BROWN
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HARRIMAN

June 14, 2007

Securities and Exchange Commission
100 F Street, N.E
Washington, DC 20549-1000
Attn: Ms Nancy M. Morris, Secretary

Re: File Number S7-08-07: Amendments to Financial Responsibility Rules for Broker-Dealers (Rule 15c3-1 and Rule 15c3-3)

Dear Ms. Morris,

Brown Brothers Harriman & Co. ("BBH") welcomes the opportunity to comment upon the Securities and Exchange Commission's (the "SEC") rule amendments regarding the financial responsibility of broker-dealers (the "Proposed Amendment").

BBH is a private partnership and the largest private bank in the United States. We are proud to be one of a handful of futures and options exchange approved settlement banks providing the necessary credit intermediation, commercial payment systems and collateral maintenance required to maintain market liquidity and reduce settlement risk.

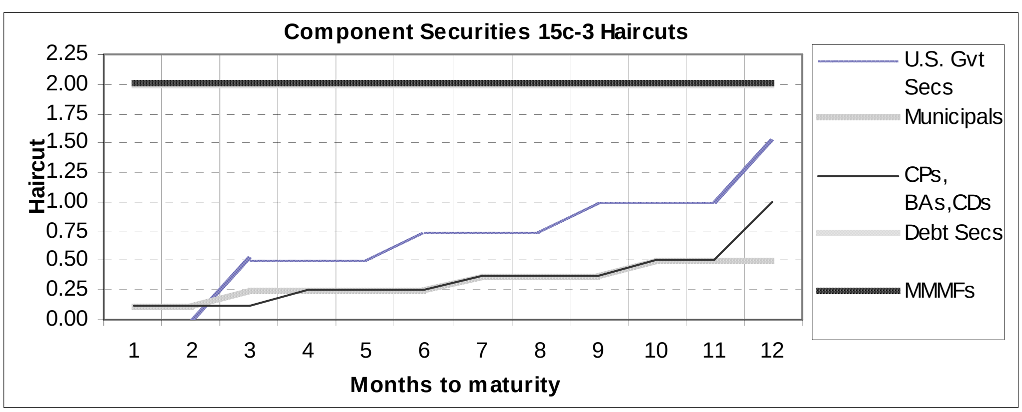
BBH commends the SEC for proposing changes to modernize Rule 15c3-1 and Rule 15c3-3. The purpose of this letter is to provide the SEC with information that is relevant to two aspects of the proposed rule changes. We believe it is in the best interest of the financial services industry and the investing public to expand the proposal to include money market funds (as described in Rule 2a-7 of the Investment Company Act of 1940) to not just those that invest only in securities issued or guaranteed by the United States as to principal and interest but to include "AAA" rated money market mutual funds. It is our view that the proposal to reduce the "haircut" that broker-dealers apply under Rule 15c3-1 from 2% to 1% be further reduced to 0%. The rule affects the FCM community as well as broker-dealers since the CFTC rules on valuation of securities relies on SEC 15c3-1.

Since the Commodity Futures Trading Commission ("CFTC") amended its rules in December 2000, pursuant to Regulation 1.25 to expand the list of allowable investments to include money market mutual funds ("MMMFs"), the futures industry has embraced the use of MMMFs for the investment of commodity customer cash deposits. Prior to the amendments to Regulation 1.25, FCMs were largely limited to investing customer cash deposits in US Government securities. The changes to Regulation 1.25 not only facilitated investment of commodity customer funds by FCMs but also served to support the acceptance by exchange clearing organizations of MMMF shares as a permitted form of margin collateral. The broker-dealer community will benefit from a similar expansion to include MMMFs as allowable securities for deposit into Reserve Accounts pursuant to SEC Customer Protection Rule 15c3-3.

As background, money market mutual funds are structured as open-end investment management companies that are registered under the "1940 Act" and operate in accordance with SEC Rule 2a-7. They have an investment objective of generating income while preserving capital and maintaining liquidity, accomplished though rigorously managed investments in short duration, high credit quality securities. Money funds seek to maintain a stable share price of $1.00 per share. The money market mutual fund industry enjoys an impeccable record of maintenance of a stable share price of $1.00 and has encouraged a range of participants including small retail and sophisticated large institutional investors to view money funds as an alternative to bank deposits. There is widespread acceptance of the product with over $2 trillion in holdings.

