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August 28, 2013

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
Release No. IC-30551; File No. S7-03-13

Dear Ms. Murphy:

Chapin Davis, Inc.is pleased to submit these comments on the proposed rulemaking notice of the Securities and Exchange Commission (the "Commission") on Money Market Fund Reform ("Proposed MMF Amendments").[1]

Chapin Davis, Inc.is registered with the Commission as a securities broker-dealer, and is a member firm of FINRA. We have found that MMFs are highly efficient short-term investments and cash management vehicles for our brokerage clients. We are therefore concerned that certain of the changes proposed by the Commission will make MMFs less useful to us and to our clients, and that the proposed new rules will raise the cost, reduce the availability and lower the efficiency of MMFs.

We believe that the 2010 amendments to Rule 2a-7 are working. The November 2012 SEC Staff analysis prepared in response to questions from Commissioners Aguilar, Gallagher and Paredes demonstrates this conclusion, documenting dramatically enhanced MMF liquidity and a substantial decrease in the likelihood of a MMF breaking a dollar. It is not clear at this time that any additional changes to MMF regulation are warranted. We have serious concerns that the proposed reforms would have far-reaching adverse consequences not only for MMFs, but also for our clients and the countless other businesses that have come to rely on MMFs as central to their cash management activities. Respectfully, we urge the Commission to refrain from implementing fundamental changes to the regulation of MMFs at this time. If, however, the Commission believes it must adopt one of the alternatives presented in the proposal, we believe Alternative 2 would do less damage to MMFs as a cash management tool and has the potential to be more effective in protecting investors if a situation arises in which there is extraordinary redemption pressure on a MMF.

Alternative 1 of the proposal would require the use of a variable net asset value ("VNAV") for all MMFs other than government MMFs and retail MMFs, and ban the use of

[1] SEC Rel. No. IC-30551, File No. S7-03-13 RIN 3235-AK61, 78 Fed. Reg. 36834 (June 19, 2013).

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amortized cost accounting for other MMFs, which could use penny rounding after pricing the portfolio. Alternative 2 would impose a 2% redemption fee on MMFs if weekly portfolio liquidity drops below 15% of assets, unless a MMF board determined that the fee was not in the best interest of the fund. It also would allow a MMF board to temporarily gate redemptions for up to 30 days if weekly portfolio liquidity drops below 15% of assets. The Proposed MMF Amendments would also increase MMF disclosure and reporting requirements. The Commission states that it may adopt either Alternative 1 or Alternative 2, or may adopt both Alternative 1 and Alternative 2.

Chapin Davis, Inc. urges the Commission not to adopt Alternative 1. Chapin Davis, Inc. believes that VNAV will not achieve the objective of reducing "runs" on MMFs, and will destroy the usefulness of prime institutional MMFs to our clients. The current very high portfolio liquidity of MMFs, together with credit quality and transparency, address the "run" issue. To the extent anything more is needed to stop a run, the "gating" authority for MMF boards contained in Alternative 2 fully addresses any remaining reform needs. We also have serious concerns that the distinction between "retail" and "institutional" MMFs in the proposed rule will not be possible to implement without causing significant dislocations to our clients. As a practical matter, we anticipate that using an approach as described in the Release to allow a MMF to look through brokers and other intermediaries to each ultimately beneficial owner of shares to determine the $1 million daily redemption limit per shareholder will be far more difficult to implement than anticipated by the Release.

The stated purposes behind Alternative 1 for imposing VNAV on prime institutional MMFs are to: (i) reduce widespread "run" redemptions by shareholders in a crisis; and (ii) to educate MMF shareholders of the risk in MMFs. The Commission recognizes, however, that the use of VNAV will not really deter or eliminate runs.[2] Indeed, neither the FSOC, the Federal Reserve,[3] nor any credible commentator believes that use of VNAV will deter or eliminate runs in a crisis.[4] So the Commission's first stated purpose is not met by Alternative 1. In view of the very extensive and prominent prospectus disclosures of the risk that a MMF can "break a buck" (not to mention the extensive discussion of the issue in the press and regulatory commentary),

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[2] Report by the Division of Risk, Strategy, and Financial Innovation, *Response to Questions Posed by Commissioners Aguilar, Paredes, and Gallagher*, (November 30, 2012).

[3] FSOC, *Proposed Recommendations Regarding Money Market Mutual Fund Reform*, 77 FR 69455 (November 19, 2012), p. 69467; McCabe, et al., Federal Reserve Bank of New York Staff Study No. 564: *Minimum Balance at Risk: Proposal to Mitigate the Systemic Risks Posed by Money Market Funds*, pp. 6, 54 (July 2012).

