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211 Main Street San Francisco, California 94105

September 4, 2009

Via Electronic Filing

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

Re: File No. S7-11-09—Money Market Fund Reform

Dear Ms. Murphy:

Charles Schwab Investment Management, Inc. ("CSIM")[1] appreciates the opportunity to comment on the Securities and Exchange Commission's (the "Commission") request for comment on the above-referenced rule proposal (the "Proposed Amendments").[2] The Proposed Amendments would modify Rule 2a-7 of the Investment Company Act of 1940, as amended (the "1940 Act") to enhance money market fund portfolio quality and liquidity, require monthly disclosure of portfolio holdings and certain other information to the Commission and investors, and permit money market fund boards to suspend redemptions when a fund "breaks the buck" to allow for orderly liquidation of fund assets.

CSIM strongly supports many aspects of the Proposed Amendments. The Commission has taken a thoughtful and measured approach to modifying Rule 2a-7, seeking to enhance investor protection while retaining the many benefits money market funds provide to retail and institutional investors alike. We are particularly pleased, as discussed in more detail below, that the Commission did not propose to eliminate stable net asset value pricing in favor of floating net asset value pricing. In our opinion, floating net asset value pricing would fundamentally alter the manner and extent to which these important products are used by investors and eliminate the benefits that money funds provide to investors

However, while we generally support the principal components of the Proposed Amendments, CSIM believes that certain aspects of the Proposed Amendments are too restrictive and may limit management of money market funds to the detriment of money fund investors. Our comments and recommendations are discussed in more detail below.

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[1] CSIM, a wholly-owned subsidiary of The Charles Schwab Corporation ("Schwab Corporation"), is registered with the Commission and serves as investment adviser to 17 money market funds with over $182 billion in total assets In all, CSIM serves as an investment adviser to over 70 registered mutual funds within the Schwab Funds and Laudus Funds family of funds, with more than $220 billion in assets under management Schwab Corporation is a leading provider of financial services, with more than 300 offices and 7.6 million client brokerage accounts, 1.5 million corporate retirement plan participants, 619,000 banking accounts, and $1.3 trillion in client assets Through its operating subsidiaries, the company provides a full range of securities brokerage, banking, money management and financial advisory services to individual investors and independent investment advisors.

[2] *See* Money Market Reform, SEC Release No. IC-28807 (June 30, 2009) (hereinafter, the "Proposing Release").

I. Portfolio Quality

A *Prohibition on Purchase of Second Tier Securities* CSIM supports prohibiting acquisition of Second Tier Securities [3] We agree that Second Tier Securities generally represent a greater risk to the stability of money market fund portfolios than First Tier Securities,[4] and that this prohibition would reduce the possibility that any one money market fund would "break the buck". Importantly, Rule 2a-7, as proposed, would not eliminate the ability of a money market fund to hold a First Tier Security after it has been downgraded to a Second Tier Security Rule 2a-7 would continue to require disposal of downgraded securities "as soon as practicable consistent with achieving an orderly disposition of the security" absent a finding by the fund's board of trustees (the "Board") that such disposal is contrary to the fund's best interests [5] As such, CSIM does not believe that the prohibition will be materially disruptive to money market funds

B *Use of Nationally Recognized Statistical Rating Organizations ("NRSROs")* The Commission has requested comment on whether Rule 2a-7 should continue to include references to NRSROs. The Commission previously proposed to eliminate NRSRO references in the 1940 Act as well as the Investment Advisers Act of 1940 in a July 2008 rule proposal (the "NRSRO Proposal") [6] CSIM, along with its affiliates, submitted a comment letter on the NRSRO Proposal strongly opposing the removal of those references,[7] and our views have not changed since that time In short, Rule 2a-7(c)(3)(i) requires that money market funds limit their investments to Eligible Securities (including satisfying NRSRO rating requirements) that present minimal credit risks, "which determination must be based on factors pertaining to credit quality *in addition to* any rating assigned to such securities by an NRSRO" (emphasis added) The NRSRO ratings thus serve as a minimum credit standard that is thereafter supplemented by additional credit risk analysis. Removal of NRSRO references could therefore weaken, rather than strengthen, the credit quality of money market fund portfolios because it removes a minimum credit threshold that each security must meet We encourage the Commission to review our comment letter on the NRSRO Proposal for more detailed comments on this issue.

