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VIA E-MAIL RULE-COMMENTS@SEC.GOV

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

RE: Stradley Ronon Stevens & Young LLP ("Stradley Ronon") comments on File No. S7-11-09, Release No. IC-28807 (the "Release")

Ladies and Gentlemen:

Stradley Ronon submits this letter in response to the request for comments made by the Securities and Exchange Commission (the "Commission" or "SEC") in the Release, which proposes two new rules (Rule 22e-3 and Rule 30b1-6), a new Form N-MFP, and amendments to Rule 2a-7 (the "Rule") and Rules 17a-9 and 30b1-5 under the Investment Company Act of 1940 (the "1940 Act"). Stradley Ronon maintains one of the premier investment management practices in the United States, representing investment company clients with more than 700 separate funds and assets under management approaching nearly $1 trillion. Over 50 years ago, Stradley Ronon name partner, the late Andrew Young, reviewed the legislation that ultimately became the 1940 Act and helped establish one of the first mutual funds in the country. This letter expresses the views of Stradley Ronon and not necessarily those of any client.

1. Fund Liquidation

Recommendation: Do not require funds to provide shareholders a choice between liquidity or principal preservation upon fund liquidation.

The Commission notes that if a fund suspends redemptions to liquidate, different shareholders will have different preferences for liquidity and principal preservation. The Commission asks whether a fund that decides to liquidate and suspend redemptions should be allowed or required to offer shareholders the choice of redeeming their shares immediately at a reduced NAV per share that reflects the fair market value of fund assets or receiving their redemption proceeds at the end of the liquidation process, when they may receive the economic benefit of an orderly disposal of assets. (In this letter the shareholders who chose between the two alternatives are referred to as "liquidity shareholders" and "stability shareholders.") The Commission also asks whether investors should be required to choose their preferences at the time of liquidation or the time they purchase fund shares.

We strongly oppose the idea of providing shareholders the choice between two approaches to asset liquidation. From the fund adviser's standpoint, satisfying both liquidity and stability shareholders would pose an insurmountable challenge. The fund adviser would have the task of deciding which securities to sell to honor redemptions by liquidity shareholders (or, perhaps what "haircut" the liquidity shareholders should be charged with on sales of portfolio securities), to assure that stability shareholders are treated fairly.[1] It would be difficult, if not impossible, to devise a principled method to liquidate the fund that would avoid subjecting the fund to challenge by either liquidity shareholders or stability shareholders (or both). Decisions about fund liquidation are best left to the fund adviser to determine, guided by its fiduciary duties to serve the best interests of its shareholders based on the market conditions prevailing at the time.

If the Commission determines that shareholders must be provided a choice, the choice should *not* be made at the time of fund liquidation. The operational challenges of gathering this information under the exigent circumstances of liquidation likely would make the inquiry all but impossible, and at the least, impractical.

Having shareholders choose at the time they purchase into a fund would be better, but still an ill-advised requirement. Shareholders would have no basis on which to determine which alternative would serve their interests at the time of liquidation, as they cannot predict the nature of fund holdings or the state of financial markets. Further, it is unwise to force the adviser's hand in advance, given the tumultuous market circumstances that may accompany fund liquidation.

2. Quality - Elimination of References to Rating Agencies

Recommendation: Do not eliminate ratings requirement.

Stradley Ronon strongly recommends that Rule 2a-7 continue to include the requirement that each holding meet specified ratings standards. Specifically, under the Rule, at the time each holding is acquired, it must have short-term ratings from the requisite nationally recognized statistical rating organizations ("NRSROs") of at least second tier[2] quality, or, if unrated, be determined by the fund Board or its delegate to be of comparable quality. Under a separate requirement, each security must present minimal credit risks as determined by the Board or its delegate. In effect, the rating requirement creates a quality "floor," separate from and in addition to the minimal credit risk requirement.

