SSgA®
STATE STREET GLOBAL ADVISORS

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September 8, 2009

VIA ELECTRONIC MAIL AND U.S. MAIL

Ms. Elizabeth M. Murphy
Secretary
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Money Market Fund Reform, File Number S7-11-09

Dear Ms. Murphy:

State Street Global Advisors ("SSgA")[1] supports the efforts of the Securities and Exchange Commission ("SEC" or "Commission") to enhance the safety and resilience of money market funds. Money market funds are essential participants in the capital markets, providing retail investors and institutions with a flexible cash investment vehicle with a higher yield than many other cash investment alternatives. In addition, money market funds play an important role in providing liquidity to large and small businesses as well as state and local governments. From a regulatory standpoint, money market funds have proven to be remarkably successful in preserving a stable net asset value ("NAV") for investors while providing reasonable investment returns; however, the recent market turmoil has exposed certain weaknesses in the regulation of money market funds. We concur with the Commission's view that revisions to the regulation of these funds are warranted to enhance the safety and stability of these funds, and considering the importance of money market funds and their relatively successful track record, we strongly endorse the evolutionary approach proposed by the Commission as opposed to significant structural changes to the nature of money market funds.

SSgA welcomes the opportunity to provide comments regarding the Commission's proposal (the "Proposal") to amend Rule 2a-7 and other rules that regulate money market funds under the Investment Company Act of 1940, as amended (the "1940 Act")[2] and makes the following recommendations, which we discuss in more detail below:

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1 SSgA Funds Management, Inc., ("SSgA FM") a U.S. registered investment adviser, and other affiliates of State Street Corporation, make up SSgA, the investment management arm of State Street Corporation. SSgA FM serves as investment adviser to registered money market funds with over \$69 billion in assets. In addition, other investment advisory affiliates within SSgA manage over \$70 billion in unregistered funds that comply with the investment management restrictions of Rule 2a-7 under the Investment Company Act of 1940, as amended ("Rule 2a-7").

2 *Money Market Fund Reform*, 74 Fed. Reg. 32688 (July 8, 2009) ("Proposed Rule").

- the stable NAV is a fundamental characteristic of money market funds; a floating NAV would not accomplish the Commission's goals and would discourage investors from investing in money market funds;
- requiring money market funds to pay redemptions in-kind could discourage institutions from investing in money market funds, is overbroad and given the fact that money market funds may pay redemptions in-kind under existing regulations, unnecessary to achieve the Commission's goals;
- the Commission should retain the references to the National Statistical Rating Organizations ("NRSROs") in Rule 2a-7;
- the Commission should not impose any new requirements with respect to the diversification of money market fund portfolios;
- the maximum weighted average maturity of a money market fund's portfolio should remain 90 days;
- the Commission should not impose daily and weekly liquidity requirements that are based on the money market fund's characterization as "retail" or "institutional", but rather impose a global daily liquidity requirement of 5% of the fund's assets and a weekly liquidity requirement of 20% of the fund's assets;
- general liquidity provisions are unnecessary since investment advisers currently understand the need to maintain liquidity to meet the obligations set forth in Section 22(e) of the Investment Company Act of 1940, as amended (the "1940 Act"); however, the Commission should consider expanding Rule 22c-2 to require intermediaries to share information on shareholder activity with investment advisers in order for the adviser to better understand the composition of the fund's shareholder base;
- money market fund service providers will need up to seven business days to assemble and review the data to be included in the new reports required by the Commission; and
- the Commission should not require public disclosure of money market fund portfolio market values or cost valuations to the nearest one hundredth of a cent, since such disclosure could cause investor confusion.

Part I of this letter focuses on the issues for which the Commission has requested comment but were not formally included in the Proposal. Part II of this letter includes our comments relating to the specific amendments included in the Proposal. Subject to these comments, SSgA supports the Proposal and believes that these revisions, especially the tightening of the investment risk-limiting provisions of Rule 2a-7, will ensure that money market funds continue to have the strength and resilience investors have come to expect from them.

