Meredith Jackson
General Counsel

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Via Email (rule-comments@sec.gov)

Chairman Jay Clayton
Commissioner Kara M. Stein
Commissioner Michael S. Piwowar
Commissioner Robert J. Jackson, Jr.
Commissioner Hester M. Peirce
Director of the Division of Investment Management, Dalia Blass
U.S. Securities and Exchange Commission
100 F. Street, NE
Washington, DC 20549

Re: **Proposed Changes to New Liquidity Rule 22e-4 (File # S7-04-18)**

Dear Chairman Clayton, Commissioners Stein, Piwowar, Jackson and Peirce, and Director Blass:

First, we would like to thank each of you and your Staff for all of the thoughtful efforts that have gone into this rulemaking process. We appreciate your dedication to crafting a well-calibrated rule that protects the investor by monitoring and reducing liquidity risk, without generating unintended consequences. It has been a long and iterative process, and very productive in our view.
Our strong belief is that the simplest and most time-tested approach would be the most effective: focusing on the asset types that present the greatest risk, and on those that have demonstrably withstood the most volatile markets. These are the true guideposts for the investors.

We consider robust liquidity risk management a cornerstone of prudent portfolio management. For that reason, liquidity risk management rules should be cast in objective terms that will provide transparent insight into the actual risk structure of a fund. Our concern with Rule 22e-4 in its current form, is that the proposed bucketing classification system is unnecessarily complex, and will not produce information that is crisp, consistent, objective and useful. To the contrary, we fear that mixing subjective, easily manipulated data with objective data will only serve to obfuscate the objective data, and diminish the integrity and utility of the entire result. The interim bucketing, with its "moderately liquid" and "less liquid" buckets determined by manager's judgment premised on historical data from regular way markets, will not produce the kind of objective data that will enable high-quality or dependable forecasting about resilience of a fund to market stress.

Accordingly, our view is that the best information to monitor is that which is most predictive of how a fund will fare in volatile markets: the holdings of the least liquid and most liquid assets. The nowcodified 15% illiquid test will reveal the greatest potential areas of liquidity risk to the investor, and monitoring the most liquid assets will enable analysis of the most reliable protection against loss of principal. These are the critical elements.

We support the current version of the 15% illiquid assets test. Turning to the most liquid category, we remain concerned that the misinformation risks inherent in the general classification system will carry over to the classification of highly liquid assets, unless the definition is objective and clear. The breadth of opportunity for differing subjective viewpoints in the "highly liquid" category as presently defined will generate data that could hinder or eviscerate the Staff's ability to develop reasonably predictive models. It is our view that only the most liquid assets should qualify for this classification.

Replacing the "highly liquid" category with reporting of only cash and specified cash equivalents will promote consistency of results among managers and provide an objective measuring standard. Accordingly, we believe that reporting of "cash equivalent" securities should be closely conscribed and consistently defined to asset classes whose behavior is most predictable, even in stressed or volatile markets. Accounting standards leave significant grey areas that can be negotiated between a company and its auditors, with varying results. We suggest that "cash equivalents" be essentially the types of assets that may be included without limitation in a Rule 2a-7 fund. More specifically, US dollar denominated instruments or securities, such as US Treasuries, TIPS, commercial paper, repurchase agreements, bankers' acceptances, and corporate bonds, in each case maturing not more than 397 days from date of acquisition, with NRSRO ratings not less than A-1/P-1 or A-/A3. The overall cash and cash equivalents bucket should be restricted to a weighted average life of 120 days in our estimation.

Although not generally considered cash equivalents, we would add all US Treasury securities (regardless of maturity), and agency-backed securities, including mortgage pools to any highly liquid catagory. In our experience, it is these four categories: cash, cash equivalents as defined in this paragraph, all US Treasury securities, and agency-backed securities, which have repeatedly withstood the most challenging market stresses. In the financial crisis of 2008, these categories of securities continued to trade freely and provide dependable sources of cash to meet redemptions. These securities could be considered true buffer securities, expected to retain their value well in the most volatile reasonably anticipatable markets.

Furthermore, if cash and cash equivalents holdings are to be publicly reported, as in the case of general bucketing, it would be natural for investors reviewing reports of "cash equivalents" holdings to assume that the scores assigned by different managers are the same, and that only the highest quality assets would be included. For this reason, a broad definition of "cash equivalents" could create an unintended incentive for managers to classify securities aggressively, to make their funds appear more liquid. As discussed previously, we believe that public reporting would be useful only if the information reported was clear, comprehensible, and based on truly objective classifications, with no risk of misleading investors.

In addition to providing the best available information regarding a fund's ability to meet redemptions, monitoring of cash and narrowly-defined cash equivalents would provide insight into a fund's inflow and outflow trends. This straightforward test would also, by its very simplicity, have less impact on smaller funds and create less of a barrier to entry for new funds. The same simplicity will reduce costs, infrastructure burden, and inconsistency of outcomes.

For the forgoing reasons, we believe the most effective and transparent approach would be replacing the 4-tier bucketing system with a focused monitoring of the most critical components: the least liquid assets using the current 15% illiquid test, and the most liquid assets, using narrowly defined cash and cash equivalents reporting.

If we can provide any information that would be helpful in further analyzing these issues, please let us know. We thank you again for your commitment to these issues, and look forward to continuing the productive conversations.

Sincerely,

Meredith Jackson
General Counsel

cc: David Lippman, President and CEO
Laird Landmann, Co-Head of Fixed Income
Marcos Gutierrez, Head of Fixed Income Risk Management
Cal Rivelle, Head of Investment Technology
Jeff Engelsman, Global Chief Compliance Officer