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August 24, 2009

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

RE: File Number S7-11-09, Release No. IC-28807
Money Market Fund Reform

Dear Ms. Murphy:

Fidelity Investments,[1] the largest manager of money market mutual funds with over $500 billion in assets, appreciates the opportunity to comment on the Securities and Exchange Commission's proposed amendments to certain rules that govern money market mutual funds under the Investment Company Act, issued in Release No. IC-28807 (the "Release").[2]

Fidelity recognizes the thoughtful approach and significant work undertaken by the staff at the SEC in preparing the Release, and supports the Commission's goal of increasing the resilience of money market mutual funds to market disruptions such as those that occurred in 2008. In responding to the Commission's proposals, Fidelity is committed to strengthening market integrity and confidence, mitigating systemic risk, ensuring robust market discipline and promoting appropriate regulatory oversight.

Fidelity believes that financial markets, including money markets, function most effectively with a combination of market discipline and prudent government oversight. Both need to improve, but we urge the Commission to strike the right balance in adopting final rules relating to money market mutual funds.

Money market mutual funds represent a success story of financial innovation and regulatory oversight. Individual and institutional investors have expressed their confidence in the management and regulation of money market funds by investing over $3.6 trillion in these

[1] Fidelity Investments, the largest mutual fund company in the United States, is a diversified financial services company that includes several registered investment advisers, registered broker-dealers, including a retail broker-dealer and a clearing firm, registered transfer agents, and a retirement plan services administrator.
[2] Money Market Fund Reform, 74 Fed. Reg. 32688 (July 8, 2009). Citations to the Commission's proposed rule are referred to herein as "Proposed Rule."

products.[3] Money market mutual funds provide critical funding for federal, state and local governments in the United States as well as corporations around the world. Rule 2a-7 has been an effective regulation benefiting investors and issuers alike. Our goal in this letter is to recommend enhancements to Rule 2a-7 that further strengthen the money market industry and broader financial markets.

Fidelity generally supports the Commission's proposals. In certain areas, we make some alternative suggestions to strengthen money market mutual funds and reduce the risk of unintended consequences for issuers and investors. In others, we believe that the current rule adequately mitigates potential risk and recommend that the Commission make no changes.

Fidelity manages money market mutual funds with a focus on stability, liquidity and shareholder return, in that order. We believe that the Commission's proposal as amended by our proposed changes will promote stability and enhance liquidity while also limiting the potential negative impact on shareholder returns. The Commission estimates that its proposed changes to Rule 2a-7 "would decrease the yield that a money market fund is able to achieve in the range of 2 to 4 basis points."[4] However, we estimate that the potential yield reduction could be as high as 25 to 43 basis points for an institutional non-rated fund, 19 to 32 basis points for a rated institutional fund and 14 to 31 basis points for a retail fund.[5] In today's low-rate environment, the average taxable fund is yielding 0.18% and the average municipal fund is yielding 0.17%.[6] Based on a survey recently commissioned by Fidelity, money market mutual fund investors view these potential yield impacts as significant.[7] However, if the Commission adopts the suggestions in this letter, we estimate that the potential yield impact would be reduced to 13 to 20 basis points for an institutional fund, whether or not rated, and three to seven basis points for a retail fund.

I. SUMMARY

A summary of Fidelity's comments, which are described in further detail in the remainder of this letter, is set forth below.

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[3] Investment Company Institute, *Money Market Mutual Fund Assets* (August 20, 2009), http://ici.org/research/stats/mmf/mm_08_20_09.
[4] Money Market Fund Reform, 74 Fed. Reg. at 32723.
[5] See Appendix A for a summary chart of Fidelity's estimates.
[6] Average 7-day yields on an asset-weighted net basis from iMoneyNet as of July 31, 2009.
[7] Fidelity conducted an investor survey to gauge money market mutual fund investors' willingness to accept tighter money market mutual fund regulation in exchange for lower yields. Seventy-five percent of retail investors would prefer no changes to money market mutual funds if the yield were to decrease by 30 basis points. Similarly, 71% of institutional investors favored no changes rather than a 40 basis point reduction in return.

1. **Portfolio Liquidity** – Fidelity supports the new liquidity proposals, including different requirements for retail and institutional funds, with a suggestion to include Government Securities as Liquid Assets. Fidelity also supports the inclusion of a five percent Daily Liquid Assets requirement for all tax-exempt money market mutual funds.

2. **Portfolio Weighted Average Maturity** – Fidelity believes that Rule 2a-7's current weighted average maturity requirement of 90 days appropriately limits interest rate risk.

3. **Portfolio Weighted Average Life** – Fidelity supports the introduction of a weighted average life test to reduce credit risk and spread risk. We agree with the Commission that a 120-day weighted average life test is appropriate for general purpose taxable funds and municipal funds, but believe Government and Treasury funds should have a weighted average life test of 150 days.

4. **Illiquid Securities** – Fidelity believes that it is appropriate to continue to permit a money market mutual fund to invest up to 10% of its assets in securities that represent minimal credit risk but do not meet the Commission's definition of "liquid," especially in light of the proposed daily and weekly liquidity requirements.

5. **Second Tier Securities** – Fidelity believes that second tier securities that represent minimal credit risk continue to be an appropriate investment for money market mutual funds. Fidelity is also concerned that elimination of the ability of money market mutual funds to purchase second tier securities will have a negative impact on first tier securities that may be at risk of downgrade.

6. **Holdings Disclosure** – Fidelity favors monthly money market mutual fund holdings disclosure on a fund sponsor's website with a five business day lag.

7. **Floating NAV** – Fidelity opposes moving money market mutual funds to a floating NAV and believes that a floating NAV will cause significant shareholder outflows, destabilizing money market mutual funds and the overall money markets.

8. **Market Value Pricing** – Fidelity supports the continued use of amortized cost accounting for money market mutual funds and believes that public disclosure of market value pricing will only serve to confuse shareholders and undermine the integrity of money market mutual funds.

II. IMPROVING THE PORTFOLIO LIQUIDITY, CREDIT QUALITY AND RISK MANAGEMENT OF MONEY MARKET MUTUAL FUNDS

A. Liquidity

Fidelity supports the addition of a daily and weekly liquidity requirement for all money market mutual funds, including tax-exempt funds. As described further below, however, Fidelity suggests that the Commission consider some changes to the liquidity proposals to enhance management of money market mutual funds while still providing greater protections in the event of significant shareholder redemptions.

