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September 7, 2009

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

RE: Proposed Rule on Money Market Reform, SEC File Number S7-11-09, Release No. IC-28807

Dear Ms. Murphy:

I am writing on behalf of Clearwater Analytics, a recognized leader in daily, web-based, investment portfolio reporting and analytics. Clearwater's technology platform aggregates and reconciles investment portfolio transaction and holdings information from safekeeping entities, integrates third party data, and generates transparent reporting and analytics for investors, investment managers, custody banks and transaction execution portals. Launched in 2003, Clearwater Analytics reports on over \$500 billion in assets for more than 2,000 institutional investors.

In July 2008, Clearwater Analytics developed and released Money Fund Transparency<sup>TM</sup>, a web-based platform designed to provide investors with a clear and timely understanding of money funds. Clearwater's platform presents a variety of risk analytics, performance metrics, portfolio holdings and other information on the assets within the fund online in an easily accessible, legible, and consistent format permitting efficient fund analysis, comparison, and selection.

We appreciate the opportunity to comment on the Securities and Exchange Commission's proposed amendments to the governance of money market funds and commend the Commission for its stance on increased disclosure and transparency. In responding to the Commission's proposals, Clearwater Analytics is committed to providing solutions that increase confidence, reduce risk, enable effective monitoring and oversight, and empower investors.

It is our position that improved communication, in the form of increased transparency in reporting, may mitigate the need for further or more onerous regulatory reform. While regulation strives to protect the interests of investors, no amount of regulatory action can

compensate for unscrupulous behavior on the part of market participants, investor indifference, or certain idiosyncratic events. One thing is clear: investors cannot rely on regulation alone to protect them. Regulation cannot replace communication. Investors need to be proactive in seeking the information and tools that will enable them to improve their investment processes; investment managers must be diligent in providing the necessary information; and regulators must be proactive in obtaining, analyzing, and monitoring information on market activities. The use of technology to deliver meaningful reporting and analytics will be the most effective way for fund managers to communicate with investors and for regulators to monitor fund activities.

While a number of money market fund industry reforms have been proposed in the release, our comments are directed towards proposed reforms concerning reporting, including increased disclosure and transparency into portfolio holdings and activities. Specifically, we offer our comments based on the proposed requirement for publishing portfolio holdings to a website that is accessible to public view and the ongoing filing of comprehensive portfolio information with the Commission, as detailed in proposed rule 30b1-6 Form N-MFP.

In the past, the Commission has been criticized for lacking the tools and resources to effectively conduct market surveillance and monitoring activities. Critics have argued that much of the policing responsibilities have been left to self-regulatory organizations and that the Commission tends to rely too heavily on enforcement and inspections. Jonathan Katz, former Secretary of the SEC admitted "You need the quantitative, analytical capacity that the agency has never had."<sup>1</sup> Harvey Pitt, a former SEC Chairman added in an email to the Wall Street Journal, "Although the SEC receives many filings of different sorts, it does very little to collect significant data, analyze it, and then disseminate it to other government agencies and the marketplace."<sup>2</sup>

We commend the Commission for new efforts directed at ramping up its supervisory capacity as evidenced by Ms. Shapiro's remarks before Congress that the SEC was "seeking to develop systems to mine data from multiple sources"<sup>3</sup> and recruiting additional resources and expertise from the marketplace to enhance their surveillance capabilities. We believe that money market fund industry oversight presents an exciting opportunity for the Commission to employ existing technology to significantly enhance its capacity for robust analysis and surveillance, while also allowing for the appropriate dissemination of information between other agencies, key stakeholders, and marketplace participants.

As we have learned from the investor community, there is strong demand for increased disclosure and transparency into the holdings and activities of money market funds. On behalf

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<sup>1</sup> SEC Plays Keep-Up in High-Tech Race, Tom McGinity and Kara Scannell, Wall Street Journal, August 20, 2009

<sup>2</sup> IBID

<sup>3</sup> IBID

of our clients, we strongly support the reforms proposed concerning disclosure of portfolio data and efforts directed at improving the availability of valuable fund information that will assist investors in their investment decision making processes. Clearwater recommends that the information outlined below be included as part of the requirement to post portfolio holdings information to a public website. We also recommend that this information be included in the filing of Form N-MFP, according to proposed rule 30b1-6 of the release. We endorse the Commission's suggestion that the public website disclosure be a human readable version of the essential portfolio holdings information contained in Form N-MFP. There are both portfolio level and security level characteristics that should be included in the reporting. We have categorized the information requirements accordingly.

