September 8, 2009

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

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

Dear Ms. Murphy,

Treasury Strategies, Inc., the leading Treasury consulting firm for corporations and financial institutions, would like to thank the Securities and Exchange Commission (SEC) for the opportunity to submit comments on the proposed changes to Rule 2a-7. We broadly agree with the spirit and the direction of the proposals, but we challenge two items that will have material adverse and unintended consequences for the capital markets.

Since 1982, Treasury Strategies, Inc. has provided consulting services to hundreds of clients globally, working exclusively in treasury and cash management. We consult to providers of cash management services (banks, broker-dealers and technology solution vendors) as well as users of cash management services (businesses, governments, universities and non-profits), giving us a **unique** perspective on this market. In this capacity, we possess the insight to anticipate unintended consequences that will occur if certain reforms come to pass.

Among the proposed amendments to 2a-7, we have focused on two that will have negative impact on the financial markets:

1. *The possibility of eliminating the ability of money market funds to use the amortized cost method of valuation (constant net asset value)*

2. *Proposed amendment to redefine "eligible securities" as those securities receiving only the highest (rather than the highest two) short-term debt ratings from the "requisite NRSROs"*

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<u>Comment 1.</u> ***The possibility of eliminating the ability of money market funds to use the amortized cost method of valuation (constant net asset value)***

The constant $1 NAV is fundamental to corporate and institutional investors' use of MMMFs. Treasurers know that for every $1 they invest in a MMMF, they will receive at least $1 back when they sell their shares.

1. **A fluctuating NAV will result in substantial assets leaving MMMFs.**

   - We surveyed corporate investors in January and June of 2009, with nearly identical findings. These investors account for approximately $1.6 trillion of the $3.6 trillion currently invested in MMMFs. Seventy-seven percent told us they will **decrease or totally eliminate** their use of MMMFs should the industry be forced to move to a fluctuating NAV.

   - The concerns they cite include:
     - Investment policy – many corporations are not permitted to invest in fluctuating net asset value instruments
     - Credit policy – bank loan and bond covenant definitions for cash and investments require a stable principal
     - Tax – sales become daily taxable events
     - Accounting – increased record keeping burden to mark to market daily and track cost basis
     - Liquidity uncertainty – daily cash position unknown until the end of day, after markets have closed
     - Treasury management system – system modifications required to track fluctuating NAVs

   Any one of these concerns alone is sufficient to preclude a treasurer from using MMMFs.

2. **A very close substitute already exists.**

   - Ultra short bond funds have fluctuating NAVs.

   - These funds have attracted relatively few assets and have been rejected by treasurers as a cash management vehicle.

3. **Assets leaving funds as a result of a fluctuating NAV will flow to other investment options that increase systemic risk and are problematic for investors.**

   - Corporate investors reported to us they would re-deploy funds from MMMFs to the following investment vehicles (multiple destinations result in a total of more than 100%):
     - 59% deposits and sweep accounts at large global banks
     - 43% commercial paper
     - 25% offshore deposits

- Substantial asset flow into **any** of these alternatives is problematic.
  - Bank deposits and sweep accounts – Regulators are already concerned about banking industry concentration. Moving another one or two trillion dollars onto already stretched balance sheets will exacerbate the concentration issue and further stress deposit insurance programs.
  - Commercial paper – MMMFs allow investors to easily buy a diversified portfolio of commercial paper. If corporate investors buy CP directly, they will lose portfolio management efficiencies provided through the traditional MMMF structure. These include extensive credit analysis, company and industry diversification, and reduced transaction cost. This will increase portfolio risks for corporations.
  - Offshore deposits – Assets that move offshore are invested in instruments that escape U.S. regulation altogether and are less available to serve the credit needs of the U.S. economy.

For these reasons, Treasury Strategies opposes requiring MMMFs to move to a fluctuating NAV.

Comment 2. ***Redefinition of "eligible securities" as those securities receiving only the highest (rather than the highest two) short-term debt ratings***

Treasury Strategies opposes this rule change. Instead, we recommend an **increase** in the percentage of permissible investments in A2/P2 commercial paper from 5% to 10%.

Currently, MMMFs may invest up to 5% in A2/P2 commercial paper. This definition change would eliminate MMMF investment in all A2/P2 issuers. The stated rationale for this is to reduce funds' risk.

A2/P2 commercial paper is very high-quality debt. In addition, issuers are generally required to maintain 100% liquidity backup facilities from major financial institutions. This gives MMMF managers comfort that these companies will be able to retire their commercial paper even in difficult times.

This proposal will have several negative effects and actually **increase risk** and **harm specific industries** and geographies. Negative consequences include:

1. **Smaller universe of eligible securities increases risk by restricting diversification.**

2. **Increased portfolio concentration in the financial sector and therefore increased risk.**

   - Among the remaining eligible A1/P1 issuers, there is heavy concentration of financial institutions. More of a MMMF's investments will be concentrated in the financial sector.

3. **Treasury Strategies analysis shows important sectors will be negatively impacted by reduced access to capital.**

   - Public utilities – nearly 30% of A2/P2 issuers are public utilities. Eliminating their eligibility for MMMFs will raise their cost of capital and ultimately raise costs to consumers.

   - Insurance companies and regional banks – several "non global" financial institutions fall into the A2/P2 category. These institutions are major insurers and major lenders to consumers and small business. Their access to capital and their ability to provide insurance and make consumer and commercial loans would be impaired.

   - State and local governments – MMMFs purchase approximately 65% of all newly issued short-term state and municipal debt that is mostly top tier. In the current financial environment, many of these entities face downgrades. If that happens, they will lose their primary source of short-term funding.

4. **Specific geographic impact.**

   - The impact of reducing access to capital for an entire region is not positive. There is a concentration of Tier II issuers in rust belt states. Ohio and Pennsylvania, in particular, will be impacted.

   - Our analysis shows that **every** non-financial commercial paper issuer in the Pittsburgh area will lose access to funding from MMMFs. Prominent A2/P2 rated companies in the Pittsburgh area include:
     - Alcoa
     - Bayer
     - Duquesne Light
     - Equitable Resources
     - FedEx Ground parent FedEx
     - H.J. Heinz
     - Peoples Gas parent Dominion Resources
     - PPG Industries
     - USX
     - Westinghouse parent Toshiba

5. **Impact extends well beyond MMMFs.**

   - As we see in our consulting practice, most corporations pattern their own internal investment policies on rule 2a-7. If this proposal is adopted, these companies are likely to prohibit their treasurers from investing in Tier II commercial paper, thereby rendering the entire asset class illiquid.

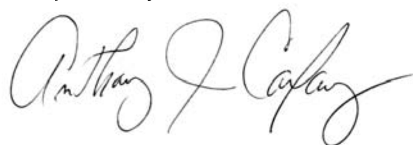
   - Corporate and institutional investor boards will conclude that if Tier II commercial paper is too risky for the world's most sophisticated investment advisors to manage, they cannot responsibly permit their internal treasury department to invest.

Conclusion

The successful structure currently in place for MMMFs has been proven over a 30-plus year history. We agree many of the recommendations make sense in ensuring the continued safety of MMMFs. However, the efforts to curtail money market risk by eliminating implementing a floating NAV and banning A2/P2 commercial paper will **increase** systemic risk as well as harm the financial markets.

If you have any questions about Treasury Strategies comments or would like to discuss further, please contact us via email at info@TreasuryStrategies.com or by phone at 312-443-0840.

Respectfully,



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