1. Use Same Day Redemptions as Criteria to Define Institutional Funds

Key to the different liquidity requirements in the Release are the definitions of retail and institutional funds. We agree with the Commission that Rule 2a-7 should differentiate between retail and institutional funds. Institutional funds faced greater redemption pressures than retail funds in 2008. Based on a review of historical redemption patterns in Fidelity's money market mutual funds, we have concluded that the liquidity demands on institutional funds are generally greater than the liquidity demands on retail funds. Accordingly, a higher daily and weekly liquidity requirement for institutional funds is appropriate.

Fidelity believes that the categorization of retail and institutional funds should be based on an objective standard that is consistently applied across the industry to prevent manipulation of the fund characterization.[8] We suggest that the Commission adopt a definition of an institutional fund as a money market mutual fund that has any class which offers same day liquidity to shareholders. This objective criterion would provide clarity for advisers and the Commission in determining whether a money market mutual fund is an institutional or retail fund.

[8] The Commission has proposed that a fund's board of directors make a determination of whether a money market mutual fund is an institutional fund no less frequently than annually based on several subjective factors: nature of the record owners of the fund's shares; minimum initial investment requirements; and historical cash flows that have resulted or expected cash flows that would result from purchase and redemptions. Money Market Fund Reform, 74 Fed. Reg. at 32705 and Proposed Rule 2a-7(a)(17) and 2a-7(c)(5)(v).

2. Expand Definition of Liquid Assets to Include Government Securities

The definition of Liquid Assets under the proposed rule is important to managing the redemption risks of money market mutual funds.[9] Fidelity believes that the definition of Liquid Assets should include some clarifications and additions, as detailed below.

First, the definitions of Daily and Weekly Liquid Assets should include fixed-rate Government Securities with a remaining maturity of 397 or less days. Government Securities, particularly direct obligations of federal government agencies that are issued at a discount to par (so-called "agency discount notes"), are highly liquid instruments. Fidelity, working with Tradeweb LLC, provider of an electronic trading platform regulated by the Commission as an Alternative Trading System, has analyzed the trading patterns of agency discount notes. This analysis shows that agency discount notes are nearly as liquid as U.S. Treasury securities at all points along the money market maturity curve. As further detailed in Appendix B, the analysis used three primary measures of liquidity:

- dollar volume of sell transactions by asset managers;
- number of sell transactions by asset managers; and
- average spread-to-cover on these sell transactions.

The analysis included transactions during two periods: July 29, 2007 to July 29, 2008 and July 30, 2008 to July 29, 2009 (a period that included significant market volatility).[10] The data demonstrate that asset managers were able to sell agency discount notes in large dollar volumes during periods of great market stress. In fact, as compared to the prior period, the liquidity of agency discount notes, when measured by dollar volume and number of transactions, increased more than that of Treasury bills. Furthermore, the spread-to-cover data indicates that the significant liquidity generated by selling agency discount notes over the past year came at only a modest cost relative to the cost incurred during a more typical year of market activity.

Government Securities will be particularly important for taxable money market mutual funds to meet the new Weekly Liquid Assets requirement. Other than a term repurchase agreement with a 7-day put feature, the supply of taxable securities that mature within seven days is limited. If improved economic conditions lead corporate issuers to seek to lengthen the maturities of their liabilities, the supply of Weekly Liquid Assets could be further constrained for

[9] The Commission has proposed that liquid assets are: cash; direct obligations of the U.S. Government; or securities that will mature or are subject to a Demand Feature that is exercisable and payable within one Business Day (for Daily Liquid Assets) or five Business Days (for Weekly Liquid Assets). Money Market Fund Reform, 74 Fed. Reg. at 32704 and 32706 and Proposed Rule 2a-7(a)(8) and 2a-7(a)(32).

[10] Fidelity acknowledges that the U.S. Government and the Federal Reserve launched a number of extraordinary and temporary programs to support key government agencies during the period from July 30, 2008 to July 29, 2009.

money market mutual funds. This could be especially problematic if money market mutual funds are at the same time increasing their demand for these assets in response to the Commission's regulatory activity.

Second, the Commission should revise the text of the Proposed Rule to make it clear that Liquid Assets include repurchase agreements for which the money market mutual fund has a contractual right to receive cash within one business day for Daily Liquid Assets or five business days for Weekly Liquid Assets.[11]

Lastly, shares of other money market mutual funds should be included in the definition of Daily Liquid Assets and Weekly Liquid Assets. This clarification is especially important for many tax-exempt funds. Utilizing a money market fund as a collective investment vehicle for other funds (such as tax-exempt money market mutual funds) when purchasing daily securities in the market can be an efficient portfolio management strategy.

3. Adopt the Proposed Daily and Weekly Liquid Assets Tests

The Commission has proposed different daily and weekly liquidity requirements depending on whether a fund is a retail or an institutional fund and whether it is a taxable or tax-exempt fund. With the addition of Government Securities to the definition of Daily Liquid Assets and Weekly Liquid Assets, Fidelity supports the Commission's proposed liquidity requirements. However, there is an impact on shareholder return. Fidelity estimates that the negative yield impact of adopting the Commission's liquidity proposals would be 15 to 20 basis points for institutional funds and two to four basis points for retail funds. The inclusion of Government Securities would reduce that impact by about three basis points for institutional funds (whether or not rated) to 12 to17 basis points, which is meaningful, particularly in low-rate environments.

For the daily liquidity test, because tax-exempt funds are subject to daily redemption, we suggest that the Commission go further than the current proposal and apply a five percent daily liquidity requirement to all tax-exempt money market mutual funds.

