

The Independent Trustees
The North Carolina Capital Management Trust
c/o Fidelity Investments
82 Devonshire Street
Boston, Massachusetts 02109

Thomas P. Hollowell, Chair
The Honorable James G. Martin, Trustee
The Honorable E. Norris Tolson, Trustee

September 8, 2009

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

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

Dear Ms. Murphy:

The Independent Trustees of the Board of Trustees of The North Carolina Capital Management Trust appreciate the opportunity to comment on the proposal of the Securities and Exchange Commission to amend certain rules, including Rule 2a-7, that govern money market funds, issued in Release No. IC-28807.

The Trust is a registered investment company that consists of two portfolios, one of which—the Cash Portfolio—is a money market fund that operates in accordance with Rule 2a-7. Shares of the Trust are offered exclusively to local government and public authorities of the state of North Carolina. The Trust is managed by Fidelity Management & Research Company and certain of its affiliates.

The Trust was established in 1982 pursuant to legislation enacted by the North Carolina General Assembly that authorized the establishment of a mutual fund for local government investment. This legislation responded to concerns by state and local government officials that local units of government were not earning sufficient returns on their temporarily idle funds. The Trust was designed to provide such governmental units with an investment vehicle that combined low risk with high liquidity. On September 1, 2009, the Cash Portfolio's net assets were approximately \$6 billion.

The Independent Trustees support the goal of increasing the resilience of money market mutual funds to market disruptions. However, we disagree with the proposed amendments that would impose new responsibilities on a money market fund's board of trustees. We believe that the specific determinations that would be required by the amendments go well beyond the appropriate oversight responsibilities of a fund board.

We are also responding to the Commission's request for comment on the concept of introducing a floating net asset value per share for money market funds. We would oppose such an approach for the reasons described below.

I. Board of Trustee Determinations

The proposed amendments to Rule 2a-7 would expand the number of specific determinations that money market fund boards would be required to make. In our view, some of these new determinations, even those that could be delegated to the Trust's adviser or officers, would unreasonably burden trustees with the responsibility for determinations that are very difficult for non-experts to make, except in reliance on others, and would require a degree and frequency of involvement in fund day-to-day operations that go beyond the general oversight responsibilities of a fund board.

We believe that two of the proposed determinations are appropriate for a board but that additional guidance is required to help a board carry out its responsibilities. One of the new determinations—approval of the liquidation of the fund if the fund elects to suspend redemptions—appears to be an appropriate determination for a board. Also, a board should be in a position to make the determination concerning whether a fund is an institutional fund; however, the Commission should provide more specific criteria to assist in this determination. The criteria should reflect the underlying risks motivating the liquidity requirements.

A. Institutional Fund Determination

The proposed amendments require a fund board to determine annually whether the fund is an "institutional fund" for purposes of meeting proposed minimum liquidity requirements. A board, with the assistance of the fund's distributor or investment advisor, should be in a position to make this determination; however, more objective criteria should be developed to guide the board's consideration. The categorization of a fund as "institutional" should be based on an objective standard that would be consistently applied across the industry. An objective standard would set a clear line that fund boards, sponsors and investors could understand.

We also believe that the categorization of a fund as "institutional" should be based on criteria that is designed to identify institutional funds that are likely to require greater liquidity. Thus, we strongly suggest that any such criteria focus on (1) the predictability of sales and redemption of fund shares and (2) the type and concentration of the investors. Increased liquidity is primarily required where the fund is competing for yield-sensitive shareholders due to the unpredictability of the cash flows associated with such shareholders and where such shareholders contribute a substantial portion of the fund's assets.

This will not be the case for many types of investors that the Commission may think of as institutional, like state and local governments. On page 6 of the Proposing Release, the Commission suggests that state and local governments would ordinarily be considered "institutional" investors. However, in the case of Cash Portfolio, sales and redemption activity is highly predictable, in large part *because* its investors are state and local governmental entities. The sales and redemption activity of Cash Portfolio are driven largely by the monthly and annual

cycles of tax collections and disbursements and the receipt of the proceeds from bond offerings where the schedule for drawing down on such proceeds is relatively easy to anticipate. (We do not believe that Cash Portfolio's shareholders are so highly yield-sensitive that they might present the types of liquidity risk that the proposed amendments seek to address.)

Cash Portfolio's liquidity can be managed based on these factors, and additional liquidity requirements based upon a "one size fits all" standard for other types of institutional investors are unnecessary. We believe that the criteria that the Commission develops to address funds that present such risks should permit a board to take these factors into account, rather than focusing exclusively on whether the investors might be viewed for other purposes as "institutional." In fact, Cash Portfolio's liquidity has been managed quite well for almost the past thirty years. We don't feel that our shareholders should be penalized by lesser rates due to liquidity requirements imposed for reasons not applicable to them.

