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April 23, 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:

We are writing to comment on the “Staff Analysis of Data and Academic Literature Related to Money Market Fund Reform” released on March 24, 2014 (the “Release”). The analyses in the Release were conducted by the staff of the Division of Economic and Risk Analysis (“DERA”) of the Securities and Exchange Commission (the “Commission”). Invesco Ltd. is a leading independent global investment management firm, with approximately \$787.3 billion in assets as of March 31, 2014. Invesco Advisers, Inc. (“Invesco”), along with its affiliates, has managed and advised money market mutual funds (“MMFs”) and other cash investment vehicles for over 30 years. As of March 31, 2014, Invesco had \$60.7 billion in assets under management in its 12 registered MMFs. Invesco has previously submitted a letter dated September 17, 2013 (the “Invesco Letter”), commenting on the Commission’s proposed amendments to Form PF.

I. Demand and Supply of Safe Assets in the Economy/Government Money Market Exposure to Non-Government Securities

DERA’s analysis of safe assets is intended to provide support for the concept that due to the large size of the global market for safe assets, there will not be a supply problem if the Commission’s final MMF rules cause an increase in demand for these assets. “Safe assets” are defined as debt assets that promise a fixed amount of money in the future with virtually no default risk and are considered to be information insensitive by investors.¹ The Release states that there are an estimated \$74 trillion in safe assets globally as of April 2012, citing a report from the International Monetary Fund (“IMF”).² The primary categories of safe assets cited include AAA-rated and AA-rated OECD government securities, securitized instruments (including mortgage-backed and other asset-backed securities), corporate debt and gold. The Release states that the quantity of safe assets available also depends on their availability for re-use in the financial markets.³ We believe that this discussion regarding global safe assets is not directly relevant to Government and Treasury MMFs operating in compliance with Rule 2a-7 of the 1940 Act, as amended (“Rule 2a-7”), because most of the “safe assets” are not eligible investments for these funds. The table below shows a breakdown of the safe assets listed in the IMF report and which are eligible in Government and Treasury MMFs.

¹ Release, “Demand and Supply of Safe Assets in the Economy,” p. 1.

² *id.*, p. 3.

³ *id.*

Global Safe Assets and Government and Treasury MMF Eligibility⁴

<i>(in trillions US\$)</i>	12/31/2011	2a-7 Govt/Treasury MMF Eligible?
OECD securities (AAA/AA)	33	Yes (US Treasuries <397 days maturity) ~\$1.5 trillion
OECD securities (A/BBB)	5	No
Securitized instruments (ABS & MBS)	13	No
IG Corporate debt	8	No
Gold	8	No
Supranational & Covered bonds	4	No
US Agency debt	3	Yes (<397 days maturity) ~\$0.5 trillion
Total	\$74 trillion US	~\$2 trillion US--Eligible

The Commission has proposed to exempt Government MMFs from a floating net asset value (“NAV”) requirement and redemption fees and gates. If those provisions were to be adopted, current Prime MMF investors may shift their investments to Government and Treasury MMFs, thereby raising the demand for domestic government securities and safe assets. It is difficult to estimate the amount of money that might shift from Prime MMFs into Government and Treasury MMFs. Assuming that 20% of the assets under management (“AUM”) in Prime MMFs migrated to Government and Treasury MMFs, the total of safe assets required would be approximately \$290 billion. This amount, combined with the existing outstanding AUM for Government and Treasury MMFs (approximately \$918 billion), would total \$1.2 trillion. The \$1.2 trillion would absorb 60% of the approximately \$2 trillion total outstanding 2a-7 Government and Treasury MMFs’ eligible securities. Importantly, this does not consider the other investors demanding these securities, including but not limited to, banks, insurance companies and pension funds.⁵

The Release indicates that demand will increase for safe assets as supply diminishes due to increased regulatory demands and “silo-ing” of safe assets.⁶ On a global scale, regulators are requiring banks to hold greater levels of “high-quality liquid assets” which further increases the demand for US treasuries and government securities, which are some of the most liquid securities available. This demand would escalate in distressed market conditions as investors seek investments considered to be “safe havens,” including US treasuries and government securities.

The combination of limited supply and increased demand for these securities has potential negative ramifications and could push government securities’ yields down dramatically to zero (and possibly even into negative yields) in secondary markets, even when short-term interest rates begin to rise. In addition, if Government MMFs are the only stable NAV MMFs remaining, then these funds, which have traditionally been quite stable, will become far more volatile since they will be the sole MMF option for institutional cash management needs.

⁴ See International Monetary Fund, April 2012, Global Financial Stability Report: The Quest for Lasting Stability, Washington D.C., p. 89.

⁵ “Banks, for one, will be required to carry additional liquid assets. As part of the Basel III bank regulatory requirements, banks will be required to hold a greater amount of high-quality liquid assets (“HQLA”) as part of the Liquidity Coverage Ratio (“LCR”). The objective of the LCR is to promote the short-term resilience of the liquidity risk profile of banks. It does this by ensuring that banks have an adequate stock of unencumbered HQLA that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario.” (Bank for International Settlements, ‘Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools’, January 2013, p. 1). US treasuries qualify as eligible HQLA securities since they are “...marketable securities representing claims on or guaranteed by sovereigns...” (id. p. 12).

⁶ Release, “Demand and Supply of Safe Assets in the Economy,” p. 4.