4. Revise Definition of Liquid Security to Refer to "Market Value"

The Commission has proposed to codify its guidance regarding liquidity and proposed a definition of Liquid Security in the Release.[12] The proposed definition of a Liquid Security is "a

[11] The Commission has noted in the Release that repurchase agreements are included in the definition of liquid assets. Fidelity requests that the Commission include "repurchase agreements" in the definition of Daily Liquid Assets and Weekly Liquid Assets in the actual rule. Money Market Fund Reform, 74 Fed. Reg. at 32704.
[12] Money Market Fund Reform, 74 Fed. Reg. at 32703 and Proposed Rule 2a-7(a)(18).

security that can be sold or disposed of in the ordinary course of business within seven calendar days at approximately its amortized cost."[13] Fidelity suggests that the definition be revised and refer to market price rather than amortized cost so that a Liquid Security is defined as "a security that can be sold or disposed of in the ordinary course of business within seven calendar days at approximately *market value*" (emphasis added). At times, even U.S. Treasury securities that are highly liquid in the market will trade at a market value other than amortized cost. If the Commission were to adopt the definition of Liquid Security with the reference to amortized cost, one possible result could be the anomaly that a U.S. Treasury security trading at higher than amortized cost would meet the definition of a Daily Liquid Asset and Weekly Liquid Asset, but not the definition of a Liquid Security.

5. Maintain Ability to Purchase Illiquid Securities

The Commission has also proposed to eliminate the ability of money market mutual funds to purchase illiquid securities.[14] Fidelity believes that a money market mutual fund should retain the ability to purchase up to 10% of its assets in illiquid securities and requests that the Commission withdraw this proposal. Fidelity is concerned that this proposal could stifle innovation as many new money market security structures are considered illiquid until a broader market has been established.

The new Daily Liquid Assets and Weekly Liquid Assets requirements for money market mutual funds will provide these funds with ample liquidity to meet redemptions, even in times of market stress. Fidelity supports those requirements. Moreover, as the Commission notes, data from the past year support the idea that the new liquidity requirements would protect almost all funds that face significant redemption pressures.[15]

The Commission must balance the importance of requiring significant daily and weekly liquidity with the ability of a money market mutual fund to provide a meaningful return for shareholders. Illiquid securities provide a source of additional yield for money market mutual funds. In addition, some issuers prefer direct private placement of securities with money market mutual funds and are willing to pay funds a premium for access to such funding as it allows them to secure financing in large dollar amounts while diversifying their funding sources. We estimate that the impact of the adoption of this proposed change could decrease yields for funds from two to six basis points.

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[13] Proposed Rule 2a-7(a)(18).
[14] Money Market Fund Reform, 74 Fed. Reg. at 32703.
[15] Money Market Fund Reform, 74 Fed. Reg. at 32706.

B. Portfolio Maturity

1. Keep Dollar Weighted Average Maturity at 90 Days

Currently, Rule 2a-7 requires money market mutual funds to maintain a 90 calendar day (or shorter) dollar-weighted average maturity ("DWAM") to limit the interest rate risk in a money market mutual fund. The Commission has proposed reducing the DWAM from 90 to 60 calendar days.[16] Fidelity does not support this change. Interest rate risk was not a contributing factor to the challenges faced by money market mutual funds during the past year. We believe that historical experience shows that a 90-day DWAM adequately limits interest rate risk in a money market mutual fund.

A portfolio with a dollar weighted average maturity of three months is exposed to very limited interest rate risk. For example, a portfolio with a DWAM of 90 days could withstand an *instantaneous* 200 basis point shift in short-term interest rates and still not "break the buck."[17] Even during the highly volatile past year, three-month LIBOR increased just over 200 basis points, but this shift occurred over the course of 25 days.[18] During that period, a money market mutual fund had time to react to changes in interest rates.

The Commission notes that it does not expect the reduction of DWAM to 60 days to have much of an impact on funds because of historical average DWAMs.[19] The data that the Commission cites, however, does not take into account that approximately half of money market mutual funds are limited by rating agency requirements to a 60-day weighted average maturity.[20] With those funds removed, the average maturity is almost certainly higher.

Fidelity urges the Commission to consider the impacts on the overall capital markets from this proposed change. The shorter DWAM requirement will encourage money market mutual funds to demand shorter maturity paper from issuers. That demand will cause issuers to supply securities to the market that are subject to short-term rollover risk, which is one of the

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[16] 17 C.F.R. 270.2a-7(c)(2) and Money Market Fund Reform, 74 Fed. Reg. at 32699.

[17] A portfolio with a 90-day DWAM has interest rate sensitivity of .25 years (using a 360-day year). Thus, an *instantaneous* 200 basis point move would cause the net asset value of the portfolio to move by 50 basis points (200bp x .25 = 50bp), which would result in a net asset value of either $0.9950 (if the shift in interest rates was up) or $1.0050 (if the shift in interest rates was down).

[18] On September 15, 2008, three-month LIBOR or the London-Interbank Offered Rate – British Bankers Association Fixing for U.S. Dollar three-month index was 2.81625%. On October 10, 1008, it reached 4.81875%.

[19] Money Market Fund Reform, 74 Fed. Reg. at 32700.

[20] This conclusion is based on publicly available data from Standard & Poor's, Moody's Investor Service and Fitch Ratings that indicates that at least one of those agencies rates 397 money market mutual funds. The Commission states in the Release that more than 750 money market mutual funds are registered with the Commission. Money Market Fund Reform, 74 Fed. Reg. at 32688.

systemic risks that many market participants think exacerbated the problems in the debt markets in 2008.

The Commission's proposed change would make many money market mutual funds less attractive to investors because of the corresponding reduction in return. Fidelity's analysis indicates that reducing the DWAM from 90 to 60 days will reduce yields between five and 10 basis points for non-rated institutional and retail money market mutual funds. Rated funds will not be impacted by this change because of the current 60-day DWAM requirement for AAA-rated funds.

Finally, the Commission mentions the need for money market mutual funds to hold liquid assets to meet redemptions as one of the reasons for a shortened DWAM. Redemption risk, however, is addressed by the daily and weekly liquidity requirements and not dollar-weighted portfolio maturity. In sum, Fidelity believes that the existing 90-day DWAM sufficiently protects shareholders from interest rate risk and shortening the DWAM to 60 days will unnecessarily increase rollover risk for issuers and reduce returns for shareholders.