## **I. Portfolio Holdings Disclosure and Reporting**

### **A. Portfolio Level Data Components for reporting on money market funds should include:**

1. Fund Type (assuming final reporting requirement to distinguish between retail or institutional)
  - a. Institutional
  - b. Retail
2. Fund Category
  - a. Treasury
  - b. Government/Agency
  - c. Prime
  - d. Tax-Free National
  - e. Tax-Free State
3. Yield
  - a. 7 day gross compound yield
  - b. 30 day gross compound yield
  - c. 1 day gross yield (depending upon final reporting frequency requirement)
4. Expenses
  - a. Gross expense ratio
  - b. Net Expense ratio
  - c. Any other details on caps, fee waivers or rebates in place.
5. Performance Returns
  - a. 1 month
  - b. 3 month
  - c. YTD
  - d. 1 year annualized return

- e. 3 year annualized return
  - f. 5 year annualized return
  - g. 10 year annualized return
6. Duration measures
    - a. Portfolio Weighted Average Maturity (WAM)
    - b. Portfolio spread WAM or Portfolio Weighted Average Life (WAL)
  7. Tenor – an allocation of days to effective maturity. The buckets could be broken out and represented in percentage allocation terms in table or chart format as follows:
    - a. 1 day. This would include the percentage of the portfolio due to mature within one business day and could help illustrate the final Daily Liquid Assets requirement.
    - b. 2-7 days. This would include the percentage of the portfolio due to mature between two and five business days (typically 7 calendar days). Both a. and b. could be combined to help illustrate the final Weekly Liquid Assets requirement.
    - c. 8-30 days
    - d. 31-90 days
    - e. 91-180 days
    - f. 181-270 days
    - g. >270 days
  8. Asset Allocation – individual securities should be classified according to asset or security type and should also be classified according to industry or sector classification. This would roll up at the portfolio level and be represented in percentage allocation terms in table or chart format.
  9. ABCP sponsor concentration
  10. Repo collateral allocation
  11. Assets
    - a. Total Net Asset Value of the Fund (share class).
    - b. Total Net Asset Value of the Portfolio (master fund/master portfolio).
  12. Change in assets
    - a. The net dollar (\$) change in fund assets for the reporting period.
    - b. The net percentage (%) change in fund assets for the reporting period.
  13. Fund Nationally Recognized Statistical Rating Organization(NRSRO) credit rating
    - a. S&P fund rating
    - b. Moody's fund rating
    - c. Fitch fund rating
  14. National Association of Insurance Commissioners (NAIC) approval level if applicable

B. Security Level Data Components for reporting on money market funds should include:

1. Identifier – CUSIP (ISIN, SEDOL)
2. Issue or security description – the title of the issue
3. Units or shares
4. Coupon
5. Rate Type
  - a. Fixed
  - b. Floating
6. Maturity (Final Legal)
7. Next reset date (or date of demand feature/put)
8. Days to maturity
9. Asset or Security Type – Possible asset/security types to include:
  - a. Treasury
  - b. Agency
  - c. Government
  - d. Bank Notes
    - i. Time Deposit
    - ii. Certificate of Deposit
      1. Domestic
      2. Foreign
      3. Yankee
  - e. Repurchase Agreement
  - f. Corporate Bond
  - g. Corporate Discount Note
  - h. Medium Term Note
  - i. Asset Backed Security (ABS)
  - j. Floating Rate Note
  - k. Commercial Paper
    - i. Asset Backed Commercial Paper
  - l. Money Market Fund
  - m. Other
10. Sector or Industry – Possible sector/industry types to include:
  - a. Bank
  - b. Corporate
  - c. Municipal
  - d. Sovereign
  - e. Treasury
  - f. Agency