I. Commission's Requests for Comments

A. A Floating NAV would be Detrimental to Money Market Funds

The Commission requested comments on whether a floating NAV would be beneficial to investors.[3] We strongly oppose any revisions to the regulation of money market funds that would result in a floating NAV, and we agree with the views presented by the Investment Company Institute ("ICI") in the Report of the Money Market Working Group (the "ICI Report").[4] Specifically, we believe that a stable $1.00 per share NAV is the fundamental characteristic of money market funds, and if money market funds were unable to provide that stable NAV, investors would transition their cash investments to other vehicles and threaten the viability of money market funds as an investment option.

Investors choose money market funds as a cash management vehicle for two primary reasons: (i) money market funds provide a higher yield than many other cash management products such as interest-bearing bank accounts; and (ii) the stable $1.00 NAV permits investors to easily purchase and redeem shares. While the higher yield is an important component of the investment decision, the stable NAV is critical. The stable NAV provides money market fund shareholders convenience and simplicity in terms of tax, accounting, and recordkeeping. This simplicity is essential for a cash management vehicle designed to offer maximum liquidity with high purchase and redemption volume. In addition, the stable NAV simplifies transaction settlement, which permits money market funds to offer shareholders same-day settlement options, as well as ATM access, check writing, and ACH/FedWire transfers. Further, certain investors (e.g., trusts and state-regulated entities such as insurance companies) have legal obligations to invest only in stable NAV products. The complications associated with a floating NAV would increase the cost of maintaining money market fund investments and drive both retail and institutional investors to alternative cash management vehicles that maintained a stable $1.00 NAV.

In addition, moving to a floating NAV could have consequences to the capital markets as a whole. Money market funds play an important role as buyers of short-term debt issued by corporations and state and local governments. As investors moved from money market funds to other investment vehicles, the demand for this short-term paper could significantly decrease, increasing borrowing costs for these issuers. Further, we believe that real impact of this change would likely be felt primarily by retail investors. Institutions could move to privately-placed cash management vehicles that maintained a stable NAV. This movement could result in money market funds losing critical economies of scale and, as a result, closing. In that case, retail investors would be pushed back into other lower-yielding investments, such as bank savings accounts or CDs. Without competition from higher-yielding money market funds, banks could reduce the yields they pay on these accounts because account holders would have no viable cash management alternatives.

Given the importance of money market funds and their successful history, we see no need to threaten their continued existence with changes to the fundamental nature of these products. Instead, we endorse the evolutionary approach adopted by the Commission in the Proposal. The risk-limiting restrictions in the Proposal will significantly improve the safety and resilience of money market funds and strengthen their ability to maintain a stable NAV. We strongly believe that money market funds can

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3 Money Market Fund Reform, 74 Fed. Reg. at 32716 – 32718.

4 Investment Company Institute, *Report of the Money Market Fund Working Grou,p* (March 17, 2009) (available at: http://www.ici.org/pdf/ppr_09_mmwg.pdf).

continue to be successful and safe investment options, but only if they can retain a stable NAV. Moving to a floating NAV would essentially close the door on a popular and successful cash management option and ultimately limit the cash management choices for retail investors.

B. The Commission Should not Mandate Redemptions In-Kind for Certain Redemptions

The Commission has requested comments addressing whether money market funds should be required to satisfy redemption requests in excess of a certain size through in-kind redemptions. The purpose of this requirement is to lessen the impact of large redemptions on remaining shareholders when the fund is experiencing liquidity pressures. We oppose the requirement because we believe it: (i) unnecessarily discourages institutional investors from investing in money market funds; and (ii) is unnecessarily overbroad in that it would require redemptions to be paid in-kind whether or not there would be an adverse impact to the fund. Instead, we urge the Commission to reiterate the right for a money market fund to satisfy redemptions in-kind and permit the fund (through its board and/or investment adviser) to evaluate the necessity of making in-kind redemptions on a case-by-case basis.

Institutional investors who are operating companies as opposed to financial institutions choose money market funds as an efficient and cost-effective way to invest cash and often lack the infrastructure necessary to manage a large portfolio of short-term debt instruments. An in-kind redemption from a money market fund would force such an investor to receive these securities and create difficulties for the investor in disposing of them. In fact, these difficulties could exacerbate liquidity problems in the market. Assuming that a fund could make an in-kind redemption (i.e., all securities were transferable), the investors receiving the securities in-kind would quickly move to sell them, incurring potentially significant transaction costs. This increase in selling activity would put downward pressure on the prices of these securities, which could require the money market fund to reduce its market values, putting downward pressure on its NAV. On the other hand, money market fund managers have the systems and expertise to quickly and orderly dispose of large blocks of short-term debt instruments without incurring excessive transaction costs or adversely impacting markets.