2. Adopt Weighted Average Life Test at 150 Days for Government Funds

The Commission has proposed a new portfolio maturity test to reduce credit and interest rate spread risk by limiting the weighted average life of portfolio securities to 120 days.[21] Maturity of portfolio securities for this test would be measured without regard to a security's interest rate reset dates.[22] The Commission notes that this new test "appears to be a prudent limitation on the structure of a money market fund portfolio and would limit credit and interest rate spread risks not encompassed by the weighted average maturity restriction of rule 2a-7."[23] Fidelity supports this new 120-day maturity test for funds that invest in securities with credit risk, namely general purpose taxable and tax-exempt money market mutual funds.

We believe, however, that a weighted average maturity of 150 days is more appropriate for money market mutual funds that invest primarily in U.S. Government and Treasury securities. A 120-day requirement unnecessarily restricts Government money market mutual funds. We have determined that a Government money market mutual fund with a weighted average life of 150 days could withstand an instantaneous spread widening in agency floating rate securities of more than double the largest spread widening event in recent memory, which took place last fall,

[21] Money Market Fund Reform, 74 Fed. Reg. at 32700 and Proposed Rule 2a-7(c)(2)(iii).
[22] Money Market Fund Reform, 74 Fed. Reg. at 32700 and Proposed Rule 2a-7(c)(2)(iii).
[23] Money Market Fund Reform, 74 Fed. Reg. at 32701.

before "breaking the buck."[24] Given the high-quality nature of the securities these funds purchase, Government and Treasury funds have a different spread and credit risk profile, which warrants a longer weighted average life as compared to general purpose and tax-exempt money market mutual funds. A 120-day weighted average life limitation on Government funds could also negatively impact the market for government agency securities, limiting funding options for the agencies.

Our analysis has shown that a 120-day weighted average life, as compared to a limit of 150 days, will reduce Government money market mutual fund yields by one to three basis points.

3. Treat Cash as a One-Day Instrument

Fidelity requests that the Commission provide clarification that cash should be counted as a one day instrument for the purpose of the weighted average maturity and weighted average life tests. Not including cash as a portfolio holding distorts the true overall weighted average maturity and weighted average life of a money market mutual fund.

C. Portfolio Credit Quality

1. Continue to Allow the Purchase of Second Tier Securities

The Commission has proposed eliminating the ability of money market mutual funds to acquire second tier securities as a means to reduce credit risk.[25] Fidelity strongly opposes this change and believes that funds should continue to be permitted to purchase second tier securities up to the current five percent limit.[26] Rule 2a-7 has always limited the purchase of securities, including second tier securities, to those that present minimal credit risk.[27] We believe that the acquisition of those second tier securities that represent minimal credit risk is a prudent risk for money market mutual funds to take and provide benefits to shareholders.[28]

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[24] On September 12, 2008, 18-month agency floating rate securities were priced at approximately three-month LIBOR minus 15 basis points. On November 21, 18-month agency floating rate securities were priced at approximately LIBOR plus 32 basis points, representing a change in agency spreads of 47 basis points.
[25] Money Market Fund Reform, 74 Fed. Reg. at 32695.
[26] In the alternative, if the Commission does seek to limit the exposure of money market mutual funds to second tier securities, the rule should not require forced selling of holdings that become second tier securities because of downgrades.
[27] Valuation of Debt Instruments and Computation of Current Price Per Share by Certain Open-End Investment Companies (Money Market Funds), 48 Fed. Reg. 32555 (1983).
[28] If the Commission feels compelled to limit exposure to second tier securities, Fidelity recommends that the Commission reduce the maturity limit to 90 days from 397 days. This shorter maturity limit will reduce the likelihood of a security ceasing to represent minimal credit risk during a fund's holding period.

Second tier issuers were not a source of credit stress on money market mutual funds during 2008. Yet the elimination of money market mutual funds' ability to purchase second tier securities will have significant impacts on the ability of second tier issuers to fund their business operations, which will unnecessarily raise their cost of capital.

Furthermore, eliminating second tier securities as eligible securities for money market mutual funds will harm "lower quality" first tier issuers. Money market mutual funds will avoid purchasing securities that are perceived as "lower quality" first tier instruments because a rating downgrade will result in the fund owning an ineligible security. Our market analysis shows that issuers representing over $150 billion of outstanding debt could be impacted by this proposal if adopted.

Fidelity believes that money market mutual funds benefit from purchasing second tier securities. Second tier issuers tend to be non-financial institutions. Therefore, they add an element of diversification to portfolio composition for general purpose money market mutual funds, which typically hold a significant percentage of securities issued by financial companies. Additionally, second tier securities generally have a higher yield, which produces a greater return for fund shareholders. We estimate that the impact of removing the ability to acquire second tier securities will reduce money market mutual fund yields by four to eight basis points in retail funds, by two to four basis points in non-rated institutional funds and by one to three basis points in rated institutional funds.

2. Do Not Change Long-term Ratings Requirements

The Commission has proposed two changes to the long-term ratings requirements of Rule 2a-7. Fidelity requests that the Commission leave these sections of the rule unchanged.

First, the Commission has proposed that a long-term security with a remaining maturity of 397 days or less will no longer be an eligible security unless the security is rated in the two highest long-term ratings categories (*e.g.*, AAA or AA) rather than the three highest long-term ratings categories (*e.g.*, AAA, AA or A) as the rule currently allows.[29] This change would reduce the eligible securities that money market mutual funds may purchase without any meaningful reduction in credit risk. Some first tier issuers have long-term ratings of "A" and yet, under the rule proposal, their long-term securities that mature within 397 days would no longer be eligible securities.

Second, the Commission has proposed to change the eligibility of Securities Subject to Conditional Demand Features to limit the rating of the Underlying Security or Guarantee of such

[29] Money Market Fund Reform, 74 Fed. Reg. at 32698 and Proposed Rule 2a-7(a)(11).

security to the highest short-term or highest long-term rating categories.[30] As written, the Release would allow only AAA ratings on underlying long-term securities that are subject to conditional demand features. Without any articulated benefit or reduction of risk for shareholders, this change will dramatically limit the securities available for purchase by money market mutual funds generally, and tax-exempt money market mutual funds in particular, because variable rate demand notes and tender option bonds frequently have AA rated underlying securities that are supported by conditional liquidity facilities.[31]

3. Apply Minimal Credit Risk Standard to Repurchase Agreements

We have two final comments on portfolio credit quality. First, the Commission is proposing that the fund's board of directors have "evaluated the seller's creditworthiness," rather than make a minimal credit risk determination of each repurchase agreement counterparty.[32] Fidelity suggests that the Commission change its proposal to require that all repurchase agreement counterparties, regardless of the type or amount of collateral or securities sold, represent minimal credit risk. Otherwise, Rule 2a-7 will have two different standards for credit review.