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[1] The Commission asks whether the fund Board should be involved in the process of determining the "haircut." We believe this is outside the Board's expertise. See comment 8.
[2] Under the proposals, the quality floor would be moved up to first tier.

The Commission notes that recent events have called into question the reliability of ratings. Nevertheless, forbidding use of ratings as a floor eliminates an important protection for shareholders. The ratings on fund holdings provide an easily-understandable credit quality benchmark that is uniform across funds rather than differing based on an investment adviser's particular approach. The rating thus provides an additional level of comfort for shareholders.

An additional benefit of the rating requirement is that it prevents a fund adviser from straying too far from high quality standards in search of yield. By providing a quality floor, ratings help sustain the integrity of management decisions across the industry.

The Release states that the Commission is seeking to encourage more independent credit risk analysis under Rule 2a-7. But eliminating the ratings floor would not necessarily result in enhanced independent credit analysis. If the ratings floor were removed, money market fund advisers could still rely too heavily on ratings as an element of their own internal credit risk analysis. On the other hand, retaining the rating requirement will not cause investment advisers to ignore the requirement under Rule 2a-7 to perform independent credit analysis. In our experience, investment advisers are aware of this duty and take it very seriously.

Recent events have supported the Commission's goal of discouraging fund advisers from relying too heavily on ratings. Specifically, the Commission has reminded advisers of the need for independent credit analysis in the Commission's 2003 and 2008 proposals relating to NRSROs, and in the Release. Also, the well-publicized recent failures of rating agencies to provide accurate ratings has provided a cautionary reminder of the importance of independent credit analysis, which is already included in the Rule. Removing the ratings floor from the Rule would achieve no additional purpose in this regard and would weaken the protections of the Rule.

We note that the Obama Administration's June 2009 White Paper on reform of financial markets advised the enhancement of regulation of rating agencies, but did not advocate eliminating entirely the role of rating agencies in regulation. We agree with the White Paper's recommendation that the SEC should continue its efforts to strengthen the regulation of credit rating agencies, including measures to require that firms have robust policies and procedures to manage and disclose conflicts of interest and otherwise promote the integrity of the ratings process. We support the SEC's initiatives in this regard. These initiatives would avoid "throwing out the baby with the bathwater" insofar as ratings are concerned

Retaining the ratings floor also is consistent with the Commission's approach to risk-limiting in other aspects of the Rule. Specifically, the Rule imposes both an objective standard and a subjective standard to govern maturity of money market fund holdings. Maximum maturity of any security is 397 days and maximum weighted average portfolio maturity is 90 days (objective standards).[3] In addition, the Rule also

[3] Weighted average portfolio maturity would be reduced to 60 days under the proposals.

imposes a subjective standard that the fund must maintain a dollar-weighted average portfolio maturity "appropriate to its objective of maintaining a stable net asset value per share or price per share." The maximum maturity has not prevented funds from shortening maturities were appropriate to satisfy the subjective standard. Indeed, average portfolio maturities have been much shorter than the maximums for quite some time, illustrating that a floor is not treated as the sole standard. The Commission suggests a similar two-pronged approach to proposed cash holdings requirements. The Release would impose an objective minimum cash holdings requirement and also a separate subjective standard that cash holdings must be "sufficient to meet reasonably foreseeable shareholder redemptions. . ." Apparently the Commission understands that an objective floor along with a subjective standard can work together to best assure shareholder protection.

3. Cash and Securities that can be Converted to Cash – Conditional Demand Features vs. Unconditional Demand Features

Recommendation: Treat conditional demand features as cash items to the same extent that unconditional demand features are cash items.

The Commission proposes minimum percentages of a money market fund's assets that must be comprised of cash items. This requirement raises a question as to whether one particular type of security should be deemed to satisfy this test – a security subject to a conditional demand feature.