B. Sale and Redemption Calculations for Processing Transactions

The proposed amendments would require a fund board to determine annually that the fund (or its transfer agent) has the capacity to redeem and sell securities at the current net asset value (*i.e.*, at a share price of other than \$1.00). The Release explains that this requirement originated from the Commission's understanding of the operational difficulties experienced by The Reserve Primary Fund after the fund "broke the buck" in September 2008.

This is a determination that is well outside of any board's expertise. It is also a determination that is susceptible to an objective requirement rather than a judgment by a fund board concerning the technical capacity of the fund or its transfer agent.

C. Additional Creditworthiness Determinations

The proposed amendments would require a fund board to determine whether a repurchase agreement should be treated as an acquisition of the underlying security based on the creditworthiness of the seller. We believe that such a determination is uniquely within the competence of a fund's investment adviser rather than its board. While Rule 2a-7 currently requires fund boards to make certain creditworthiness determinations (which the board may delegate), we see no reason to expand the list to include granular determinations with respect to "repo" counterparties.

D. Stress Testing

The proposed amendments would require a money market fund to periodically stress test its portfolio to assess the fund's ability to maintain a stable net asset value. The proposed amendments would require the fund's board to adopt procedures that specify the frequency of the fund's stress tests and prescribe the content of such tests. The board would also be required to review reports of such tests at its next regularly scheduled meeting.

While stress testing may be an appropriate means to monitor the risks presented by a fund's investment program, we believe that the design and frequency of such testing are not

matters within a board's area of expertise. (On the other hand, it may be appropriate for a board to receive reports of such stress tests, particularly if they raise "red flags" concerning the fund's ability to maintain a stable net asset value.) If the Commission concludes that stress tests are a desirable component of money market fund regulation, we recommend that responsibility for designing such tests be assigned to the fund itself or its investment adviser.

II. Floating Net Asset Value

The Commission requested comment on the possibility of eliminating the ability of money market funds to maintain a stable share price through the use of the amortized cost method. The Independent Trustees strongly oppose the concept of introducing a floating net asset value per share for money market mutual funds. We believe that such a concept would effectively eliminate an investment option that North Carolina governments have found to be both safe and flexible.

We believe that North Carolina local governments and agencies invest in Cash Portfolio because it maintains a stable share price. We also believe that government officials understand that investment in a money market fund is not free from risk but are willing to accept that risk based on their assessment of its remoteness.

A floating net asset value would impose a variety of burdens on the Trust's shareholders. As the Commission notes in the Release, "a stable net asset value per share creates certain administrative, tax and cash management conveniences for fund investors." With a floating net asset value, investors in Cash Portfolio would not only be required to track the fund's yield but also the daily fluctuations in its price. They would lose the "convenience" of knowing that the shares they bought for \$1.00 per share would be redeemed at \$1.00 per share.

This is far more than a "convenience"; it is critical to the Trust's shareholders' ability to manage their cash. We believe that it is unlikely that a government official would select Cash Portfolio as an investment option if it could reasonably be expected that its share price would fluctuate from day to day, resulting in gains or losses (but particularly losses), even if it was highly likely that the investment would be profitable over the medium or long term. It would not be worth the trouble of attempting to track the precise amount available for redemption from day to day or the practical aspects of having to explain apparent losses to elected officials or taxpayers. The Commission has received a comment letter on the Release from one of the Trust's shareholders, the City of Winston Salem, that substantiates this point.

We are also concerned that the local governments that invest in the Trust would be hit by this proposal from another direction. We believe that a floating net asset value would reduce investment in money market funds generally. This could limit the availability of short-term funding for state and local governments. As the Commission notes in the Release, money market mutual funds serve as a reliable source of direct, short-term financing for, among others, municipal issuers (including state and local governments as well as universities and hospitals).¹ The decrease in investor demand for money market mutual funds likely to result from moving to

¹ Money Market Fund Reform, Fed. Reg. 32689

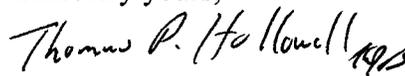
a floating net asset value would significantly limit the availability of this important short-term funding, which could have a negative impact on these entities.

In its comment letter, Fidelity raises a number of other concerns with respect to the floating net asset value concept. We believe that the Commission should carefully consider these concerns as well.

* * * * *

We would like to thank the Commission for considering our comments. Please contact me or our counsel, Kenneth J. Berman (202-383-8050), should you have any questions regarding this letter.

Sincerely yours,



Thomas P. Hollowell

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

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

Senator Richard M. Burr
Senator Kay R. Hagan