Additionally, we believe that a fund's adviser, and not the fund's board, is best suited to make the determination of minimal credit risk for repurchase agreement counterparties. Therefore, Fidelity suggests that the Commission revise the final rule to make the minimal credit risk determination of repurchase agreement counterparties a responsibility of the adviser. This change would also ensure the consistency of having the adviser (as the board's delegate) make the minimal credit risk determination for all investments of a money market mutual fund.

D. Nationally Recognized Statistical Rating Organizations

Fidelity requests that the Commission revise Rule 2a-7 to permit advisers to designate four NRSROs on which it relies to make determinations of Eligible Securities and which it would monitor for downgrades under Rule 2a-7(c)(7).[33] Fidelity also believes that a fund should be required should be required to disclose in its Statement of Additional Information the NRSROs on which a fund relies. Limiting the number of NRSROs would prevent advisers from trying to determine how to respond to a downgrade from *any* NRSRO and reduce the costs associated with subscribing to ratings feeds from *all* NRSROs without harming fund shareholders. We believe that four NRSROs provides a balanced number of NRSROs in

[30] Proposed Rule 2a-7(c)(3)(iii)(C).
[31] Fidelity notes as well that the Commission did not comment on this change in the Release.
[32] Money Market Fund Reform, 74 Fed. Reg. at 32709 and Proposed Rule 2a-7(c)(4)(ii)(A).
[33] Fidelity notes the Commission's guidance that the SEC does not expect investment advisers to subscribe to every rating service. Money Market Fund Reform, 74 Fed. Reg. at 32698, note 124.

determining the number of requisite NRSROs to make minimal credit risk determinations under the rule and may foster competition among credit rating agencies to develop a specialized service of providing short-term ratings to money market funds.

Additionally, the Commission has proposed changing the requirement for credit reassessment from any time that the fund's adviser becomes aware of a downgrade below the second highest short-term rating category to any time that the fund's adviser becomes aware of a downgrade below the highest short-term rating category.[34] Consistent with the comments above regarding the importance of retaining the ability of money market mutual funds to purchase second tier securities, Fidelity does not support this change.

Finally, Fidelity reiterates its prior view, as expressed to the Commission in a 2008 comment letter on the Proposed Amendment to References to Ratings of Nationally Recognized Statistical Rating Organizations, that the Commission should retain references to NRSROs in Rule 2a-7.[35]

E. Stress Testing

The Commission has proposed a new requirement under Rule 2a-7 that written procedures shall provide for periodic stress testing of money market mutual funds. Fidelity generally supports the inclusion of a mandatory stress test in the rule. We believe, however, that the fund's adviser, not the fund's board, is best positioned to determine the frequency of and criteria involved in stress testing. In response to questions posed by the Commission, Fidelity does not support different stress test requirements for particular types of funds or a connection between stress test results and liquidity requirements. As the Commission noted in the Release, stress testing is an industry best practice based on a variety of hypothetical events. Thus, the results of stress tests should not drive regulatory requirements.

F. Asset Backed Securities

The Commission requests comment on whether to address risks associated with asset backed securities. Fundamental to the analysis of whether an asset backed security represents minimal credit risk is an evaluation of the sources of liquidity available to repay the security when due. Examples of sources of liquidity that appropriately should be considered in making a minimal credit risk determination include third party committed liquidity facilities and the cash flows generated by the underlying assets. Taken alone, neither an issuer's sale of underlying

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[34] Money Market Fund Reform, 74 Fed. Reg. at 32698 and Proposed Rule 2a-7(c)(7).
[35] *See* Comment letter of Fidelity Management & Research Company (August 29, 2008) available at http://sec.gov/comments/s7-19-08/s71908-14.pdf.

assets at market value nor its continued access to the market to issue new securities is sufficient. The Commission could consider requiring that, in order to be an Eligible Security, an issuer of an asset backed security cannot rely solely on the sale of assets at market value or continued market access.

The Commission has also requested comment as to whether asset backed securities should be subject to unconditional demand features to be eligible for purchase. Such a requirement would have a significant negative impact on many sectors of the asset backed securities markets. First, requiring unconditional demand features may eliminate the tender option bond market which is a significant investment sector for tax-exempt municipal money market funds. For tender option bond issuers to pass through tax-exempt interest to the funds, the tax rules require that the demand feature be conditional. Similarly, many multi-seller asset-backed commercial paper programs are supported by conditional demand features that provide liquidity to the issuer for performing assets. The capital charge for a conditional demand feature is 10% of that for a similar unconditional demand feature, even if the conditions are quite remote such as the bankruptcy of a special purpose, bankruptcy remote issuer. Thus, a requirement that all demand features be unconditional would adversely alter the underlying economics of asset backed securities as a funding source. This would likely result in lower issuance of asset backed securities and higher costs of funding for corporate and government borrowers.

III. ADDRESSING THE OPERATIONAL IMPACTS OF PROPOSED CHANGES

A. Disclosure of Portfolio Information

The Commission has proposed to require money market mutual funds to provide a schedule of investments monthly on the second business day after each month-end.[36] Fidelity supports the Commission's effort to provide greater transparency of money market mutual funds' portfolio holdings, and a monthly posting of portfolio holdings to a website will provide shareholders timely access to such information.[37] However, it will be difficult for money market mutual funds to produce reports within two days that are easy for shareholders to read and understand. Additionally, the two-day requirement could impose significant costs on money market mutual fund advisers because of system enhancements and additional personnel that

[36] Money Market Fund Reform, 74 Fed. Reg. at 32709 and Proposed Rule 2a-7(c)(12).
[37] Fidelity believes that this requirement should be limited to money market mutual funds that are registered under the Securities Act of 1933. Certain registered investment companies that are not registered under the Securities Act of 1933, known as central funds, are not held by individual investors. Thus, there is no advantage to shareholders in requiring portfolio holdings of these money market mutual funds. Extension of this requirement to central funds would impose significant costs on advisers with no benefit to shareholders.

would be required to review some of the manual processes that would be needed.[38] Fidelity believes that five business days will allow sufficient time for funds to prepare clearer reports to shareholders, with limited added expense.