CSIM does not oppose a requirement that a Board designate three or more NRSROs that a fund must use to identify Eligible Securities. However, if the Board must determine annually that the designated NRSROs are "sufficiently reliable," the Board should be permitted to delegate this determination to the fund's investment manager. The investment manager has day-to-day interaction with the NRSROs and possesses an in-depth knowledge of the ratings process. As such, it is in a far better position to make that determination Therefore, the Board should be able to rely upon the investment manager in meeting this requirement

[3] Rule 2a-7 in its current form defines "Second Tier Securities" as any Eligible Security that is not a First Tier Security. All other capitalized terms not defined in this letter shall have the same meaning ascribed to them in Rule 2a-7, as set forth in the Proposing Release, unless otherwise noted herein.

[4] *See* Investment Company Institute, Report of the Money Market Working Group, at 101 (March 17, 2009) (asserting that Second Tier Securities have "weaker credit profiles, smaller overall market share, and smaller issuer program sizes" and "involve future risks imprudent for funds seeking to maintain a stable NAV")

[5] *See* Rule 2a-7(c)(7)(ii)

[6] *See* Reference to Ratings of Nationally Recognized Statistical Ratings Organizations, SEC Release No IC-28327 (July 1, 2008).

[7] *See* Letter from Jeffrey T. Brown, Senior Vice President, Charles Schwab & Co , Inc. to Ms. Florence E. Harmon, Acting Secretary, Securities and Exchange Commission, dated September 5, 2008 (regarding File No. S7-19-08)

C *Use of Long-Term Unrated Securities and Asset-Back Securities*. Schwab does not support raising ratings requirements on long-term securities with remaining maturities of less than 397 days ("Stub Securities") from the three highest long-term ratings categories to the two highest long-term ratings categories. Most issuers whose long-term debt securities have ratings in the single A category currently carry ratings in the highest ratings categories on their short-term debt securities (i.e., ratings that would qualify that issuer's short-term debt securities as First Tier Securities under the current rule). Thus, under the Proposed Amendments, a money fund would be able to purchase that issuer's short-term debt, but not Stub Securities that received a long-term rating in the third highest ratings category. This is an inconsistent result that does not necessarily enhance the credit quality of a fund's portfolio

Rather than raising the ratings requirements, we suggest that the Commission include an additional proviso in Rule 2a-7(a)(11)(iv)(A) stating that a Stub Security cannot be deemed an Eligible Security if any of the issuer's short-term securities, comparable in priority and security, have received a rating from the Requisite NRSROs below the highest ratings category This alternative approach achieves the Commission's desire to enhance credit protection while also retaining a fund's ability to invest in high-quality Stub Securities to the extent doing so is in the fund's best interest.[8]

We do not believe that any additional amendments are needed specific to asset-backed securities ("ABSs") The Commission has requested specific comment on whether the rule should require ABSs to be subject to an unconditional demand feature or other guarantee (a "Guarantee") to be deemed an Eligible Security We believe such a requirement would be problematic for municipal money market funds' investments in tender option bonds ("TOBs"). The Guarantee would remove the risks of loss necessary to treat income generated by the TOBs as tax exempt.[9] This would largely eliminate TOBs as an investment option for municipal money market funds. If the Commission decides that ABSs should be subject to a Guarantee, the Commission should exempt from this requirement any ABS substantially all of whose Qualifying Assets consist of obligations of one or more Municipal Issuers [10]

