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August 19, 2009

*Filed Electronically*

Elizabeth M. Murphy, Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: Money Market Fund Reform; Release No. IC-28807; File No. S7-11-09

Dear Ms. Murphy:

The Vanguard Group, Inc. ("Vanguard")[1] strongly supports the majority of the Commission's proposals[2] to amend Rule 2a-7 and certain other rules that govern money market funds under the Investment Company Act of 1940. These Proposals will further strengthen the solid regulatory framework that has protected investors in money market funds for over 30 years. As a manager of money market funds since 1981 whose shareholders currently invest approximately $192 billion in our money market funds, we believe the Proposals will achieve several important goals: to make money market funds more resilient to widespread credit market disruptions; to improve the funds' ability to satisfy significant redemption requests; to provide greater protections for fund investors; and to improve the Commission's ability to oversee money market funds.

## Executive Summary

Vanguard strongly supports the majority of the Proposals. Eliminating the ability to purchase "second tier" securities, imposing a "weighted average life" requirement of 120 days, instituting daily and weekly liquidity requirements for money market funds, and requiring advisors to implement "know your customer" procedures and portfolio stress testing will undoubtedly strengthen the credit quality, liquidity, and resiliency of money fund portfolios. We believe the Commission's new proposed Rule 22e-3 and proposed amendment to Rule 17a-9 will provide money market fund advisors with the appropriate flexibility to manage fund assets in the best interests of all shareholders during volatile markets.

Some of the ideas on which the Commission has requested comment, however, could have unintended consequences that undermine the improvements mentioned above. Fluctuating share prices or disclosing shadow-priced NAV could confuse investors and unnecessarily induce shareholder redemptions during

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[1] Vanguard offers more than 150 U.S. mutual funds with assets of approximately $1.2 trillion. We serve approximately 24 million shareholder accounts.
[2] *See Money Market Fund Reform*, SEC Release No. IC-28807 (June 30, 2009) (the "Proposals").

periods of market stress. Eliminating credit ratings from Rule 2a-7 will remove the minimum standards that have protected investors in a fund where an advisor might otherwise be willing to trade off credit quality for higher yields. Mandating redemptions in-kind for certain shareholders would be extremely difficult to implement, and will erode the flexibility currently available to advisors. Such drastic shifts in regulation could very likely introduce the very instability and volatility that the Commission seeks to eliminate from money market funds, which, despite the events of late 2008, have continued to be an attractive and safe investment haven for all types of investors.[3]

Likewise, we believe that some of the Commission's proposed amendments to Rule 2a-7 could adversely affect fund shareholders. For example, the proposed amendment to shorten all money funds' weighted average maturity ("WAM") to 60 days could deny retail investors access to the returns of safe, qualifying longer-dated maturities. The proposal to prohibit money funds from investing in illiquid securities could stifle innovation in the short end of the market. Many new security structures, when first introduced in the market, are illiquid until a market for the securities develops. Tender option bonds ("TOBs") are a good example of such structures. TOBs have grown to represent approximately 20% of the variable rate municipal market, and have served money market funds especially well during the recent market crisis.

Vanguard does not support the Proposal that would require money market fund boards to label their funds as "retail" or "institutional" and satisfy different weekly liquidity requirements based on these designations. We believe these labels are overly simplistic and may not accurately capture a fund's real liquidity risk. Moreover, we believe this Proposal is unnecessary given the other proposed changes to Rule 2a-7, such as "know your customer" procedures and portfolio stress testing.

The proposal to require public monthly portfolio holdings disclosure is an example of an amendment that is appropriate to provide shareholders with a reasonable level of transparency into the composition of their money market funds. While Vanguard generally supports the Commission's approach to require fund companies to provide this disclosure, we are concerned that the data required to be filed with the Commission on Form N-MFP could confuse investors if publicly disclosed. In addition, we believe the Commission's proposed two-day lag for investor and Commission disclosure is inadequate.

Part I of this letter discusses various issues for which the Commission has requested comment. Although these issues are not formally part of the proposed amendments to Rule 2a-7, they are nonetheless important to the debate over what regulatory changes are needed to best protect the interests of money fund investors. For this reason, we are pleased to provide the Commission and SEC staff with our thoughts. Part II of this letter focuses on the Commission's proposed amendments to Rule 2a-7, particularly those amendments that we believe could have unintended consequences for investors.