The value of these reports will be enhanced if the format is simple and consistently applied across all money market mutual funds. Such a presentation would allow shareholders to compare different funds within a mutual fund complex, as well as across fund families. Rather than the burdensome requirements of Regulation S-X, Fidelity suggests that the Commission mandate disclosure of five fields for each security:

- issuer;
- security description;
- principal amount of the security;
- current amortized cost; and
- CUSIP (if available).

Additionally, Fidelity believes that certain information about portfolios should be disclosed to assist investors when comparing money market mutual funds:

- Portfolio Weighted Average Maturity; and
- Portfolio Weighted Average Life.

Fidelity does not believe that these disclosures should be subject to the requirements of Regulation S-X, as the Commission has proposed. No other web postings are subject to Regulation S-X, so this new rule would impose a significant additional burden. Certain disclosures required by Regulation S-X, specifically restricted securities and detailed information regarding repurchase agreement counterparties and collateral, are based on information typically contained across multiple systems.

Finally, the Commission has proposed that each fund maintain the monthly holdings on its website for twelve months.[39] The maintenance of multiple months of data on the website would be very costly. Because shareholders may be looking for current information on a timely basis, the current month's holdings are the most relevant. Therefore, Fidelity recommends that the Commission eliminate the requirement to maintain holdings on websites for 12 months. Previous months' data could be made available to shareholders upon request.

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[38] Fidelity estimates that its cost for the two-day reporting requirements will approximate $1.5 million initially and $220,000 for ongoing costs each year.
[39] Proposed Rule 2a-7(c)(12).

B. Reporting to the Commission on Form N-MFP

The Commission is proposing to require money market mutual funds to provide the Commission a monthly electronic filing of more detailed portfolio information.[40] Fidelity requests some modifications and clarifications to this rule. First, we question whether the benefits of the requirement to file the requested information within two business days after the end of the month outweigh the costs. We believe that a more reasonable time frame is 15 business days. The information requested is maintained on multiple systems within Fidelity and to combine the information under a comprehensive control environment, including reviews, requires more than two business days. Providing this information on a more accelerated basis would require significant system enhancements and additional personnel for review. Just to meet the 15-day business day lag reporting requirement, Fidelity estimates that its cost to implement these system enhancements is approximately $500,000 with an ongoing annual cost of approximately $20,000. If this requirement is adopted, implementation is expected to take at least six months.

Second, we are opposed to the Commission's proposal to make the information reported to the Commission available to the public.[41] Given the volume of information required by the Commission, and the relatively technical nature of the data, Fidelity is concerned that investor confusion will result. The new website holdings requirement, along with the additional portfolio information Fidelity has suggested, will provide improved and sufficient transparency for money market mutual fund shareholders. As discussed below in greater detail, Fidelity is strongly opposed to the disclosure of the market value pricing of a portfolio or securities in Form N-MFP or any other forum.[42]

Third, Fidelity suggests modifications to the required data fields in Form N-MFP, as detailed below:

- *Items 12, 13, 14, 37 and 39* – total dollars should be provided to the nearest cent, as is the convention with monetary information;
- *Item 20* – the requirement for CIK number of the issuer should be eliminated because this is not a widely used identifier for money market instruments;
- *Item 26* – the disclosure of the credit rating should be clarified to be the credit rating of the security or the issuer of the security, as applicable; and

[40] Money Market Fund Reform, 74 Fed. Reg. at 32710.
[41] Money Market Fund Reform, 74 Fed. Reg. at 32710.
[42] *See infra* discussion at section IV.B.

- *Item 38* – information regarding the Level of the securities should be provided at an aggregate level as required by FAS 157, as amended, not at a security level.

In addition, it would be helpful if the Commission were to provide further guidance in its final release as to what explanatory notes (Item 40) may be required. Lastly, Fidelity believes that a format with standardized fields such as XBRL may provide more benefit to the Commission by allowing for more comparative analysis than would be available with the proposed XML format.

C. Amendment to Rule 30b1-5

As part of the changes relating to the reporting requirements, the Commission has proposed amending Rule 30b1-5 under the Investment Company Act to exempt money market mutual funds from the requirement to file their schedules of investments pursuant to Item 1 of Form N-Q.[43] Fidelity does not support this proposed amendment. Rather, Fidelity believes that the Commission should keep the current requirements of Form N-Q for money market mutual funds.

The Commission also seeks comment on whether to apply the certification requirements of Rule 30a-2 under the Investment Company Act to the proposed Form N-MFP.[44] Fidelity opposes the extension of the certification requirements to Form N-MFP, which is to be filed much sooner after the close of a period than Form N-Q. The current requirement that a Form N-Q be filed not later than 60 days after the close of the fiscal quarter covered by the report provides certifying officers sufficient time to complete the certification process for a report. During this time period, a certifying officer must review a report, complete an analysis of any potential control deficiencies in the fund's internal control over financial reporting and disclosure controls and procedures, as well as conclude on the effectiveness of the disclosure controls and procedures.

Requiring monthly Form N-MFPs to be certified would significantly increase the number of certified reports filed with the Commission annually by a money market mutual fund from four to 14 per year (assuming these funds are exempt from filing reports on Form N-Qs). For Fidelity's money market mutual funds, this would increase the number of certifications by 390 annually.

[43] Money Market Fund Reform, 74 Fed. Reg. at 32712.
[44] Money Market Fund Reform, 74 Fed. Reg. at 32712.

D. In-Kind Redemptions

The Commission seeks comment on requiring money market mutual funds to satisfy redemption requests in excess of a certain dollar amount through in-kind redemptions.[45] In light of the potential difficulties involved with delivering underlying money market fund investments in-kind, Fidelity opposes any mandatory in-kind redemption requirement.

