INVESTMENT COMPANY INSTITUTE

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April 22, 2014

Ms. 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 (File No. S7-03-13)

Dear Ms. Murphy:

The Investment Company Institute[1] appreciates the opportunity to respond to the staff of the Division of Economic and Risk Analysis of the Securities and Exchange Commission regarding its analyses of certain data and academic literature related to money market fund reform.[2] As required by law, the analyses demonstrate that the SEC continues to consider available data in its decision-making process.[3] Our comments are limited to the staff's analysis of "Municipal Money Market Funds Exposure to Parents of Guarantors" and its analysis of the "Demand and Supply of Safe Assets in the Economy."

Municipal Money Market Funds Exposure to Parents of Guarantors

Money market funds generally must limit their exposure to any one provider of guarantees or conditional demand features ("credit support provider") for portfolio securities to 10 percent of total

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[1] The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of $16.8 trillion and serve over 90 million shareholders.

[2] *See* SEC Press Release 2014-56, Staff Analysis of Data and Academic Literature Related to Money Market Fund Reform (March 24, 2014), available at http://www.sec.gov/News/PressRelease/Detail/PressRelease/1370541253716. The staff has indicated its belief that the analyses have the potential to be informative for "evaluating final rule amendments for the regulation of money market funds." In June 2013, the SEC proposed amendments to rules under the Investment Company Act of 1940 and related requirements that govern money market funds. *See Money Market Fund Reform; Amendments to Form PF*, SEC Release No. IC-30551 (June 5, 2013), 78 FR 36834 (June 19. 2013) ("SEC proposal"), available at http://www.sec.gov/rules/proposed/2013/33-9408.pdf.

[3] When the SEC engages in rulemaking, it is required to consider "in addition to the protection of investors, whether [the rule proposal] will promote efficiency, competition, and capital formation." *See* Section 2(c) of the Investment Company Act. In considering these factors, the SEC is obliged to "determine as best it can the economic implications of the rule it has proposed." *See Chamber of Commerce v. Securities and Exchange Commission*, 412 F.3d 133, 143 (June 21, 2005).

assets; however, 25 percent of a fund's total assets may exceed the 10 percent limit under certain circumstances ("25 percent basket").[4] Under the SEC proposal, the 25 percent basket would be eliminated and the fund would be prohibited from acquiring any security that would result in its exposure to a credit support provider exceeding 10 percent of the fund's total assets. The SEC explained that the proposal is designed to limit the extent to which a money market fund becomes exposed to a single guarantee or demand feature provider.

The staff's analysis examined the extent to which money market funds use the 25 percent basket. Specifically, the staff collected information from Form N-MFP submissions between November 2010 and November 2012 for all money market funds. They then used this data to determine, among other things, the exposure of funds for which guarantors compose more than 10 percent, 15 percent, and 20 percent of their portfolios; the dollar value of that exposure; the frequency that a fund appears above these three thresholds during the 24 month sample period; and the average industry exposure to the top 20 guarantors.

Based on this analysis, the staff found that although funds are exposed to guarantors above the 10 percent threshold on a regular basis, they are far less likely to be exposed to guarantors above the 15 or 20 percent thresholds. The staff concluded therefore that few funds make full use of the 25 percent basket. The analysis, however, does not appear to combine the holdings of guarantors in any one fund. Indeed, as a technical point, the 25 percent basket can be used for exposure to more than one entity. For example, a fund could make full use of the 25 percent basket by having 13 percent of its total assets exposed to one credit support provider and 12 percent exposed to another. This flexibility is particularly important for some single state funds that may have a more limited number of credit support providers available for their state-specific securities. The 25 percent bucket also provides a fund adviser with the ability to eliminate its exposure to a provider whose credit quality has declined (or otherwise no longer meets the fund's minimal credit risk requirement) by allocating more than 10 percent to two other providers.

We therefore caution the SEC that it should not interpret the staff's analysis as a basis for eliminating the 25 percent basket. If the SEC remains concerned about the extent to which a money market fund can be exposed to a single credit support provider, we urge the SEC instead to consider adding limitations on individual providers within the 25 percent basket (*e.g.*, a 15 percent limitation on exposure to any one provider within the 25 percent basket).

Demand and Supply of Safe Assets in the Economy

The staff also reviewed recent evidence on the availability of domestic government securities and global "safe assets" to assist the SEC in the development of final rules regarding money market fund reform that could possibly increase the demand for these assets. Citing data from the International

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[4] The 25 percent basket is limited to first tier demand feature or guarantee providers that are non-control entities of the issuer of the security. "Exposure" to a provider includes its direct obligations, as well as the securities it supports through guarantees or conditional demand features.

Monetary Fund, the staff noted that the global market for safe assets is estimated to be $74 trillion. It then concluded that given the size of the global safe assets market, the staff does not anticipate a supply problem if the SEC's final rules regarding money market funds causes an increase in demand for government securities. The global market for safe assets, however, does not represent the universe of eligible safe assets for U.S. money market funds. Rather, U.S. money market funds are generally limited to high-quality U.S. dollar-denominated securities of short duration (*e.g.*, with a remaining maturity of less than 397 calendar days). U.S. government money market funds have an even more limited supply of assets to draw upon. Those supply constraints were evident in the market during the fall of 2008, even though the U.S. Treasury temporarily increased the number and size of its bill auctions as part of the Supplementary Financing Program.

The amount of the global market for safe assets therefore is not relevant to the question of whether the supply of U.S. government securities will satisfy the demand should the SEC's final money market fund rules cause an increase in demand for these securities. A better measure of the supply of assets available to meet any increased demand for government securities would be the amount of U.S. Treasury and agency securities with maturities of less than one year and repurchase agreements backed by government securities. As of March 2014, there was about $4 trillion of outstanding U.S. Treasury and agency securities with maturities of less than one-year and another $1.2 trillion in tri-party repo backed by Treasury, agency, and agency mortgage-backed securities.

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We look forward to working with the SEC as it continues to examine these critical issues. In the meantime, if you have any questions, please feel free to contact me directly at (202) 326-5917 or Jane Heinrichs, Senior Associate Counsel, at (202) 371-5410.

Sincerely,

/s/ Brian Reid

Brian Reid
Chief Economist

cc: The Honorable Mary Jo White
The Honorable Luis A. Aguilar
The Honorable Daniel M. Gallagher
The Honorable Kara M. Stein
The Honorable Michael S. Piwowar

Norm Champ, Director
Division of Investment Management
Securities and Exchange Commission