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Securities and Exchange Commission
100 F St. NW
Washington, DC 20549-9303
Rule-comments@sec.gov

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Subject: Money Market Fund Reform

Dear Securities and Exchange Commission:

As an investor who uses money market mutual funds ("MMMFs"), I am pleased that you are looking at ways to bulletproof the funds to make them safer. However, some of the proposed changes will have the unintended consequences of actually imposing more risk on investors.

Floating NAVs will push more investors into short-term bond funds with higher risk.

One of the proposals is to eliminate the fixed target NAV of $1.00 per share and replace it with a floating NAV. Such a change would eliminate one of the primary advantages of MMMFs, the stable NAV. Once the stable NAV is gone, MMMFs will be indistinguishable in the eyes of many investors from short-term bond funds. Many investors will be tempted by such funds that promise higher yields and seem to be almost MMMFs and thus seem to have almost same level of safety. Alas, several short-term bond funds experienced large declines during the recent turmoil leading to gravely disappointed investors. Thus, this well-meaning but misguided attempt to make MMMFs safer will actually push many investors into riskier investments.

<u>Banning A2/P2 paper will make it more likely that a future MMMF will break the buck because it reduces diversification opportunities.</u>

While the proposal has the laudable goal of making MMMFs safer, the proposal to ban MMMFs from holding A2/P2 actually makes it more likely that eventually another MMMF will break the buck. Eliminating A2/P2 issuers will reduce by nearly half the number of issuers whose paper will be eligible for holding in MMMFs. This will undoubtedly cause some MMMFs to increase their exposure to individual issuers. When the next Lehman-style event occurs to an A1/P1 issuer, this higher exposure will make it more likely that a fund exposed to one individual issuer will break the buck.

It is well known that diversification is one of the best risk reduction techniques. It is prudent to let MMMFs diversify into other high quality credits. The A2/P2 issuers are generally high-quality investment grade firms, and A2/P2 has had a pretty good track record in terms of defaults. It is notable that the 197 page proposing release looked at credit spreads and some accounting variables but did not examine the historical default record Although the spreads between A1/P1 and A2/P2 issuers did increase during the recent turmoil, a large part of the increase in spreads came from the government's actions to guarantee A1/P1 paper but not A2/P2.

<u>There is a better way to bulletproof a fund: Restrict exposure to each issuer to ½ of 1%.</u>

It is conceptually quite simple to bulletproof a money market mutual fund so that it never breaks the buck: If a fund never holds more than ½ of one percent of its assets in any paper issued by any one issuer, then even a complete loss from that one issuer would not result in that fund breaking the buck: The share price would still be rounded to $1.00. The fund could then waive or reduce its management fee and/or reduce the dividend payout by a tiny amount to eventually bring the NAV back to $1.0000 per share. I am not, however, proposing that all funds be reduced to a maximum exposure of ½ of 1% to any issuer: This could be problematic for smaller funds that might find it overly expensive to buy smaller quantities of commercial paper.

<u>The limit on A2/P2 holdings should be raised, not lowered, subject to a ½ of 1% constraint.</u>

If a fund limits its exposure to any one A2/P2 issuer to ½ of 1%, there is no reason to have a 5% limit on A2/P2 holdings in the fund. Indeed, if a fund is following a ½ of 1% policy, there is no reason for any limit on the amount of A2/P2 paper it can hold. The Commission should seriously consider not counting exposures of less than ½ of 1% towards the current 5% limit on A2/P2 holdings. This will encourage funds to follow extremely conservative diversification policies.

<u>The proposal to ban A2/P2 paper runs counter to other SEC proposals to reduce reliance on rating agencies.</u>

The proposal to restrict MMMF holdings to only securities in the highest rating categories of the major rating agencies increases role of rating agencies in our financial system. One of the lessons we should have learned from the recent crisis was that an overreliance on rating agencies gave too many investors a false sense of security. The SEC recently proposed a series of rule changes to reduce this overreliance, and yet now it is going in the other direction and increasing reliance on the particular ratings of the few anointed NRSROs.

Respectfully submitted,

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