- g. Asset Backed
- 11. Country – Domicile of Issuer
- 12. Credit Rating of Issuer
  - a. S&P short-term rating
  - b. Moody’s short-term rating
  - c. Fitch short-term rating
- 13. Rating – 1<sup>st</sup> Tier, 2<sup>nd</sup> Tier (if not removed for the rule), unrated, no longer eligible
- 14. Credit Guarantor – title and description
- 15. Credit Guarantor – credit rating
- 16. Repo Collateral Type – Treasury, Agency, Corporate, MBS, etc.
- 17. ABCP sponsor – title and description
- 18. ABCP sponsor – credit rating
- 19. ABCP credit support type
  - a. Full support
  - b. Partial support
  - c. No support
- 20. ABCP liquidity support type
  - a. Full support
  - b. Partial support
  - c. No support
- 21. PAR or principal value of security
- 22. Current amortized cost of security
- 23. Market price of security<sup>4</sup>
- 24. Market value of holding (this can otherwise be calculated with market price and share data)
- 25. Percentage (%) of security held in portfolio

The ICI stated “Funds should reassess and revise the disclosure of risks that they provide to investors and the markets. The SEC should require money market funds to provide monthly website disclosure about portfolio holdings, which will allow third-party analysts and commentators to compare money market funds.”<sup>5</sup> Fund companies will have the discretion to

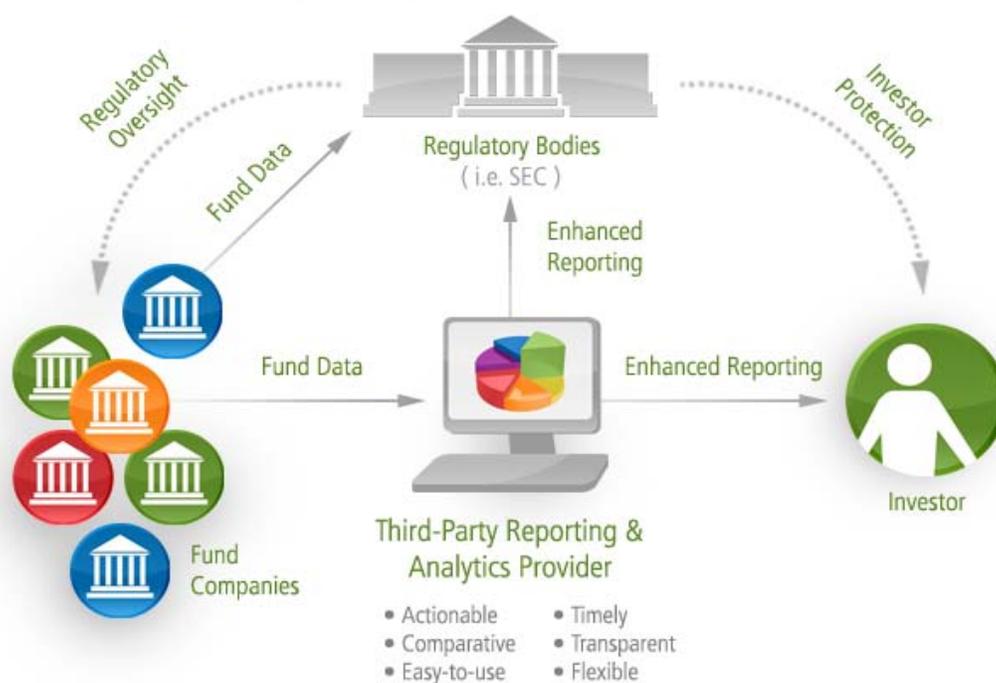
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<sup>4</sup> Some market participants have suggested that disclosure of the market price of the security would have negative unintended consequences. We are not proposing the direct and explicit disclosure of a fund’s shadow price. We would suggest that with disclosure of Cusip and other identifying information that sophisticated investors would be able to independently determine the market price from available market data. One issue to consider is that different funds may value the same security at different prices depending on what pricing vendors or pricing sources they employ. If the Commission elects to require the disclosure of market-based pricing of securities (whether public or non-public) they may also elect to require the pricing source to evaluate the consistency of market-based pricing across the fund industry.