A demand feature, in summary, is a fund's right to demand and receive payment on a security, and could qualify a security as "convertible to cash." An unconditional demand feature is a demand feature that is readily exercisable upon a default on the underlying security, while a conditional demand feature will become unavailable upon events specified in the terms of the feature.[4] The Commission asks whether a conditional demand feature and an unconditional demand feature should be treated differently for purposes of identifying cash items.

We believe that a conditional demand feature should qualify a security as a cash item to the same extent as an unconditional demand feature. This approach is consistent with the provisions in the Rule that permit a money market fund to rely on a conditional demand feature, not only an unconditional demand feature, for quality and maturity determinations. Further, money market funds routinely rely on conditional demand features for their liquidity needs. The Rule provides protections against the possibility that a conditional demand feature may become unavailable. Specifically, the Rule requires the fund to determine that there is minimal risk that the circumstances that would result in the conditional demand feature not being exercisable will occur; and, in addition,

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[4] An example of a conditional demand feature is the "tender option" on a "tender option bond ("TOB")" The holder of the TOB has the right to tender the TOB to a liquidity provider at specified intervals, for payment of principal and interest (a "demand feature"). This right lapses upon the occurrence of specified events, which generally include negative credit events for the issuer of the underlying bond. The fact that the tender option lapses on specified events renders it "conditional.'

in summary, the conditions must be readily monitorable or the conditional demand feature must provide notice and opportunity to exercise before it becomes unavailable. These protections should permit a fund to exercise the conditional demand feature before it becomes unavailable. Consequently, a conditional demand feature provides a reliable means to convert a security to cash, and, as such, should qualify a security as a cash item (assuming it provides for payment in one or five business days, as proposed).

Also, tax-exempt portfolios may find it particularly difficult to satisfy the liquidity standard if only unconditional demand features can satisfy the standard. Tax-exempt money funds generally must generate tax-exempt income to shareholders to satisfy their investment mandate. Tender option bonds, which are an important component of many tax-exempt money market fund portfolios, can pass through tax-exempt income from their underlying municipal bonds only if the tender option bonds have a conditional demand feature, not an unconditional demand feature. (See IRS Notice 2008-80, 2008-2 C.B. 820 which describes certain common characteristics of tax-exempt bond partnerships.) As a result, it would be difficult for a tax-exempt fund to both satisfy its mandate to provide tax-exempt income and also to satisfy the liquidity requirement, if a security with a conditional demand feature could not be considered liquid.

4. In-Kind Redemptions

Recommendation: Do not require in-kind redemptions.

We urge the Commission not to require that redemptions that exceed a specified size be made in-kind. The payment of cash upon redemption is a critical attribute of money market funds, central to investors' decision to invest in money market funds. If that attribute were eliminated, money market fund investors who anticipate requiring redemption proceeds in excess of the maximum permitted in cash may not invest in money market funds and may shift current investments to products that do provide cash promptly, and that may provide less attractive yields or lack the protection of the rigorous regulatory scheme of the 1940 Act. Many shareholders are not equipped to assess the value of assets that would be distributed to them, so that receipt of securities would pose a hardship. Further, we believe that shareholders will be likely to liquidate the in-kind securities they receive, as investments in money market funds are used for cash management purposes. Accordingly, in-kind redemptions will not prevent downward pressure on the price of portfolio holdings that results when a fund sells into the market to satisfy redemptions in cash; it would simply remove some of the control over that situation from the fund's hands. Also, the specter of an in-kind redemption may prompt shareholders who anticipate being redeemed in-kind to time their redemptions earlier, if the market appears to be tending towards instability. These earlier redemptions could hasten downward pressure on prices.

In-kind redemptions pose particular challenges for insurance company separate accounts that invest in money market funds on behalf of owners of variable annuity contracts and variable life insurance policies. Many of the separate accounts are registered as unit investment trusts and rely on exemptions provided by Section

12(d)(1)(E) of the 1940 Act. Sub-paragraph (i) of Section 12(d)(1)(E) requires that the unit investment trusts hold only securities of other investment companies. Receipt of in-kind proceeds would jeopardize compliance with this requirement. Further, the receipt of in-kind securities by insurance company separate accounts may be problematic under separate account organization documents (such as plans of operations filed with state insurance regulators) which may, in some cases, limit the account to holding shares of mutual funds.