[3] In contrast to the problems that structured investment vehicles ("SIVs") experienced from June 2007 through September 2008 and the subsequent illiquidity of the auction rate securities market, money market funds received a strong vote of confidence from both retail and institutional investors during this period. From June 2007 through September 15, 2008, money funds experienced close to $800 billion in new cash flow. After the collapse of Lehman Brothers, Inc., only one money market fund broke the buck due to its large holding of Lehman commercial paper, predominantly institutional shareholder base and significant redemption activity. *See Report of the Money Market Working Group* (March 17, 2009), pps. 47-66 (the "Working Group Report").

# I. Requests for Comments

*A. A Floating NAV Would Eviscerate a Successful and Important Product for Investors*

Vanguard strongly opposes any amendment to Rule 2a-7 that would require money market funds to effect shareholder transactions at a shadow-priced net asset value ("NAV"), also known as a "floating" NAV, by eliminating their ability to use the amortized cost method of valuation. The certainty of the stable $1.00 NAV is a hallmark of a money market fund, and was not the cause of the problems experienced by some funds during the credit market crisis.[4] It is this very stability that has helped money funds grow to $3.6 trillion[5] in assets since the adoption of Rule 2a-7.

The $1.00 NAV offers certainty to investors: a dollar in, a dollar out. The $1.00 NAV also offers tax, accounting and recordkeeping simplicity.[6] A shift to a floating NAV would require significant, and expensive, changes to operational and recordkeeping systems for both funds and investors. Data and analysis provided to the Commission by the Investment Company Institute's Money Market Working Group in its March 2009 Report highlight our concerns: retail and institutional investors are likely to flee money market funds with floating NAVs, as they will lack the certainty and simplicity of the stable $1.00 NAV.[7] Some investors have already reacted strongly to the concept of a floating NAV, commenting that, even if they could get comfortable with the new structure, the tax, accounting and operational challenges would be a "nightmare."[8] Vanguard believes that for these reasons investors will reject floating NAV money funds and a large portion of their assets could flow into less-regulated alternatives, such as 3(c)7 cash management vehicles that would not be subject to the Rule and largely unavailable to retail investors.

As the Commission itself stated in the Proposals, the stable $1.00 NAV is one of the defining features of a money market fund. It was the reliability of the stable NAV, and of money market funds in general, that enabled all but one to successfully weather the recent economic upheaval. When faced with the loss of the $1.00 NAV and the accompanying legal, operational and recordkeeping challenges of a floating NAV, money markets could face unprecedented instability and cash flow volatility, as investors move assets to different, less regulated investment vehicles. As a result, Vanguard urges the Commission to reject the concept of a floating NAV for money market funds.

*B. Public Disclosure of "Shadow Prices" Will Cause Investor Confusion and Could Increase Market Instability*

The Commission has requested comment on whether money market funds should publicly disclose their market-based NAVs. Rule 2a-7 currently allows the market-based NAV, or shadow price, of money

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[4] The funds that experienced difficulties during the recent market crisis had purchased and held onto securities of questionable credit quality. Credit quality, not the stable NAV, was the source of stress for these funds.

[5] See the ICI's website at www.ici.org/research/stats/mmf/mm_7_23_09.

[6] For example, because all money market fund returns are distributed to shareholders as income, the burden of timing purchases and sales for the purpose of the "wash sale" rule is lifted from investors. In addition, shares of a floating NAV money market fund would have to be reclassified as "available-for sale" securities under accounting rules. As a result, investors would have to expend considerable resources to mark the securities to market and calculate gains and losses. The floating NAV would also directly impact both institutional and retail investors in other ways. Institutional investors would not be able to calculate operating cash on hand until after the fund strikes its final NAV at the end of a business day, which would impede their ability to operate their businesses efficiently. Retail investors who utilize options such as check writing, bill pay, and ATM access through money market funds would no longer be able to budget accurately for upcoming expenditures. Finally, due to the certainty of the funds' NAV, it is often hard-coded into accounting and cash-tracking systems. See *Working Group Report pps. 107-111.*

[7] See *Working Group Report* pps. 105-107.

