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September 8, 2009

Filed Electronically

Elizabeth M. Murphy, Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E. Washington, DC 20549-1090

Re: Money Market Fund Reform; Release No. IC-28807; File No. S7-11-09

Dear Ms. Murphy:

On behalf of the Thrivent mutual funds, I would like to express our appreciation for the work of the Securities and Exchange Commission (the "Commission") and its staff during an historically volatile period in the financial markets, particularly in the money market arena. We similarly commend the Commission and its staff on their efforts in the release cited above (the "Proposing Release") to reshape the money fund industry to promote financial stability and the protection of investors. We have some concerns and suggestions, however, regarding certain of the items set forth in the Proposing Release. We would like to share these thoughts on behalf of Thrivent's money market funds and believe that other smaller and mid-sized money market funds that are similarly situated, as well as others in the industry, likely have similar views.

The Thrivent money market funds consist of our retail money market fund, the Thrivent Money Market Fund (approximately $1.2 billion in assets as of September 1, 2009); our money market portfolio for variable insurance products, the Thrivent Money Market Portfolio (approximately $580 million in assets); and the Thrivent Financial Securities Lending Trust (approximately $822 million in assets), which serves as the vehicle for managing collateral for our securities lending programs. Each of the Thrivent money market funds is advised by Thrivent Financial for Lutherans ("Thrivent Financial") or a wholly owned subsidiary of Thrivent Financial. Thrivent Financial is a fraternal benefit society which offers insurance products to its members and, through its subsidiaries, also offers mutual funds, investment advisory services, brokerage and banking. Thrivent Financial has approximately $65 billion under management.

General

Our primary concerns are twofold. First, we are concerned that the Proposing Release does not adequately address the fundamental problems and risks in the money market industry, which are well articulated by the Commission and its staff in the Proposing Release. Second, we are concerned that a number of the measures set forth in the Proposing Release will have a disproportionate impact on smaller and mid-sized money market funds, which have not been the source of financial instability or investor losses.

The Proposing Release notes that until 2008, only one money market fund had "broken the buck." The staff observes that this outstanding record is due in significant part to the fact that fund advisers have periodically bought distressed securities out of the funds they manage. What made the instance of the Reserve Primary Fund unusual was that the fund had no affiliate with adequate financial resources to support the $1.00 net asset value. The other main sources of financial instability and the potential for investor loss noted in the Proposing Release were a lack of liquidity in the short-term credit markets during the recent period and the large actual or potential redemptions from money market funds, which would of course be compounded in the face of illiquid markets.

All three of these sources of instability result in no small part from the dramatic growth of a relatively small number of money market funds. We note that over 40% of prime money market assets are concentrated in the top four fund families with almost 70% of such assets concentrated in the top ten fund families.[1] At some point, a money market fund's growth outstrips its adviser's ability to provide financial support to the fund, either by purchasing distressed securities or investing directly in the fund to provide liquidity to meet redemptions. Moreover, as a fund grows ever larger, it becomes more difficult for the fund to liquidate positions, particularly in relatively illiquid markets.

Generally speaking, we at Thrivent are supportive of growth and competition; however, the growth of some money market funds can feed a dangerous cycle. As a fund grows larger, its expense ratio declines, which improves its yield, which in turn attracts more assets. And the additional assets such a fund attracts, assets which are seeking the marginal basis point or two of yield, are likely to be "hot" money. This concentration of hot money puts additional pressure on the liquidity of the fund and its ability to meet redemptions. This cycle is problematic because the fund's adviser benefits from the increase in assets under management, while the risks of such growth are borne by fund shareholders. Money market funds have benefited from a well-deserved reputation for stability and, as noted above and in the Proposing Release, this stability has been due in large part to the willingness and ability of fund managers to support their money market funds. As a fund grows beyond a certain size, the investors bear a risk in terms of the loss of the potential for adviser support, whether they understand this risk or not. And of course, the typical investor will not understand the risk that has been shifted to him or her, especially since there is no disclosure regarding the ability of an adviser to provide financial support to a fund (other than standard disclosure that the $1.00 net asset value is not guaranteed). There is a certain irony in considering that an investor may purchase a money market fund, which is required by Rule 2a-7 to invest in a diversified portfolio of liquid, short-term securities that present minimal credit risk – and yet be making, most often unknowingly, a significant decision with respect to a single credit (the adviser or its affiliate).

