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Filed Electronically

September 3, 2009

Elizabeth M. Murphy, Secretary
U.S. 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:

As a consumer of money market fund services and a participant in the industry for more than 25 years, I am offering the following comments concerning the Commission's proposals to amend Rule 2a-7. The SEC staff has exerted extraordinary effort in preparing the release, and its efforts are admirable. I believe that the proposed Rule changes, as a whole, support the Commission's goal of increasing the resilience of MMFs to market disruptions by reducing their vulnerability to breaking the buck and increasing MMF liquidity to satisfy significant redemptions.[1] That said, below, I offer my comments hoping that they may bring additional focus to certain issues that I believe are relevant to a few of the proposals. If my comments merit further consideration as the proposals move forward, this letter will have succeeded in its purpose.

PORTFOLIO QUALITY

- SECOND TIER SECURITIES

I believe the proposal to eliminate Second Tier Securities from Eligible Securities will be immaterial to MMFs but may have an adverse impact on the capital markets and will restrict the borrowing ability of creditworthy Second Tier corporations.

The SEC's Money Market Reform Proposals would eliminate Second Tier Securities from Eligible Securities. This provision is likely to have minimal impact on the MMF industry simply because few MMF assets have been invested in Second Tier Securities. The Money Market Fund Reform; Proposed Rule has identified the costs and benefits to MMFs of this proposal (i.e. reduced portfolio yield and less diversification vs. the elimination of higher risk securities and a more stable NAV). Arguably, Second Tier debt issuers will be more affected by this provision than MMFs. I have spoken with a representative of a Second Tier CP issuer who voiced concern about the proposed provision and the likely impacts of the proposal on the capital market activities of Second Tier issuers, including their ability to access the CP market, which I believe will be diminished.

[1] Money Market Fund Reform; Proposed Rule, Federal Register, Vol. 74, No. 129, July 8, 2009, p. 32694.

- NRSROs

I do not favor a requirement that MMFs designate a minimum number of Nationally Recognized Statistical Rating Organizations to use in determining thresholds for Eligible Securities or in monitoring ratings.

The Commission has requested comment on several issues related to NRSROs. Included among these was a request for comments on the impact of amending Rule 2a-7 to require MMFs to designate a minimum number of NRSROs to use in determining thresholds for Eligible Securities or in monitoring ratings?

Each of the three largest NRSROs offers MMF ratings that purport to consider risk elements that may have an effect on a fund's NAV. The methodology employed by each of these NRSROs generally incents a rated MMF to hold portfolio securities rated by the NRSRO that rates the fund itself, over securities rated by any competing NRSRO. Thus a MMF with a Standard & Poor's Principal Stability Fund Rating of AAAm must invest at least 50% of its portfolio in obligations rated A-1+. Moreover, according to S&P's rating criteria, securities not rated by S&P, but rated at the highest rating category by other NRSROs, may not be permitted in the investment portfolio of a MMF rated AAAm by S&P. Since many of the largest MMFs are rated, and most rated MMFs have a fund rating with some combination of AAA/Aaa/AAA, I believe that the Commission's proposal to require a MMF to designate specific NRSROs is likely to be anti-competitive. It seems unlikely that rated MMFs will designate any NRSROs outside of the three NRSROs providing MMF ratings and that are reported to have issued 99 percent of all the outstanding ratings across all categories that were issued by the 10 registered NRSROs as of June 2008. Moreover, in some cases, MMF ratings are codified in State laws (e.g. Ohio Revise Code Section 135.01(O)(2)) and various investment policies. Rated MMFs are unlikely to jeopardize their NRSRO ratings by designating any but the three largest NRSROs.

- LONG TERM UNRATED SECURITIES

I do not favor the proposal to revise Rule 2a–7(a)(10)(ii)(A).

