



**Commonwealth of Kentucky**  
**FINANCE AND ADMINISTRATION CABINET**  
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September 6, 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:

The State Investment Commission of Kentucky (the "Commission") is generally opposed to the money market fund reforms proposed by the Securities and Exchange Commission (the "SEC") on June 5, 2013 and believes that the March 2010 Amendments are sufficient to make money market funds more resilient in times of financial stress. The Commission doubts that these new reforms will mitigate susceptibility to heavy redemptions, improve the ability to manage and mitigate potential contagion from high levels of redemptions, or preserve the benefits of money market funds and the short-term financing markets. And we will show that the proposed alternatives may have a negative impact on money market funds in general and will impose unneeded costs to the Commonwealth.

#### Background

The Commission manages roughly \$3 billion of short term operating funds for the Commonwealth of Kentucky and its agencies including state universities. The operating funds are administered in a manner similar to State and Local Government Investment pools, although the pool currently contains no local government funds. Pension funds are managed by separate statutorily created entities.

The Commission routinely invests in institutional prime money market mutual funds with an average balance over the past year of roughly \$170 million. These funds are used for liquidity management and often serve as a source of emergency liquidity for any late day cash transactions. At times as much as \$400 million in cash is "parked" in these funds until investment alternatives more closely fitting the Commission's investment strategies become available.

Approximately \$1 billion of the funds managed by the Commission are in a pool that mimics an institutional prime money market mutual fund. Currently, accounting for these investments is done on an amortized cost method as allowed by the Governmental Accounting Standards Board. The current accounting software used to track investment income has the ability to record and monitor floating NAV's only up to 2 ("two") decimals.

## Concerns and Complications

### Alternative One: Floating Net Asset Value

Under Alternative One of the Proposal, prime institutional money market funds would be required to transact at a floating net asset value (NAV), not at a \$1.00 stable share price and to post the share price daily rounded to the nearest 1/100<sup>th</sup> of one percent (the fourth decimal place) instead of rounding to the nearest penny (the second decimal place). This fundamental change in valuation and accounting would notably discourage investors from purchasing a floating NAV money market fund by taking away the very characteristics that make a money market fund an attractive, stable investment.

The Commission is responsible for accounting for all of the investments held. The current investment accounting software cannot handle a floating NAV. Substantial cost would be involved to purchase an "add-on" to the software.

Additional accounting difficulties would be encountered for the 2a-7 like pool the Commission manages. All income, including change in value, is reported directly into the Commonwealth's primary accounting system. This accounting system, like all others the Commission is aware of, only allows entries to two (2) decimal places, to a penny. It makes no sense, and is operationally impossible, for the Commission to adopt a floating NAV to four (4) decimal places.

And further, allowing the net asset value (NAV) on institutional prime money market funds creates an additional concern for the Commission. In order to allow the fund sponsors time to calculate the NAV for redemptions, the redemptions would need to settle on the following business day, eliminating the possibility of the Commission using this type of fund as a source of same day liquidity.

### Alternative Two: Redemption Gates and Liquidity Fees

Under Alternative Two of the Proposal, prime institutional money market funds would have the right to enact redemption gates and liquidity fees if certain triggers were reached. This limitation reduces the liquidity intrinsic to a money market fund investment.

Allowing the placement of Redemption Gates on money market funds could negatively affect the Commonwealth's liquidity position by impeding the ability to complete late day cash transactions. And allowing a gate to remain in place for up to 30 days could hamper cash flow for necessary governmental services. Additionally, the Redemption Gates could cause a reduction in investment income to the Commonwealth if the Commission is unable to timely move toward alternative investments. Institutional prime money market mutual funds generally

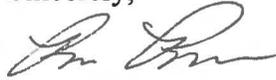
yield 15 to 20 basis points more than government money market mutual funds (although that spread has been compressed lately). The proposed liquidity restrictions would force the Commission to either abandon or severely restrict the use of affected funds, incurring a cost through lost investment yield.

To counter, if possible, the Commission would liquidate before a fund reached the trigger for liquidity restrictions and would liquidate all prime fund holdings in order to assure access to the State's money. The Commission also believes the market would take the same action; therefore, the existence of a trigger for possible liquidity restrictions may create a run on the funds. This approach to solving the perceived systemic problem may make the problem worse by being the trigger to cause the systemic event.

In conclusion, we urge the SEC to reconsider the proposed reforms and appreciate this opportunity to comment on something that would have consequences to the citizens of Kentucky and the commerce related to the State.

Thank you.

Sincerely,



Ryan Barrow  
Secretary to the State Investment Commission  
Commonwealth of Kentucky