[4] Hal Scott, *Interconnectedness and Contagion*, Committee on Capital Markets Regulation, 224 (November 20, 2012) ("[F]loating NAV does not address the risk of contagion among MMMF investors."); Professors D. Blackwell, K. Troske, and D. Winters, *Money Market Funds Since the 2010 Regulatory Reforms: More Liquidity, Increased Transparency, and Lower Credit Risk* (Fall 2012).

the many surveys and testimony documenting that investors understand this risk,[5] and the fact that institutional investors clearly can grasp this issue, the second stated purpose behind Alternative 1 does not warrant the tremendous costs and disruption that the VNAV proposal would bring about. Investors already know that MMF shares can lose value, and institutional shareholders know this fact better than anyone. Imposing Alternative 1 therefore provides no real benefit to investors, markets or the economy.

Alternative 2, because its restrictions will apply only when needed – on the very rare occasion when 7-day liquidity drops below a threshold amount, has the benefit of preserving the essential characteristics of MMFs, while also giving MMF boards the tools to stop a run if necessary. This back-stop, combined with the very large increase in liquidity driven by the 2010 amendments to rule 2a-7, fully addresses run risk, while preserving the core functionality of MMFs of a stable $1/share price and prompt intra-day processing of transactions.

MMFs are used in connection with several different brokerage account functions. Processing and accounting for each of these functions on our systems is made efficient by the stable $1/share pricing and prompt, frequent intra-day settlement features currently available with MMFs. These include sweeps into MMFs of customer brokerage cash balances from new cash, sales of securities and receipts of dividends, and sweeps from MMFs to pay for purchases of securities in the customer brokerage accounts. Before the invention of MMFs, these balances were held as "free credit balance" obligations of the broker-dealer at no interest. MMF sweeps allow our customers to earn interest and protect the customer against our credit risk.

In addition, many of our customers have linked their brokerage accounts to bill-payer systems, debit cards and checking features made available through banks. Cash needed to fund these payments is made available by redemption of shares of MMFs held in the brokerage account, and then routed through the linked bank. Prompt same-day settlement on a frequent intra-day basis is required to process these payments without exposing the client, the bank or the brokerage firm to material counterparty risk.

Two features of MMFs make them ideally suited for holding short-term liquidity: (1) a stable $1 NAV throughout the course of the day, which creates the predictability of value necessary for the use of MMFs in settling payment obligations; (2) frequent, prompt intra-day processing and settlement of purchase and redemption orders, which is only possible because of a stable $1 NAV and the use of amortized cost accounting to determine portfolio values.

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[5] *See* Letter from Fidelity Investments to SEC (February 3, 2012) (describing results of surveys of retail and institutional investors); Letter from National Association of State and Local Treasurers to SEC (December 21, 2010); Testimony of Maryland State Treasurer Nancy Kopp Before the Subcommittee on Capital Markets and Government Sponsored Enterprises of the House Committee on Financial Services (Apr. 25, 2012) (webcast archive: http://financialservices.house.gov/Calendar/EventSingle.aspx?EventID=290689).

Yet these are the very features of MMFs that would be directly undermined by the proposed reforms. A floating NAV would preclude same-day settlement, because the precise value of a fixed number of MMFs shares would not be known until prices are determined at market close. We, and our customers, rely on the same-day settlement capability of MMFs. Our payment processing technology and accounting systems also depend on a stable $1 NAV and same-day settlement capability in order to seamlessly integrate MMFs into established payment and settlement processes. The software systems we use are not currently equipped to process MMFs with a continuously floating NAV.

The accounting and recordkeeping systems that we use to process these transfers and payments are highly automated, and link together with automated systems of banks and the MMFs' transfer agents. It would be very expensive (and potentially not economically viable) to rebuild our automated systems to process these transfers and payments at other than $1/share. Due to the large volume of transactions and the need to coordinate the timing of the MMF share purchase and redemption with the offsetting cash payment transaction, these transactions must be processed quickly throughout the day. Any changes to MMF valuation, pricing, or processing times that would delay or interfere with the processing of transactions would greatly reduce the usefulness of MMFs for these functions.

Even if we spend the extraordinary amount of time, money and resources to reconfigure or systems, the processing of MMF share transactions to meet the needs of these brokerage account features would still be compromised if Alternative 1 were adopted. VNAV MMFs would not maintain a stable $1/share NAV and would be difficult to settle on a same day basis with the same flexibility as current MMFs. In addition, prohibiting use of amortized cost accounting for government MMFs and retail MMFs that maintain a stable NAV would greatly complicate the process of establishing MMF share prices for purchases and redemptions, the timing and efficiency of settlements of MMF share purchases and redemptions and consequently coordinating the cash flows for MMF share purchases and redemptions with the other half of the related cash transactions.

