Goldman Sachs Asset Management

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July 21, 2014

Mr. Kevin M. O'Neill
Deputy 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 Mr. O'Neill:

Goldman Sachs Asset Management, L.P. ("GSAM") submits this comment letter to supplement our comment letter of September 17, 2013 on the proposed amendments issued by the Securities and Exchange Commission (the "Commission") to Rule 2a-7 under the Investment Company Act of 1940, as amended (the "Investment Company Act"), and other rules that govern money market funds ("money funds"), as set forth in Release No. IC-30551 (the "Proposing Release").

We note that the Commission has posted a notice that it will hold an open meeting to consider whether to adopt amendments to certain rules that govern money funds. In light of recent press reports that the Commission will be considering a rule that will require certain money market funds to adopt both a floating net asset value ("NAV") and standby liquidity fees and gates, we want to take this opportunity to again express our concerns that these proposed regulatory changes could severely harm the economic viability of those money funds and potentially have a destabilizing effect on the short-term credit markets.

In this letter we discuss four significant concerns for the Commission's consideration. We have developed our comments on these matters from our earlier letter in light of subsequent developments and commentary on the rulemaking. Other matters we addressed in detail in our September 17, 2013 letter.

1. Floating Net Asset Value

We continue to be skeptical that requiring money funds to move to a floating NAV will diminish risk of investor runs on money funds. The relative stability of interest rates, at least in the current and foreseeable economic environments, will not result in making "gains and losses a more regular and observable occurrence" as the Commission anticipates and thus will be unlikely to alter investor expectations of safety. Moreover, an investor's ability to profitably arbitrage the spread between a money fund's share price and NAV is only one potential incentive to redeem shares in a time of market stress. As we discuss in more detail below, we believe that early redeemers are much more concerned with avoiding a potential loss of liquidity of their investments in the fund, a concern that a floating NAV would not fully address and which the potential of the fund imposing a gate would exacerbate.

Nonetheless, assuming that necessary changes can be made to the tax laws, we believe that the money fund industry and our investors will be able to adapt to a floating NAV, as long as this proposal is not combined with liquidity fees and gates. But the tax concerns are not trivial. As detailed in some of the other comments the Commission has received, the problem is not the payment by investors of any tax (which is addressed by a proposed revenue procedure), but the requirement to track gains and losses (which is not).[1] Investors are unlikely to invest in a cash vehicle that comes with significant collateral costs and tax complications.

2. Treatment of Retail Money Funds

We believe that a distinction between "retail" money funds such as the one the Commission proposed will not contribute to the Commission's goal of making money funds less susceptible to runs during times of market stress. The next money fund to "break the buck" may well be a "retail fund," whose investors may today be more prone to redeem quickly than they were in 2008 because, among other things, they will have significantly more information about the fund's portfolio and the experience of 2008. If the floating NAV does yield the benefits its proponents argue and a future run is limited to retail funds maintaining a stable NAV, the Commission may someday have the difficult task of explaining why it chose not to extend those benefits to funds that cater to the needs of retail investors.

In our September 17, 2013 letter, we expressed concern about the incentives a retail fund exemption might provide for institutional investors to game the restrictions by breaking up their investments into smaller amounts across multiple accounts so that they will continue to be able to redeem the entire amount of the value of their investments. The proposed solution offered by some of the retail fund groups, which would require each account investing in a fund to be associated with a Social Security number, only partially addresses our concerns. It would still appear to permit, for example, sweep accounts or retirement accounts controlled by a single broker-dealer, adviser or bank to invest in a retail fund, even though the broker-dealer, adviser or bank would have the authority to redeem all of the account shares in a moment's notice, i.e., the broker-dealer, adviser or bank would be able to behave just as institutional investors behaved in 2008 and indeed may have an obligation to do so. The broker-dealer, adviser or bank would continue to have every incentive to redeem to avoid the reputational and financial costs experienced by some prominent broker-dealers in 2008. The retail fund groups' proposal would address only one of the problems we and others have identified with a retail fund exemption, thus leaving retail funds and investors exposed.

3. Liquidity Fees and Gates

We agree with Commissioner Stein's observation in a recent speech that the Commission should be very confident about whether liquidity fees and gates might cause or exacerbate the next money fund crisis before moving forward with that option.

The conclusions of the study on the fees and gates proposals published by the staff of the Federal Reserve Board[2] ring true to us; they are similar to those that we offered in our September 17, 2013 comment letter. To avoid payment of a fee or loss of liquidity of their investment as a result of a gate, investors can be expected to redeem shares of a money fund at the first sign of loss of liquidity regardless of whether there are any problems with the fund's portfolio securities. These early redeemers may force the money fund to impose liquidity fees and ultimately to suspend redemptions, even in circumstances where there are no problems with the fund's portfolio securities. The fund's troubles will have arisen not

[1] *Application of Wash Rules to Money Market Fund Shares*, Internal Revenue Service Notice 2013-48 at 1 (proposed July 3, 2013).