The Reserve Fund is itself an example of the recent growth of some large money market fund complexes and the clear inability of the adviser to lend material support to such large money market funds. The Reserve Fund complex grew 1441% over the last decade, and from

[1] Source: iMoneyNet

July of 2006 to September of 2008 had grown from $30 billion to over $85 billion. The Reserve Fund had grown to a size that far exceeded the ability of its adviser to offer credit or liquidity support to its fund in any material way. When the Reserve Fund attempted to liquidate its positions, there were too few buyers that were able to buy such large positions, and the short-term markets were adversely impacted.

Thrivent recommends that the Commission consider additional disclosure regarding the ability of a money market fund's adviser or other affiliates to provide support to the fund. We believe that if the Commission does not choose to require a floating net asset value, particularly for funds that do not have an affiliate with the ability to provide credit or liquidity support, then at a minimum funds that grow to a size beyond the ability of the adviser or its affiliates to provide financial support should, if they are permitted to market a stable net asset value, be required to state clearly and explicitly to investors that the fund does not have an affiliate to provide financial support of the net asset value of the fund.

Of course, a money market fund's adviser is not required to provide financial support to the fund. Advisers and other fund affiliates that have purchased distressed securities from funds have done so voluntarily. We would suggest, however, that the Commission and its staff give further consideration to permitting an adviser or affiliate to make explicit its support of the fund. This would provide firms that have the financial capacity to support their funds and who choose to do so with the ability to market this support. Conversely, firms that permit their funds to grow beyond their ability to support them would bear a cost associated with such growth in the form of a competitive disadvantage that reflects the additional economic risk to investors.

We note that others have proposed or considered other alternatives to address, in one form or another, concerns regarding the ability of money market funds to support a stable net asset value. Former Federal Reserve Chairman Volcker, as you are aware, has advocated capital charges that would mirror the requirements for federally insured banks. Associate Director Plaze of the Division of Investment Management indicated in a recent panel discussion that the Commission and the President's Working Group on Financial Markets were considering creating a private liquidity bank, to be paid for by money market funds, to provide financial support to troubled funds. Thrivent believes that any proposals should take into account the ability of the adviser and its affiliates to provide financial support to the funds and, correspondingly, impose a cost on growth beyond the adviser's ability to support its money market funds. For example, we believe that if a private vehicle is formed to provide support to money market funds, then any charges to money market funds should not be based solely on assets but should reflect financial support that the adviser or its affiliates are willing and able to provide to their money market funds. We do not agree with views that have been expressed that requirements of this sort would destroy the money market fund industry. On the contrary, a modest charge to funds that have grown beyond the ability of the adviser and its affiliates to support the fund could level the playing field among large and smaller funds by reflecting the underlying and undisclosed risks that accompany the scale of the biggest money market funds.

Specific Rule Proposals

Second Tier Securities

While we do not believe that amending Rule 2a-7 to eliminate money market funds' ability to acquire second tier securities would be materially disruptive to the industry as a whole, we feel the amendment is unnecessary and could have a disproportionate impact on smaller money market funds. Moreover, we find it odd that the Proposing Release would prohibit the purchase of second tier securities, when the same proposal would eliminate the use of NRSRO rating requirements in favor of reliance solely upon the fund manager's credit risk analysis. The proposal to eliminate the ability of money market funds to invest in second tier securities itself relies on NRSRO ratings.

Money market funds, of course, are already required to invest in securities that the fund's board (or its delegate) has determined present minimal credit risks as determined by independent credit assessment. For instance, if a fund determines through its independent credit analysis that a particular credit represents minimal credit risk, but the NRSRO ratings are second tier, the proposal would eliminate the ability of the fund to invest in such securities, and therefore would effectively disregard such independent credit analysis in favor of the NRSRO. There are many reasons the independent analysis may be different from that reflected in the NRSRO rating, such as the timing of analysis, the inclusion of facts gathered independently, and the evolving conditions of the market. Since, as noted in the Proposing Release, the holding of second tier securities has not been a source of significant problems throughout the history of money funds, we believe the proposal is unnecessarily restrictive.

Prohibiting second tier securities also reduces the ability of money market funds to diversify their investments. As of August 26, 2009, foreign financial firms made up approximately 14% of outstanding commercial paper, domestic finance 31%, and asset-backed commercial paper ("ABCP") 43%.[2] Since ABCP is primarily bank-related, it means that close to 88% of issuance is finance-related. Captive finance arms certainly impact these numbers; however, when factoring in the amount of bank certificates of deposits and bank time deposits, it is clear that financial firms easily comprise the bulk of short-term debt issuance. Given the decline in ratings of industrial companies over the last decade, and which was even more pronounced over the last two years, there are comparatively few industrial companies remaining in the tier one category. By contrast, non-financials dominate tier two credits, accounting for approximately 60% of the tier two market.

