MEMORANDUM

To: File
From: Catherine Moore
Date: August 18, 2008
RE: Proposed Rule: Amendments to Financial Responsibility Rules for Broker-
File No. S7-08-07)

On August 15, 2008, Stuart Kaswell of Bryan Cave, representing Federated Investors, met with Commission staff regarding proposed amendments to Rules 15c3-1 and 15c3-3 to allow broker-dealers to use money market mutual funds for additional regulatory purposes.

The staff members attending the meeting from the Commission's Division of Trading and Markets were Daniel M. Gallagher, Deputy Director; Michael Macchiaroli, Associate Director; and Catherine Moore, Special Counsel.

From: Kaswell, Stuart
Sent: Monday, August 18, 2008 10:07 AM
To: 'Gallagher, Jr., Daniel M.'; 'Macchiarolim@sec.gov'; 'mooreca@sec.go'
Subject: Money Market Fund Maturity

Dear all -- thank you again for the meeting on Friday. In thinking over the meeting, I want to review a few points that we discussed.

First, I wanted to be sure that I accurately described the maturity requirements for money market funds. Rule 2a-7(c)(2) provides:

(2) *Portfolio Maturity.* The money market fund shall maintain a dollar-weighted average portfolio maturity appropriate to its objective of maintaining a stable net asset value per share or price per share; *Provided, however,* that the money market fund will not:

(i) Except as provided in paragraph (c)(2)(ii) of this section, Acquire any instrument with a remaining maturity of greater than 397 calendar days; or

(ii) In the case of a money market fund not using the Amortized Cost Method, Acquire a Government Security with a remaining maturity of greater than 762 calendar days; or

(iii) **Maintain a dollar-weighted average portfolio maturity that exceeds ninety days [emphasis added]**.

The key point is that the portfolio must have a dollar-weighted average portfolio that does not exceed ninety days, and that does not have a maturity of greater than 397 calendar days. (I believe that money market funds overwhelmingly use the amortized cost method.)

Second, we also discussed the issue of what happens if there is any deviation between the amortized cost and the Net Asset Value. Rule 2(a)(c) provides:

(7) *Required Procedures: Amortized Cost Method.* In the case of a money market fund using the Amortized Cost Method:

(i) *General.* In supervising the money market fund's operations and delegating special responsibilities involving portfolio management to the money market fund's investment adviser, the money market fund's board of directors, as a particular responsibility within the overall duty of care owed to its shareholders, shall establish written procedures reasonably designed, taking into account current market conditions and the money market fund's investment objectives, to stabilize the money market fund's net asset value per share, as computed for the purpose of distribution, redemption and repurchase, at a single value.

(ii) *Specific Procedures.* Included within the procedures adopted by the board of directors shall be the following:

(A) *Shadow Pricing.* Written procedures shall provide:

(*1*) That the extent of deviation, if any, of the current net asset value per share calculated using available market quotations (or an appropriate substitute that reflects current market conditions) from the money market fund's amortized cost price per share, shall be calculated at such intervals as the board of directors determines appropriate and reasonable in light of current market conditions;

(*2*) For the periodic review by the board of directors of the amount of the deviation as well as the methods used to calculate the deviation; and

(*3*) For the maintenance of records of the determination of deviation and the board's review thereof.

(B) *Prompt Consideration of Deviation.* **In the event such deviation from the money market fund's amortized cost price per share exceeds 1/2 of 1 percent, the board of directors shall promptly consider what action, if any, should be initiated by the board of directors.**

(C) *Material Dilution or Unfair Results.* Where the board of directors believes the extent of any deviation from the money market fund's amortized cost price per share may result in material dilution or other unfair results to investors or existing shareholders, it shall cause the fund to take such action as it deems appropriate to eliminate or reduce to the extent reasonably practicable such dilution or unfair results **[emphasis added].**

As a practical matter, fund boards watch deviations of less than .05%.

Third, we discussed redemptions.   Section 22(e) of the Investment Company Act provides:

(e) Suspension of right of redemption or postponement of date of payment No registered investment company shall suspend the right of redemption, or postpone the date of payment or satisfaction upon redemption of any redeemable security in accordance with its terms **for more than seven days** after the tender of such security to the company or its agent designated for that purpose for redemption, except-- (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. The Commission shall by rules and regulations determine the conditions under which (i) trading shall be deemed to be restricted and (ii) an emergency shall be deemed to exist within the meaning of this subsection [**emphasis added].**

In Release, the Commission proposed a more rigorous requirement - a qualified security would include a fund that among other things, "(B) Agrees to redeem fund shares in cash no later than the business day following a redemption request by a shareholder....." Some commentators objected to this provision because it is shorter than the requirements of Section 22(e). Federated does not oppose this provision. As you know, the Options Clearing Corporation Rule 604(b)(3) has a similar provision for money market funds used as margin. See Exchange Act Release 34-47599.

I hope these points are helpful. Please contact me if you require any additional information.
thanks
Stuart

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