[8] See *Working Group Report* p. 110.

market funds to fluctuate within a narrow range around $1.00. Although Vanguard believes investors can benefit from disclosure of important portfolio information, public disclosure of a fund's shadow price is likely to confuse investors and generate unwarranted concern about a fund's stability. The attendant uncertainty could cause cash flow volatility from investors who misinterpret the data, or from sophisticated investors who believe they can "front-run" the fund (i.e., buy into a rising NAV). This volatility is likely to be at its peak when markets are under stress.

Regular public disclosure of shadow-priced NAV could create the very instability that the Proposals seek to address. For example, a shadow price below $1.00 could be misconstrued as an indication that a money market fund has, or is likely to, "break the buck." We believe that the risk of misinterpretation or misuse by investors and others outweighs the benefit to provide investors with greater access to information. As a result, Vanguard opposes the disclosure of a money fund's shadow-priced NAV.

*C. The Use of Credit Ratings in Rule 2a-7 Should be Retained and Funds Should Designate the Rating Agencies They Will Follow*

In our experience, credit ratings are a necessary, but not sufficient, tool to inform an investment decision, and should remain in Rule 2a-7. As set forth in Vanguard's August 1, 2008 comment letter ("Letter") to the Commission,[9] we believe that credit ratings, although occasionally imperfect, provide a valuable, independently established minimum baseline for analyzing a security's credit risk. Credit ratings play a very important role under Rule 2a-7 by acting as a floor, keeping all money market funds operating at or above a minimum level of credit risk and constraining any money market fund from taking imprudent risks to increase yield. Removing these ratings would ignore the important role this floor has played in the industry's 30-year history. Vanguard continues to support the Commission's efforts to address the root problems of flawed ratings and over-reliance on ratings in certain sectors of the financial markets. We urge the Commission, however, to retain the rating requirements in Rule 2a-7 for the benefit of money market investors.

Vanguard endorses the Commission's Proposal to allow a fund board, or its delegate, to designate at least three rating agencies that the fund will use in complying with the Rule, and we ask that an advisor be required to follow only these rating agencies. Requiring funds to monitor at least three nationally registered statistical rating organizations ("NRSROs") will foster competition among credit rating agencies to secure and maintain the NRSRO designation. In addition, funds will be afforded consistency in the NRSROs that they utilize for purposes of Rule 2a-7. An amendment such as this could encourage credit rating agencies to expand their expertise in rating certain types of securities, particularly short-term securities held by money funds. In our Letter, we likened the removal of NRSRO ratings from Rule 2a-7 to "outlawing seat belts with the hope that drivers will be less likely to be injured if a defective belt fails in a crash." On the other hand, permitting money market fund boards to designate which NRSROs a fund will follow will enable the fund to choose the "seat belts" it believes will, in conjunction with the investment adviser's own credit analysis, provide the most safety for investors. The resulting competition among NRSROs to earn these designations should lead to more accurate and reliable ratings.

*D. The SEC Should Not Mandate Redemptions In-Kind For Certain Fund Shareholders*

The Commission also has requested comment as to whether redemptions in-kind should be mandated for shareholder redemptions in excess of a threshold amount. We think not. Most redemptions, even very large ones, can be fulfilled without difficulty. Redemptions in-kind offer an advisor the option to pay a redeeming shareholder with portfolio securities in lieu of cash, and can be used when it is in the best

[9] See Comment Letter, The Vanguard Group, Inc. (Aug. 1, 2008), *available at http://www.sec.gov/comments/s7-19-08/s71908-1.pdf.*

interest of fund shareholders to do so. Vanguard believes that the flexibility to redeem certain shareholders in-kind should continue to be available to an advisor and utilized when the advisor deems appropriate. Mandating redemptions in-kind will remove the flexibility that a money fund advisor needs to manage fund redemptions appropriately, especially in times of market stress.

Redemptions in-kind are unpopular with investors and could exacerbate an already illiquid or deteriorating market. Many investors, even relatively sophisticated institutions, may be unprepared and ill-equipped to turn these securities into cash. In addition, certain assets held by money market funds are not readily distributable to investors due to DTC requirements regarding minimum denominations for securities. Even if a fund's securities could be distributed in-kind, investors may only be able to sell them at distressed prices. Large amounts of securities sold into the market at such prices could threaten the entire short-term credit market and adversely impact other money market funds. A money market fund advisor, however, would be better positioned to sell securities at superior prices and in an orderly fashion. The Commission's Proposals to mandate certain liquidity thresholds, implement "know your customer" procedures, and perform portfolio stress testing should eliminate the need to mandate in-kind redemptions.