<sup>5</sup> Report of the Money Market Working Group, Investment Company Institute, March 17, 2009.

post their holdings on a more frequent basis if they choose. Many investors, particularly larger institutions, need to monitor their fund holdings on a regular and consistent basis and would like to be able to aggregate this information with the rest of their investments accounts, including separately managed portfolios. This type of regular disclosure will also allow third-party analytics and reporting providers to make meaningful comparisons of money funds and highlight certain characteristics that are of interest to investors and the market generally. As illustrated in the following diagram, third-party technology reporting and analytics providers can play a critical role by delivering enhanced reporting, which results in improved communication.

## Enhanced Reporting = Improved Communication



Increased disclosure and transparency is a good thing, but will only be valuable to investors if it is actionable. The information must be relevant, timely, objective and standardized to the degree possible. The typical institutional money market investor, who is investing in multiple funds from a variety of fund managers, often has to undertake painstakingly difficult manual processes to gather, assimilate and analyze the information they need when monitoring and making investments. Therefore, the disclosure will only have value if it is consistent with investors' reporting requirements and is comparable between providers. To best serve the investing public, portfolio holdings disclosures need to be in web-based formats that can be

manipulated quickly and efficiently by a variety of reporting technologies and integrated into client reporting platforms. Clients want automated solutions that allow for apples-to-apples comparisons and that improve investment decision-making processes. The Commission should emphasize that the information contained in the public website disclosure be in a format that is easy to read and understand and contains information as comprehensive as that included in the filing requirement.

Investors and shareholders are generally seeking current information on as timely a basis as possible. We recommend that in order to avoid confusion, and to limit the cost burden of maintaining historical information on a public website, the website disclosure requirement of portfolio holdings information for fund companies be limited to the current reporting period. Other, historical reporting periods could be made available to investors or shareholders upon request or could be obtained from third-party data and analytics vendors who would generally be positioned to collect and disseminate information on fund holdings.

## **II. Client Concentration Disclosure and Reporting**

We believe that the Commission should also consider disclosure requirements regarding shareholder concentration as suggested by the Investment Company Institute in the report of the Money Market Working Group<sup>6</sup>. Of course, these considerations depend in part on portfolio liquidity requirements and proposed rules concerning the ability of fund boards to temporarily suspend redemptions during times of stress, as well as affiliates' ability to purchase securities at the greater of amortized cost or market value from the fund (new proposed Rule 22e-3 and proposed amendments to Rule 17a-9). We suggest that institutional money market funds provide meaningful information about the client concentration of the funds' shareholders and that the Commission should consider ways to address liquidity and NAV risk subject to significant shareholder redemption activity. Client concentration disclosure should also be included as part of the regular reporting requirement. Nevertheless, reporting in this manner creates an interesting challenge because no fund has ever provided client concentration disclosures or reporting in any sort of consistent fashion. For most, the methodology for categorizing clients has not even been determined and may present additional difficulties in formulating consensus or standard definitions.

Of particular concern are alternative distribution platforms. Identifying a client who invests directly with the fund or via a direct model portal is straightforward, but identifying underlying client investors in an omnibus portal relationship will be challenging. Likewise, the investment and redemption activities of retail, high net worth or small institutions individually may not

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<sup>6</sup> Report of the Money Market Working Group, Investment Company Institute, March 17, 2009.

have much of an impact individually, but in aggregate could meaningfully affect a fund's liquidity position or investment strategy.

We recommend funds provide a listing of their top ten shareholders by client account type. Each fund should also publish rules it has put in place for the fair treatment of all shareholders. For example, a fund could limit the percentage of the fund that could be held by any single client, limit the percentage of the fund that could be held by any particular client account type, and potentially limit the daily dollar amount of any individual client transaction. We have provided below, a list of potential client account types. This list may not be exhaustive or all-inclusive, but can serve as a starting point for meaningful discussions around client concentration reporting.