These potential risks and transaction costs would discourage institutions from investing in money market funds in excess of the cash redemption limit. As a result, the proposed requirement would effectively force institutional investors to monitor their investments in money market funds to limit the possibility of receiving a redemption in kind. This added expense and effort could drive institutions away from registered money market funds and into alternative cash investment vehicles.

Further, the requirement would be overly broad, potentially requiring money market funds to make redemptions in-kind, even where the interests of the remaining shareholders are not implicated. For example, a highly liquid money market fund may be able to satisfy extremely large redemptions in cash without impacting the remaining shareholders, whereas a longer duration and less liquid fund may need to pay redemptions in-kind starting at a lower level. The requirement proposed by the Commission would be triggered whether or not the large redemption would actually have a negative impact on the remaining shareholders in the fund.

As an alternative to the Commission's proposal, we suggest that the Commission merely reiterate the investment adviser's fiduciary duty to act in the interests of shareholders and codify the right for a money market fund to pay redemptions in-kind. As is currently the case, the determination whether to require payment of redemptions in-kind should be made by the fund's investment adviser[5] based on the specific facts and circumstances associated with the redemption. We believe this approach, based on existing regulations, would address the Commissions concerns without deterring institutional investment in money market funds.

C. Portfolio Quality Determination -- NRSROs

The Commission requests comment as to whether NRSROs should be eliminated from Rule 2a-7.[6] SSgA believes that the references to NRSRO ratings should be retained because their elimination poses substantial risks for the money market fund industry. NRSROs play an essential role in the management of money market funds by providing a clear reference point (or "floor") for investment managers and investors to assess the quality of eligible portfolio securities. While the reliability of credit ratings has been challenged in light of the recent market developments, it has never been appropriate for money market funds to rely solely on a security's NRSRO rating without also separately considering whether that security presents minimal credit risks.[7] Thus, the references to NRSRO ratings do not replace the investment adviser's credit analysis, but rather provide an objective floor below which investments may not be made. As a result, NRSRO ratings serve to provide an additional and important layer of protection for investors.

The most significant role of NRSRO ratings is to provide money market funds, both large and small, with an objective standard to test compliance with the rule's requirements. In this way, NRSRO ratings serve to keep all money market funds operating at or above the same level and restrain any particular money market fund from taking greater risks than other competing funds to increase yield (thus gaining competitive advantage in a highly yield-sensitive market). This "stretching" of credit determination could result in more money market funds experiencing the very liquidity problems the Commission is intending to eliminate, and a failure of one or more of these funds could harm the reputation of the entire money market fund industry.

In view of the important role of the NRSRO ratings in the management of money market funds, we strongly urge the Commission not to eliminate the references to NRSRO ratings from Rule 2a-7.

D. Tightening Diversification Requirements

The Commission also requests comment on whether to further restrict these diversification requirements. For the reasons set forth below, SSgA opposes any increase to the diversification requirements set forth in Rule 2a-7.

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5 The fund's board could adopt policies and procedures relating to paying redemptions in kind and disclose the criteria to be considered by the adviser in the fund's offering documents. These criteria could vary from fund to fund depending on its target market, with "retail" money funds adopting a lower threshold than "institutional" money funds.

6 Money Market Fund Reform, 74 Fed. Reg. at 32697.

7 Rule 2a-7(c)(3)(i). Specifically, Rule 2a-7 notes that the determination of minimal credit risk must be based on "factors pertaining to credit quality *in addition to any rating assigned to such securities by an NRSRO*" (emphasis added).

SSgA does not believe that insufficient diversification with respect to issuers or guarantors was the cause of any of the difficulties faced by money market funds during the recent market turmoil. In fact, imposition of tighter diversification standards could substantially impair a manager's ability to select appropriate investments. In the aftermath of the recent market turmoil, the universe of creditworthy issuers and guarantors has contracted due to mergers and liquidations in the financial industry, and tightening the diversification requirements could result in a money market fund being unable to effectively invest its assets. At the extreme, tighter diversification requirements could result in a money market fund being required to invest in lower quality securities or securities guaranteed by lower credit-quality guarantors. Indeed, concentration (within the diversification limits of Rule 2a-7) can be beneficial to money market funds as the manager focuses on select issuers that it believes have the highest creditworthiness. As a result, SSgA believes that the diversification requirements should remain as they currently stand in Rule 2a-7.