It is no accident that money funds have such a strong track record of maintaining stable prices and providing liquidity. In addition to the internal management structure of a MMMF, the money fund's board of directors is responsible for the direct oversight of the MMMF's management and the fund's advisor is responsible for selecting and transacting appropriate security purchases. Importantly, the SEC has vigorously developed rules that provide for customer/investor protection. The SEC Section 270.2a-7 rules are designed to restrict investment options and limit the risks that a money market mutual fund manager may undertake in managing the objectives of the portfolio. Rule 2a-7 supports the valuation of the MMMF share price at $1.00 per share, through an amortized cost accounting method, even though it is recognized and accepted that the net asset value (NAV) of the underlying portfolio will vary by some modest amount. It is only if and when the deviation becomes significant, which is deemed to be a ½ of 1 percent diminution against par value, that the fund is required to take steps to address the deviation, including selling appropriate underlying security holdings and redeeming shares. As a practical matter, most if not all rated funds have internal procedures requiring preemptive actions if the NAV varies by ¼ of 1 percent from par.

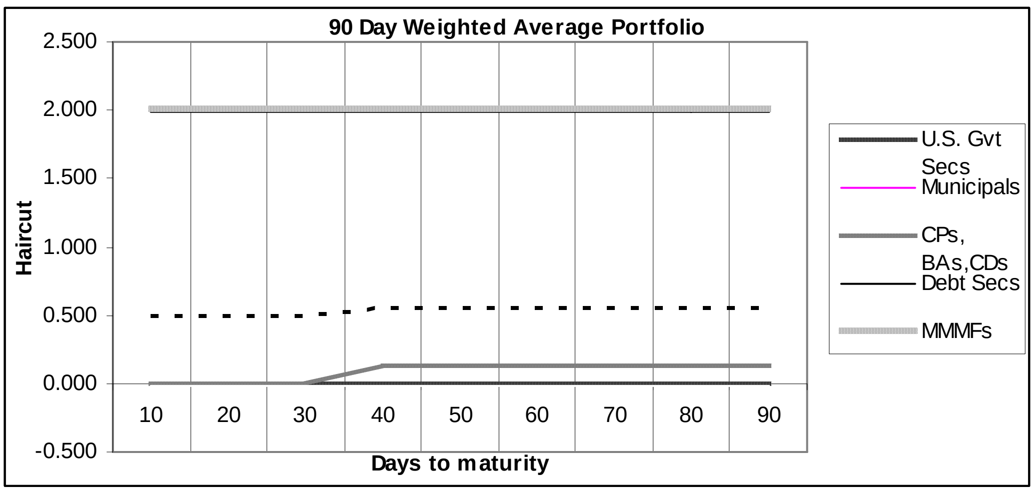
The financial services industry and its regulators impose haircuts on securities held as collateral as a way to deal with the uncertainty of redemptive valuation. Haircuts reflect the credit quality of the counterparty and liquidity characteristics of the underlying instrument. Certainly the fact that SEC 17 CFR 240.15c3-1 requires a haircut even on US government securities underlines the fact that the haircut is viewed primarily as a function of the unpredictability of market value due to fluctuating interest rates at the time of future redemption and not necessarily a concern about the repayment of the obligation. Money market mutual funds contain the expectation that redemptions will be made at $1.00 per share regardless of changes in underlying interest rates.



Money market mutual funds generally invest across four basic security types in the following percentages:

- U.S. Government securities 10% to 20%
- Municipal securities 10% to 20%
- Commercial Paper, Banker Acceptances, CDs 40% to 60%
- Debt Securities 10% to 25%

In viewing a simplistic example it is clear that an equal allocation across the four asset types would result in a weighted average haircut of ½ of 1%. It is of interest to note that of all the eligible securities only corporate debt does not have a duration scaled haircut. For instance commercial paper at less than a year to maturity carries a 1% haircut ratcheting in 1/8% increments to a 0% haircut with less than 30 days to maturity. Corporate debt on the other hand is haircut by 2% for the entire tenure. MMMFs typically have weighted average maturities of between 30 to 50 days and are held to a maximum 90 day weighted average portfolio maturity.



