

NATIONAL CHAMBER FOUNDATION

OF THE

UNITED STATES CHAMBER OF COMMERCE

DAVID HIRSCHMANN
EXECUTIVE VICE PRESIDENT

June 18, 2007

Ms. Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: File No. S7-08-07

Dear Ms. Morris:

The U.S. Chamber of Commerce is the world's largest business federation, representing some three million businesses of all sizes, sectors, and regions. We are pleased to submit comments on the Securities and Exchange Commission's (the "SEC") Securities Exchange Act Release 55431.¹

The Chamber commends the SEC for proposing a series of changes to, among other things, Rule 15c3-3 (17 C.F.R. §240.15c3-3, the "customer protection rule"), and Rule 15c3-1 (17 C.F.R. §240.15c3-1, the "net capital rule") under the Securities Exchange Act of 1934 (the "Exchange Act"). The Chamber applauds the SEC for taking steps to modernize the net capital and customer protection rules, though we believe the proposed changes do not go far enough.²

In our view, money market mutual funds offer outstanding safety and liquidity. Rule 2a-7 under the Investment Company Act of 1940 has established an effective regulatory framework that has fostered the development of many money market mutual funds. The fund industry has flourished because they serve their customers so effectively. Money market mutual funds have been an example of American

¹ March 9, 2007; 72 FR 12899 (March 19, 2007) (the "Release").

² The Chamber wishes to associate itself with the comment letter that Federated Investors, Inc. has filed with the SEC. Letter from Stuart J. Kaswell and David J. Harris, Dechert, LLP, on behalf of Federated Investors, Inc., May 1, 2007. We will not repeat all of the arguments in that letter, but will discuss several key points.

innovation, with money market assets consisting of \$2.526 trillion dollars.³ Money market mutual funds offer the highest safety and liquidity of any pooled investment vehicle because they meet the high standards of Rule 2a-7.

With regard to the specific provisions of the Release, we make the following comments:

a. Rule 15c3-3

The Chamber commends the SEC for proposing to include money market mutual funds in the definition of “qualified security” but believes that the proposed change is of little practical value.⁴ Broker-dealers will not find Treasury-only money market mutual funds sufficiently attractive for the special reserve account. We appreciate that the SEC recognizes that money market mutual funds offer less operational risk than buying and selling individual U.S. Treasury securities.⁵ But in our opinion, broker-dealers will be reluctant to invest in Treasury-only money market funds because the yields are unattractively low. Accordingly, the SEC should amend the definition of “qualified security” to simply refer to money market mutual funds that meet the requirements of Rule 2a-7. We also urge the SEC to allow broker-dealers to use money market mutual funds as collateral under Rule 15c3-3(b)(3)(iii)(A) for customers’ fully-paid or excess margin securities.

³ Investment Company Institute, week ended June 7, 2007, http://www.ici.org/home/mm_06_07_07.html#TopOfPage

⁴ The SEC proposes to amend Rule 15c3-3(a)(6) (in relevant part) as follows:

* * * * *

(6) The term *qualified security* shall mean:

(ii) A redeemable security of an unaffiliated investment company registered under the Investment Company Act of 1940 (the “1940 Act”) and described in §270.2a-7 of this chapter that:

(A) Has assets consisting solely of cash and securities issued by the United States or guaranteed by the United States with respect to principal and interest...

We refer to such money market mutual funds as “Treasury-only” money market mutual funds.

⁵ See Release at 12865 .

b. Rule 15c3-1

The SEC proposes to reduce the capital charge or “haircut” on money market mutual funds from 2% to 1%. Although we commend the SEC’s desire to reduce the capital charge, we view the proposal as insufficient. We believe that the haircut should be 0% for AAA-rated money market mutual funds, which would be commensurate with their risk.

We also are disappointed that the SEC has not taken this opportunity to overturn the staff’s obsolete interpretation of Rule 15c2-4 under the Exchange Act.⁶ Rule 15c2-4 provides that in conjunction with a conditional offering, broker-dealers must hold funds in a separate bank account or in an escrow account. The interpretation prohibits the broker-dealer from investing those funds in a money market mutual fund. The Chamber believes that the separate or escrow account should be able to invest the funds in a AAA-rated money market mutual fund.

We believe that the current requirements and interpretations of these rules are out of date and perpetuate uncompetitive restrictions. For the reasons noted, we also believe that the proposal does not satisfy the requirements of Sections 3(f) or 23(a)(2) of the Exchange Act. We also suggest that the SEC should consider our suggested alternatives as part of its analysis under its Initial Regulatory Flexibility Analysis.

The Chamber urges the SEC to make meaningful reforms to our financial services regulations by taking the steps outlined above. The SEC could achieve two goals at once: first, the SEC would remove obsolete restrictions that hamstring the fund industry; and second, the SEC would reduce unnecessary restrictions that impose increased operational risks on broker-dealers. In both cases, U.S. financial services industries would be more efficient and more competitive. We see no “downside” to these changes, because of the great safety of money market funds⁷ and the reduction in operational risk.

⁶ See NASD *Notice to Members 84-7* (Jan. 30, 1984).

⁷ For example, with regard to collateral under the customer protection rule, AAA-rated money funds would entail a lower risk to broker-dealers than some letters of credit.

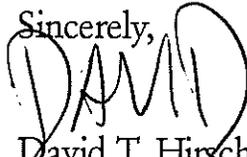
Ms. Nancy M. Morris
June 18, 2007
Page 4

The Chamber notes that H.R. 1171, "the Money Market Fund Parity Act of 2007," addresses all of these concerns. This legislation would direct the SEC to adopt changes to its rules that would permit broker-dealers to:

- i. deposit certain money market mutual funds into the special reserve bank account that Rule 15c3-3(e) requires broker-dealers to maintain;
- ii. use certain money market mutual funds as collateral for customers' fully-paid or excess margin securities under Rule 15c3-3(b)(3)(iii)(A);
- iii. use certain money market mutual funds as net capital without taking a deduction or "haircut" under Rule 15c3-1; and
- iv. use certain money market mutual funds to hold the proceeds of a offering subject to a condition, in accordance with Rule 15c2-4.

The Chamber supports this legislation and we hope that the SEC will adopt final rules consistent with this letter. But in the absence of more meaningful reform at the SEC, we support congressional efforts to enact H. R. 1171 into law.

Thank you for your consideration of our views. Please do not hesitate to contact me if you have any questions.

Sincerely,

David T. Hirschmann
Senior Vice President