II. Commission's Specific Proposals

A. Revisions to Risk-Limiting Conditions

1. Reduction in Weighted Average Maturity

Currently, a money market fund must maintain a portfolio maturity ("WAM") that is appropriate to the objective of maintaining a stable net asset value per share.[8] Specifically, Rule 2a-7 currently requires a money market fund to maintain a portfolio with WAM of no more than 90 days.[9] The Commission has proposed to reduce the maximum WAM from 90 to 60 days.[10]

SSgA opposes decreasing the maximum WAM to 60 days. While a shorter duration portfolio may have less exposure to interest rate risk, interest rate risk was not a contributing factor to the liquidity challenges faced by money market funds during the recent market turmoil. In fact, some of the funds that faced liquidity issues were funds rated by rating agencies and already subject to a 60-day WAM. In addition, requiring a shorter WAM would not only reduce yields as a result of the shorter duration investments, the requirement would increase demand in the shortest duration market segment, and this increased demand would further reduce yields.

We also believe that a 60-day WAM limits an investment manager's ability to provide distinctive investment products and to differentiate themselves in a highly competitive marketplace. As a result, investors would have fewer available options as money market funds were required to invest in substantially the same instruments. Further, investors already have the option of investing in money market funds managed to a 60-day maximum WAM when they choose rated money market funds. Mandating this requirement for all money market funds would eliminate the ability for unrated funds to provide additional yield. This homogenization could drive certain managers away from managing registered money market funds and/or drive investors into other less-regulated cash investment alternatives.

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8 Rule 2a-7(c)(2).

9 Rule 2a-7(c)(2)(iii)

10 Money Market Fund Reform, 74 Fed. Reg. at 32699.

A shorter WAM requirement could also have unintended adverse effects in the capital markets. Issuers would effectively be required to issue shorter-term paper and therefore be subject to increased risk that the debt could not be rolled-over, which would work to destabilize markets and make borrowing more difficult for issuers of short-term paper.

Further, we do not believe that a shorter WAM provides any benefits to money market funds and their investors. While a shorter WAM could provide a marginal increase in money market fund liquidity, we believe other aspects of the Proposal effectively address the Commission's concerns regarding liquidity. Specifically, the daily and weekly liquidity requirements, directly address money market funds' liquidity needs, so there is no reason for the Commission to impose a shorter WAM to indirectly address money market fund liquidity.

Given that an excessive WAM was not the cause of the issues faced by money funds in the recent market turmoil and the potential consequences of mandating a shorter maximum WAM, SSgA believes the 90-day WAM remains appropriate. If, however, the Commission determines that a shorter WAM is warranted, then we strongly urge the Commission to adopt the 75-day maximum WAM as proposed in the ICI Report.[11]

2. Liquidity Requirements

The risk-limiting conditions in Rule 2a-7 currently set requirements for portfolio quality, diversification, and maturity.[12] The Proposal includes a fourth requirement relating to portfolio liquidity.[13] The recent market turmoil (especially in September of 2008) showed that money market funds cannot rely on access to market liquidity during times of extreme market stress. As a result, we believe that minimum requirements regarding liquidity are necessary and appropriate to ensure that money market funds are able to meet shareholder redemptions while maintaining a stable net asset value per share. Specifically, we support the proposed daily and weekly liquidity standards set forth in the Proposal (i.e., securities that the fund has a legal right to convert to cash in the given time frame); however, we oppose different thresholds for money market funds depending on whether their investors are "retail" or "institutional." In addition, we believe a general minimum liquidity standard is unnecessary.

a) "Institutional" and "Retail" Distinction

The Commission proposes minimum liquidity standards that differ between "institutional" and "retail" funds.[14] While we agree with the Commission's conclusion that money market funds with primarily institutional assets face greater liquidity needs than money market funds with primarily retail assets, which tend to remain invested longer, we oppose implementing standards based on the designation of a money market fund as institutional or retail. We believe that such a distinction would be difficult, if not impossible, to effectively implement and could have significant unintended consequences.

