter, we will assume the definition of "natural person" proposed in the October 31, 2013 comment letter filed with the Commission by Blackrock, Fidelity, et al. This letter offers no opinion on the merits of that proposal.

³ This experience also influences our view that a VNAV alternative will substantially diminish the utility of MMFs for investors. As stated in our September 17th comment letter, we expect a significant majority of investors in Dreyfus' "institutional prime" MMFs (as defined in the proposing release, including both taxable prime and tax exempt money market funds) will redeem these funds if the VNAV alternative is adopted.

Survey Evidence. We profiled the shareholder base of the five municipal MMFs comprising the Dreyfus Family of Cash Management Funds.⁴ We selected these because, as stated in each Fund's prospectus, each Fund is designed for institutional investors, particularly banks, acting for themselves or in a fiduciary capacity. The minimum initial investment in each Fund is \$10 million, unless the investor can demonstrate to Dreyfus an adequate intent or ability to reach a \$10 million account balance after opening an account. The Funds, like many competitor funds in this space, offer multiple, institutionally-priced, share classes, including a pure no-load "Institutional class" and several other classes that bear different levels of Rule 12b-1 fees. The Funds offer an exchange privilege that is limited to the other Funds and certain other institutional prime and government funds managed by Dreyfus.

Based on a review of the Funds' shareholder base as of January 31, 2014, we determined that over one-half of the assets invested in these Funds, in the aggregate, represent "institutional accounts," which we define as accounts the beneficial owners of which are corporate or other institutional entities such as a banks rather than accounts the beneficial owners of which are individuals with social security numbers or that meets a "natural persons" definition. The types of institutional investors with accounts in the Funds include some of the largest national banks as well as a range of regional banks, in which, for example corporate trust, corporate cash management, and custody assets are housed. Assets in these accounts are invested directly or by automated sweep. These shareholders also include broker-dealers of various size and geographic dispersion, insurance companies, wealth managers, registered investment companies and hedge funds, and select other such corporate/institutional entities. Importantly, for these accounts, beneficial ownership resides with the institution.

For the purpose of this survey, we classified assets as "institutional" assets only if 100% of the assets in an account were beneficially owned by the institution. We classified the remainder of the assets in these Funds as "retail." However, the beneficial owners in the accounts (which, again, included both direct and sweep investment accounts) we classified as retail are not exclusively individuals or natural persons. Rather, some of these accounts are sweep accounts registered in the name of a bank or a broker-dealer that are comprised of a mix of institutional and individual investor client assets. Based on our review of these accounts we determined that approximately 10-15% of the assets in these accounts are beneficially owned by institutions.

We believe the results of this survey demonstrate that Dreyfus and the related Dreyfus fund boards would be unable to successfully reposition the Funds to take advantage of a retail exception for the benefit of current clients. The majority of these Funds are populated with assets owned by institutional investors, not natural persons or individuals. Breaking apart the respective shareholder bases of these Funds to reposition the "retail assets" within "retail funds" would be very costly and time-consuming and, possibly, based on intermediary feedback, something that would not be pursued by Dreyfus and the Fund boards.

Industry Concentrations among Institutional and Retail Municipal MMFs. While similar information is not available generally for other funds in the Municipal MMF industry (except by reference to 5% ownership disclosure in fund statements of additional information), Dreyfus is not unique in offering Municipal MMFs to institutional investors. For example, consider that iMoneyNet, a leading provider of money market fund industry news and data, classifies over 90 Municipal MMFs (including the Funds), representing over 210 share classes, in various national and state-specific

⁴ These are Dreyfus Tax Exempt Cash Management, Dreyfus Municipal Cash Management Plus, Dreyfus New York Municipal Cash Management, Dreyfus New York AMT-Free Municipal Cash Management, and Dreyfus California AMT-Free Municipal Cash Management.

