



July 23, 2007

Ms. Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

**Re: Proposed Amendments to Financial Responsibility Rules for Broker-Dealers
Release No. 34-55431
File No. S7-08-07**

Dear Ms. Morris:

Fidelity Management & Research Company ("FMR") and National Financial Securities LLC ("NFS" and, together with FMR, "Fidelity") appreciate the opportunity to comment upon the Securities and Exchange Commission's (the "Commission") Proposed Amendments to the Financial Responsibility Rules for Broker-Dealers (the "Proposed Rules").¹ Fidelity commends the Commission for undertaking this initiative to reexamine and modernize its rules.

FMR, through its Fixed Income Division, manages approximately \$560 billion in investment grade bond mutual funds, money market mutual funds and other fixed income accounts. FMR's managed assets include approximately \$300 billion invested in money market mutual funds governed by Rule 2a-7 of the Investment Company Act of 1940 ("Rule 2a-7"). Fidelity Investments offers investment management, retirement planning, brokerage, and human resources and benefits outsourcing to more than 23 million individuals and institutions as well as through over 5,500 intermediary firms. Fidelity Investments is the largest mutual fund company in the United States.

NFS, a Fidelity Investments company, offers Integrated Brokerage Solutions[®] to 344 clients ranging from retail broker/dealers to institutional investment firms. Collectively, NFS's clients have more than 86,000 brokers. As of March 31, 2007, National Financial custodied more than \$670 billion in assets representing more than 5.4 million customer accounts.

The Proposed Rules reflect extensive research and thoughtful deliberation on the part of the Commission. Fidelity's comments relate to the proposed amendments to the so-called customer protection rule and the expansion of the definition of the term qualified security to include money market funds, in particular.²

¹ 72 Fed. Reg. 12862 (2007).

² 17 C.F.R. 240.15c3-3(a)(6).

1. All Money Market Funds Should be Included in Definition of Qualified Security

The Proposed Rules set forth the Commission's belief that "expanding the definition to include money market funds that only invest in securities meeting the definition of 'qualified security' in Rule 15c3-3 would be appropriate."³ This proposal would limit broker-dealers to investing in Treasury-only money market funds.⁴ Fidelity respectfully disagrees with the Commission that limiting customer reserve accounts to Treasury-only money market funds is appropriate.

Fidelity believes that Rule 2a-7, as adopted by the Commission and revised from time to time, works remarkably well to provide a safe investment vehicle for investors in all money market funds, not just Treasury-only money market funds. As the Commission has noted, money market funds' maintenance of a stable net asset value "is understood by investors to imply a high level of safety" and "[i]nvestors have come to equate investments in these funds to 'money.'"⁵ Moreover, the text of Rule 2a-7 provides that any money market fund complying with Rule 2a-7 may use the terms "cash," "liquid," "money," or "ready assets" in its name.

The result of the Proposed Rules is inconsistent treatment of investors. Whereas the Proposed Rules contemplate that investors who have excess credits in a customer reserve account invested by a broker-dealer need the purported additional protections of a Treasury-only money market fund, all other retail and institutional investors are able to invest cash directly in all money market funds marketed with the permitted words "cash," "liquid," "money" and "ready assets."

Fidelity respectfully requests that the Commission revise the definition of "qualified security" to permit broker-dealers to invest in any money market fund governed by Rule 2a-7.

2. Redemption Requirements Need to be Consistent with Investment Company Act

The Proposed Rules restrict the definition of "qualified security" to only those money market funds that agree "to redeem fund shares in cash no later than the business day following a redemption request by a shareholder."⁶ In the release describing the Proposed Rules, the Commission notes that "[t]here should be no ability of the fund to delay redemption beyond one day."⁷ Fidelity respectfully disagrees with the Commission that there should be no ability of the fund to delay redemption beyond one day.

Fidelity believes that prompt redemption is important to all investors, whether individuals who invest directly in a retail money market fund or broker-dealers who hold customer cash in a special reserve account in an institutional money market fund. Consistent with the requirements regarding senior securities in the Investment Company Act of 1940 ("1940 Act"), Fidelity treats all redemption requests with the same priority, in accordance with each fund's redemption policy.