II. Portfolio Maturity

A *Weighted Average Maturity*. The Proposed Amendments would reduce the weighted average maturity ("WAM") limit under Rule 2a-7 from 90 days to 60 days CSIM supports reducing WAM from its current 90 day limit, but believes 75 days is more appropriate [11] We are concerned that a

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[8] Specifically, Rule 2a-7(a)(11)(A) under the Proposed Amendments could be revised as follows: "A security that at the time of issuance has a remaining maturity of 397 calendar days or less and that is an Unrated Security is not an Eligible Security if the security has received a long term rating from any NRSRO that is not within the NRSRO's three highest long-term ratings categories (within which there may be sub-categories or gradations indicating relative standings), unless the security has received a long-term rating from the Requisite NRSROs in one of the three highest rating categories, *provided, however, that in either case, the security is not an Eligible Security if any of the issuer's short-term securities, comparable in priority and security, have received a rating from the Requisite NRSROs below the highest ratings category*"

[9] *See* Internal Revenue Notice 2008-80.

[10] Rule 2a-7 already makes a similar distinction in determining when an ABS may be treated as an Eligible Security. *See* Rule 2a-7(a)(11)(iv)(B).

[11] In the Proposing Release, the Commission notes the average WAM for taxable money funds for the last 20 years never exceeded 58 days *See* Proposing Release at 43-44. This statistic, however, represents the average weighted maturity of taxable money market funds *as a group*. It includes institutional funds, many of which are rated and already subject to 60 day WAM limits It also includes smaller funds that may have less need to extend WAM beyond 60 days to remain fully invested. As such, this statistic does not provide a compelling basis to reduce the

60 day WAM would too greatly reduce the range of securities available to money funds, especially for funds that invest exclusively in treasury securities and particularly in times of falling interest rates and market stress [12] For example, during the recent financial crisis, most money market funds were investing in securities at the shorter end of the maturity spectrum to a far greater degree than normal. If money market funds had been subject to a 60 day WAM limit during that period, demand for these shorter-term securities would likely have been far more substantial, further challenging a fund's ability to stay fully invested and further driving down fund yields. In contrast, a 75 day WAM requirement would help reduce exposure to interest rate risk while nevertheless providing money funds additional flexibility to remain fully invested in high quality securities when shorter-term investments are scarce.[13]

B *Weighted Average Life* CSIM supports the proposed weighted average life ("WAL") limitation of 120 days. We agree that the proposed limitation will help mitigate the impact of changes in credit and interest rate spreads on funds and aid stability of fund principal even in volatile markets CSIM, however, would not support a WAL limitation of less than 120 days A shorter limitation may further insulate the funds from spread risks, but it also would be unnecessarily restrictive, potentially limiting a fund's ability to maintain a diversified portfolio of high quality short term debt securities.

C *Maturity Limit for Non-Government Securities*. The Commission has requested comment on whether it should reduce the maximum maturity for individual non-Government securities acquired by a money fund from 397 days to 270 days. We question whether reducing the maximum maturity for non-Government securities to 270 days—combined with the risk-limiting measures of a reduced WAM limit and the adoption of the proposed WAL limit—would materially increase the safety and stability of money funds, if at all. A reduction in the maximum maturity would, in our view, serve only to limit the range of high quality securities in which a money fund could invest. As we are unaware of any compelling evidence that suggests such a reduction will enhance fund liquidity or stability, CSIM urges the Commission to retain the current maximum maturity limit of 397 days.

