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

Re: Federated Investors, Inc. – Rule 15c3-3

Dear Jim and Mike:

Following up on our conversation last Tuesday, I would like to clarify the position of Federated Investors, Inc. (“Federated”) regarding its efforts to persuade the SEC to change its financial responsibility rules to permit broker-dealers to make greater use of government money market funds for purposes of Rule 15c3-3. For some time now Federated, seeking to fulfill the needs of the broker-dealer community, has asked the SEC to expand the definition of “qualified securities” under Rule 15c3-3 to include government money market funds which limit their investments in securities issued or guaranteed by the U.S. government or its agencies or instrumentalities (including repurchase and reverse repurchase transactions).

**Broker-Dealers Cannot Remit to Customers**  
**Any Part of the Yield**

During the course of the dialogue about the feasibility and benefits of such a rule amendment, the question arose as to whether, in factoring in the SEC's support for such a change, broker-dealers might be willing to remit to customers a part of the yield received on money market funds meeting the deposit requirements of the broker-dealer.

While the reserve account under Rule 15c3-3 ensures that customers' funds held by the broker-dealer are deployed only in areas of the broker-dealer's business relating to serving its customers, the reserve account is not designed to be an account producing a yield on individual customer funds. Indeed, from an operational standpoint, it is not even possible, given the complexity of the computing formula under Rule 15c3-3, to determine what customer funds, if any, are in the reserve account. Many of the computations relating to the reserve requirement do not even relate to customer funds. Moreover, no broker-dealer of which we are aware makes available to customers any interest which might be derived from deposits made by the broker-dealer (*e.g.*, deposits earning interest such as T bills, bank interest). Nor, does Rule 15c3-3 itself call upon the broker-dealer to remit any portion of the interest which might arise from deposits in the reserve account. A calculation of any incremental yield arising from the deposit of money market funds (assuming such even occurs) and thereafter spreading the incremental yield among individual customers would be an impossible task, given the nature of this type of account. The calculations for the reserve account under Rule 15c3-3 do not operate on a customer-by-customer level.

Accordingly, for all the reasons mentioned above, it would be operationally impossible for a broker-dealer to remit a portion of the yield it might obtain on collateral

deposited in its reserve account. Further, it would be inconsistent with the business practice of broker-dealers as they do not have an obligation to give part of the yield on assets in the reserve account to undetermined customers.

**The Amendment to Rule 15c3-3 Would Benefit  
Investors and Broker-Dealers**

Permitting broker-dealers to utilize government money market funds for the Rule 15c3-3 bank reserve requirements deserves serious consideration by the SEC for a number of important reasons.

First, if Rule 15c3-3 were amended to permit government money market funds to be eligible deposits in the Reserve Account broker-dealers would be able to use a comparatively safe alternative to current eligible securities. Government money market funds have a very safe record. No government money market fund has ever had a net asset value of less than \$1.00 per share (*i.e.*, “broken the buck”). Of further consideration is that in 1972 when Rule 15c3-3 was implemented the alternative of a government money market fund for deposit requirements was not available for consideration by the author’s of that rule. It behooves regulators to permit alternative measures for meeting regulatory obligations when such alternatives offer comparative protections and additional benefits.<sup>1</sup>

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<sup>1</sup> In implementing and administering Rule 15c3-3 reserve requirements, the SEC has given recognition to the operational and financial concerns of broker-dealers. The formula for determining the reserve requirement under Rule 15c3-3 specifically permits a broker-dealer to reduce its reserve deposit requirements by the amount of customer funds that the broker-dealer lends to other customers on margin. For example, a broker-dealer with \$1 million of customer funds which lends out \$975,000 to other customers on margin, for which it receives margin interest (all other items in the formula not being implicated), would have a reserve deposit requirement of \$25,000. The deployment of \$975,000 of customer funds into margin loans to other customers does not confer the same degree of safety for those funds as would occur were all the customer funds required to be “locked up” in the Reserve Account in the form of U.S. government securities. Nevertheless, the SEC determined at the time of implementing Rule 15c3-3 that this business practice of allowing customer funds to be lent out to other customers conferred benefits on broker-dealers without impairing the safety of their customer funds in any material manner.

Second, the use of government money market funds by broker-dealers for their compliance under Rule 15c3-3 would provide significant operational advantages for broker-dealers over the use of U.S. government securities. Currently, a broker-dealer must purchase and sell individual U.S. Treasury securities, ensuring that it has the proper amount and maturity on deposit or pledged to its Reserve Account. A broker-dealer might choose to deposit qualified money market funds shares into the reserve account based on operational considerations such as avoiding the need to actively manage a portfolio of U.S. treasury securities. The SEC itself discussed these operational complexities and the advantages that a money market fund offers in its March 9, 2007 Rule Proposal, Amendments to Financial Responsibility Rules for Broker-Dealers, Release No. 34-55431 (hereinafter "2007 Proposal"), where it proposed to expand the definition of qualified securities.

A final important reason for granting a modification of Rule 15c3-3 along the lines requested by Federated is that permitting the use of government money market funds for deposit requirements under SEC regulations would send a strong signal of confidence in the securities fund industry at an unsettling time. Permitting such use of government money market funds 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. The Department of the Treasury specifically noted that money market

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The SEC determined that margin loans, while not as safe as U.S. treasuries, were nevertheless a reasonably safe alternative for the customers and the broker-dealer. Similarly here, weighing the benefits and safety, the permissible deployment of government money market funds for deposit purposes would be a reasonable decision in light of the benefits and relative safety of those government money market funds.

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.

Further, 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.

### **Implementation**

We note that the Commission has certain vehicles by which it may implement these above-requested changes to Rule 15c3-3. As noted above, on March 9, 2007, the Commission proposed for comment amendments to the financial responsibility requirements for broker-dealers including, among others, expanding the definition of

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qualified securities to include certain money market funds. The March 2007 Proposal, with modest modifications, is a means by which the Commission could efficiently and effortlessly expand the definition of "qualified securities" under Rule 15c3-3. Alternatively, the Commission may use its exemptive authority pursuant to Rule 15c3-3(k)(3) to permit broker-dealers to make greater use of government money market funds to meet their requirements under Rule 15c3-3.

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For the reasons set for the above, we believe the requested modifications to Rule 15c3-3 warrant serious consideration and discussion. We look forward to discussing with you the need for the modifications as well as the method by which the Commission should effect such changes. We will call to schedule a meeting with you.

Best regards.

Sincerely,

A handwritten signature in black ink, appearing to read "Lee", written over a horizontal line.

Lee A. Pickard

cc: Thomas K. McGowan, Assistant Director