Mutual funds contain a risk benefit derived from the potential for diversification from investing in numerous securities that are not perfectly correlated. Market risk, credit risk and liquidity risk exposures differ between a single security investment and a portfolio of securities with identical risk characteristics.

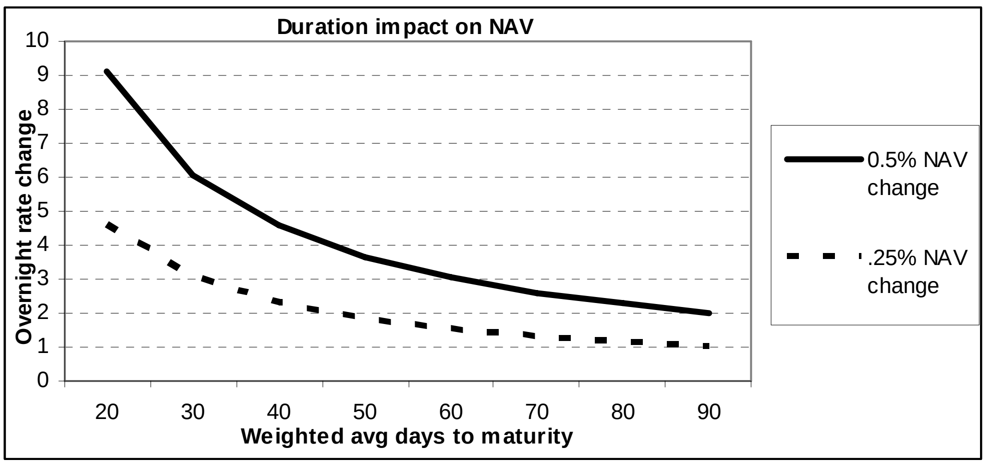
Take a simplified example of market risk exposure across a portfolio. Assume that an investment in Company A provides an expected return over one year of 5%, and that 95% of the time, the return will be between 1% and 9%. Another way of stating this range of returns is to say that the return on Company A has a standard deviation of 2% (if returns are normally distributed, they will lie within 2 standard deviations of their averages about 95% of the time).

Now assume Company B has the same profile as Company A, but that their returns move completely independently from those of Company A. If one split their investments 50/50 between A and B, the expected return on their investments would still be 5%. But now, the total return on your portfolio would be between 2.14% and 7.86% 95% of the time, a much tighter range of outcomes. In other words, the standard deviation on your portfolio has gone from 2.00% to 1.43%.

As you expand this example and continue to make equal-sized investments in N different uncorrelated companies, the standard deviation of your portfolio will decrease at the rate of the square root of N, relative to an investment in just one company (in the example above it went from 2.0% down to

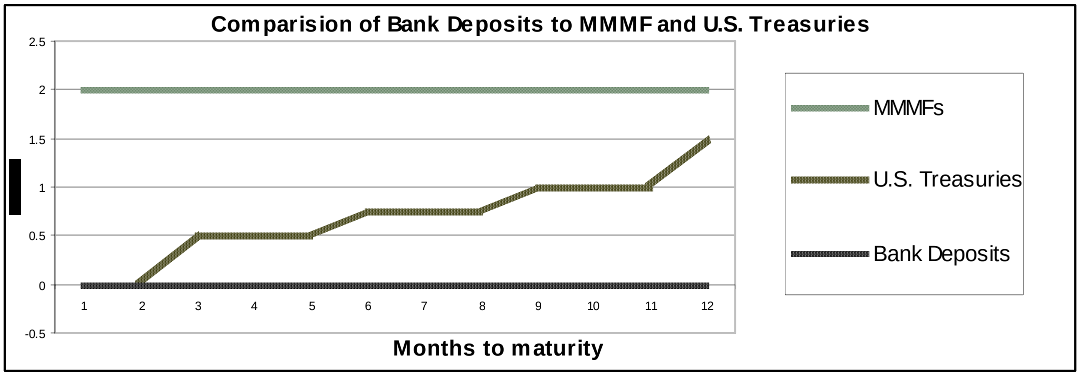
2.0%/sqrt(2)=1.43%). Corresponding reductions in liquidity risk and credit risk accrue to a portfolio of securities. Therefore it is entirely sensible to conclude that a money market mutual fund represents a lower exposure to those risks that SEC haircuts endeavor to mitigate than single security investments.