A. Client Account Types

1. Institutional Direct
2. Institutional Platform/Portal - Direct Model
3. Institutional Platform/Portal - Omnibus Model
4. Street Name Accounts
5. Cash Sweep (Internal)
6. Retail Direct
7. Retail Platform/Portal - Omnibus Model
8. Other

The Commission has proposed rules that make a distinction between retail and institutional money market funds. It is more complicated to differentiate between institutional and retail investors than one may think. The Commission has suggested that a fund's board of directors determine the classification of a fund as institutional or retail based on the nature of the fund's record owners, investment minimums, and historical cash flows. Under the proposal, it appears as though the default definition will require the fund's board of directors to classify a fund as institutional if any portion or share class of the portfolio exhibited characteristics similar to that of "institutional" funds. One concern with the proposal is that it may lead to inconsistent and subjective determinations of fund classification across fund complexes.

If the differentiation is critical to the application of the proposed rules that bifurcate the "daily liquid assets" or "weekly liquid assets" test between retail and institutional funds, perhaps a more objective definition that can be consistently applied across all funds is necessary. Conceivably, increased disclosure of client concentration type along with disclosures concerning net cash flow activity will better reflect the risk to a fund of large redemptions and provide investors with more valuable information than a classification of fund type.

It appears as though the primary objective of the ICI recommendation is to identify situations where a handful of large investors (particularly institutions) could materially and adversely affect the liquidity position and the underlying NAV of the fund because of their redemption activity. Investors need to understand the risks associated with funds that have a high degree of client concentration, versus those that have a well-diversified client base. Technology will play a pivotal role in identifying, tracking and reporting on these activities by investor type.

### **III. Frequency of Reporting**

We urge the Commission to carefully contemplate the requirement concerning the frequency of portfolio information disclosure. The Commission must weigh its obligation for timely and robust monitoring and regulatory oversight while also taking into account the needs of shareholders and other stakeholders that use this information in evaluating and investing in money market funds. While we will support the Commission in whatever frequency they determine as acceptable for ongoing surveillance purposes, we strongly suggest that the Commission and investors would benefit from frequent and timely disclosure of relevant information. Continual improvements in technology are steadily enabling the availability of near real-time information. Technology exists that would allow the Commission to obtain the necessary information and monitor money market funds on a daily basis. This can be done in a cost effective manner that will not be overly burdensome on fund managers, custodians, and other participants in the data collection and reporting process. We agree with the Commission that once a system has been developed for collecting, tagging, and filing the information for Form N-MFP, particularly to the extent the system has been automated, that the marginal costs associated with generating additional reports at an increased frequency would be low.

Daily monitoring certainly would have provided the commission and other regulatory entities with useful information during the credit and liquidity crisis of the past two years – particularly with SIV investments in 2007 and in the aftermath of the Lehman Brothers bankruptcy in September 2008. Monthly holdings, especially given the high rate of turnover in money market funds may prove stale and insufficient in addressing issues of immediate concern. Many fund companies provided more frequent disclosure of portfolio holdings information during certain episodes of the crisis and several continue to do so (some as often as daily.) In order to minimize the impact on fund managers, the Commission should exercise the option to obtain unaudited portfolio holdings data on a daily basis for its own monitoring and surveillance purposes. This information would not be released to the public. The Commission should subsequently require the disclosure of audited information at other reporting frequencies that would then be disseminated publicly to the market.

While daily monitoring of money market funds should be carefully deliberated, we recommend the Commission consider a disclosure and reporting frequency of no less than weekly of the fund and portfolio data components we have suggested in Section I, Portfolio Holdings Disclosure and Reporting. Because the information needs of various stakeholders differ, the Commission could require fund companies to comply with the public website disclosure requirement on a more timely frequency (weekly/bi-monthly), while allowing the fund companies to complete formal information filing to the Commission as it pertains to rule 30b1-6 and Form N-MFP according to the proposed monthly frequency. We support the amendments for Rule 30b1-5 which would otherwise create duplicative filing requirements.

#### **IV. Costs of Reporting**

We believe the disclosure and reporting rules the Commission has proposed are designed to benefit fund shareholders through increased transparency into the portfolio activities of money market funds. We recommend the Commission provide further guidance for fund companies and fund boards concerning the treatment of costs associated with complying with the reporting requirements. It is our opinion that the costs and fees associated with the website disclosure requirement, as well as the reporting and filing requirement, be treated as legitimate fund expenses.