The Commission is seeking comment on a proposal to revise the definition of Eligible Security to include a long-term security with remaining maturity of 397 calendar days or less (''stub security'') when neither the security nor its issuer or guarantor has a short-term rating unless the security has received a long-term rating from any NRSRO that is not within the NRSRO's two highest categories of long-term ratings if the security is of comparable quality to a rated security. The change is designed to provide an independent check on a fund's quality determination in the absence of a short-term rating. While, the proposal will achieve the desired effect, it can have an adverse impact on diversification and concentration by eliminating from consideration issues/issuers in industries that do not normally participate in the short-term credit markets. Moreover, there is no independent check of an Unrated Security without any long-term rating from any NRSRO can still be deemed to be of comparable quality to a rated security. If a fund's board is capable of making the latter determination, it seems equally competent to make the former

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determination, as well. Additionally, this proposal seems at odds with the objective stated earlier in Release No. IC–28807; File No. S7–11–09 to encourage more independent credit risk analysis.[2]

- GOVERNMENT SECURITIES

The reform proposals offer comments on several obvious alternatives to removing risk form MMF portfolios: eliminate Second Tier Securities, reduce the maximum weighted average portfolio maturity, and initiate a new liquidity measure. But the reform proposals appear to overlook a simple but dramatic alteration to Rule 2a-7 that would significantly raise portfolio credit quality: require MMFs to invest only in Government securities. Such a reform would offer a substantial reduction in the risk profiles of MMFs, and significantly simplify MMF regulation.

PORTFOLIO MATURITY

- WEIGHTED AVERAGE MATURITY

I do not favor the proposal to reduce the weighted average portfolio maturity to 60 days from 90 days. A weighted average maturity of 75 days may be appropriate to reduce MMF risk and promote NAV stability of MMFs.

Impetus to reform MMF regulations arose out of the financial crisis in September 2008 when the Reserve Primary Fund broke the buck. While many factors may have exacerbated the crisis, too long a WAM was not implicated as a causative factor. The Reserve Primary Fund's weighted average portfolio maturity was 58 days on September 15.

- WEIGHTED AVERAGE LIFE

I do not favor limiting the weighted average life of portfolio securities to 120 days. However, I believe that a weighted average life standard is appropriate to reduce MMF risks and promote NAV stability of MMFs. I believe that thresholds of 150 days for non-government MMFs and 180 days for government MMFs satisfy those goals.

Some MMF portfolio managers have already begun using a weighted average maturity measurement that ignores the maturity shortening provision of Rule 2a-7.[3] The current silence of Rule 2a-7 on weighted average life seems an omission that is appropriately remedied at this time, and a weighted average life threshold will set a uniform industry standard. Arguably, had such a standard been in effect prior to 1994, the Community Bankers US Government Fund would not have broken the buck in the run-up in interest rates that began in February of that year.

A weighted average life limitation comes at a time when several risk-limiting Rule changes are being affected, and in this environment a 120-day standard seems unnecessarily harsh. Importantly, unlike the 1994 situation, the absence of a weighted average life threshold had no impact on the events of September 2008 and the Reserve Primary Fund debacle.

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2 Federal Register, Vol. 74, No. 129, July 8, 2009, p. 32697
3 *Id*. p. 32701.

- MATURITY LIMIT OF GOVERNMENT SECURITIES AND OTHER PORTFOLIO SECURITIES

I believe that a 397-day limit for fixed rate Government securities is appropriate, and that there should be no revision to the maturity limit for non-Government securities, which should remain at 397 days, as well.

Prior to the enactment of Rule 2a-7 in its current form in 1991, the Commission deliberated over an appropriate maturity limit for Eligible Securities. Considerable effort went into that process and the current 397-day limit (not, remarkably, 360 days or 365 days) followed.

The final maturity of a security is an important element in its risk profile, and obviously, there is less interest rate risk in a shorter-term security than a longer-term security. In evaluating the proposed Rule changes, I believe that it is important to consider that a maturity limit of 397 days did not give rise to any facet of the financial crisis of last fall. Appropriate consideration should be given to proposals that may have ameliorated that crisis without amending provisions in Rule 2a-7 that were not implicated in the events that gave rise to the MMF crisis that developed.

PORTFOLIO LIQUIDITY

- LIMITATION ON ACQUISITION OF ILLIQUID SECURITIES

I do not favor eliminating a MMF's ability to buy illiquid securities up to 10 percent of its assets.