Congress is clear on the issue of mutual fund redemptions. Recognizing that an investment company may need to delay redemptions to shareholders in certain unusual circumstances, Section 22(e) of the

³ 72 Fed. Reg. 12865.

⁴ The proposed rule would limit the definition of qualified security to include only a registered investment company "described" under Rule 2a-7 that "[h]as assets consisting solely of cash and securities issued by the United States or guaranteed by the United States with respect to principal and interest." 72 Fed. Reg. 12894.

⁵ 56 Fed. Reg. 8113 (1991).

⁶ 72 Fed. Reg. 12894.

⁷ 72 Fed. Reg. 12865.

1940 Act (“Section 22(e)”) allows investment companies, including money market funds, to delay redemption for up to seven days:

- (1) for any period (A) during which the New York Stock Exchange is closed other than customary week-end and holiday closings or (B) during which trading on the New York Stock Exchange is restricted;
- (2) for any period during which an emergency exists as a result of which (A) disposal by the company of securities owned by it is not reasonably practicable or (B) it is not reasonably practicable for such company fairly to determine the value of its net assets; or
- (3) for such other periods as the Commission may by order permit for the protection of security holders of the company.⁸

The provision of the Proposed Rules that “no ability of the fund to delay redemption beyond one day” is inconsistent with Section 22(e). Fidelity respectfully asks the Commission to revise the redemption requirements of the Proposed Rules for consistency with the statutory provisions of Section 22(e). Additionally, Fidelity requests that the redemption policy of funds permitted to hold broker-dealer customer cash allow redemption normally within one business day (rather than “one day”).

Finally, the redemption policies of money market funds meeting the definition of qualified security should include in-kind as well as cash redemption. Although cash redemptions are more common and generally preferred by most investors, there are possible market environments in which investors and money market funds would benefit more from a redemption in-kind versus a redemption in cash if there is a short-term significant decline in prices of certain securities held by the money market fund.

3. Prohibition on Broker-Dealer Investing in a Money Market Fund Managed by an Affiliate Should be Removed

The Proposed Rules limit the definition of “qualified security” to “a redeemable security of an unaffiliated investment company.”⁹ The Commission notes in the release to the Proposed Rules that a “broker-dealer may experience financial difficulty caused by liquidity problems at the holding company level that are adversely affecting an affiliated money market fund as well in terms of the fund’s ability to promptly redeem shares.”¹⁰ Fidelity respectfully disagrees with the Commission’s proposed limitation of “qualified security” to money market funds that are unaffiliated with the broker-dealer investing customer cash in a special reserve account.

A fundamental premise of the Investment Company Act of 1940 (the “1940 Act”) is that each investment company is a distinct legal entity with separate corporate existence from the fund’s investment advisor, a different board of directors and segregated assets. Because a money market fund is a distinct entity, liquidity problems at the holding company level of a broker-dealer will not adversely affect an affiliated money market fund and will not impair the money market fund’s ability to promptly redeem shares.

Fidelity respectfully requests that the Commission remove the prohibition on affiliated money market funds from the definition of “qualified security” as there is no greater risk to a broker-dealer customer

⁸ 15 U.S.C. 80a-22(e).

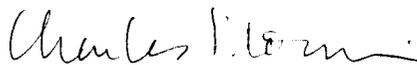
⁹ 72 Fed. Reg. 12894.

¹⁰ 72 Fed. Reg. 12865.

whose excess credits are invested in a money market fund affiliated with that broker-dealer versus an unaffiliated money market fund.

Once again, Fidelity appreciates the opportunity to comment on the Proposed Rules. If you or your staff have any comments, questions or would like additional information, please feel free to contact Nancy Prior, Senior Vice President and Deputy General Counsel at (603) 791-6308 or Karen Saperstein, Vice President and Associate General Counsel at (212) 335-5452.

Very truly yours,



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