In-kind redemptions may entail operational challenges for funds. Some holdings are not divisible or pose other impediments to transfer (such as repurchase agreements or other agreements with counterparties). Given these challenges, it would be ill-advised to impose a blanket requirement to redeem in-kind for transactions. Rather, the fund adviser should continue to be permitted to consider redemptions in-kind on a case-by-case basis in conjunction with each shareholder, to allow consideration of all factors prevailing at the time, such as the nature of fund's holdings, whether disposition of the holdings would harm remaining shareholders and events in the marketplace.

We recommend that the Commission require money market funds to disclose that redemptions may be made in-kind. (The Commission notes that many money market funds already include this disclosure.) Each money market fund could then determine on a case-by-case basis whether redemption in-kind would be appropriate for a particular transaction.

5. Liquidity – Prohibition on Purchase of Illiquid Securities

Recommendation: Do not prohibit the purchase of illiquid securities. Consider reducing the permitted percentage instead.

The Commission proposes to prohibit a money market fund from purchasing illiquid securities. Currently a money market fund must limit its holdings of illiquid securities to 10 percent of assets measured at the time of purchase. The proposed definition of "illiquid securities" includes securities that cannot be sold or disposed of in the ordinary course of business within seven days at approximately their amortized cost value. Under current requirements, 90 percent of assets must be liquid. The ability to sell 100 percent of assets at a stable value does not provide appreciably more protection than the ability to sell 90 percent of assets at a stable value, because in almost all reasonably foreseeable scenarios, the fund will not need to dispose of more than 90 percent of its portfolio at one time. Further, if the fund were to attempt to do so, the fund likely would find it in shareholders' best interests *not* to sell within seven days, in order to attain the best prices possible.

Also, a complete prohibition on the purchase of illiquid securities would prevent money market funds from investing in funding agreements, certificates of participation on loan agreements and certain promissory notes which, to date, have been important to construction of a diversified portfolio and have posed reasonable risk. In addition, various tax-exempt securities are illiquid, and a prohibition on illiquid securities would make it difficult for a tax-exempt fund to construct a well-diversified, high quality portfolio.

Further, forbidding all illiquid securities will stifle product innovation. Issuers from time to time issue securities that may or may not develop a secondary market. Allowing the purchase of these securities before the liquid secondary market develops would enable these securities to come to market. For example, when tender option bonds were first introduced, there was not a liquid market for these securities; subsequently a market developed.

6. Subjective minimum cash requirement

Recommendation: Limit requirement to identify risk characteristics to shareholders with material holdings

The Commission states that a fund should adopt policies and procedures to assure that appropriate efforts are undertaken to identify risk characteristics of shareholders. We support this proposal but we recommend that the Commission make clear that the requirement applies only to shareholders who, if they redeemed their holdings in their entirety at one time, would have a material impact on the fund's ability to satisfy redemptions. It is impractical and serves no purpose for a fund to monitor thousands of shareholders with small accounts.

7. Stress testing

Recommendation: Eliminate requirement to stress test for events that are "reasonably likely to occur."

We support the Commission's proposal that the Board approve procedures for periodic stress testing of the portfolio. However, we oppose the requirement that advisers provide an assessment of the fund's ability to withstand the events (and concurrent occurrences of those events) that are reasonably likely to occur within the following year. The standard is too amorphous and subject to attack in hindsight. The other stress tests proposed by the Commission are adequate to address the Commission's concerns and impose more realistic standards.

8. Role of the Board

Recommendation: The Commission should eliminate references in the Rule and in the proposals to Board duties that are beyond the oversight role of the Board.