“Institutional” categories. The funds reported in these categories represent approximately \$80 billion in assets which, as we noted in our September 17th letter, constitute approximately 30% of the current Municipal MMF industry (40% prior to the 2008 financial crisis). We believe that institutions rather than individuals or natural persons beneficially own a significant, if not majority, portion of the assets invested across these funds. This is a material segment of the Municipal MMF industry and should be accounted for in the Commission’s consideration of the impact of the Proposals on Municipal MMF investors.

D. We believe other contemplated retail definitions (e.g., a daily redemption limit or a maximum account balance) would not make it any easier for institutional Municipal MMFs to qualify under a retail exception.

We do not intend for the Commission to conclude that other retail exception definitions would make it any easier for institutional Municipal MMFs to transition to a retail exception. The institutional accounts reflected in our survey reflect balances well in excess of \$1 million. These institutional investors steadfastly value liquidity and daily liquidity constraints invariably will cause these investors to move their investments elsewhere. Also, based on intermediary feedback we have received, we are convinced that most, if not all, intermediaries will convert a daily redemption limitation into a maximum account balance limitation, both for the intermediary’s administrative convenience as well as for customer relations reasons (so as not to have to reject redemption orders). Again, the account balances of institutional MMF investors, including institutional Municipal MMF investors, will well exceed any retail maximum account balance that may be established.⁵ In either case, we do not believe that these alternative solutions for defining a retail investor solve the institutional Municipal MMF investor problem any more readily.

E. Municipal MMFs Can Offer Tax and Other Advantages of Corporate/Institutional Investors.

We also note a statement in the proposing release that the tax advantages of Municipal MMFs are only available to individual investors, in support of the retail exclusion for Municipal MMFs. We do not understand this to be the case. Rather, we understand that while corporations may not enjoy the tax advantages afforded under the Internal Revenue Code to “exempt dividends” to the full degree that individuals can enjoy them, eligible corporations can benefit from a tax exemption under certain conditions (such as meeting a minimum holding period requirement). We expect that corporate shareholders have consulted tax advisers on the extent to which the dividends-received deduction may be available to them on their Municipal MMF investment.

In addition, we believe the Commission’s approach ignores the possibility for institutional investors seeking out Municipal MMFs for their absolute yields and quality portfolio securities, as an alternative to Taxable Prime MMFs and Government MMFs. Based on supply and demand factors, or diversification considerations, for example, money market fund investors may make the rationale decision to choose Municipal MMFs from the menu of MMF options available to them. Historically, from time to time, municipals have traded richly to Treasuries and offered comparable absolute yields.

⁵ In our September 17th letter, we supported establishing a retail exception to the extent a VNAV alternative was adopted (and subject to it applying to institutional taxable prime MMFs (“Taxable Prime MMFs”) only. We discussed various options and noted that, to the extent a maximum account balance requirement was established, we believed the appropriate cutoff would be \$10 million. However, even at that level, we did not believe that it would solve the issue of institutional Municipal MMF investors.

F. **We believe the Commission should recognize that Municipal MMFs do not pose systemic risk concerns and should be treated like Government MMFs.**

The Proposals put a significant amount of Municipal MMF assets, at both Dreyfus and in the industry, at risk of losing the value of a CNAV structure and therefore migrating from the industry. We strongly believe, though, that the Commission should recognize that municipal issuers and the Municipal MMF industry are different from corporate issuers and the Taxable Prime MMF industry and do not pose systemic risk concerns. As more fully described below, history provides strong evidence that (i) municipal stresses do not pose a contagion effect; (ii) the municipal market operates under different liquidity risks than the taxable prime market; and (iii) institutional Municipal MMF investors behave differently during times of market stress than institutional Taxable Prime MMF investors.