The Release also mentions the fact that currently, Government MMFs may invest up to 20 percent of their portfolios in non-government securities and that the staff does not anticipate that lowering the current 20 percent threshold would impose heavy rebalancing costs on MMFs.⁷ Invesco believes that the Release failed to consider critical information related to the constraints on MMFs and the increased issuance required by the US Treasury to offset these constraints. For example, in December 2008, during the height of the financial crisis, at least four large MMF complexes (consisting of nine large Government and Treasury MMFs), closed their funds to new subscriptions. Collectively, these funds represented a third (33.7%) of the \$675 billion held in Government and Treasury MMFs as of December 31, 2008. The following increased Treasury issuances (MMF eligible) took place during the relevant time period:⁸

- Average monthly Treasury bill issuance for the period Jan. 2008-Aug. 2008 was \$374 billion; this amount was increased to \$658 billion for the period Sep. 2008-Dec. 2008.
- Total Treasury bill issuance for 2008 was \$5.6 trillion, and \$2.6 trillion (46%) of that amount was issued during the period Sep. 2008-Dec. 2008 (crisis period).
- Total Treasury bill issuance for 2007 was only \$3.7 trillion.

Considering that the crisis period was a temporary situation, a *permanent* shift of a significant portion of assets from Prime MMFs into Government and Treasury MMFs would cause greater constraints on the system and a substantial increase in the demand for safe assets. The Commission should consider that while these MMFs have historically not had to use their full 20 percent capacity for non-government securities, the utilization of non-government securities could certainly increase; this warrants consideration of the 20 percent threshold.

II. Liquidity Cost During Crisis Periods

DERA has prepared an analysis of the spread between same-day buy and sell transaction prices (“spread”) for Tier 1 and Tier 2 securities during the period starting January 2, 2008 and ending December 31, 2009. This analysis is intended to assist the Commission in the development of final MMF rules, particularly the inclusion of liquidity fees. As we previously stated in the Invesco Letter, the amount of any liquidity fee should be carefully calibrated in relation to a MMF’s actual cost of liquidity. The fees should be restorative, not punitive, and designed to deter early redemptions.⁹

In 2013, the majority of MMF holdings (67%) were in financial assets, namely Certificates of Deposit, Financial Company Commercial Paper, VRDOs, Treasury Debt, Treasury Repurchase Agreements, and Government Agency Debt that are generally considered liquid. The Commission acknowledges that its primary source of data, TRACE (Trade Reporting and Compliance Engine) did not cover many of these types of instruments in 2008 and 2009.¹⁰ Further, DERA correctly states that money market instruments, sovereign debt, and debt securities that have a maturity of less than two years at issuance are not reported in TRACE and hence the sample differs from what MMFs actually hold. Nevertheless, the samples DERA constructed from TRACE provide estimates for costs of liquidity during market stress since the selected securities have similar time-to-maturity and credit risk characteristics as those permitted under Rule 2a-7.

The sample trades include the following:

- Trades of bonds with fewer than 120 days to maturity;
- Trade size of at least \$100,000; and
- The average days to maturity for Tier 1 securities in the sample is 67 days, which roughly reflects the 60-day weighted average maturity limit specified in Rule 2a-7

⁷ Release, “Demand and Supply of Safe Assets in the Economy,” p. 7.

⁸ Source: SIFMA.

⁹ Invesco Letter, p.12.

¹⁰ Release, “Liquidity Cost During Crisis Periods,” p. 1-2.

We believe that the data and methodology lack sufficient clarity and transparency and fail to thoroughly detail areas where the analysis could yield different results. We have strong reservations with the rationale as the sample data has multiple inconsistencies, including: (1) the sample of trades of bonds with fewer than 120 days to maturity is underinclusive; (2) the sample of trades with a size of at least \$100,000 is overinclusive; and (3) certain other parameters utilized in the analysis do not match those set forth in Rule 2a-7.

- 1. Trades of bonds with fewer than 120 days to maturity.** The analysis does not make clear why DERA chose to limit the trades in the sample to securities less than 120 days to maturity to represent the market. The analysis states that the samples were selected securities that have similar time-to-maturity and credit risk characteristics as those permitted under Rule 2a-7. MMFs have the capacity to invest and trade in securities with maturities of up to 397 days. Based on information from Crane Data as of March 31, 2104, 21% of the money market portfolios are held in securities that have maturities greater than 120 days. With little guidance provided by DERA as to the rationale for the limited maturity parameters, the parameters appear arbitrary and make it difficult to support the conclusions.
- 2. Trade size of at least \$100,000.** In stark contrast to the 120-day maturity constraints, DERA included almost every size trade in the sample for the analysis. Taking an average of the positions from Crane Data, the average trade size in 2a-7 MMFs is approximately \$50 million. More importantly, the analysis fails to mention the *average* trade size used in their sample and whether it is comparable to MMF trades in order to give an accurate reflection of the true market.
- 3. The average days to maturity for Tier 1 securities in the sample is 67 days, which roughly reflects the 60-day weighted average maturity limit specified in Rule 2a-7.** The analysis states that the sample reflects characteristics as those permitted under Rule 2a-7. It seems impracticable to use a weighted average maturity of 67 days when the limitation permitted under Rule 2a-7 is 60 days. Ideally the analysis would have included a sample that reflected weighted average maturities for both pre-crisis and post-crisis, which according to iMoneyNet weekly data were 46 and 50 days, respectively.
- 4. Omission of the impact of security types in the analysis.** The analysis considers the spread between same-day buy and sell transaction prices independent of the security type in which they are issued. Commercial Paper represents approximately 25% of the security types held in MMFs as of March 31, 2104. Moody's has commented that while their long-term debt default research indicates that senior unsecured bond investors can expect to recover about 37% of the principal of a defaulted bond, the recovery experience of many CP investors has been much better.¹¹

Invesco appreciates the opportunity to comment on the analyses prepared by the Commission as you continue to work toward meaningful MMF reform.

Yours Sincerely,



Lu Ann S. Katz
Head of Global Liquidity

¹¹ Moody's, "Default and Recovery Rates of Corporate Commercial Paper Issuers, 1972-2009."