PICKARD AND DJINIS LLP
ATTORNEYS AT LAW
1990 M STREET, N.W.
WASHINGTON, D. C. 20036

TELEPHONE
(202) 223-4418

TELECOPIER
(202) 331-3813

December 18, 2008

James L. Eastman, Esq.
Chief Counsel and Associate Director
Division of Trading and Markets
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-6628

S7-08-07

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

Re: Government Money Market Funds as Qualified Securities and Money Market Funds as Eligible Collateral under Rule 15c3-3

Dear Jim and Mike:

This letter follows up on our meeting last week and your request for further input on the advantages that would inure to the financial community and investors should the SEC determine to expand the definition of "qualified securities" under Rule 15c3-3 to include government money market funds that limit their investments to securities issued or guaranteed by the United States Government or its agencies or instrumentalities ("government money market funds"). As you are aware, Federated Investors, Inc. over the past few years has urged the SEC to allow broker-dealers to utilize government money market funds in meeting their reserve deposit requirements under this Rule.

Since Rule 15c3-3 was adopted in 1972, broker-dealers have been able to meet their deposit requirements for the Rule 15c3-3 reserve account with only cash or securities issued or guaranteed by the United States. The inclusion of government money market funds as "qualified securities" would constitute an additional qualified financial instrument which a broker-dealer might use to meet its reserve requirements. Developments over the past 37 years suggest there are compelling reasons, both from an investor and industry standpoint as well as public interest considerations, why this additional financial instrument should be a permissible asset for deposits in the reserve account.

Government money market funds were not available in 1972 when the drafters of Rule 15c3-3 designated cash or U.S. Treasury securities or securities guaranteed by the U.S. as qualified assets for the reserve requirement. As an alternative to cash or U.S. government securities, government money market funds, as eligible deposits, would offer several advantages to customers and the financial community:

(i) Government money market funds provide operational advantages over the use of United States 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 Rule 15c3-3 reserve account. Under our proposal, a broker-dealer might choose to deposit government money market fund 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, where it proposed to expand the definition of qualified securities. The operational efficiencies flowing from the permissible use of government money market funds would reduce the regulatory cost of compliance by broker-dealers with Rule 15c3-3 and ultimately benefit public investors.

(ii) Use of government money market funds as an eligible deposit provides a useful alternative and in some circumstances a safer alternative to bank cash deposits in regard to customer protection. This is particularly true in the instance of large cash deposits being made in reserve bank accounts in a limited number of major banks. With aggregate reserve deposits being made by broker-dealers under Rule 15c3-3 reaching an estimated $150-180 billion dollars, it is not hard to project that a significant portion of this money is backed by the balance sheets of these banks rather than FDIC insured. Approximately 350 commercial banks have failed over the past 15 years. On the other hand, no government money market fund has ever failed or "broken the buck". Government money market funds offer an alternative to bank cash deposits and would provide a high degree of protection to customer's under Rule 15c3-3 by addressing, in part, the concern over the concentration of Rule 15c3-3 reserve deposits in a few large banks. Accordingly, public investors would be served by allowing government money market funds to be used as an alternative to cash deposits in a bank.

(iii) Virtually all government money market funds, as a practice, offer redemption privileges no later than the next day. Further, it is anticipated that, as a condition to the eligibility of government money market funds for the deposit requirement in the reserve account, such fund shares would be redeemable in cash no later than the next business day following a request. Thus, liquidity offered by this alternative investment is largely assured. Moreover, the diversification of portfolio securities underlying government money market funds adds further protection of these assets in the customer reserve account. A money market fund must not (with certain limitations) acquire any instruments that have a maturity of greater than 397 days or have a dollar-weighted average maturity that exceeds ninety days. Moreover, a money market fund may not invest more than ten percent of its assets in illiquid securities.