Although municipal securities obviously do not possess the same credit safety that government securities possess, historical evidence with respect to the nature of the securities in which Municipal MMFs mainly invest, together with the behavior of investors in Municipal MMFs, demonstrate, in our view, that Municipal MMFs do not pose systemic risk concerns and thus merit the same treatment under the Proposals as proposed to be afforded to Government MMFs. Municipal MMFs neither contributed to the 2008 financial crisis nor suffered the contagion effects of the various corporate failures and market illiquidity that prevailed in 2008. For this reason, we believe that treating Municipal MMFs in the same manner as Government MMFs rather than Taxable Prime MMFs under the Proposals is rational and consistent with the Commission's stated goal of narrowly tailoring the Proposals to the types of funds that demonstrated stress during the financial crisis.⁶

In addition to the several comments made in our September 17th comment letter in support of this position, we offer the following information to further emphasize and help place the survey evidence provided above in context and to demonstrate the lack of systemic impact from Municipal MMF trading activity.

Redemption Activity in September 2008. We compared net flow statistics from among the Funds and Dreyfus' largest Institutional Taxable Prime MMFs (at that time), as well as industry net flow data in these respective asset classes, and the results of these comparisons, on both an absolute and relative percentage basis, tell very different stories about run risk.

Dreyfus fund activity. For the period from September 15, 2008 through September 19, 2008 (reflecting *Lehman's bankruptcy filing date (Sept. 15)* and *Reserve Primary's failure date (Sept. 18)*), ostensibly the "core" of the MMF net redemption activity, the Funds experienced net redemptions of just over \$1 billion, or approximately 11%⁷ of the Funds' total asset base (which, at the time, was well over double the size of the total asset base in those Funds currently). Net redemption activity was almost exclusive to the national Funds; the state-specific Funds reflected less than 10% of the total net redemption activity and one of the Funds in fact experienced net inflows during this 5-day period. By comparison, the five largest institutional Taxable Prime MMFs managed by Dreyfus experienced over

⁶ In our September 17th comment letter, Dreyfus supported the Commission's proposal to exclude Government MMFs from the Structural Proposals.

⁷ We note that this rate of redemption activity generally matched the rate of redemptions experienced by many funds during the summer of 2011 when the Eurozone crisis and the first U.S. Debt Ceiling crisis prevailed. At that time, many characterized redemption activity during that period as a "walk" rather than a "run" and not of systemic concern. As the Commission is well aware, MMFs, including Municipal MMFs, performed without incident or concern during in that period.

\$43 billion in net redemptions for this same period, reflecting approximately 33% of the total assets in those five funds.

Related Industry Statistics. Net redemptions for institutional Municipal MMFs industry-wide⁸ totaled \$16.9 billion, reflecting approximately an 8% decline in total assets among institutional Municipal MMFs on a percentage basis. By comparison, net redemptions for institutional Taxable Prime MMFs industry-wide totaled \$285.8 billion on an absolute basis, reflecting approximately a 23% decline in total assets among such funds.

We believe that both the size and the rate of net redemption activity are telling to the issue of potential systemic risk. Even in the most severe systemic crisis, perhaps only since the Great Depression, Municipal MMFs redeemed at a fraction of the rate of net redemptions experienced by Taxable Prime MMFs (on an absolute dollar and percentage of industry assets basis).

G. We believe many other factors also demonstrate that Municipal MMFs do not pose systemic risk and should be treated accordingly under any proposed MMF reform.

In addition to the divergent net redemption data from 2008, many other factors, summarized below (and noted in our September 17th comment letter), also demonstrate that Municipal MMFs do not pose systemic risk.⁹

Municipal Stresses Do Not Have a Contagion Effect on Markets or the Economy. Lehman's failure demonstrated a level of "interconnectedness" and a potential contagion effect among financial institutions, but similar distress (including bankruptcies) within municipalities has never produced a similar contagion effect. In fact, there is no evidence at all that municipal market defaults and other distress events (including bankruptcies) have had a contagion effect on the markets or the economy. Rather, history demonstrates that municipal events occur idiosyncratically and have not destabilized the fund industry or the markets.

To illustrate, since 2011 eight general-purpose local governments filed for bankruptcy. In each case, municipal MMF industry assets remained stable (and in no case experienced "run risk") following public disclosure of the filing. In fact, in four of the eight cases, Municipal MMF industry assets were higher the day after the particular bankruptcy declaration. In the other four cases in which industry assets declined the following day, in no case did the decline exceed 0.4% of total assets.¹⁰

The Municipal Market is not of Systemic Size. The Municipal MMF industry is approximately 20% of the size of the prime MMF industry and approximately 10% of the total taxable MMF industry (prime + governments). We believe this is significant in terms of potential contagion effect beyond the evidence already available as to the limited potential for such contagion to exist.