The Rule and the proposals identify the Board as the party ultimately responsible for many of the technical determinations required under the Rule. But, it is widely accepted that a fund Board should not be involved in day-to-day management-level determinations. The Commission has made it clear that the Board may delegate day-to-day liquidity determinations as long as the Board retains sufficient oversight. (See Inv. Co Rel. No. 17452 adopting Rule 144A, dated April 23, 1990.) Further, the Rule (as it exists and as proposed) also permits the Board to delegate most of the day-to-day responsibilities. We recommend that the Rule and the proposals be revised to impose only oversight functions on the Board as an initial matter, rather than creating a fiction that the Board is responsible for day-to-day duties which, in practice, are typically (perhaps almost uniformly) delegated to the adviser. Provisions of the Rule that impose management functions on the Board should be re-worded as obligations of the fund. This recommendation mirrors a recommendation in the ICI Report.

We have attached to this letter a list of the Board duties that we recommend be eliminated from the Rule as currently in effect, and of Board duties that would remain. Our comments on the Board duties included in the proposed amendments are set forth below.[5] The duties that should reside with the Board as an initial matter, rather than through its oversight role are described under captions (g) and (h) below (the duty to determine whether to suspend redemptions upon liquidation or under other exigent circumstances).

a. **Designation of NRSROs – Adviser should designate NRSROs under procedures reviewed by the Board.** The Commission suggests that the Board designate NRSROs to be monitored for quality determinations. The Commission also suggests that the Board determine at least annually that the designated NRSROs are sufficiently reliable for that use. If the Commission adopts these proposals, we recommend that the adviser designate the NRSROs to be monitored and make that determination, under procedures reviewed by the Board, and that the adviser report to the Board annually on these matters. To designate and evaluate NRSROs, each adviser needs to develop and apply technical expertise regarding the ratings process and the accuracy of ratings. The Commission has recognized that NRSROs perform services outside even the expertise of the investment adviser, and for this reason included a requirement in the Rule that asset backed securities be rated by an NRSRO. The Board should not be required to master the technical challenge of evaluating the services of NRSROs.

b. **Stress testing – Board approval of procedures is acceptable; permit exception reporting to the Board.** We support the Commission's proposal that the Board approve procedures for periodic stress testing of the portfolio. If the Commission adopts this proposal, we recommend that the adviser report to the Board the results of the stress testing annually, and on an exception basis between annual reports (that is, only when a stress test has been failed). This approach will eliminate repetitive reports and allow the Board to focus on more pressing matters.

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[5] Where we comment that the "adviser" rather than the Board should be responsible for a particular duty, the reference to "adviser" includes reference to "officers," as Rule 2a-7 currently permits the board of directors to "delegate to the fund's investment adviser or officers the responsibility to make any determination required to be made by the board of directors." Authorization for the adviser or officers to carry out duties could be achieved by making the "Fund" rather than the Board responsible for the duty in the Rule.

c. Evaluation of creditworthiness of repurchase agreement counterparties – Board's role should be limited to review of adviser's procedures. The Commission proposes that the Board or its delegate evaluate the creditworthiness of repurchase agreement counterparties. If the Commission adopts this proposal, we recommend that the adviser be charged with this duty, and that the Board's role should be limited to periodic review of the adviser's guidelines for the evaluation. We further recommend that the standard for this determination require evaluation of whether the repurchase agreement presents minimal credit risks. This approach is consistent with Rule 2a-7(e)(1) which states that the Board shall periodically review the adviser's guidelines for determining minimal credit risks.

d. Cash items for retail and institutional funds – If provision is adopted, Board's role should be limited to review of adviser's procedures. If different minimum requirements for cash items will be imposed for institutional and retail funds, the Board should not be responsible for distinguishing the two types of funds. This identification of the nature of the record owners, review of cash flows and determination of investment minimums are technical determinations outside the Board's expertise or oversight role. For example, to make this determination, the Board may need annually to review details such as lists of shareholders who have redeemed out of and purchased into the fund and the liquidity needs of those shareholders. The Board can better serve its oversight role by reviewing the liquidity determinations of the adviser, which may be made under procedures reviewed by the board.