The SEC's conservative and precise rules concerning MMMF portfolio management and fund accounting combined with the historical performance of MMMFs under varying degrees of market risk, event driven stress and interest rate volatility are supportive of the expectation for continued stable dollar per share price performance. Significant and unexpected upward changes in overnight interest rates are required before the NAV of a money market mutual fund is affected to a material degree.



Money market mutual funds can have a maximum dollar weighted average portfolio maturity of 90 days, with no one instrument having a remaining maturity exceeding 397 calendar days. The threshold of ½ of 1% indicates the diminution in NAV versus par that effectively causes a money market fund to take preemptive actions to protect the fund. As can be seen from the chart extremely large and unprecedented changes in overnight interest rates are required to cause a material change in the value of the portfolio.

The application of collateral haircuts to various investment instruments used by the financial services industry should be consistent. It is inappropriate that MMMFs which are by their nature and history extremely safe and are structured as commingled portfolios of multiple highly rated credit counterparties attract greater haircuts than single bank counter-party deposits, including Bank Trust Account deposits. Consider that MMMFs represent a pooled set of credit risks, including U.S. Government securities, agencies and highly rated corporate debt instruments, that generally carry individually the same or less risk than a single bank deposit and that those MMMFs in use by the financial services industry generally carry a AAA rating by a nationally recognized statistical rating organization, yet they attract a 2% haircut while single bank counterparty deposits receive a 0% haircut regardless of credit quality. The imposition of valuation haircuts inconsistently across various asset classes of differing credit risk profiles and market pricing as are currently in effect acts to limit diversification and encourage the use of one particular class of product over another.



A reduction to the haircut on money market mutual fund positions and a rationalization of the capital charges across asset classes is in the public interest. Broker-dealers and FCMs make use of sophisticated counter party credit reviews and impose investment limits on assets used for Reserve Account deposits and commodity futures customer deposits. These market participants are sophisticated and bring substantial in-depth risk management to the process. When competing products with similar risk characteristics and rates of return are valued differently though imposition of varying capital charges there is a natural bias favoring the lower haircut asset giving one product type an advantage over another. This acts like a tax discouraging use of a product that brings risk diversification benefits to the industry. The current capital charge taken by broker-dealers and FCMs incentivizes concentration of customer fund deposits in a limited number of single counter party exposures.

A reduction of the haircut on money market mutual fund positions and a rationalization of the capital charges across asset classes will promote fair competition. As has been stated above, single counterparty deposit obligations that are not subject to an independent investment rating criteria are enjoying a 0% haircut which even if the risk characteristics were equal, works in favor of bank deposits versus the 2% haircut on money funds which dissuades those investments. Concentration of large deposit amounts in a limited number of single counterparty credit exposures may result in systemic liquidity stresses.

A reduction of the haircut on money market mutual fund positions and a rationalization of the capital charges across asset classes is supportive of market efficiency. Limiting the use of a product that is widely accepted as an investment vehicle may reduce the opportunity to expand global acceptance of the product across derivative markets. This is especially important as the securities and derivatives markets continue on the path to comprehensive globalization. The promotion of U.S. SEC regulated money market mutual funds as margin collateral investment alternatives throughout the global marketplace is beneficial for market integrity, standardization and capital efficiency.

We respectfully ask the SEC to consider this recommendation to eliminate the haircut on MMMFs shares broker-dealers apply under Rule 15c3-1 when computing net capital. We firmly believe that an elimination of the 2% money market mutual fund haircut is consistent with the public interest and protection of security and commodity account investors. Based on the safety, liquidity, and overall soundness exhibited by the money market mutual fund industry the SEC should expand the Customer Protection rules to include “AAA” rated money market mutual funds as eligible to meet Reserve Account requirements.

We would like to thank the SEC in advance for their consideration of the positions expressed in this letter. Any comments or questions may be addressed to me at 212-493-7970.

Sincerely,

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Brown Brothers Harriman & Co.
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