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November 10, 2008

Mr. Michael A. Macchiaroli
Associate Director, Division of Trading and Markets
U.S. Securities and Exchange Commission
100 F Street, NE
Mail Stop 6628
Washington, DC 20549

Dear Mike:

I am working with Eugene F. Maloney, Executive Vice President of Federated Investors Management Company, Inc. (Federated), in that company's efforts to persuade the SEC to effect several changes to the financial responsibility rules. These changes include revising Rule 15c3-3 to permit broker-dealers to utilize money market funds investing in U.S. government and agency securities to meet their deposit requirements under Rule 15c3-3's reserve bank account. Federated would also like broker-dealers to be able to pledge money market funds as collateral on fully-paid and excess margin securities that broker-dealers borrow from customers.

Federated seeks these changes in response to concerns raised by the financial community. Broker-dealers seek greater operational flexibility in meeting their obligations under Rule 15c3-3 and wish to obtain more competitive yields on such assets. I was involved in creating Rule 15c3-3 in 1972 and thereafter its administration during my tenure as Director of the Division of Market Regulation (now the Division of Trading and Markets). A committee led by Commissioner Needham, including Commission staff of which I participated, addressed the "paperwork crisis" on Wall Street. As a result of

committee's efforts the uniform net capital rule was revised and Rule 15c3-3 was implemented.

It is my strong sense that modifying Rule 15c3-3 along these lines would not compromise customer asset protection and yet would confer significant benefits on the broker-dealer community. It also would help fulfill the objectives of the Securities and Exchange Commission and its fellow regulatory agencies, the Department of Treasury and the Federal Reserve, both of which have recently implemented programs to enhance public confidence in money market mutual funds as more fully described below.

To these ends, we would like to meet with you and your colleagues to discuss factors relevant to these requested modifications. First, we wish to explore with you the original purpose and focus of Rule 15c3-3 and its designation of acceptable collateral and the debate of those at the Commission who drafted Rule 15c3-3 as to the permissible uses by broker-dealers of customer funds under Rule 15c3-3. As you know, money market funds (including those that invest exclusively in government and agency securities) were not available at that time. The drafters of Rule 15c3-3 carefully weighed the risks to the manner in which customer funds could be deployed by a broker-dealer against the business needs of broker-dealers. Out of this debate came a degree of compromise that afforded the broker-dealer community the right to effectively lend out customer funds on margin loans to other customers. And, as history demonstrates, the decision to provide this latitude to the broker-dealer community worked well over the last 30 years. Those who crafted Rule 15c3-3 to protect customer funds were not seeking absolute safety of customer funds, but rather sought a degree of protection that recognized the needs of both broker-dealers and their customers. Given the safety record of U.S. government and

agency money market funds, Federated is merely asking that this type of investment, not available in 1972, be given recognition for meeting obligations under Rule 15c3-3.

The second topic I would like to raise with you and your colleagues is expanding the type of qualified collateral under Rule 15c3-3 for securities borrowed by broker-dealers to include money market funds. I would suggest that the Commission should allow broker-dealers to use money market funds as collateral under Rule 15c3-3 for this purpose.

Both of these changes would support the ongoing efforts of the Department of Treasury and the Federal Reserve in their respective programs to instill and maintain confidence in the financial community, particularly the mutual fund industry. Notably, the U.S. Treasury Department has established a temporary guarantee program for money market funds. Under this program, the U.S. Treasury will guarantee to investors that they will receive $1 for each money market fund share held as of a particular point in time. The Department of the Treasury specifically noted that money market funds play an important role as an investment vehicle for many Americans and that maintaining confidence in the money market fund industry is critical to protecting the integrity and stability of the global financial system.

Moreover, the Federal Reserve Board (FRB) has taken action to provide liquidity to money market funds and the commercial paper market. The FRB created the Money Market Investor Funding Facility (MMIFF) to finance the purchase of eligible assets from eligible investors which include U.S. money market funds. The FRB believes that by facilitating the sales of money market instruments in the secondary market, the

MMIFF should improve the liquidity position of money market funds, thus increasing the ability of money market funds to meet future redemption requests.

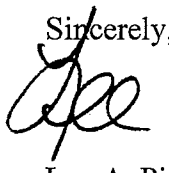
As is apparent by virtue of these important government programs, these agencies are seeking to maintain public confidence in the money market fund community. The limited modifications we are seeking, of including certain qualified money market funds as a qualified security and of approving money market funds as good collateral under Rule 15c3-3, would, if implemented by the Securities and Exchange Commission, likewise send a strong signal of public confidence in this segment of the financial community and would be consistent as well as supportive of the efforts of the Department of the Treasury and the Federal Reserve.

One thought to assessing the efficacy of these proposed changes to Rule 15c3-3 would be to establish a pilot program whereby a broker-dealer operating under an SEC no-action letter or other approval would be permitted to utilize qualified money market funds for their Rule 15c3-3 obligations. Such a pilot program would also give the SEC a factual basis on which to determine whether to expand the type of collateral qualifying under Rule 15c3-3.

I would appreciate the opportunity to discuss these concepts with you and your colleagues and will call to schedule a meeting.

With warmest regards.

Sincerely,



Lee A. Pickard

cc: Thomas K. McGowan, Assistant Director