An Investment Focus on Variable Rate Demand Notes (VRDNs) Enhances Organic Liquidity. VRDNs populate the substantial majority of Municipal MMF portfolios on a regular basis. The 7-day

⁸ Per iMoneyNet Reports.

⁹ We also again refer you to our September 17th comment letter for our comments on this topic.

¹⁰ Since 2011, Central Falls, RI, Boise County, ID, Jefferson County, AL, Harrisburg, PA, Stockton, CA, Mammoth Lakes, CA, San Bernadino, CA, and Detroit, MI declared bankruptcy. Total Municipal MMF industry assets were higher at the end of the business day following the Central Falls, Harrisburg, Mammoth Lakes, and San Bernadino filings. We referred to iMoneyNet total assets data around the dates of the bankruptcy filings.

tender option on these securities provides an institutionalized framework for ready market liquidity not found in the corporate market. Importantly, unlike the corporate market in 2008, the VRDN market did not lock up and become illiquid. Rather, the VRDN market continued to function normally because of the tender feature.¹¹

In addition, because of the investment focus on VRDNs, Municipal MMFs naturally maintain a higher percentage allocation to Weekly Liquid Assets (typically, 60-80%, at least). Ready liquidity is critical to managing through systemic crisis, as Rule 2a-7 and the proposing release rightly reflect. As a result, Municipal MMFs are more readily able to manage through periods of illiquidity than prime funds. These factors were responsible for net redemption activity experienced by institutional Municipal MMFs being at a fraction of the rate experienced among institutional taxable prime MMFs.¹²

Municipal Securities Pose Less Interest Rate Risk. Municipal securities generally are less interest rate sensitive than taxable securities because the value at which they trade is impacted as much by supply and demand factors as by prevailing rates. This is an important distinction, particularly given the evidence of how extendible securities that populated taxable prime funds in 2008 performed in comparison to comparable term municipals.

H. Summary.

We believe that the data available and the performance of Municipal MMFs during the 2008 financial crisis are persuasive and that the Commission has the basis to conclude that Municipal MMFs should be exempted from the Structural Proposals to the same extent as Government MMFs. Municipal MMFs are populated with institutional investors and a retail exception cannot accommodate them – and the Commission should not rely on one to preserve the CNAV structure for Municipal MMFs and their investors.

Further, Municipal MMFs did not demonstrate stress during the 2008 financial crisis. The Commission committed in the proposing release to narrowing the Proposals to the types of funds that demonstrated systemic risk concerns. We believe the Commission can conclude justifiably that Municipal MMFs should remain outside the scope of the Proposals, in order to better preserve the value of MMFs for investors – a key Commission goal stated in the proposing release.

¹¹ Please refer to our September 17th comment letter for a more complete discussion of this topic.

¹² In this regard, we would offer our portfolio management professionals to the Commission for a discussion regarding the liquidity that was available in the short-term municipal market during September 2008, to help demonstrate that the same “fire sale” conditions that prevailed in the taxable market did not permeate the municipal market.

We greatly appreciate the opportunity to comment further on the important matter of the treatment of Municipal MMFs under the Proposals and we welcome the chance to discuss our comments if you have questions or would like further dialogue on these topics. In that regard, you can reach me directly at (212) 922-6680 or, in my absence, please contact John B. Hammalian, Senior Managing Counsel, at (212) 922-6794.

Very truly yours,

J. Charles Cardona

J. Charles Cardona
President

With copies to:

The Honorable Mary Jo White, Chair
The Honorable Luis A. Aguilar, Commissioner
The Honorable Daniel M. Gallagher, Commissioner
The Honorable Kara M. Stein, Commissioner
The Honorable Michael S. Piwowar, Commissioner

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