For many fund managers, the data requested as part of the formal filing of form N-MFP - and to a degree the data required to complete the public website disclosure - is contained within multiple, disparate systems. Many fund managers will need to make significant organizational infrastructure investments in order to meet all reporting requirements. Others will need to make additional enhancements to their systems above and beyond the basic requirements in order to comply. Some fund companies may choose to develop these capabilities in-house, while many others will look to third-party providers that are better positioned to help fund managers meet the reporting requirements in more cost-efficient ways. Regardless of the “buy” or “build” approach employed by fund managers, there will be significant costs incurred to initially meet the reporting requirements. Maintaining reporting systems designed to ensure continual compliance will also add ongoing costs.

##### **A. Monthly Website Reporting Costs**

The resources required and costs incurred to comply with the reporting requirement will differ across fund managers. The Commission has estimated an initial cost of \$4,944 per fund to develop a web page for posting portfolio holdings information. Furthermore, the Commission has estimated that the annual cost per fund to maintain the currently proposed monthly website disclosure to be \$9,888. We believe the Commission may be

underestimating the costs associated with the initial development of a web page for the website disclosure of portfolio holdings information. However, we also believe the Commission may have overestimated the costs associated with ongoing maintenance of the website reporting.

#### **B. Monthly Form N-MFP Filing Costs**

The Commission has estimated the initial cost for collecting, tagging, and electronically filing form N-MFP, according to proposed rule 30b1-6, to be \$35,968. The Commission has also estimated that the annual cost for completing the proposed monthly portfolio schedule filing to be \$26,976. Similar to the website reporting costs, we believe the Commission may be underestimating the initial costs and overestimating the costs associated with ongoing monthly filing Form N-MFP.

### **V. Reporting Formats**

We believe the Commission should use a reporting format that can most effectively satisfy the Commission's need to conduct ongoing market surveillance and monitoring while also minimizing the costs and burden on fund managers, custodians, and other entities associated with the data collection, tagging, publishing and filing process. Whether the Commission elects to employ XML (Extensible Markup Language) format or XBRL (Extensible Business Reporting Language) format or another type of reporting format, Clearwater Analytics remains neutral and will work within the Commission's parameters, as should any third-party tasked with reporting and analytics.

### **VI. Stress Testing**

Regular stress testing of a money market fund portfolio to ensure that it is designed to meet the primary objectives of maintaining a stable net asset value per share and can meet its expected liquidity requirements is certainly best practice. Nonetheless, stress testing is based upon assumptions about risk and the impact of hypothetical future events. While useful and interesting information can be gleaned from past events, past experience is not necessarily predictive of future results. Additionally, risk metrics and analysis tend to be highly subjective in nature. Stress testing by separate fund companies on two similar portfolios may yield very different results. We support the Commission's proposed rules to formally require periodic stress testing and encourage all fund companies to adopt this as part of their internal processes. However, we believe that with transparency – the full, accurate, and timely

disclosure of information – independent third parties will be able to provide objective and standardized stress tests that can be consistently applied across fund types and fund complexes. Third parties would also be able to provide analysis and tools enabling investors to independently conduct stress testing on their portfolios. We believe this will yield additional, valuable information to fund investors, regulators, and other stakeholders.

## VII. Summary

We commend the Commission for its efforts to improve disclosure and transparency for investors, shareholders, and other stakeholders in money market mutual funds. We believe the Commission's efforts will lead to improved communication, creating a win-win scenario for all constituents. Transparency will instill confidence in the money markets. Greater transparency and disclosure may curtail the need for more onerous regulation and preserve the value of money market funds as a vital liquidity management tool. The entire money fund industry will benefit as confidence, in what has been an enormously successful product, increases.

Let me thank the Commission on behalf of Clearwater Analytics for considering our comments and suggestions. Please contact me should you have any questions regarding this commentary letter.

Sincerely,

A handwritten signature in black ink that reads "Matthew J. Clay". The signature is written in a cursive style with a large, stylized 'M' and 'C'.

Matthew J. Clay  
Head of Commingled Fund Solutions  
Clearwater Analytics, LLC

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

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