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11 ICI Report at 76.

12 Rule 2a-7(b);(c); and (d).

13 Money Market Fund Reform, 74 Fed. Reg. at 32702.

14 Money Market Fund Reform, 74 Fed. Reg. at 32704-32705.

As noted in the Proposal, the distinction between institutional and retail money market funds is common within the industry; however, in practice this distinction is not always clear owing to the various types of institutional investors and distribution channels. Further, segregating institutional and retail investors could unfairly disadvantage both retail and institutional investors by limiting the ability for money market funds to benefit from the economies of scale achieved by commingling retail and institutional investments in the same fund. Given these difficulties, we support the approach proposed in the ICI Report: a 5% daily liquidity requirement and a 20% weekly liquidity requirement applicable to all money market funds.[15] We believe that the concerns relating to large-scale redemptions are effectively addressed in other aspects of the Proposal and through the current option to satisfy redemptions in-kind.

If the Commission nonetheless determines to impose the differing requirements for institutional and retail funds, we request additional guidance as to how to make the determination and/or provide an objective standard for making the determination. The Commission's proposal to permit fund boards to make a determination as to a fund's characterization based on specific factors is too vague and could create inconsistency within the fund industry. Under the framework set forth in the Proposal, two different boards could be presented with the same information and could reach different conclusions as to the characterization of the fund. To address this concern, we request that the Commission provide guidance on an objective standard that could be applied uniformly across the money market fund industry. For example, the Commission could define "institutional" funds as those that offer same-day redemptions or funds that have established minimum investment requirements over a specific threshold, e.g., $10 million.

In the absence of an objective standard, we believe that the Commission should permit a fund's investment adviser, rather than the fund's board, to make the determination as to the institutional or retail characterization of the fund. The fund's investment adviser has the most information on the day-to-day flows of the money market fund, and is therefore in the best position to make the determination. Requiring a fund board to make this distinction would effectively compel boards to insert themselves in the daily management of their funds and review and monitor client activity, a responsibility normally outside the board's oversight role. On the other hand, determining the necessary liquidity levels of a fund's portfolio is squarely within the adviser's expertise and consistent with its overall day-to-day portfolio management responsibilities. Thus, it would follow that if the levels of liquidity are dependent on whether the fund is considered institutional or retail based on the characterization of the fund's shareholder base, the adviser is in the best position to make this determination.

b) General Liquidity Requirements

In addition to the proposed daily and weekly liquidity requirements, the Proposal includes a general liquidity requirement, specifically that money market funds must hold sufficient liquid securities to meet reasonably foreseeable shareholder redemptions in light of the fund's obligations under Section 22(e).[16] SSgA believes that Section 22(e) is clear in its requirement regarding the payment of shareholder redemptions and that money market fund advisers understand the current standards. If a money market fund were not maintaining sufficient liquidity to meet redemptions in accordance with Section 22(e) and were therefore unable to satisfy redemption requests, the result would be a violation of Section 22(e).

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15 ICI Report at 73.

16 Money Market Fund Reform, 74 Fed. Reg. at 32706.

Thus, there is no need for an affirmative statement of this requirement in Rule 2a-7, and we believe that the proposed rulemaking is unnecessary and duplicative.

While we maintain that a general liquidity requirement is unnecessary within Rule 2a-7, we believe that money market funds are already required to maintain liquidity sufficient to meet the fund's potential obligations under Section 22(e). In light of the recent market turmoil, investment advisers and fund boards are now acutely aware that a fund's shareholder base has a direct impact on the fund's liquidity needs. Thus, we concur with the Commission that determining the appropriate level of liquidity requires consideration of the composition of the fund's shareholder base (retail or institutional).

As noted above, the distinction between an institutional fund and a retail fund may not always be clear. Many investors invest in money market fund through omnibus accounts, where the adviser does not know the ultimate identity (and therefore characterization) of the investors. In a fund with a large proportion of its assets held through these accounts, it is not always possible for the fund's investment adviser to fully understand the composition of the shareholder base. Since the composition of a money market fund's shareholder base is an essential component in determining the level of liquidity required to comply with Section 22(e), we propose that the Commission extend Rule 22c-2 to apply to money market funds with respect to sharing shareholder information.[17] We believe that this requirement would permit funds to periodically examine the nature of their shareholder base, even where much of the fund is held through omnibus accounts.

