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ASSOCIATION

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September 9, 2013

The Honorable Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: File Number S7-03-13- Money Market Fund Reform

Dear Secretary Murphy:

On behalf of the 351 cities and towns of the Commonwealth of Massachusetts, the Massachusetts Municipal Association appreciates the opportunity to offer comment on the proposed rule changes regarding the regulation of money market mutual funds (MMMFs). We respectfully oppose the proposed rule changes, and we are very concerned that the proposals would harm local governments by taking away an important cash management tool, increasing market instability, and making municipal bonds less attractive to investors. We urge the SEC to retain a fixed NAV as an important component of both established municipal financial practices and continued economic growth.

We understand that the Securities and Exchange Commission (SEC) has proposed switching from a fixed net asset value (NAV) for MMMFs to a floating NAV, and has proposed implementing investor redemption restrictions. These proposed regulatory changes would require MMMFs to sell and redeem shares based on the present market-based value of the securities in their underlying portfolios, and would also make it more difficult for investors to redeem MMMFs.

Money market mutual funds with a fixed NAV are a common cash management tool for local governments. Because the funds have a fixed NAV, they are considered both stable and low-risk – a necessity for local government investment. A floating NAV would decrease stability and increase risk, making MMMFs a far less attractive, or even impossible, cash management option for local governments. Additionally, a fixed NAV allows local governments to utilize automated accounting software. Many local governments simply to do not have the internal capacity to manage the financial complexities of a highly variable floating NAV system, and could experience problems with purchases and redemptions. Ironically, the adoption of a floating NAV could make less regulated or more risky cash management vehicles more attractive to municipalities from an administrative perspective.

Money market mutual funds are characterized by principal stability, liquidity, and payment of short-term yields. A fixed NAV is a primary component of this stability, and a change to a floating NAV would only decrease stability and create uncertainty – making MMMFs far less attractive to investors. The ensuing instability would cast a shadow on MMMFs and jeopardize financial recovery at the municipal level.

Robust municipal MMMF demand for short-term bonds increases demand in the long-term municipal bond market, resulting in lower financing costs for crucial local government capital projects. Municipal bonds are widely used to finance critical infrastructure projects in communities nationwide. Approximately 90 percent of municipal bond financing over the past decade went toward schools, hospitals, water infrastructure, sewer facilities, public power utilities, roads and mass transit. Last year, municipal bonds financed $179 billion in state and local infrastructure projects nationwide. If the municipal bond market becomes less attractive to investors due to changes in the MMMF market, state and local borrowing costs would increase significantly. This would have a major chilling effect on local capacity for growth and development. Because MMMF demand and municipal bond demand are linked, it is essential to retain the attractiveness and stability of fixed NAV MMMFs.

The SEC has not proposed subjecting Treasury and government money market funds to further regulation, recognizing that these funds have largely different characteristics from prime MMFs. Municipal MMFs behave similarly to Treasury and government funds during times of market stress, maintaining high levels of asset liquidity. They did not experience the same runs during the financial crisis of 2008 that prime MMFs experienced. Given the highly negative consequences that would result, there is no compelling reason to regulate municipal MMFs as if they were prime MMFs, rather than regulating them similarly to the Treasury and government MMFs with which they share numerous characteristics.

Thank you for the opportunity to bring these concerns to your attention. We appreciate the work that you do to promote financial stability and market recovery. We urge the Commission to carefully consider the negative impacts that the adoption of a floating NAV would create for local government. Please reject the proposed rule changes and retain the current regulations. If you have any questions, please do not hesitate to have your staff contact Catherine Rollins or John Robertson of the MMA at 617-426-7272 or by email at [redacted] and [redacted].

Thank you very much.

Sincerely,

Geoffrey C. Beckwith
Executive Director