*E. The Commission Should Not Allow Shareholders to Elect When to Receive Redemptions in the Event of a Fund Liquidation*

Vanguard does not support the proposal to allow shareholders to elect – either at the time of purchase or when a fund announces its intent to liquidate – when to receive redemption proceeds. The Commission has proposed that shareholders in a liquidating fund could elect whether they wanted to receive their redemption payments immediately or wait for payment after an orderly liquidation of the fund. First, we believe that providing such an election would create an acute conflict of interest for the fund board as it attempts to balance the best interests of all shareholders. Second, offering this election would create an additional layer of operational costs for shareholders, as their elections would have to be carefully tracked and, in the event of a liquidation, acted on appropriately. If a fund board determines to liquidate a fund, the board should determine how and when to pay the fund's shareholders, after taking into account all of the facts and circumstances surrounding the fund liquidation and the interests of all shareholders.

*F. The Commission Should Require 100% Committed Liquidity Support for Asset Backed Securities*

The Commission has asked for comment as to whether Rule 2a-7 should require investment advisors to evaluate if asset backed securities ("ABSs") have committed lines of credit or other liquidity support. We believe the Rule should do more. Rule 2a-7 should require ABSs to have 100% committed liquidity support from one or more third parties (or the issuer)[10] to be eligible for purchase by a money market fund.[11] We believe this new requirement will serve to protect investors by imposing another floor in the Rule—a floor which would have prevented funds from purchasing SIVs and other structured vehicles, which had little or no committed liquidity support.

The Commission also has requested comment as to whether ABSs should be subject to *unconditional* demand features to be eligible for purchase by money market funds. Vanguard strongly opposes any such amendment. Many tax-exempt money market funds, including Vanguard funds, have significant TOB

[10] We believe an ABS security that has 100% liquidity support from its issuer could be an eligible security so long as the security has the requisite ratings and the issuer passes the advisor's minimal credit risk analysis.
[11] We believe an exception to this requirement should exist for ABSs that satisfy all 2a-7 eligibility requirements, except the 100% liquidity requirement, that are also collateralized at least 100% by the ABS structure's underlying assets and where the underlying assets produce payments sufficient to redeem the ABSs upon maturity.

holdings.[12] Under Rule 2a-7, TOBs are ABSs subject to a *conditional* demand feature.[13] This distinction is extremely important, as TOBs are carefully structured under existing tax law to pass through tax-exempt income to the money market funds that purchase them. Under tax law, it is the *conditional* nature of the demand feature that permits TOBs to pass through tax-exempt income. If all ABSs were required to have an *unconditional* demand feature, the TOB market could cease to exist, or become seriously impaired. In contrast to the SIVs held in money market funds during the recent market crisis, TOBs served the money fund industry extremely well. The Commission should not alter the definition of ABSs to eliminate a fund's ability to purchase TOBs.

*G. The Maturity-Shortening Provisions of Rule 2a-7 Should Not be Further Restricted*

Vanguard supports the Commission's Proposal to require money market funds to maintain a weighted average life[14] of no more than 120 days. As part of this Proposal, the Commission has requested comment as to whether the maturity shortening provisions of Rule 2a-7 should be restricted to adjustable-rate securities, including Government securities, with maximum final maturities of no more than 2, 3 or 4 years. We do not support this change, as such a proposal could have a detrimental effect on TOBs. TOBs generally have stated maturities of 80% of the weighted average maturity of the municipal bonds underlying the TOB certificates. These maturities are frequently longer than 4 years. TOBs, however, do have conditional demand features, which serve to shorten the security's maturity to 397 days or less. If the Proposal would prohibit an advisor from using the demand feature to shorten a TOB's maturity, it would render many outstanding TOBs ineligible for purchase, cutting off a significant source of securities for tax-exempt money funds. We urge the Commission not to amend Rule 2a-7 in any manner that would eliminate TOBs as eligible securities for money market funds.