B. Portfolio Stress Testing

SSgA supports the Commission's proposal to require money market fund boards to adopt policies and procedures providing for periodic stress tests of the fund's portfolio. We concur with the Commission's belief that periodic stress testing would provide money market fund boards with valuable insight into the management of the portfolio. SSgA currently performs stress testing of various forms on money market funds, and this testing has become a valuable tool in helping us assess the risks of our various funds and structuring future investments.

While we agree with the Commission that all money market funds should be required to adopt some form of stress testing, we do not believe that the Commission should prescribe any specific tests, even the limited tests set forth in the Proposal.[18] Each money market fund is different, with different investment objectives, portfolio holdings and shareholder bases. As a result, we believe a money fund's investment adviser and board of directors are best suited to determine the specific components of the stress tests. We believe that requiring specific tests could result in some fund boards adopting only required tests without examining whether additional tests would provide better or more complete information of the risks faced by the fund. Further, the required tests may be irrelevant with respect to certain funds, which would require an unnecessary expenditure of efforts to perform these tests.

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[17] Rule 22c-2 currently requires intermediaries to provide investment advisers and/or distributors with shareholder-level information, but only with respect to non-money market funds.

[18] Money Market Fund Reform, 74 Fed. Reg. at 32719, note 314. The Proposal sets forth four hypothetical events: "a change in short-term interest rates, an increase in shareholder redemptions, a downgrade of or default on portfolio securities, and the widening or narrowing of spreads between yields on an appropriate benchmark the fund has selected for overnight interest rates and commercial paper and other types of securities held by the fund.

Instead of requiring specific tests, the Commission should adopt the same approach utilized in Rule 38a-1.[19] Just as Rule 38a-1 requires every registered investment company to implement written policies and procedures reasonably designed to prevent violations of the federal securities laws, so too Rule 2a-7 would require every money market fund to conduct stress tests reasonably designed to assess the risks of being unable to maintain a stable share price. This approach would require fund boards and investment advisers to look carefully at their funds to ensure that the stress tests are tailored to the specific risks to the fund. If the Commission determines to require specific tests in Rule 2a-7, we urge the Commission to define the tests as broadly as possible, permitting investment advisers and boards to tailor these tests to their specific funds.

C. New Money Market Fund Portfolio Disclosure Obligations

The Proposal includes a number of requirements with respect to disclosure of money market fund portfolio holdings. Specifically, the proposals would require money market funds to (i) disclose their portfolio holdings monthly on their website as of the second business day of each month; and (ii) file more detailed portfolio holdings information with the Commission on new Form N-MFP monthly as of the second business day of each month.[20] We agree that investors expect frequent disclosure of money market fund holdings, and, in fact, we currently disclose our money market fund holdings to shareholders as frequently as daily, but in most cases, weekly one week in arrears. We support the Commission's new disclosure requirements; however we have the following comments:

- We request that the Commission extend the filing deadline from the second business day of the month to the seventh business day of the month to permit sufficient time to compile and review the requested data;
- We strongly encourage the Commission not to require public reporting of market values for individual securities held by a money market fund or market values to the nearest one hundredth of a cent; we understand most fund accounting systems do not currently maintain such data, and providing this information could result in unnecessary and unwarranted confusion and concern among shareholders of a money market fund should the market prices decrease below their amortized cost (but within permitted tolerances); and
- We encourage the Commission to permit (but not require) funds to post a human-readable version of Form N-MFP (with values rounded to the nearest dollar) on their websites to satisfy both of the disclosure obligations set forth in the Proposal.

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19 Rule 38a-1(a)(1).

20 Money Market Fund Reform, 74 Fed. Reg. at 32709.

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We appreciate the opportunity to comment on the Proposal and commend the Commission for its efforts in reviewing the regulation of money market funds. If you have any questions about our comments, please contact the undersigned at 617/664-4050.

Sincerely Yours,

Phillip S. Gillespie
Executive Vice President and
General Counsel
State Street Global Advisors