IV. PRESERVING THE INTEGRITY OF MONEY MARKET MUTUAL FUNDS

Fidelity believes it is critical that the financial services industry, regulators and policy makers work together to arrive at the right answers for improving the resilience of money market mutual funds while, at the same time, preserving the key investment features so many money market mutual fund shareholders rely upon -- most especially the stable $1.00 net asset value ("NAV").

A. Floating NAV

Fidelity strongly opposes the concept of introducing a floating NAV for money market mutual funds, for a number of reasons. First, we do not believe that a floating NAV would reduce systemic risk. Some have suggested that in a period of market turmoil, funds with floating NAVs would be at lower risk of significant redemptions from shareholders. We are not aware of empirical evidence to support this belief. In fact, a floating NAV would potentially destabilize a large ($3.6 trillion)[46] and important segment of the financial markets.

Money market mutual fund shareholders do not favor a floating NAV. Retail and institutional investors rely on money market mutual funds as a low-cost, convenient and reliable cash management tool. Fidelity's internal research shows that a large number of money market mutual fund shareholders, particularly institutional shareholders, would redeem holdings in these funds if they adopted a floating NAV. In a survey of retail money market investors, 33% of respondents indicated that they would withdraw some, most or all of their money from money market mutual funds if a floating NAV were adopted.[47] In the same survey, 69% of institutional investors said that they would either stop using or decrease their use of money market mutual funds if a fluctuating NAV were adopted. Only 4% of institutional customers favored such a proposal.[48]

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[45] Money Market Fund Reform, 74 Fed. Reg. at 32718-9.
[46] *See supra* note 3.
[47] *See supra* note 7 for a description of the survey.
[48] When asked in an investor survey why they used money market mutual funds, 52% of retail customers responded that money market mutual funds are part of an overall asset allocation strategy and 39% named money market

Second, a floating NAV would limit the availability of short-term funding for governments and corporations resulting in potential unforeseen consequences for the economy. As the Commission notes in the Release, money market mutual funds serve as a reliable source of direct, short-term financing for the U.S. Government, domestic and foreign banks, financial and non-financial corporations, and municipal issuers (including state and local governments as well as universities and hospitals).[49] The decrease in investor demand for money market mutual funds likely to result from moving to a floating NAV would significantly limit the availability of this important short-term funding, which could have negative impacts across the U.S. and global economies.

Finally, a floating NAV would impose a variety of burdens on shareholders and customers, which would contribute to more shareholders exiting money market mutual funds. As the Commission notes in the Release, "a stable net asset value per share creates certain administrative, tax, and cash management conveniences for fund investors."[50] With a floating NAV, investors could expect new tax and record-keeping requirements, especially for those shareholders who write checks from a money market mutual fund. Moreover, moving to a floating NAV would limit the number of available investment product options, resulting in higher costs and lower returns for investors. Additionally, under many state laws and regulations, municipalities, insurance companies and others are authorized to invest in money market mutual funds only if the funds maintain a stable NAV. Sponsors of 401(k) plans also may be reluctant to include non-stable NAV money market mutual funds as an investment option in group retirement plans.

B. Disclosure of Market Value NAV

The Commission also seeks comment on whether money market mutual funds should disclose market-based net asset value per share and the market based prices of their portfolio securities as part of the proposed requirements relating to website posting of portfolio holdings.[51] Fidelity strongly opposes the public disclosure of market value per share of portfolios or market value prices of securities. It is a fund board's responsibility to monitor market value NAV, and Fidelity believes that a fund's board should review market value per share pricing on a regular basis and when certain pre-determined thresholds are reached.

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mutual funds as a parking place for when you move money in and out of investments. Eighty-four percent of institutional customers named daily liquidity as their top reason for using money market mutual funds followed by 75% listing safety of principal as a use. *See supra* note 7.

[49] Money Market Fund Reform, Fed. Reg. at 32689.

[50] Money Market Fund Reform, 74 Fed. Reg. at 32718.

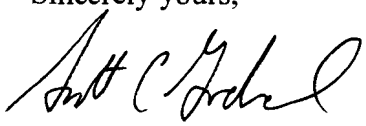
[51] Money Market Fund Reform, 74 Fed. Reg. at 32709-10.

Fidelity believes that shareholders and the general public should not receive market value per share pricing or security market value pricing because of potential unintended consequences. Disclosing any price per share other than $1.00 will create significant investor confusion and lead to a loss of investor confidence. As a result, disclosure of market value NAV could lead to market instability. Market participants, including the media, may erroneously think that a fund with a market value per share price of $0.9999 has "broken the buck" leading to unnecessary redemption requests from money market mutual funds. Furthermore, the Commission has provided no evidence of benefit to shareholders by disclosing market value information. If there is concern about protection of investors, the answer is to tighten the portfolio maturity and portfolio quality standards in Rule 2a-7 rather than disclosing a net asset value per share other than $1.00.

* * * * *

We would like to thank the Commission for considering our comments. Please contact me should you have any questions regarding this letter.

Sincerely yours,



Scott C. Goebel

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

Andrew J. Donahue, Director, Division of Investment Management
Robert E. Plaze, Associate Director, Division of Investment Management

APPENDIX A

Estimated basis point impact of the Commission's proposed rule changes on a general purpose fund[52]

Commission's Proposal	Institutional		Retail Fund
	Rated Fund	Non-Rated Fund	
New Daily Liquid Assets requirement	0	0	0
New Weekly Liquidity Assets requirement	15-20	15-20	2-4
Elimination of purchase of up to 10% in illiquid securities	2-6	2-6	2-6
Reduction in DWAM to 60 from 90 days	0	5-10	5-10
New 120 day weighted average life test	1-3	1-3	1-3
Elimination of ability to purchase second tier securities[53]	1-3	2-4	4-8
Total reduction in money market fund yield (basis points)	**19-32**	**25-43**	**14-31**

Estimated basis point impact of Fidelity's recommendations on a general purpose fund[54]

Fidelity's Recommendations	Institutional		Retail Fund
	Rated Fund	Non-Rated Fund	
New Daily Liquidity Assets requirement (including Government Securities in definition of Daily Liquid Assets)	0	0	0
New Weekly Liquidity Assets requirement (including Government Securities in definition of Weekly Liquid Assets)	12-17	12-17	2-4
Retention of ability to purchase up to 10% in illiquid securities	0	0	0
Maintain DWAM at 90 days	0	0	0
Impact of 120 day weighted average life test	1-3	1-3	1-3
Retention of ability to purchase second tier securities (up to 5%)	0	0	0
Total reduction in money market fund yield (basis points)	**13-20**	**13-20**	**3-7**

[52] This analysis reflects the impact on a hypothetical general purpose taxable money market mutual fund that is positioned at the extreme end of permissible or practical limits. This hypothetical fund has a 90-day DWAM, 150 day weighted average life, holds a 5% position in second tier securities, a 5% position in "lower quality" first tier securities and a 10% position in illiquid securities. The basis point impact shown in this chart is the result of the hypothetical portfolio adopting all of the Commission's proposals.