*H. The SEC Should Not Shorten the Maximum Maturity Limit for Non-Government Securities*

Vanguard would not favor shortening the maximum maturity limit for eligible securities under Rule 2a-7 from 397 to 270 days. We believe such a change would be unnecessary, given the proposed amendment to shorten the weighted average maturity and create a weighted average life requirement for money market funds. Such a change would limit the supply of available eligible securities, especially for short-term tax-exempt funds. If this restriction were to apply to retail tax-exempt money market funds, it would diminish the purchase of one year fixed rate note issuance, which is an important funding source for states and municipalities. Typically, municipalities issue one year notes and use the proceeds to fund current expenditures while awaiting tax collections that occur throughout the fiscal year. Further maturity limitations at the security level would be particularly stressful for some state funds, such as California, that rely on this issuance as an important source of funding.

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[12] Money market funds generally invest 10-20% of portfolio assets in TOBs.
[13] *See* Rule 2a-7(a)(3) and (6). We also note that the Commission's Proposal would change the rating requirement for securities subject to a conditional demand feature. We agree with the Commission that the short-term rating should be the highest rating category, but disagree that the long-term rating must be in the same category. We believe the requirement of the current Rule—that any long-term rating be in one of the two-highest categories—is sufficient.
[14] As stated in the Commission's Proposal, the weighted average life of a fund would be determined without regard to a security's interest rate reset dates, thereby limiting the extent to which a fund could invest in longer maturities.

## II. Comments on Proposed Amendments to Rule 2a-7

### *A. The Weighted Average Maturity of Fund Portfolios Should be Limited to 75 days*

Vanguard supports the Commission's efforts to limit the exposure of money market fund investors to certain risks, including interest rate risk. We agree with the assertion that portfolio securities with longer-dated maturities tend to increase a fund's exposure to interest rate risk and liquidity risk, and can amplify the effect of widening credit and interest rate spreads. We also agree that shortening the dollar-weighted average maturity ("WAM") of a money market fund will help protect against widening spreads. We support the shortening of the WAM to 75 days, but we believe that a 60-day WAM would deny investors the benefit of higher returns. Moreover, our internal data suggest it is asset quality, not WAM, that has greater influence on a fund's NAV. In 2007 and 2008, the Vanguard taxable money market funds maintained WAMs longer than 60 days using longer-dated Treasuries and U.S. government securities to offset the effect of declining interest rates. Locking in higher yields allowed our shareholders to experience above-average risk adjusted rates of return.

As described in Part I.H above, a 60-day WAM could impact the current borrowing practices in the municipal market. We also believe that a 60-day WAM might encourage money market advisors to invest in alternative structures that pose different, potentially greater risks than the products in our market today. Our experience tells us that a 75-day WAM is an appropriate balance between limiting risk and providing attractive returns to shareholders. We support the Commission's efforts to reduce the WAM and request that the Rule's 90-day WAM be reduced to 75 days.

### *B. Portfolio Liquidity*

#### *(i) In Lieu of a Prohibition on Illiquid Securities, the Limit Should be Lowered to 5%*

The Commission has proposed to eliminate the ability of money market funds to purchase securities that can not be sold or disposed of in the ordinary course of business within seven days at approximately their amortized cost value (*i.e.*, "illiquid" securities). We do not agree with an outright prohibition on the purchase of illiquid securities, but rather support lowering the limit on illiquid securities from 10% to 5%. Many new security structures that are money fund eligible are illiquid until a market for them has been established. We believe that prohibiting the purchase of these securities would stifle innovation and ultimately constrict the universe of money-market-eligible securities. A five percent or similar limit would reduce the risk posed to funds by illiquid securities, while at the same time provide capacity for funds to purchase and help create a market for new and innovative money-market-eligible securities.

#### *(ii) The Commission Should Mandate Minimum Liquidity Requirements for Money Market Funds, but Should Not Differentiate Funds Based on "Retail" and "Institutional" Labels*

Vanguard supports the Commission's Proposal to require daily and weekly minimum liquidity thresholds for money market funds, and we agree with the Commission that the 5% daily liquidity requirement should not apply to tax-exempt money market funds. We agree that the amounts of liquidity required to redeem shareholders will vary from fund to fund depending on current market factors affecting portfolio liquidity, a fund's cash flow, and the composition and behavior of its shareholder base. To help money market funds avoid liquidity problems and prevent such problems from disrupting the overall market, the Commission proposes to implement daily and weekly liquidity requirements[15] for money market funds, based on whether they are classified as "retail" or "institutional" funds under new definitions in Rule 2a-7. We believe, however, that the Commission's other proposals – a shortened WAM, the new WAL measurement, portfolio stress testing, and "know your customer" requirements – should adequately address the Commission's concerns about the liquidity of money market fund portfolios. We believe the "retail" vs. "institutional" distinction, therefore, is not necessary.