The Commission's Release accompanying the Proposed MMF Amendments makes the assumption that, if shares are rounded to the nearest penny, there is no need to use amortized cost accounting. This is not a correct assumption. If CNAV share prices are valued using mark-to-market or mark-to-model portfolio prices with share prices rounded to nearest cent, the price of the portfolio changes very slightly throughout the day, requiring constant coordination by the MMF and updating share prices with market or model price information generated after the purchase order is received, which is then rounded to the nearest cent. This introduces a time delay between the receipt of the MMF share purchase or redemption order, the processing of that order (so that prices can be recalculated) and the subsequent settlement of that order. It also introduces additional processing costs for the calculating and striking of that share price -- even though the price is still rounded to the nearest penny. Together, the increased cost of pricing and the delay in pricing will lengthen processing and settlement times and make it difficult to coordinate MMF share purchases and redemptions with the related cash transactions. The elimination of amortized cost accounting at government funds and retail funds that are permitted to use a stable net asset value will make late-day settlements more difficult, and reduce the number of times during the day that intra-day settlements can be conducted.

In contrast, with amortized cost accounting, absent an unusual issuer credit event affecting portfolio values, there is only one portfolio value per share all day, which is rounded to the nearest cent. This speeds up the timing of processing the purchase or redemption order and settlement of the transaction and reduces the cost of valuing shares and settling the transaction. In both cases, the shares are rounded to the nearest penny, but with amortized cost accounting it is far easier, faster and less costly to get to that price and process and settle the purchase or redemption order.

We make a range of MMFs available to our clients, including prime MMFs, government securities MMFs and municipal securities MMFs. Our clients that invest in municipal securities MMFs are not limited to retail investors. We do not believe our client base is unique in this regard. As a result, the Commission should not assume that the "retail" fund exemption from mandatory VNAV will generally be available to all municipal securities MMFs.

Chapin Davis, Inc. also urges the Commission to scale back on the frequency and scope of the required disclosures and reporting. Although some of the information will be useful, the proposal calls for far more detailed and more frequent disclosures than needed and at the margin will increase MMF costs beyond the offsetting investor and market benefit. The Release estimates that it will require MMF sponsors 90,000 hours of staff time to change systems to be in a position to make the new disclosures and reports, and 45,000 additional hours of staff time per year to prepare and make these disclosures and reports. Someone will be paying for those staff salaries (or consultant, accountant and lawyer hourly rates). Those increased costs will ultimately be borne in large part by investors and portfolio issuers. In addition, to the extent that we as a brokerage firm are required to process, review or push out that information to our customer, there is an additional level of cost and burden – ours and our clients – that is not factored into the Commission's cost estimates. We do not think MMF investors will derive benefits equal to the cost of such a large amount of resources devoted to reporting and disclosure requirements. Accordingly, we respectfully suggest that these disclosures be scaled back in detail, timing and scope.

We support the Commission's decision not to propose the imposition of a capital buffer requirement on MMFs. A capital buffer that is financed by diverting fund income before distribution to shareholders would further depress already low yields. With interest rates remaining at historic lows, treasurers and cash managers are tasked to generate a return on cash to prevent value erosion through inflation and rising prices. A capital buffer funded from shareholder income would make MMFs unsuited to the task of preserving capital while generating yield. Investors would seek other options, such as increased reliance on bank deposits—which would only exacerbate the exposure of businesses to the counterparty risk of too-big-to-fail banks—or would be forced to incur the higher costs and inefficiencies of individually managing large portfolios of Treasuries, commercial paper, and other short-term debt instruments.

The Commission's regulation and oversight of MMFs has been robust and successful, and the 2010 amendments to Rule 2a-7 appear to have been highly effective in enabling MMFs to weather periods of unusual redemptions in 2011. However, the imposition of a floating NAV requirement on MMFs, or the prohibition on MMFs' use of amortized cost accounting, would hamper our clients' ability to hold store short-term cash balances in MMF. We do not believe further changes to the Commission's program of regulation of MMFs is needed at this time. As between the two Alternative proposals for changes to MMF structure, however, we strongly urge the Commission not to adopt the first Alternative, and instead continue to permit MMFs to use a stable net asset value, and amortized cost accounting, in establishing share prices.

Sincerely,

R. Bruce Alderman II
President & CEO, Chapin Davis Inc.

cc: The Honorable Luis A. Aguilar
The Honorable Daniel M. Gallagher, Jr.
The Honorable Kara M. Stein
The Honorable Michael S. Piwowar
Norman Champ - Director, SEC Division of Investment Management
Craig Lewis - Director, SEC Division of Economic and Risk Analysis