United States Senate

WASHINGTON, DC 20510

July 15, 2014

The Honorable Jacob J. Lew
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Lew:

We write regarding the potential tax consequences associated with proposed regulatory changes by the Securities and Exchange Commission (SEC) for certain money market mutual funds. We understand that the Treasury Department is currently working with the SEC to review and address the potential impact that the interaction between these proposed changes and tax law requirements could have on investors' cash management capabilities, investor costs, and businesses' and municipalities' ability to raise capital, in addition to financial stability questions already under consideration.

Money market mutual funds hold approximately $2.6 trillion in assets from nearly 60 million investors. Many investors use money market mutual funds as a significant cash management tool, and the funds, in turn, provide an important source of credit to American businesses and municipalities.

As you are aware, the SEC's proposal considers a requirement for certain money market mutual funds to adopt a floating net asset value ("NAV"). (Proposed Rule on Money Market Fund Reform; Amendments to Form PF; File No. S7-03-13 (the "Release").) In addition to questions being considered by the SEC regarding this proposal's impact on financial stability, we have heard concerns that, under current law, the tax recordkeeping costs of a floating NAV could deter investors from using institutional money market mutual funds for cash management, which could increase investors' cash management costs. Because money market mutual funds serve as a significant source of capital for businesses and communities, these consequences also raise the possibility of introducing new costs and disruptions into the flow of many billions of dollars of short-term financing.

Based on the Release, we understand that the Treasury Department is considering ways to address the tax compliance consequences associated with the SEC's floating NAV proposal. Concerns have been raised, however, that simplifying the tax reporting applicable to money market mutual fund shares or creating a safe harbor relating to the application of wash sale rules (as proposed in Notice 2013-48), while potentially helpful to investors, might not sufficiently remedy the tax compliance consequences that could result. For example, investors could still be deterred from investing in or using money market mutual funds for cash management if they must calculate and track the small capital gains and losses resulting from frequent transactions in a fund or determine on a continuing basis whether they would fall within the safe harbor in the Notice.

As Treasury considers various options, we ask that the Department take into account not only the potential benefits of simplifying the tax reporting applicable to money market mutual fund shares, but also the possible recordkeeping and transactional tracking burdens that could result, including considering whether such potential burdens could have material or significant consequences for investors or the economy. We also ask that Treasury, as appropriate, coordinate with the SEC to provide sufficient opportunity for public input on potential tax changes.

Given the important role of money market mutual funds as savings and cash management vehicles for investors and as a source of critical financing for businesses and municipalities, we urge Treasury to work to address the potential tax consequences of the SEC's proposal. By providing clear guidance, Treasury will also help to better inform the SEC's consideration of its proposed rules and provide potentially affected stakeholders with a clearer view of the impacts.

We appreciate your attention to this important matter and your prompt response.

Sincerely,

Robert Menendez
U.S. Senator

Mark R Warner

Mark Warner
U.S. Senator