III. Portfolio Liquidity

A. *Limitation on Acquisition of Illiquid Securities* The Proposed Amendments would prohibit money market funds from acquiring securities unless, at the time acquired, the securities are liquid. Under the Proposed Amendment, a security is "liquid" if it can be sold or disposed of in the ordinary course of business within seven days at approximately its amortized cost value. The Proposed

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WAM limits by a full 30 days for all funds. In short, while a 60 day WAM limit may be manageable for certain funds, it may be too restrictive for certain other funds to the detriment of their shareholders

[12] Even under normal market conditions a 60 day WAM limit would put increased pressure on money market fund management. For example, the Treasury currently auctions 30 day, 60 day, 90 day and 1 year treasury bills on a regular schedule; it does not issue continuously throughout the maturity spectrum (e g., 1 week, 2 weeks, 3 weeks, etc.), nor does it typically issue additional securities solely to accommodate market demand. Under the 60 day WAM limit, funds would likely need to participate disproportionately in the 30 day auctions, increasing demand for a typically finite supply of short-term securities. This could drive down fund yields—potentially leading to negative yields—and place undue pressure on the treasury market in general The additional 15 days afforded fund management under a 75 day WAM limit provides more flexibility during normal market conditions, but particularly in times of market stress

[13] Further, under a 60 day WAM limit, an issuer may need to issue a greater amount of debt with short maturity dates to accommodate investors In times of market stress, an issuer would face the increased risk of being unable to roll over its debt adding to credit as well as market instability.

Amendments depart from the Commission's current position that money market funds may maintain up to 10% of their assets in illiquid securities [14]

CSIM supports maintaining the current limitation on a money fund's ability to purchase illiquid securities and opposes an absolute prohibition on the fund's ability to acquire securities unless they are liquid at the time of purchase. First and foremost, we are concerned that the Proposed Amendments would stifle product innovation. When new investment products are first introduced to the market, money market funds may characterize the securities as illiquid, particularly if they are offered through a single dealer or the market is initially underdeveloped or otherwise limited.[15] Under the Proposed Amendments, a money market fund would be unable to invest in these new products, potentially impeding their ability to flourish.

More generally, under the Proposed Amendments CSIM believes that the tendency of money market funds to characterize new securities as "illiquid" will be more pronounced. Simply put, a determination as to whether a particular security is "liquid" or "illiquid" is not always clear cut; there are always elements of judgment in making those determinations. An absolute prohibition provides no margin of error. As a result, money market funds will be more conservative when deciding whether a given security is "liquid" given the potential that the fund could be determined, in hindsight, to be in violation of this requirement if in the future the security proves to be illiquid or in the opinion of others is deemed to be so. We believe this is an unduly conservative and unnecessary result, particularly in light of the many additional protections provided by the Proposed Amendments.

The Proposed Amendments already include sufficient safeguards for portfolio liquidity. In light of those safeguards, a prohibition on the acquisition of illiquid securities or reduction in the maximum permissible amount of illiquid securities is simply unwarranted. The new daily and weekly liquidity requirements—which CSIM supports—help ensure that funds maintain sufficient liquidity to meet redemption demands. Further, if the Commission retains the current 10% limit, money market funds will continue to have an obligation to ensure that at least 90% of their assets are liquid. While the Proposing Release indicates that the basis for prohibition is to ensure the fund's ability to meet redemptions, we are not aware of any fund that during the recent financial crisis received redemption requests exceeding 90% of its assets. Moreover, even assuming such demand, the Proposed Amendments would allow the Board to suspend redemptions upon "breaking the buck" to ensure orderly liquidation of fund assets, an event that would surely occur if a money fund were to experience redemptions of that proportion.

B. *Definition of "Liquid Security"* CSIM recommends that the definition of "liquid security" be revised to mean a security that can be sold or disposed of in the ordinary course of business within seven calendar days at approximately its current mark to market rather than at amortized cost. A disparity between the security's market price and amortized cost price is not indicative of whether a security may be sold or disposed of in the ordinary course of business, and any disparity should not by rule restrict a fund from purchasing a security if, in the investment manager's view, acquisition of the

[14] *See* Valuation of Debt Instruments and Computation of Current Price Per Share by Certain Open-End Investment Companies (Money Market Funds), SEC Release No. IC-13380 (July 11, 1983).