Although the Commission's proposed definitions of "retail" and "institutional" funds offer helpful guidance, we don't believe that having fund trustees classify funds as either "institutional" or "retail" is the most efficient and effective way to address liquidity issues arising from bulk redemptions. Our experience tells us that certain investors who would be classified as "institutional" under the Proposal would not pose liquidity risk, while others meeting the "retail" definition could pose such risk. Moreover, the composition of a fund's shareholder base among these types of accounts may change between periodic "designations," while the management of the fund will be unlikely to change until the trustees make a redesignation. This disconnect between the timing of the designation and the perpetual change of a fund's shareholder base could put shareholders at risk. Attentive portfolio management based on "know your customer" procedures[16], portfolio stress testing, and the general liquidity requirements suggested by the ICI[17], will be more effective at managing liquidity risk than periodic fund designations as retail or institutional.

Our experience tells us that differentiating funds as retail or institutional based on the nature of the "record owners" of fund shares, as the Proposal requires, is overly simplistic. The nature of the record owner does not always correspond to the nature, and likely behavior, of the ultimate investor. A large "institutional" omnibus account held in the name of a financial intermediary could actually be a conduit account for thousands of individual retail investor accounts. Although technically "institutional" under the Proposal, such intermediaries lack decision-making authority for their constituent accounts and would not pose the mass redemption risk and liquidity issues of a real institutional holder, such as a hedge fund. On the other hand, a "retail" investor could have a large balance that could pose a liquidity challenge for a fund.

Another liquidity challenge that the proposed rule would not address involves liquidity risks that arise from factors other than the size of accounts. For example, geographic concentration of shareholders could pose a liquidity risk to a fund. Typically, state tax-exempt funds have predominantly retail shareholders who are concentrated in a single geographic area. A material credit event in the geographic area could prompt these retail shareholders to redeem their shares in short order. Under the current Proposal, the levels of liquidity for these funds could be inadequate.

If, however, the Commission does impose daily and weekly liquidity requirements based on retail and institutional labels, we believe the weekly liquidity requirement for institutional funds should not exceed 25%, and that the advisor, not the fund board, should be the party responsible for making the "retail" or "institutional" designation.

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[15] The Commission's Proposal would impose a 5% daily liquidity requirement for all taxable money market funds, a 15% weekly liquidity requirement for retail money market funds, and a 30% weekly liquidity requirement for institutional money market funds.

[16] We would expect that the information required to be obtained by the "know your customer" procedures would only apply to those shareholders whose redemption activity could materially impact the fund. It would be ineffective, costly and extremely time consuming, for example, to require investment advisors to obtain "know your customer" data on all investors in a fund, particularly if no single investor owned a material portion of the fund.

[17] The ICI's Working Group recommended a daily liquidity requirement of 5% for all taxable money market funds and a weekly liquidity requirement of 20% for all money market funds. We support this recommendation.

*C. The Requirements for Long-Term Securities Should Not Change*

Vanguard is not in favor of proposed Rule 2a-7(a)(11)(iv)(A), which would prohibit money market funds from investing in long-term securities that do not have short-term ratings, unless the security has a long-term rating in the highest two categories. In an environment where competition for short-term money-market-eligible securities can be fierce, these types of securities can provide a steady investment opportunity for many money market funds, especially tax-exempt funds, as long as they are carefully screened for credit quality. This Proposal could eliminate a significant source of investment capacity for money market funds. Typically, a long-term security poses diminished credit and interest rate risk to a fund as it nears maturity and falls within the Rule's 397-day maturity requirement. An investment advisor should be able to perform a minimal credit risk analysis on these securities and determine whether they satisfy the Rule's credit quality standards. For this reason, we do not believe that it is necessary for long-term securities that do not have short-term ratings to be rated in the two-highest long-term rating categories. Vanguard prefers the present formulation in Rule 2a-7, under which long-term unrated securities are eligible *unless* they have received a long-term rating that is not within any NRSRO's three highest ratings categories.

