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Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: File Number S7-16-15 or S7-08-15

Dear Secretary,

The Government Finance Officers Association (GFOA) appreciates the opportunity to provide comments to the SEC on the Commission's proposed changes to Rule 22 under the Investment Company Act of 1940. The GFOA is the professional association of state, provincial and local finance officers in the United States and Canada. The GFOA has served the public finance profession since 1906 and continues to provide leadership to the government finance profession through research, education and the development of best practices. Our more than 18,000 members are dedicated to the sound management of government financial resources.

The GFOA understands the Commission's desire to further increase the resiliency of open-end mutual funds and exchange traded funds (ETFs), and the proposal's objective of instituting additional safeguards to prevent heavy redemptions during times of extended fiscal stress. However the GFOA is concerned that the proposal's requirement for funds to categorize their assets based on their liquidity features overlooks some of the key features of municipal securities. We are further concerned that this proposal will dissuade mutual funds from buying long term municipal securities, which will increase debt issuance costs for state and local governments and taxpayers.

<u>Liquidity Characteristics of Municipal Securities</u>

We understand the Commission's concern for ensuring that fund assets retain their liquidity during times of fiscal stress. However, trading volume is not in isolation a reliable indicator of future liquidity for municipal securities. Highly rated municipal securities tend to trade less frequently than many other issuers because these bonds are considered core holdings of large institutional investors. As such, they experience lower trading volumes during more stable financial periods than they do during periods of fiscal stress. During these times investment-grade municipal securities are typically the first considered for sale because of their attractiveness to potential investors.

If the SEC is interested in discouraging mutual funds from holding lower-rated municipal securities, the GFOA would like to work with the Commission to include language in the final rule that achieves that objective without simultaneously discouraging funds from purchasing securities from investment-grade municipal issuers.

Projected Impact of Proposal on Municipal Securities Issuers

As fund managers seek to comply with this proposal and expand their holdings of assets with greater liquidity, the GFOA expects that funds will increase their holdings of short-term securities and reduce holdings of longer term bonds. We also expect that funds will decrease their appetite for the securities of smaller, less-frequent issuers, as the bonds of these issuers are typically less liquid due to investor unfamiliarity with these credits. The potential loss of mutual funds as investors is alarming, given the level of investment from funds in short- and long-term municipal bonds.

As of September 2015, long-term mutual funds held 15.7 percent of outstanding long- and short-term municipal securities, totaling roughly $582 billion.[1] Losing these investors will likely drive up the cost of issuing municipal bonds, increasing costs of infrastructure project delivery to state and local governments and taxpayers. The burden of these cost increases will be particularly difficult for smaller governments to absorb, and potentially result in forgoing some critical infrastructure projects in these communities.

Coordinating Investment in National Infrastructure

The GFOA understands the proposal's purpose with respect to increasing liquidity of mutual fund assets, however it is disturbing to be commenting on yet another federal regulatory proposal that seeks to address current and future financial market instability while simultaneously imposing unnecessary costs on issuers of municipal securities. These proposals also make it confusing to understand the Administration's position on infrastructure investment as a whole.

For example, this Administration has organized an interagency working group to explore strategies to increase public and private investment in national infrastructure, which would augment the core driver of national infrastructure –tax-exempt municipal bonds. Meanwhile other federal agencies, such as the SEC, Office of the Comptroller of Currency and the Federal Deposit Insurance Corporation, continue to offer proposals and approve rules that would discourage bank holding companies and institutional investors from buying municipal securities.

State and local governments provide three-quarters of the total investment in infrastructure in the United States, and tax-exempt bonds are the primary financing tool used by over 50,000 state and local governments and authorities to satisfy these infrastructure needs. With the American Society of Civil Engineers estimating a $3.6 trillion cost to state and local governments over the next four years to meet our nation's infrastructure needs, the ability of states and localities to finance infrastructure at the lowest possible cost is critical. As the SEC continues work on this proposal, the GFOA strongly urges the Commission to explore approaches to meet its financial market security goals while preserving low-cost infrastructure financing for state and local governments and maintaining stability in the tax exempt bond market.

[1] Source: Investment Company Institute

Thank you again for the opportunity to comment on the proposed rule changes to SEC Rule 22. We would appreciate an opportunity to discuss further our comments and concerns with the Commission, and would be prepared to testify at any future hearings or forums the SEC may have on this issue.

Sincerely,

Dustin McDonald

Dustin McDonald
Director, Federal Liaison Center