We also observe that the second tier market remains small. According to the Proposing Release, as of June 24, 2009, only 4.3% of outstanding 2a-7 commercial paper was second tier. Since the second tier market is relatively small, the largest money market funds no doubt have difficulty making investments in second tier securities. For smaller money market funds, however, where the fund manager is willing and able to do the appropriate independent credit analysis, investing on a limited basis in second tier securities can provide important diversification and other benefits to the fund.

[2] Source: Federal Reserve

We would support the suggestion in the Proposing Release of prohibiting investments in second tier securities beyond 45 days. The small amount of second tier securities that are purchased by money market funds under the current guidelines are typically below 45 days and, in any case, most second tier issuance is 45 days or less. Prohibiting investments in second tier securities beyond 45 days while permitting shorter-term second tier investments would preserve the diversification and other benefits provided by such securities, while eliminating a higher risk portion of the second tier market.

Use of NRSROs

Like many of the commenters on the Proposing Release, we believe that the proposal to eliminate the use of NRSRO ratings in rules under the Investment Company Act, including rule 2a-7, and instead to rely solely on the fund manager's credit risk determination would not be in the best interests of the money fund industry and fund shareholders. Removing the ratings requirements included in Rule 2a-7 would remove an important shareholder protection against funds that may not be performing a sufficiently thorough independent credit analysis to make the necessary minimal credit risk determination. Requiring funds to monitor all NRSRO ratings and/or requiring funds to use multiple designated NRSROs does not address the problems caused by the conflicts of interests residing at the NRSROs. Furthermore, requiring NRSRO monitoring or multiple designations would again be reducing the value and incentive for independent credit analysis while also adding an administrative burden without a clear beneficial result. If the goal is to increase NRSRO reliability, then we believe the Commission should address the conflicts of interest directly. Under the current structure, it is common for issuers to drop NRSROs that downgrade their securities, providing a disincentive for NRSROs to lower ratings when it is appropriate to do so. For example, requiring issuers to sign long-term contracts (e.g., three to five years) would allow an NRSRO to downgrade an issuer without threat of retaliation from the issuer in the form of dropping the NRSRO rating. Shadow ratings would also prevent issuers from selecting only those rating agencies that offer the highest ratings.

Weighted Average Maturity

The proposal that Rule 2a–7 be amended to impose a 60-day weighted average maturity ("WAM") limit may make sense for a large institutional fund, but we believe it is too restrictive for most prime retail funds. As recently as July 24, 2009, the average days to maturity for the entire universe of prime funds exceeded the 60-day WAM limitation.[3] In addition, the 60-day limitation fails to consider the uncontrolled WAM extensions that can be caused by large redemptions. Therefore, the 60-day WAM limitation could cause funds to become non-compliant during times of duress and a fund that risks becoming non-compliant would likely become subject to more rapid redemptions, leading to continued non-compliance. The Proposing Release notes that few fund managers manage the WAM near the permissible 90-day WAM limit. However, fund investment advisers need to manage their funds to a WAM that is significantly less than any given limitation to allow for uncontrollable WAM extension risk and the opportunity cost near the specified limit (i.e., the inability of a fund to capitalize on market movements because the fund is already extended to its limit).

[3] Source: iMoneyNet

Weighted Average Life

We believe that the proposal that Rule 2a-7 be amended to limit the weighted average life ("WAL") of portfolio securities to 120 days is also unnecessarily restrictive to prime retail funds. While it may be necessary for a large institutional money market fund to operate at a much lower WAL than the proposed 120 days, we believe this requirement is far too restrictive for the prime retail funds, particularly considering the use of floating rate government securities. The Proposing Release points to the lack of liquidity of some floating rate government securities in the fall of 2009. However, this view fails to recognize the very significant change to the credit quality of agency securities as the government became more explicit about their support for the institutions during that time period. Moreover, it was not the structure of these securities that resulted in poor liquidity; rather, the lack of liquidity in the short-term market resulted when several of the large institutional money market funds attempted to sell large volumes of securities into the marketplace at the same time that the prime brokerage firms were attempting to hold less inventory. Rather than targeting specific security types, we believe it would be more helpful to focus on the broader risks to the money market industry.