Government MMFs are generally among the most liquid of all MMFs. These funds would be precluded from utilizing term repurchase agreements maturing in more than seven days without regard to their generally higher levels of liquidity. Such repurchase agreements can offer attractive, secured investments. Elimination of the provision that permits up to 10 percent of a MMF's assets to be invested in illiquid securities is likely to harm MMF shareholders, particularly shareholders of Government MMFs.

- LIQUIDITY REQUIREMENTS

The definitions of Daily Liquid Assets and Weekly Liquid Assets should be expanded to include Government securities.

Short-term Government securities have generally been unaffected by any adverse liquidity issues. The market for short-term Government securities is liquid and deep, and these securities have traded easily throughout the period since August 2007. Unlike some of the proposals that were commented on above, this liquidity proposal could have had an impact on September's MMF crisis had it been in effect at the time. Alternative and more conservative proposals to the suggestion offered above may include Government securities with **fixed** rates (including adjustable rate securities which are not subject to future rate resets) in the definition of Daily Liquid Assets and Weekly Liquid Assets; or, perhaps, fixed rate Government securities maturing in no more than 60 days.

- MINIMUM DAILY, WEEKLY, AND GENERAL LIQUIDITY REQUIREMENTS

I believe that daily, weekly, and general liquidity requirements are appropriate for MMFs, but the standards that are being proposed are unworkable with respect to differentiating between retail and institutional MMFs. Further, different liquidity requirements should be applied to Government and non-Government MMFs, rather than to retail and institutional MMFs.

Many fund families differentiate between retail and institutional shareholders by share classes of a single fund. Unless the proposal is amended to recognize this reality, retail shareholders may be disadvantaged in favor of institutional shareholders.

The annual certification process does not seem to provide adequate consideration of all factors that may distinguish a retail MMF from an institutional MMF. What if, for instance, MMF shareholders affiliated with the fund's investment adviser control a significant portion of the fund's assets; and the controlled assets are maintained at a stable level?

ICI data[4] for the crisis period in the fall of 2008 indicates large declines in assets of institutional non-government MMFs, but increasing assets in both institutional and retail Government MMFs. The table below summarizes ICI data for MMF asset levels between September 10, 2008 (pre-crisis peak) and October 8 (the low point for institutional non-Government MMFs' assets).

	Institutional		Retail	
	Government	Non-Government	Government	Non-Government
Change in Money Market Fund assets from 9/10/2008 to 10/8/2008	+49.5	-30.1	+39.9	-4.7

A significant goal of the MMF reform campaign is to reduce the systemic risk that failure of a MMF might unleash. The ICI data suggest that investors can differentiate between the risks of Government and non-Government MMFs as they did last fall, and the probability of a "run" on a Government fund is markedly less than for a non-Government fund.

MMF managers generally understand this distinction. I was affiliated with a Midwestern MMF in the late-1980s that changed its portfolio risk profile to Government securities from non-Government securities because of the investment adviser's concern that the financial stresses of that time might cause a non-Government MMF to break to the buck. The fund's adviser believed that Government MMFs were more likely to be able to withstand the shareholder panic that would result. The data from last fall (above) seem to confirm that belief.

A Minimum Daily Liquidity Requirement of 5 percent and a Minimum Weekly Liquidity Requirements of 15 percent should apply to Government MMFs regardless of whether they are considered retail or institutional. The Daily and Weekly Minimum Requirements for non-Government MMFs should be 15 percent and 30 percent, respectively.

4 Investment Company Institute, Money Market Mutual Fund Assets, http://www.ici.org/pdf/mm_data_2009.pdf,

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It is appropriate for MMFs to consider a number of factors that could affect the fund's liquidity needs, and a General Liquidity Requirement, dependant on a MMF's unique shareholder profile is a suitable addition to Rule 2a-7.

- STRESS TESTING

I believe that stress testing a MMF portfolio can provide useful information, but that the Rule change, as proposed, should not be adopted; will not serve a useful purpose; and stress tests should not drive regulatory requirements by being incorporated as a provision in the Rule.

Stress tests are an industry best practice, but test hypotheticals are best left to a MMF's investment adviser rather the fund's board of directors. A requirement to mandate stress testing and then leave to the MMF's board of directors (and the fund manager) the specifics of the scenarios or assumptions on which the tests are based seems likely to provide a warehouse of raw data without appropriate quality measures or standards of interpretation.