[15] For example, when TOBs were first introduced, some investment managers, including CSIM, characterized the securities as illiquid. As the market for these securities developed, and as an increasing number of money market funds participated in the offerings and the funds' familiarity and understanding of the products increased, TOBs became more widely viewed and accepted as liquid securities. Under the Proposed Amendments, CSIM would have been prohibited from purchasing these securities, which are now an integral investment option for tax-exempt money funds.

security is in the fund's best interests Moreover, under the proposed definition a security must be deemed "illiquid" if it cannot be sold at amortized cost, which could occur with respect to a security any time interest rates change Consequently, a large portion of the fund's portfolio could potentially be deemed "illiquid," creating the misperception that a fund may be exposed to greater risk by virtue of holding large illiquid positions when in truth they can be readily sold or disposed of by the fund

C *Minimum Daily and Weekly Liquidity Requirements*. CSIM generally supports the proposed daily and weekly liquidity requirements for money funds [16] We are somewhat troubled, however, by the Board's obligation to determine whether a fund is an institutional money market fund for purposes of meeting the liquidity requirements—and by the distinction between retail and institutional funds in general In the Proposing Release, the Commission identifies certain factors that a Board may consider when making this determination, including (i) the nature of the record owners of fund shares; (ii) the minimum amount required to be invested to establish an account; and (iii) historical cash flows, and resulting or expected cash flows, from purchases and redemptions [17]

As an initial matter, we believe the Commission underestimates the complexities involved in making this determination, and the factors a Board must consider under the Proposed Amendments do little to resolve the many questions a Board will face. For example, fund accounts are often maintained on an omnibus basis with financial intermediaries named as the record holder on the accounts (e.g., "Broker A for the benefit of Broker A's Customers"). What obligation does the Board have to consider the nature of the underlying beneficial owners? Should the Board consider whether the financial intermediary imposes a greater investment minimum than that required by the fund? How does a Board factor in expected cash flows, when such a standard requires the Board to make a forward-looking estimate that, by its very nature, may in hindsight be subject to question? Does the Board have the ability to consider other factors to the extent relevant, or are the factors identified by the Commission in the Proposing Release exclusive?[18] Can the Board place greater weight on one factor—e.g., historical cash flows, which in CSIM's view may be the most determinative of the listed factors—than on other factors?[19] For money market funds with retail and institutional share classes, how does the Board balance the designated factors to determine when the fund is "mostly" institutional supporting application of the higher liquidity requirements? At a minimum, CSIM believes additional guidance

[16] Based on our reading of the rule, CSIM believes that the weekly liquidity requirement is inclusive of the daily liquidity requirements, and that separate securities need not be used to meet both the daily and weekly liquidity requirements. Nevertheless, to avoid potential ambiguity, we urge the Commission to clarify this point in the adopting release.

[17] Rule 2a-7 does not incorporate these factors and it is unclear whether the Board has the ability to consider additional factors. The Commission should consider incorporating these factors into the rule, while expressly permitting the Board to consider additional relevant factors that in its reasonable judgment impact the classification of a fund as retail versus institutional.

[18] For example, can the Board consider whether the fund permits same-day settlement, a feature typically associated with institutional funds rather than retail funds?

[19] For example, if the fund has both a retail and institutional class, and the institutional class exhibits historically stable and minimal cash flows, does the fact that the record owners are institutions nevertheless require a Board to classify it as an institutional fund? In CSIM's view, historical cash flows are far more relevant than the other factors identified by the Commission. The Commission recognizes this in the Proposing Release. *See* Proposing Release at 56 ("The amount of liquidity a fund will need will vary from fund to fund and will turn on cash flows resulting from purchases and redemptions ") and 62 (noting that a multi-class fund should be deemed an institutional fund "if the cash flows from purchase and redemptions and the portfolio management required to meet liquidity needs based on those cash flows are more characteristic of an institutional money fund").

will be necessary to help Boards answer these and a myriad of other questions that would arise in the process of making these determinations.