e. Subjective minimum cash requirement- Factors in considering risk characteristics of shareholders. The Commission states that a fund should adopt policies and procedures to assure that appropriate efforts are undertaken to identify risk characteristics of shareholders. The Commission asks whether the Commission should provide guidance to funds to assist them in determining the adequacy of their policies and procedures, or should specify any particular aspects of the policies and procedures. To oversee the identification of risk characteristics of shareholders, the Board could require the adviser to evaluate:

- the extent to which the fund has access to information about the liquidity needs of shareholders who invest in the fund through various sources (such as portals and fund supermarkets)
- any factors which provide stability in the shareholder base
- the fund's sources of liquidity
- the cash flow experience of the fund and any affiliated funds that have like investors.

f. Capacity to redeem/sell at price based on current NAV – Fund, not Board should be responsible for assuring that the fund satisfies this operational requirement. If the Commission adopts the proposal that funds have the capacity to process share transactions at current net asset value, we note that oversight of this capacity is an operational matter outside the Board's expertise. We recommend that the Board be permitted to oversee this capacity by receiving an annual certification from the service provider(s) of the Fund who will oversee this capacity of the Fund's ability to satisfy this requirement.

g. Board suspension of redemptions upon liquidation – We support proposal and Board's responsibility for this determination. We support the Commission's recommendation that the Board have the authority to suspend redemptions upon breaking the dollar if the Board, including a majority of the independent directors, approves liquidation of the fund.

h. Board suspension of redemptions where there is no liquidation – We support suggestion and Board's responsibility for this determination. We support the Commission's suggestion that the Board be permitted temporarily to suspend redemptions during certain exigent circumstances other than liquidation of the fund. As recommended in the ICI Report, the Board should be permitted (no more frequently than every five years) temporarily to suspend redemptions if the Board, including a majority of the independent directors, determines that the fund's net asset value is "materially impaired." This provision would provide time for directors to find a solution to the challenge to share valuation. The Commission asks how to ensure that directors would use the authority only in exigent circumstances. Given the tremendous reputational damage for a fund should it suspend redemptions, we believe that Boards would have scant incentive to suspend redemptions other than under the most extenuating circumstances. Also, Boards are subject to duties of loyalty and care under state law. The directors are bound by these duties to perform in good faith, in a manner they reasonably believe to be in the best interests of the fund, and with the care that an ordinarily prudent person in like position would use under similar circumstances. Under this standard, a Board would not suspend redemptions unless necessary in the interests of shareholders.

The Commission asks when a money market fund's net asset value would be considered to be "materially impaired." We believe that this term includes circumstances in which the fund has overvalued securities, which, if sold to satisfy redemptions, would have to be marked down, if the mark-down would cause the fund to break the dollar.

The Commission also asks questions about the Board's role in suspension of redemptions under exigent circumstances. What factors should the Board take into consideration when deciding whether to suspend redemptions temporarily? How would directors weigh the various and possibly competing interests of shareholders? We believe the directors would consider factors such as those listed below.

- The nature of the shareholder base and historical liquidity demands

- Liquidity of fund holdings, with particular attention to whether factors that normally bear on liquidity of holdings have been affected by dislocations in the market (For example, have the following factors been affected or are they expected to be affected: frequency of trades and quotes for obligations held by the fund; the number of dealers willing to purchase or sell the security and the number of potential buyers; the willingness of dealers to undertake to make a market in the securities; and the nature of the marketplace trades.)

- Liquidity of the markets generally as this is expected to affect liquidity of fund holdings

- Price stability in the markets, with particular attention to expected proceeds that would be available to honor redemptions if the fund liquidated assets later rather than earlier (that is, to what extent would delaying liquidation increase proceeds?)