- DIVERSIFICATION

The disversifivation standard of 5 percent of assets should not be reduced below that level, but Rule 2a-7 should be amended to cap credit exposure at the lower of 5 percent of assets or an absolute dollar threshold, say $50 million, in order to reduce the risk of a large, systemically significant, MMF from breaking the buck.

Systemic risk posed by MMFs breaking the buck can be limited by amending diversification requirements of Rule 2a-7. The Commission observed that the Reserve Primary Fund's exposure to Lehman tallied only 1.2 percent. Yet that low percentage totaled $785 million,[5] an amount that exceeded the investment adviser's ability to backstop the fund's losses as happened in the case of other MMF creditors of Lehman. The Money Market Fund Reform; Proposed Rule comments that the issuer diversification provisions of the rule generally were not implicated by the market turbulence last fall.[6] That may be too facile an analysis.

It seems likely that the Reserve Primary Fund's investment adviser (or an affiliate) would have supported the fund rather than allow it to break the buck had the adviser possessed the financial wherewithal to do so. There are numerous instances of MMFs being supported by affiliated entities in order to avoid the Reserve Primary Fund's fate. Footnote 38 of the Money Market Fund Reform; Proposed Rule acknowledges that at least 44 MMFs were supported by affiliates as a result of credit issues arising from SIV portfolio holdings.[7] Prior to the recent crisis, the history of MMFs offers several examples of funds weathering defaulted securities (e.g. Integrated Resources and Mortgage and Realty Trust) with help from affiliated parties without breaking the buck, and MMFs with more manageable Lehman positions did not follow along with the Reserve Primary Fund.[8]

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5 Christopher Condon, *Reserve Primary Money Fund Falls Below $1 a Share*, Bloomberg, September 16, 2008, available at http://www.bloomberg.com/apps/news?pid=20601087&sid=a5O2y1go1GRU
6 *supra*, p. 32708
7 *supra*, p. 32691
8 See http://www.tiaa-cref.org/pdf/news/guidance_lehman.pdf

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A proposal limiting the dollar amount of credit exposure (rather than the percent of credit exposure) is likely to encounter significant industry opposition, but such a proposal can materially limit systemic risk. If a non-Government MMF's credit exposure is limited to an absolute level that is less than 5% and significantly below the economic value that the fund provides to the investment adviser, the adviser will be more likely to backstop the fund's NAV in order to protect its reputation and future business opportunities as an investment adviser.

A proposal limiting overall dollar credit exposure would have a significant impact on large, institutional non-Government MMFs which threaten the greatest systemic shocks in the event of failure. Government MMFs and small non-Government MMFs are likely to be unaffected. Had an absolute dollar credit limit of $50 million been in effect in September 2008, the Reserve Primary Fund's investment in Lehman would have been far more limited. Arguably, the lower credit exposure would have been within range of the financial resources of the fund's investment adviser to support the fund's constant NAV of $1 per share.

GENERAL COMMENTS

- FLOATING NET ASSET VALUE

The Commission should not adopt a proposal to require MMFs to calculate a floating NAV.

The rationale to reject this proposal has been documented by other commenters.

- IN-KIND REDEMPTIONS

The Commission should not adopt a proposal to require MMFs to satisfy redemption requests in excess of a certain size through in-kind redemptions.

Even sophisticated shareholders may not have a ready, adequate infrastructure in place to facilitate receipt of in-kind distributions of securities. Additionally, shareholders, lacking the investment and trading expertise of investment advisers, may receive inferior trading execution when selling the in-kind securities compared to what investment managers would likely achieve.

CLOSING COMMENT

The diligence and hard work of the Commission and its staff in preparing these reform proposals is evident, and the body of the work can stand on its own considerable merit. A number of the proposals will dramatically alter the manner in which MMFs do business. I believe that it is critically important for the transition to these new rules to be handled with extreme caution in order that system shocks are not created in the wake of Rule changes intended to reduce risk.

Sincerely,

/s/ C. Stephen Wesselkamper