In any event, it may still be difficult for a Board to determine with reasonable certainty whether a fund is an institutional fund under the Proposed Amendments. A Board may tend to be conservative in its characterization of funds to mitigate the possibility that the basis of its determination, in hindsight and particularly in light of unforeseeable market volatility, may be questioned. Boards may also make a conservative determination given the fluid nature of money market funds—the very real possibility that the nature of record owners and historic and expected cash flows may change during the course of any particular year. Thus, given its regulatory obligation to make this determination, even in cases where the Board reasonably determines that a fund is a retail fund subject to the lower daily and weekly liquidity requirements, the Board may request ongoing monitoring and reporting of the designated factors, which may in turn lead to periodic reclassification of the funds during the year.[20] This could in practice transform an annual determination into quarterly or more frequent determination, which may have a significant impact on the operation of the fund (e.g., portfolio management, fund disclosures, etc.) and impose unnecessary costs on funds and fund shareholders. Further, to avoid the challenges of determining just when a multi-class fund is predominantly institutional (and the potential second-guessing that could accompany that determination) the Board may require the classes to be split into two separate funds—one for retail investors, the other for institutional investors.

Any of these outcomes would be detrimental to the funds and their shareholders. For example, if a Board decides to characterize a fund as institutional, notwithstanding a reasonable basis for determining otherwise, shareholders will likely receive a lower yield because the fund will need to manage to the higher daily and weekly institutional fund liquidity requirements. If a Board eliminates the multi-class structure and creates stand-alone retail and institutional funds instead, the shareholders will likely be disadvantaged because each stand-alone fund may be less stable than the multi-class fund and subject to higher expenses due to lost economies of scale.

One alternative to the Proposed Amendments would be to collapse the retail and institutional fund distinction and apply uniform daily and weekly liquidity requirements to all funds.[21] But if the Commission determines that this distinction is necessary, CSIM urges the Commission to consider all means to assist the Board in its decision-making process. Specifically, the Commission should address

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[20] This raises a more fundamental question: Is the Board the appropriate body to determine whether a fund is a retail or institutional fund? Given that this requirement will likely lead to ongoing monitoring and periodic reclassifications during the course of any given year, the fund's investment manager may be better suited to perform this function. As such, the Commission should consider permitting the Board to delegate this responsibility to the investment manager. That said, we do not believe it will be any less challenging for an investment manager to draw these distinctions, and for similar reasons the manager's determinations may have unduly conservative outcomes.

[21] In its comment letter to the Commission, the Investment Company Institute (the "ICI") proposes this approach as an alternative to applying different liquidity standards to retail and institutional funds. *See* Letter from Karrie McMillan, General Counsel, Investment Company Institute, to Ms. Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, dated September 8, 2009 at 5 (the "ICI Letter"). We understand the Commission's concern that institutional funds may require greater liquidity by virtue of the much larger positions institutional investors typically maintain, and its apparent desire not to adversely impact retail shareholders by imposing on them higher liquidity requirements than may be necessary. However, given the challenges associated with drawing a clear and consistent distinction between retail and institutional funds, application of a uniform liquidity standard applicable to all funds appears a more workable and reasonably balanced approach. CSIM would support the daily and weekly liquidity thresholds proposed by the ICI, which we note are consistent with the ICI Working Group's recommendation as well.

the reasonable concerns a Board will have regarding its potential liability should its determinations, in hindsight, be subject to second-guessing by regulators and litigants. If the Commission insists on imposing this obligation on the Board, in addition to providing further guidance, the Commission should make clear that the three factors set forth in the Proposing Release are not determinative and that Boards have the flexibility to consider additional factors or to place greater or lesser emphasis on any particular factor. The Commission should also consider adding an exception for multi-class funds so that if the amount of fund assets held by institutional investors does not exceed a specified percentage (e.g., 25%) the fund could be categorized as a retail fund.