[2] Marco Cipriani, et al., *Gates, Fees, and Preemptive Runs*, Federal Reserve Bank of New York Staff Report No. 670 (Apr. 2014), available at http://www.ny.frb.org/research/staff_reports/sr670.pdf.

as a result of a credit event but by operation of the Commission's rules designed to make money funds more resilient to market stresses.

The news that one money fund has imposed a liquidity fee or gate could lead investors in other money funds to submit redemption requests, concerned that their fund will be next. Moreover, investors denied access to their cash in one fund will likely meet their liquidity needs by redeeming from other money funds at an accelerated rate. Sales by money funds to meet redemptions will place downward pricing pressures on short-term markets, threatening the ability of money funds to maintain a stable NAV. These dynamics may lead to the very contagion the Commission seeks to prevent.

The Commission should also be concerned with another unintended consequence of fees and gates. The ability to stop redemptions may lead to greater risk-taking by some money fund managers seeking to boost yield, confident that they now have a tool to contain the consequences of their excesses. Indeed, such risk-taking may have been involved in the run on the money fund that began the events of 2008. Imprudent use of liquidity fees and gates by a few money funds would hurt their investors, who would lose access to their money, and damage other money funds and their investors, who would bear the cost of the resulting investor confusion and fear. There is wisdom in the current rule, which prevents this behavior by requiring a fund that suspends redemptions to then liquidate, assuring that investors will be denied access to their funds only when the fund managers have exhausted all other options.

We believe the discussion among commenters about the appropriate amount of the liquidity fee, prompted by a staff paper posted to the Commission's web site, misses the mark. Once a money fund has imposed a liquidity fee, the primary consideration for investors in deciding whether to redeem is not likely to be the amount of the fee, but rather the looming possibility that their money will be locked up by the imposition of a gate. For the many institutional investors who use money funds as transactional rather than savings vehicles, loss of liquidity would have economic consequences far greater than a loss of a penny or two per share.

Presumptions by investors that a liquidity fee likely will be followed by a gate would not be misplaced. Once a liquidity fee is imposed, new investment is likely to cease almost immediately. This will further exacerbate liquidity shortfalls, driving the fund ultimately to impose a gate in order to stop the hemorrhaging.

4. Combining Floating NAV, Liquidity Fees and Gates

We are most concerned that the Commission appears to be moving forward with an approach that would both require certain money funds to adopt a floating NAV and require money funds in certain circumstances to impose liquidity fees and consider imposing gates. In our view, combining the two alternatives will significantly impair the utility of money funds for most investors by removing both the price stability and promise of liquidity that continue to make money funds attractive investments for millions of investors despite the paltry yields those funds are now paying.

We do not believe that the combination of the two alternatives will solve the problems identified by the Commission in the Proposing Release. If the utility of registered money funds is sufficiently impaired, unregistered alternatives will become more attractive to many investors. Many of our institutional investors may be drawn to private liquidity funds and other investment alternatives outside the Commission's regulatory reach and its ability to protect investors or the financial system. These investment alternatives invest in the same types of securities as registered money funds, but lack the protections of Rule 2a-7, Commission oversight and the transparency that the Commission seeks to provide money fund investors. Instability in these types of funds resulting in widespread redemptions will affect the short-term debt markets in the same ways that instability in registered money funds will.

By driving large numbers of institutional investors (who were the early redeemers in 2008) into unregistered products, the Commission may undermine its own efforts to address the systemic weaknesses made apparent in the fall of 2008.

The Commission should not mistake our deep concerns regarding a combination of a floating NAV and the imposition of liquidity fees and gates with our desire to protect our own business interests. The concerns we have expressed in this letter and our letter of September 17, 2013 reflect our significant experience in these markets and our considered judgments regarding how investors are likely to respond to changes in the money fund model, as well as our recognition of the benefits of registration under the Investment Company Act. We are hopeful that the Commissioners, in their desire to improve the stability of short term credit markets and achieve the optimal result for investors, firms and governments that rely on money market funds for their funding will carefully consider the potential unintended consequences.

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In closing, we appreciate the willingness of the Commission and the staff to continue to engage with market participants on issues affecting money funds. We would be pleased to discuss any of our comments with any of the commissioners or their staff at their convenience.

Sincerely,

/s/ James A. McNamara
James A. McNamara
Managing Director
President, Goldman Sachs Mutual Funds

/s/ David Fishman
David Fishman
Managing Director
Co-Head of Global Liquidity Management,
Goldman Sachs Asset Management

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