(iv) Approving government money market funds as good deposits for customer reserve requirements is, at most, a modest extension of the type of assets approved by the SEC as acceptable collateral under a related provision, Rule 15c3-3(b)(3). Rule 15c3-3(b)(3) protects customers who lend their securities to broker-dealers by requiring broker-dealers to put up certain collateral for the borrowed customer securities. The SEC has expanded the types of acceptable collateral to include not only U.S. Treasury securities but also securities issued or guaranteed as to principal or interest by government agencies and instrumentalities (*e.g.*, the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac")). We understand that the expanded acceptable collateral has worked well to protect customer assets. As such, it is a modest advance to also allow broker-dealers to use government money market funds which invest in such securities for the customer reserve account. Moreover, we understand from our meeting that the SEC staff is receptive to further expanding the types of collateral required to be put up by broker-dealers when borrowing securities from customers under Rule 15c3-3(b)(3) to include money market funds meeting the requirements of Rule 2a-7 of the Investment Company Act. Federated Investors strongly supports the use of money market funds as acceptable collateral for stock borrowings by broker-dealers from customers and such use of money market funds would be welcomed as an additional alternative by the securities industry.

(v) Limiting eligible government money market funds to those funds which invest in securities issued or guaranteed by the United States government or its agencies or instrumentalities makes such funds exceptionally safe. As noted above, government money market funds have historically had an exceptional record of safety, including never having broken the dollar. There is no credit that is safer than a security issued or guaranteed by the United States Government. In addition, recent events have demonstrated that the United States Government is supporting certain securities issued by its agencies or instrumentalities (*i.e.*, the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac")).

* * * * *

Of significance, SEC approval of government money market funds as qualified securities and all money market funds as eligible collateral under Rule 15c3-3 would come at an important junction. Permitting the use of government money market funds for deposit requirements under SEC regulations would send a strong signal of confidence in the mutual fund industry at an unsettling time for investors. 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 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 has taken action to provide liquidity to money market funds and the commercial paper market. For example, the Federal Reserve created the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (ABCPF) to finance bank purchases of asset backed commercial paper from U.S. money market funds. In addition, the Federal Reserve has also 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 Federal Reserve Board believes that facilitating the sale of money market instruments in the secondary market through these programs will improve the liquidity position of money market funds, thus increasing the ability of money market funds to meet future redemption requests.

As is apparent from these important government programs, these federal 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 for stock loans 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 with, as well as supportive of, the efforts of the Department of the Treasury and the Federal Reserve. The SEC would derive credit from the securities community and the public by joining these government agencies in their efforts to maintain confidence in the mutual fund industry.

We Respectfully Ask the SEC to Quickly Approve Government Money Market Funds as Designated Securities under Rule 15c3-3 and Money Market Funds as Acceptable Collateral for Stock Loans

We believe investors and the financial community would both benefit from timely approval by the SEC of:

(i) Government money market funds as acceptable deposits (*i.e.*, "qualified securities") for the Rule 15c3-3 bank reserve requirements. Government money market funds offer a high degree of safety and protect customers' assets by virtue of their liquidity and diversification of underlying assets. In providing operational efficiencies for broker-dealers, they lower the cost of complying with the regulatory requirements of Rule 15c3-3, which ultimately benefits public investors; and

(ii) Money market funds as acceptable collateral where broker-dealers borrow securities from customers and others (see Rule 15c3-3(b)(3)). We understand the SEC Staff supports this proposed modification, subject to the Commission's approval.

* * * * *

Based on the foregoing, we believe it would be appropriate for the Commission to adopt the proposals described above. We note that the SEC in March 2007 proposed an amendment to Rule 15c3-3 regarding a type of government money market fund as qualifying for the Rule 15c3-3 deposit but has not acted upon such proposal. Having obtained public comment on this earlier proposal, the SEC is in a position to issue a final rule reflecting our request. Further, the SEC Staff is authorized to designate by order money market funds as collateral where broker-dealers borrow securities from customers and others.

We ask for your prompt consideration of this matter. Please feel free to call to discuss any questions you may have.

Sincerely,

Lee A Pickard

Lee A. Pickard

cc: The Honorable Christopher Cox
The Honorable Kathleen L. Casey
The Honorable Elisse B. Walter
The Honorable Luis A. Aguilar
The Honorable Troy A. Paredes
Mr. Erik R. Sirri, Director, Division of Trading and Markets
Mr. Daniel M. Gallagher, Deputy Director, Division of Trading and Markets