D. <u>*Treatment of Government Securities as "Liquid Securities"*</u>. The Commission has requested comment on whether a U.S. Government agency security that, when originally issued, had a maturity of 95 days or less, should be treated as a liquid asset under the Proposed Amendments. CSIM believes that Government agency securities should be included in the definition of "liquid assets" if the security has a remaining maturity of 95 days or less because these securities have the implicit support of the U.S. Government and are generally considered to be the most liquid security behind U.S. Treasuries.[22]

E. <u>*General Liquidity Requirement*</u>. CSIM does not support the general requirement that money funds must hold liquid securities sufficient to meet reasonably foreseeable redemptions. As an initial matter, the provision appears unnecessary in light of the proposed daily and weekly liquidity requirements, which provide objective parameters that help ensure that a money fund's portfolio can meet expected redemptions. But we are also concerned about the vague and subjective nature of the general liquidity requirement. What factors should be used to determine when shareholder redemptions are "reasonably foreseeable"? Will a fund be held accountable for not foreseeing "unusual" spikes in shareholder redemptions due to market events that, in hindsight, third parties contend it should have anticipated? Such concerns may lead funds to impose higher daily and weekly liquidity requirements than those required under the Proposed Amendments, further restricting portfolio selection and driving down potential yields.

Money funds already have an obligation to invest a substantial part of their portfolios—not less than 90%—in liquid assets. The daily and weekly liquidity requirements further ensure that funds will be able to meet timely investor redemptions while maintaining stability even in volatile markets. We do not believe the general liquidity requirement adds any significant shareholder protections, and in light of its vague and subjective nature, could actually disadvantage funds and their shareholders. CSIM urges the Commission to remove this requirement from the Proposed Amendments.

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[22] During the recent financial crisis, the industry witnessed a substantial increase in the demand for U.S. Government agency securities. By the end of October 2008, total dollar amounts in FNMA and FHLMC short-term issuances doubled from their early 2007 levels—from $161 billion and $40 billion, respectively, in January 2007 to over $325 billion and $98 billion, respectively, in October 2008. *See* Federal National Mortgage Association, *Debt Funding Summaries*, *available at* www.fanniemae.com/markets/debt/debt_activity; Federal Home Loan Mortgage Corporation, *Debt Securities Data, available at* www.freddiemac.com/debt/html/sactivitymain.html. Increased demand for both FNMA and FHLMC issuances continued through February 2009, and persists still for FNMA securities. Similar increased demand for FHLB issuances occurred during that same time period. *See* FHL Banks, Office of Finance, *Debt Issuance Statistics*, *available at* www.fhlb-of.com/issuance/statisticesframe2.html. In comparison, total dollar amounts in asset-backed commercial paper issuances fell from over $1 trillion at the end of January 2007 to less than $635 billion by the end of March 2009. *See* Bloomberg FCPOAB Index. This "flight to quality" during the recent financial crisis evidences the liquidity and credit strength of U.S. Government agency securities, and CSIM supports treating them as "liquid securities" under Rule 2a-7.

F. *Stress Testing*. CSIM generally supports requiring periodic stress testing as described in the Proposed Amendments. However, we would exclude from the Proposed Amendments the requirement that the investment manager assess the fund's ability to withstand events that are reasonably likely to occur within the following year. A stress test report can be developed to reflect hypothetical changes in interest rates, shareholder redemption rates, potential downgrades or defaults on select portfolio securities, and widening spreads on yields. While such a report would reflect only hypothetical changes—and not known or expected changes—the report would help facilitate a general discussion with the Board regarding the fund's ability to withstand significantly changing or volatile markets. A fund's ability to create a report using a range of variables, however, is much different than creating a report based on events an investment manager believes may be "reasonably likely" to occur. The events most likely to impact the fund—changes in interest rates, redemption rates, and credit risk—are already included in the stress test report. We are uncertain what other "reasonably likely" events the Proposed Amendments contemplate capturing. Nevertheless, we believe a stress test based on the above factors is more than sufficient to facilitate a meaningful discussion with the Board without adding forward-looking and likely speculative assessments by the investment manager of what might occur in the future, which would add little value to the Board's discussion.