Portfolio Liquidity

While we recognize the difficulty inherent in setting a portfolio liquidity requirement for a range of money market funds that differ widely from one another, we believe that that setting requirements based on fixed percentages of assets is an overly simplistic approach. For many prime retail funds, a 5% daily liquidity requirement would be an unnecessarily high level in relation to the potential or experienced cash flow movements, while 10% daily liquidity for many large institutional funds might be inadequate on even a normal day. Weekly liquidity requirements would vary similarly based on the underlying shareholder base of each fund.

We suggest that the Commission and the staff give further consideration to approaching portfolio liquidity on the basis of the concentration among a fund's shareholders. We are well aware of the difficulties in discerning underlying fund shareholders among omnibus accounts and are sympathetic to the views expressed in other comment letters that many "institutional" accounts are aggregations of small retail shareholder accounts. Nonetheless, the Commission could require, for example, that each fund maintain sufficient daily liquidity to meet the potential redemptions of the 15 largest unaffiliated accounts and sufficient weekly liquidity to meet redemptions from the 25 largest unaffiliated accounts. The board of the fund could approve procedures for determining such accounts. We believe that such a requirement would give money fund managers an incentive to be mindful of concentration within the shareholder base.

As an alternative, the Commission could provide a "safe harbor" from the more prophylactic liquidity requirements proposed for any fund which can demonstrate that it maintains daily and weekly liquidity sufficient to meet redemption requests from the 15 or 25 largest shareholder accounts. For some money market funds, such as our retail funds, it is quite simple to determine who holds fund shares, since those shares are generally held directly. Since retail funds with diverse groups of shareholders have not shown themselves to be vulnerable to the types of liquidity risks as funds with concentrations in holdings, we believe it would be appropriate for these funds to be permitted to set their daily and weekly liquidity requirements based on their own circumstances.

Stress Testing

Like certain other commenters, we are concerned about the proposed requirement that boards adopt and receive period reports on stress testing for multiple hypothetical events. To the extent that a fund is required, to use an example from the Proposing Release, to test for a 50 bp increase in LIBOR and 15% redemptions and report on the test to the board, such a requirement seems to push fund directors into a position more appropriately filled by management. Rule 2a-7, of course, already has comprehensive limitations on interest rate and credit risk. For a board to be expected to monitor the effect of specified basis point increases in LIBOR on NAV seems to us to confuse the oversight role of the board with the day-to-day investment management role of the adviser. We do not believe that the proposed board reporting requirement will add any investor protections not already provided by the existing requirements of Rule 2a-7. We would also note that the Division of Investment Management and Director Donohue in particular have expressed repeated concern over the number of items that have been added to board meetings. Where necessary or appropriate, boards certainly may chose to focus on interest rate and credit risks in their money market funds; however, to require all funds to engage in this type of stress testing appears to us to be unnecessarily burdensome for those funds that are conservatively managed and present minimal risks. As discussed above, we would favor liquidity testing based on the actual shareholder base of the fund and we believe that such tests would constitute adequate stress testing.

Floating Net Asset Value

Thrivent acknowledges the tax and accounting simplicity and other benefits of a stable $1.00 per share net asset value and we are not generally advocating a floating net asset value. Money market funds have been a dramatic success over the past decades, with only two instances of funds "breaking the buck." However, much of the success of money market funds over the past decades that is noted in the Proposing Release and in other comment letters is due to the sterling record of money market funds in maintaining a stable $1.00 per share net asset value, which from time to time has been the result of voluntary financial support by fund affiliates. We believe that it could be misleading to an investor to market a stable net asset value when a fund does not have or has grown beyond the ability of any affiliate to provide meaningful credit or liquidity support. Moreover, we have suggested that the staff consider the possibility of rulemaking that would allow a fund manager to make such support explicit and market such support. In the absence of the potential support from an affiliate, or some other external source of support of a stable net asset value, we believe that a floating net asset value merits further consideration. We do not believe that funds with floating NAVs would destroy the money market fund industry and note that one large money market fund manager has announced the formation of a floating NAV money fund.

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We appreciate the opportunity to comment on the proposals to reshape the money fund industry to promote financial stability and the protection of investors and commend the efforts of the Commission and its staff during the historic market developments of the past year. We would welcome the opportunity to discuss with you further the concerns and suggestions we have presented.

Yours very truly,

Russell W. Swansen
President, Thrivent Mutual Funds,
Thrivent Series Fund, Inc. and
Thrivent Financial Securities Lending Trust