*D. Portfolio Disclosure*

*(i) The Commission Should Require Money Market Funds to Disclose Monthly Portfolio Holdings to Investors*

Vanguard supports the Commission's Proposal to require monthly portfolio holdings disclosure for money market funds. We believe providing investors with the security description, yield, maturity date, face amount, and amortized cost value will provide the appropriate level of transparency about fund holdings to the average investor. We request, however, that the Commission consider extending the lag time for this disclosure to 10 business days. In our experience, the compilation of money market fund holdings is time consuming, especially for the municipal funds due to the nature of the securities. The fund holdings information is also reviewed manually to ensure its accuracy. We believe investors deserve accurate fund information, and we believe the 10 day window will provide advisors adequate time to gather and review the relevant data before it is disseminated to investors.

*(ii) The Commission Should Require Detailed Portfolio Holdings Disclosure to be Submitted to the SEC on Form N-MFP*

The Commission has proposed new Rule 30b1-6, which would require money market funds to file detailed portfolio information with the SEC on Form N-MFP on a monthly basis with a two business day lag. As stated in the Proposals, this information is intended to assist the staff in its oversight of money market funds and would become publicly available two weeks after filing. As discussed above, Vanguard generally supports the Commission's efforts to provide greater transparency into money market fund holdings. We are not, however, in favor of publicly disclosing Form N-MFP on a two-week lag. We believe the Commission's Proposal to require monthly portfolio holdings disclosure to fund investors will provide them with sufficient portfolio holdings data. Disclosing Form N-MFP would drown investors in data that is not useful, such as whether the portfolio's securities are categorized as Level 1, Level 2, or Level 3 under FAS 157.[18] Such fund accounting details are not readily understood by the average investor and could be confusing.

[18] We also note that because a portfolio's securities will be valued using the amortized cost method, all securities will be categorized as Level 2. We do not think this information is particularly useful or insightful for the average investor or the SEC.

Although we support the monthly disclosure of portfolio holding information to the SEC using Form N-MFP, we request that the Commission consider extending the reporting deadline to 10 business days. The data required to be submitted on the form is quite extensive and is not uniformly accessed and distributed by the industry, particularly with respect to the municipal funds. Elements of the newly proposed security detail contains information that is sourced from various data suppliers, pricing services, trustees, and dealers, and must be compiled, reviewed, and formatted to comply with the new disclosure requirements. Dependency on third parties and the potential for interruptions in the systematic transmission of information could cause delays in down streaming data. We believe that Form N-MFP will be helpful to the SEC if the information disclosed is complete as well as accurate, and we believe that a 10 business day reporting time frame would provide some cushion to address potential production issues related to external factors.

*E. The Commission Should Require Portfolio Stress Testing, but Advisors Cannot Be Expected to Predict Future Market Events*

Vanguard supports the Commission's Proposal to require advisors to perform periodic stress tests on money market portfolios. We believe stress testing can be a useful tool to assist the advisor in fund management, and we support the stress testing of portfolios for an increase in short-term rates and shareholder redemptions. One component of the Commission's Proposal, however, would require advisors to provide an assessment of the fund's ability to withstand the events (and concurrent occurrences of those events) that are reasonably likely to occur within the following year. We do not believe this component of the stress test is realistic or reasonable, and is unnecessary to achieve the Commission's desired result – provide money market fund boards with a better understanding of a fund's risks and provide advisors with a tool to better manage such risk. We request, therefore, that the Commission eliminate this component of the stress test.

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We commend the Commission for addressing the need for a strong regulatory framework for money market funds and we appreciate the opportunity to comment on the Proposals. If you have any questions about Vanguard's comments or would like any additional information, please contact me or Ari Gabinet at 610-503-5663.

Sincerely,

/s/ F. William McNabb III

President and Chief Executive Officer
The Vanguard Group, Inc.

cc: Honorable Mary L. Schapiro, Chairman
Honorable Kathleen L. Casey, Commissioner
Honorable Elisse B. Walter, Commissioner
Honorable Luis A. Aguilar, Commissioner
Honorable Troy A. Paredes, Commissioner

Andrew J. Donohue, Director, Division of Investment Management
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