[53] This analysis assumes that rated institutional funds will avoid "lower-quality" first tier securities, which will, in turn, reduce potential yield by one to three basis points.

[54] The basis point impact shown in this chart is the result of the same hypothetical portfolio adopting Fidelity's recommended changes to the Commission's proposals.

APPENDIX B

Tradeweb LLC, provider of an electronic trading platform regulated by the SEC as an Alternative Trading System that is widely used by money market participants, has provided data to help analyze the liquidity of fixed-rate government securities (also known as agency discount notes) by examining relevant attributes of money market transactions that have occurred over the past two years.

The objective was to determine how liquid agency discount notes have been (particularly in an era of unprecedented market turmoil) relative to two other asset classes commonly thought to be liquid in the money market, namely Treasury bills and first tier commercial paper.

Three primary measures of liquidity were used:

(1) *Dollar volume of sell transactions* by asset managers;
(2) *Number of sell transactions* by asset managers; and
(3) *Average spread-to-cover on these transactions.* This quantity is defined as the average difference between the execution level (the yield at which the sale was completed) and the cover bid (the next highest yield submitted by potential buyers). It serves as a summary measure of market depth, and it provides an indication of the cost of liquidating assets in each market.

Two distinct periods for comparison were selected:

(1) *July 29, 2007 – July 29, 2008.* This period was characterized by much lower volatility than the most recent year, and it serves as a convenient benchmark for assessing changes in liquidity that occurred in the subsequent year.
(2) *July 30, 2008 – July 29, 2009.* This period contains the major market disruption following certain market events in September 2008.

For these two periods, Tradeweb developed summary statistics for all transactions for which the following criteria were satisfied:

(1) The transaction was an outright sell by an asset manager.
(2) The security sold was a Treasury bill, an agency discount note, or commercial paper with a first tier rating.
(3) At least two bids were made on the security that was sold (thus making the spread-to-cover calculation possible).

In Figures 1 through 3, tables are displayed containing the results of the analysis organized by instrument type, instrument maturity, and time period. These three tables display, respectively, the dollar volume, number of transactions, and average spread-to-cover derived from the two distinct one-year data sets.

Collectively, these tables demonstrate, as expected, that while commercial paper is the least liquid of the three instrument types, agency discount notes have similar liquidity characteristics to Treasury bills. However, the most significant phenomenon suggested by the summary statistics is that, among the three instrument types examined, *agency discount notes were the liquidity instrument of choice for asset managers during the past year.*

This is most immediately evident in the dollar volume data. In aggregate, the dollar volume of sales in all three asset classes increased year-over-year by approximately 25% as asset managers tried to raise liquidity levels. However, the changes were dramatically different among the individual asset classes. For example, commercial paper volume actually *decreased* by 34%. On the other hand, volume in Treasury bills increased by a relatively modest 17%. But volume in agency discount notes increased by a remarkable 114% during a year that saw extreme market disruption.

Moreover, even though dollar volume in agency discount notes more than doubled, the number of transactions in this category increased by only 50%, indicating that market participants were, on the average, able to sell larger blocks to meet liquidity requirements during the stressful one-year period. The spread-to-cover data shown in Figure 3 suggest that the massive amount of liquidity generated by selling agency discount notes came at only a modest cost relative to the cost incurred during a more typical year of market activity (indicated by a 3 bp widening in the cover bid during times of stress).

There is no evidence provided by this study that agency discount notes should be viewed differently from Treasury bills in their liquidity attributes at any part of the money market maturity range.

Tradeweb **Total Notional Volume ($ bn)**

	7/29/07-7/29/08			7/30/08-7/29/09		
	Treasury Bills	Agency DN	Tier 1 CP	Treasury Bills	Agency DN	Tier 1 CP
1-90 Days	210	116	152	241	232	101
91-180 Days	30	10	2	30	33	1
181-270 Days	2	1	0	8	6	0
271-365 Days	1	1	0	6	3	0
Total	**243**	**128**	**154**	**285**	**274**	**102**

Figure 1. Total dollar volume (in billions) of sell transactions by asset managers in Treasury bills, agency discount notes, and first tier commercial paper during the two one-year periods considered.

Tradeweb

Number of Transactions

	7/29/07-7/29/08			7/30/08-7/29/09		
	Treasury Bills	Agency DN	Tier 1 CP	Treasury Bills	Agency DN	Tier 1 CP
1-90 Days	16,087	13,047	9,930	19,345	17,490	6,505
91-180 Days	2,822	924	204	5,650	2,361	84
181-270 Days	75	201	10	894	696	6
271-365 Days	28	104	1	734	364	0
Total	**19,012**	**14,276**	**10,145**	**26,623**	**20,911**	**6,595**

Figure 2. Total number of sell transactions by asset managers in Treasury bills, agency discount notes, and first tier commercial paper during the two one-year periods considered.

Tradeweb

Average Spread to Cover (bp)

	7/29/07-7/29/08			7/30/08-7/29/09		
	Treasury Bills	Agency DN	Tier 1 CP	Treasury Bills	Agency DN	Tier 1 CP
1-90 Days	3.9	3.4	8.0	1.9	6.7	11.4
91-180 Days	1.4	3.5	8.3	1.2	5.3	19.8
181-270 Days	.4	3.9	7.1	.8	4.8	10.8
271-365 Days	.6	6.2	29.0	.7	6.5	-

Figure 3. Average spread-to-cover (in basis points) for sell transactions by asset managers in Treasury bills, agency discount notes, and first tier commercial paper during the two one-year periods considered.