- Reliability of price quotes being received

- Possible sources of liquidity other than sales of assets, such as capital infusions or share purchases by affiliates

- Any other relevant factors

9. Operational Aspects of Suspension of Redemptions by Board under Exigent Circumstances Other than Liquidation

Recommendation: Fund should disclose market-based NAV while redemptions are suspended and should disclose the information on its website.

In comment 8, we have discussed the Board's role in suspension of redemptions where there is no liquidation. The Commission also asks how the temporary suspension would operate, including: What disclosures should a money market fund be required to make, and when and where should the fund make them? Should a fund be required to calculate its net asset value during the suspension period, and, if so, should the net asset value be publicly disclosed?

Once a fund is suspending redemptions, we expect that shareholder anxiety will already be high and that information on market values may calm that anxiety, rather than exacerbate it. Indeed, in the two situations where funds have broken the dollar, the losses per dollar were relatively minor (at least to date, with respect to the Reserve Primary Fund). Withholding that information could have stoked further shareholder concern.[6] If

[6] In the case of the Reserve Primary Fund, the disclosure of market-based NAV did not appear to calm shareholders, but in that case there may have been other factors that contributed to the run on the fund. For example, it has been alleged that the fund was unable operationally to honor redemptions, the fund's disclosures as to share stability and sponsor support were misleading and the fund provided differing information to different shareholders.

redemptions are suspended, we believe the fund should be required to disclose on its website on the business day of the event the fact of the suspension, and the market NAV per share that day and on each day thereafter until redemptions at a stable NAV are resumed or the fund is liquidated. This information should be disclosed prominently on the fund's homepage. We recommend that the Commission provide guidance that a fund does *not* need to mail a prospectus supplement to existing shareholders, given the cost and given that relevant facts may be changing daily.

10. Quality – Forbid Stub Securities with Long-Term Ratings below Second Tier (Third Tier currently permitted).

Recommendation: Do not forbid stub securities with third tier long-term ratings.

In general under the Rule, a money market fund may not invest in a long-term security with a remaining maturity of 397 calendar days or less (a stub security) that has no short-term rating, if the security has received a long-term rating from any rating agency that is not with the rating agency's three highest long-term rating categories (subject to certain exceptions). In light of the proposed prohibition on securities rated second tier, the SEC is proposing a corresponding tightening of the rating standard for stub securities. The SEC proposes to permit money market funds to acquire such securities only if they have no long-term ratings within the top <u>two,</u> rather than three, rating categories.

We oppose this change because we believe the change will not enhance portfolio quality, but it will needlessly impair yield and interfere with a fund's ability to construct a high quality diversified portfolio. We understand that, in general, the correlation between high short-term credit quality and second tier long-term ratings is no greater than the correlation between high short-term credit quality and third tier long-term ratings. Further, stub securities with third tier long-term ratings often have higher yields than stub securities with second tier long-term ratings and eliminating them from portfolios would significantly affect fund performance.

11. Quality - Prohibition on Securities Subject to Conditional Demand Feature unless Underlying Security is First Tier Quality.

Recommendation: Do not forbid money market funds from purchasing securities subject to a conditional demand feature where the underlying security has second tier quality.

Under Rule 2a-7, a security that is subject to a conditional demand feature must satisfy certain requirements including that the underlying security that has the conditional demand feature must, itself, have either long-term or short-term rating quality in one of the top two rating categories (that is, without giving effect to the quality of the conditional demand feature). The proposed amendments would require that the underlying security have a long- or short-term rating in the top rating category, rather than in one of the top two categories. This tightened quality requirement would be problematic for many money market funds, as the rating of underlying securities that have conditional demand features frequently is below first tier quality. Forbidding these securities will substantially reduce the pool of securities available to funds, particularly single state funds, that purchase securities with conditional demand features.