CSIM does not believe the Commission should specify any base-line stress tests or otherwise dictate with any greater specificity the form and substance of the stress test reports. Each fund should have reasonable discretion to develop the reports in a manner and format that will be most meaningful to its Board and best facilitate Board discussion.

IV. Diversification

The Commission has requested comment on whether it should further restrict the diversification limits of Rule 2a-7. CSIM would not support any changes to the diversification requirements set forth in the current rule, as more stringent diversification requirements may force a fund to invest in lower quality securities than those in which it might have otherwise invested. This is of particular concern given recent consolidations in the industry resulting in a smaller universe of potential issuers.

V. Disclosure

CSIM generally supports the proposal requiring funds to disclose monthly portfolio holding information via a public web posting (the "Public Report") and to the Commission (the "Commission Report"). However, the proposed timeframe for providing this information—by the second business day of the month—is not feasible. Two business days is simply not enough time to gather the required information, perform quality assurance review, and prepare and deliver each report. CSIM believes ten business days is a more appropriate timeframe for providing each of the required monthly disclosures. While it may be possible to deliver the Public Report earlier—e.g., by the fifth business day of a month—it is important that both of these disclosures should have the same deadline to ensure consistency of the information contained in each of the reports. As CSIM believes it will take at least ten business days to prepare the Commission Report, that same timeframe should apply to the Public Report.

VI. Additional Comments

A. *Floating Net Asset Value*. CSIM is very pleased that the Proposed Amendments retain a money market fund's use of amortized cost when calculating its net asset value ("NAV"), rather than requiring a floating rate NAV. CSIM believes elimination of stable NAV pricing would in effect fundamentally change the nature of money market funds and the manner and extent to which they are used by investors. Money market funds, in their current form, are highly popular and useful investment vehicles that have historically provided safety and liquidity to their shareholders.[23] While we strongly support the Commission's efforts to further ensure the safety of investor assets and reduce risk, adoption of a floating NAV is not consistent with that objective. Most notably, we are not aware of any evidence that floating NAV pricing will add to the safety and stability of money market funds, or lessen the likelihood of runs on funds in times of market stress. Rather, a floating NAV may increase the likelihood of substantial swings in redemptions and potential runs on money market funds when a fund's NAV falls even slightly below $1 (e.g., $0.9985). Investors may misinterpret an otherwise *de minimus* deviation in NAV as an indication that the fund is fundamentally less sound than other money funds or comparable investment alternatives and seek to redeem their positions. Thus a floating NAV may precipitate a run on what otherwise may be a financially stable money market fund.

B. *Fund Liquidations and Temporary Suspensions*. CSIM strongly supports proposed new Rule 22e-3, which would permit money market funds to suspend redemptions to facilitate orderly liquidation of the fund. CSIM also supports including within Rule 22e-3 a provision allowing the Board to temporarily suspend redemptions during exigent circumstances other than liquidation, as described in the Proposed Amendments. While we believe a Board would rarely, if ever, need to rely on the rule, the ability to suspend redemptions during liquidation and under other exigent circumstances simply gives the Board additional means and flexibility to protect fund shareholders in times when the Board, in its discretion, believes such protection is warranted.

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CSIM appreciates the opportunity to comment on the Proposed Amendments and thanks the Commission for its consideration of the views we express above. If you have any questions regarding this letter, please feel free to contact Koji Felton at (415) 667-0608 or David Lekich at (415) 667-0660.

Sincerely yours,

Koji Felton
Senior Vice President & Deputy General Counsel
Charles Schwab Investment Management, Inc.

Cc: Andrew J. Donohue, Director
Robert E. Plaze, Associate Director
Division of Investment Management

[23] As noted in the ICI Letter, stable NAV money market funds offer tax and operational convenience, as well as accounting simplicity to investors, and serve as a principal investment option for various institutions, trusts and municipalities with mandates to invest in stable net asset value products. *See* ICI Letter at 39.