Winston-Salem

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Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE,
Washington, DC 20549-1090.

RE: Proposed SEC Rule 2a-7 File Number S7-11-09
Money Market Fund Reform

To Whom It May Concern:

The City of Winston-Salem has the following concerns and comments related to the above referenced SEC Rule 2a-7.

The proposed rule could potentially harm local governments willingness and ability to invest in money market funds and to issue debt inexpensively in the short-term capital markets. Winston-Salem strongly supports the reforms of requiring money market funds to shorten durations, improve liquidity, and to invest in higher quality securities. North Carolina local governments already have many of these features available through the state sanctioned North Carolina Capital Management Trust (NCCMT), and believe these standards should be national as well. The provisions of Rule 2a-7 that require the use of floating Net Asset Values (NAV) are unnecessary and detrimental to the interests of investors and issuers alike.

Local governments function as both investors in money market funds and as issuers of Certificates of Participation (COPs) and Variable Rate Demand Notes (VRDN's) and General Obligation Bonds that are widely purchased by money market funds. Rule 2a-7 would discourage investing in money market funds.

Most local governments and other investors are reluctant to invest in floating NAV money market funds, especially for short-term investments. Local governments invest in a money market fund to generate improved returns on protected principal. Because of a rising rate environment, which is anticipated for the foreseeable future, any investment placed in a floating NAV fund will be subject to market value losses. Even when volatility is low, the local governments have to perform extra work to book the market changes that can be controversial, even if immaterial. Local governments use money market funds to obtain rates better than a CD or bank account, while retaining easy access. The fixed net asset value allows a return of the principal invested and makes calculating and booking asset gain and loss accrual entries unnecessary. Often the cost of booking the NAV change is more than the actual amount of the change. For example, the April to June NAV change on $1M at NCCMT was about $60, which is what it would cost the City in staff time to book the difference. If investors are willing to take the exposure on rate changes, then most will invest in Treasury Bills (T-Bills) or Federal Agencies rather than in a money market fund. Money market investing is for short-term funds and local governments do not want to book market losses on tax dollars invested short-term.

The NCCMT is illustrative of this issue. It offers two extremely high quality money market funds: one is a fixed NAV with an average maturity of 25 to 60 days and the other is a floating NAV with a duration of about 8 months. The overwhelming majority of local government investments are with the nominally lower return and shorter maturity <u>fixed</u> NAV fund. Local governments have $5.9 billion invested in the fixed NAV fund and only $74 million invested in the floating NAV fund, even though return performance is comparable. The preservation of the capital and not having to book market value gains and losses is more important when investing taxpayer money that have daily or weekly liquidity. Investors at large will behave similarly.

If the SEC rule is approved as proposed and all such money market funds are required to go to a floating NAV, then investors are more likely to place short-term investments in CDs, interest bearing bank accounts, or directly into very short-term T-Bills. The money market funds are major players in the purchase of local government variable rate GO bonds, COPs and VRDN's. If investment in these money market funds is significantly reduced, it will lessen the assets the money market funds have to purchase variable rate local government debt. The lower demand will drive up the rates local governments pay and reduce the availability of this funding source. This will negatively impact local governments on both the revenue and expense sides of the business. If the proposed steps to shorten allowed average maturity, restrict investments to higher quality instruments, and to improve oversight are implemented, then the counterproductive floating NAV should not be included in the rule.

Sincerely,

Clark G. Case

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Cc: Virginia Fox
Richard Burr
NC Congressional Delegation
Government Finance Officers Association
League of Municipalities