CAPITAL MANAGEMENT
OF THE CAROLINAS, L.L.C.

distributors of
The North Carolina Capital Management Trust

September 3, 2009

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

RE: Money Market Reform; File Number S7-11-09, Release No. 1C-28807

Dear Ms. Murphy:

Thank you for the opportunity to comment on the proposal. It shows a great deal of thought in its preparation and I am generally supportive of the changes being proposed. I believe that the changes outlined will enhance the safety of money market funds. This is of great interest to my firm's clients, which are primarily local governments and public authorities. I am the President of Capital Management of the Carolinas (CMC), a small broker-dealer with 8 employees, whose primary mission is to distribute shares of the North Carolina Capital Management Trust (NCCMT) to units of government in North Carolina. CMC has performed this role since 2001; however, a number of our employees distributed the NCCMT as employees of Sterling Capital Management dating back to the inception of the NCCMT. Again, although I am supportive of many of the Commission's proposals, I do have a few suggested modifications. The following items include background on the NCCMT as well as my suggestions.

I. Background on the North Carolina Capital Management Trust

The North Carolina Capital Management Trust (NCCMT) was established in 1982 as a vehicle for short-term investment of funds for local governments and public authorities in North Carolina. The initial fund, the Cash Portfolio, is an AAAm-rated money market mutual fund. It currently has 704 individual participants with 2,053 accounts. There is no minimum investment required and participants have the ability to redeem funds on the same day. As of July 31, 2009, assets in the Cash Portfolio were approximately \$6.1 billion. Governments utilize the Cash Portfolio for the investment of operating moneys or proceeds of debt issues. Assets fluctuate during the year based on the cash flow needs of the local government participants with the peak normally coming in January as property taxes are collected and the lowest level of assets typically occurring in late summer before the next property tax collection cycle. Cash flows have followed this same pattern for many years. During the problems in the financial markets last fall we fielded calls from many clients about the safety of the fund, but we did not experience any unusual cash flows. Since 1987 the NCCMT also has included the Term Portfolio, which is a short-term bond fund with a floating net asset value and a duration of approximately .8 years. As of July 31, 2009, there were 32 participants in the Term Portfolio with a total investment of \$74 million. Since its inception, assets in the Term Portfolio have not exceeded \$120 million. Both of the portfolios are limited to investing in the same investments as individual local governments in North Carolina.

Essentially, this restricts the NCCMT to investing in U. S. treasuries, selected government agencies, top-rated commercial paper, and collateralized repurchase agreements. Because of these investment

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limitations and the AAAm rating, we would not be affected by many of the Commission's proposed changes (e.g., second tier securities, shortened WAM, unrated issuers, etc.) and consequently I will not specifically comment on them.

<u>II. Floating Net Asset Value for Money Market Mutual Funds</u>

I am strongly against any change from a stable to a floating net asset value and believe that any change to a floating net asset will result in governmental entities moving substantial assets away from money market mutual funds and into competing bank depository accounts which have stable principal values. Governmental investors follow the investment objectives of safety, liquidity, and yield in that order. As you can see from the background information above, our participants have overwhelmingly voted with their dollar balances in favor of an investment with a stable net asset value ($6 billion for the Cash Portfolio vs. $74 million in the Term Portfolio). This is in spite of the fact that the Term Portfolio outperformed the Cash Portfolio over a 10-year period ending on December 31, 2007, by an average of 15 basis points annually. To a governmental investor the additional yield is not worth the risk from a reduced principal value. Governments generally hold investments to maturity and many medium and smaller-sized governments gravitate toward investments with stable principal balances. Consequently, many of our governmental participants, even the largest governments (see the comment letter from the City of Winston-Salem on the Commission's proposal) have indicated to us that they would move some or all of their balances out of the NCCMT if it moves from a fixed to floating net asset value.

Additionally, I have been informed by participants in the Term Portfolio over the years that the variations in the net asset value in this investment create accounting problems in recording the changes in net asset value. Admittedly, there would only be small variations in the net asset value of the Cash Portfolio which is a rated fund, but it would add another administrative burden on our participants, particularly for those governments with multiple accounts and many transactions. I am not persuaded that a floating net asset value gives a participant any additional information and it would certainly be confusing to many investors.

As the Commission so clearly explains in its proposals, reductions in balances in money market funds would decrease funding sources for local government issuers. Many of North Carolina's AA and AAA-rated governments issue variable rate debt and other short-term obligations. Much of the demand for these securities comes from money market funds. We are concerned that a floating net asset value would have a large impact on governmental issuers in the state through reduced demand for their debt by money market funds.

<u>III. Daily Liquid Assets</u>

While I and my colleagues agree with many of the proposed requirements for daily liquidity, we also believe that government agencies and instrumentalities should be included as daily liquid assets. If government agencies and instrumentalities is too broad a spectrum, perhaps the list of eligible securities could be narrowed to the plain vanilla securities, such as discount notes for the larger agencies. These agencies have large volumes of easily tradable securities and would be considered to be almost as liquid as U.S. Treasury securities.

IV. Defining Retail and Institutional Funds

I agree with the proposal to require a fund's board to determine at least annually whether a fund is an institutional or retail fund based on factors such as the criteria discussed in the Commission's release. I do believe that more specific guidance should be provided to assist a board in making this determination. For example, the Commission could specify a minimum account balance threshold, such as $1 million. Allowing a board to make this determination is appropriate, but more specific examples would be useful.

V. Effect on the Local Government Investment Pools in Other States

Although the NCCMT is registered with the SEC, the local government investment pools (LGIPs) in most other states are not SEC-registered. Many of these pools are operated in a similar manner to a money market mutual fund and maintain a stable net asset value. The Governmental Accounting Standards Board currently has an Exposure Draft outstanding that would require that the fair value of all of these 2a7-like pools be determined by the net asset value per share. In order to be considered to be a 2a7-like fund, all requirements of Rule 2a7 would have to be satisfied. If this accounting change is adopted, a change to a floating net asset value by the SEC would affect not only SEC-registered funds, but also the many state LGIPs that were intended to maintain a stable net asset value. These LGIPs also inadvertently would be forced to value investors' positions at a fluctuating value.

Thank you again for the opportunity to comment on the draft. If you have any additional questions, please contact me at (704) 332-3131.

Sincerely,

James C Rivers

James C. Rivers, President
Capital Management of the Carolinas