The Commission is proposing to forbid the purchase of second tier securities generally. If a conditional demand feature becomes unavailable, the fund may be left holding the underlying securities. We believe the foregoing explains why the Commission proposes to forbid securities underlying a conditional demand feature which are second tier (although the Release does not address the reason for this change). But, even if the Rule is amended to forbid second tier securities, we believe that second tier securities underlying conditional demand features should not be forbidden. Other provisions of the Rule permit underlying securities that do not satisfy the requirements for a security that a fund holds directly. Specifically, the Rule forbids a fund from holding long-term securities directly, but long-term securities are permitted when they underlie a demand feature or a repurchase agreement. The fund would need promptly to dispose of the long-term security to satisfy the Rule if the demand feature or repurchase obligation became unavailable. Similarly, second tier underlying securities could be permitted, though the fund would need promptly to dispose of a long-term second tier security to satisfy the Rule.[7]

Further, the Rule includes provisions that make it unlikely that a fund will need to receive the security underlying a conditional demand feature, so the second tier quality of that security is unlikely to be an issue for the fund. That is, as described in comment 3, the Rule provides protections against the possibility that a conditional demand feature may become unavailable while a fund holds the security, so that the fund will be left holding the underlying security. The protections should permit a fund to exercise the conditional demand feature before it becomes unavailable. Consequently, we believe that a conditional demand feature generally will provide a reliable basis to determine quality of a security.

12. Reporting to the SEC – Form N-MFP

Recommendation: Allow fifteen business days rather than two for reporting to the Commission on Form N-MFP

We support the Commission's proposal to require more detailed reporting to the Commission regarding money market funds and their portfolios, through a new monthly filing on Form N-MFP. The Form would be required to be filed no later than the second

[7] For short-term underlying securities, we suggest that the Commission consider clarifying whether the receipt of the underlying security constitutes a "downgrade" that requires a reassessment under the Rule. Receipt of an underlying security may not technically be a "downgrade," as no rating agency action may be associated with the receipt by the fund of the underlying security. This same uncertainty could occur upon receipt of short-term collateral underlying a repurchase agreement. The Commission could consider clarifying whether this would constitute a "downgrade."

business day of each month, current as of the last business day of the preceding month. We recommend that the Commission allow filing to occur as late as fifteen business days after the end of each month. We understand that some funds will find it exceedingly difficult, and others will find it impossible, to gather the required information in the two day timeframe, without possibly compromising the accuracy of the information.

13. Website Disclosure

Recommendation: Allow five business days rather than two for website reporting of holdings.

We support the proposal to provide portfolio holdings information monthly at each fund's website. However, as with the Form N-MFP, we also recommend additional time for a fund to post the information. The Commission should allow posting of the required information on the fund website as late as five business days after the end of each month. Allowing additional time for posting will reduce costs that would otherwise be passed on to shareholders and will better allow for accurate information, without negatively impacting shareholders. Funds with the capability to post information more quickly would be free to do so, and will do so if they are able, if market pressures so dictate.

14. Diversification and Industry Concentration

Recommendation: Do not tighten diversification requirements or add industry concentration requirements to the Rule.

The Commission has asked whether the diversification provisions of the Rule should be made more stringent and whether industry concentration limitations should be added to Rule 2a-7. We recommend against both of these changes. We understand that a fund might find it necessary to ease its quality standards if it had to satisfy more stringent diversification requirements. This easing could threaten share stability and increase the risk that the fund will hold a defaulted security.

A more stringent industry concentration requirement would not provide a meaningful method to mitigate risk. Different fund groups define industries in a variety of ways, especially given the erosion of boundaries between industries and the lack of guidance from the Commission in this area. Further, we do not believe that industry concentration has created more risk for money market funds than for other types of funds. If the Commission determines to refine the definitions of industries and to redefine the applicable parameters, this could be done within the context of investment companies generally, rather than specifically for money market funds. We note, however, that use of an industry concentration provision to limit exposure to the financial sector is not practical, because a significant proportion of money market investments carries exposure to the financial sector (including municipal securities, certificates of deposit, repurchase agreements, commercial paper and asset backed commercial paper).