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October 20, 2014

Mr. Brent Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-6628

Re: Petition for Rulemaking

Dear Mr. Fields:

On behalf of Federated Investors, Inc. (“Federated”),¹ we hereby petition the Securities and Exchange Commission (“Commission”), pursuant to Commission Rule of Practice 192(a), to, without delay, **adopt** the Commission’s proposed expansion of the definition of “qualified securities” under Rule 15c3-3(a)(6) to include an unaffiliated money market fund that: (1) is described in Rule 2a-7 of the Investment Company Act of 1940; (2) invests solely in securities issued by the United States or guaranteed by the United States as to interest and principal; (3) agrees to redeem fund shares in cash no later than the business day following a redemption request by a shareholder; and (4) has net assets equal to at least 10 times the value of the shares deposited by the broker-dealer in its customer reserve account (“U.S. Government Money Market Fund”), all as the Commission proposed in March 2007.²

Rule 15c3-3 requires a broker-dealer to calculate what amount, if any, it must deposit on behalf of customers in the Special Reserve Account for the Exclusive Benefit of Customers, according to the formula set forth in Rule 15c3-3a (“Reserve Formula”). Generally, under the Reserve Formula, a broker-dealer must calculate any amounts it owes to its customers and the amount of funds generated through the use of customer securities, called credits, and compare this amount to any amounts its customers owe, called debits. If customer credits exceed customer debits, the broker-dealer must deposit the net amount of customer credits in the Special Reserve Account. Currently, under Rule 15c3-3(e) only cash or “qualified securities” may be deposited into a Special

¹ Federated is a mutual fund sponsor with total assets under management of approximately \$351.6 billion, of which \$245.2 billion constitute money market funds.

² See Amendments to Financial Responsibility Rules for Broker-Dealers, Proposed Rule, (“Financial Stability Proposed Rule”) 72 Fed. Reg. 12861, 12865 (Mar. 19, 2007).

Reserve Account. Rule 15c3-3(a)(6) defines a “qualified security” as a “security issued by the United States or a security in respect of which the principal and interest are guaranteed by the United States.”

The Commission has stated that it would be appropriate to utilize U.S. Government Money Market Funds as “qualified securities” under Rule 15c3-3(a).³ Further, the Commission recently has confirmed that the regulatory landscape for U.S. government money market funds is sound.⁴ Without further delay, we request that the Commission adopt its proposed expansion of “qualified security” to include U.S. Government Money Market Funds.

A. The use of U.S Government Money Market Funds is consistent with Rule 15c3-3’s purpose of protecting customers’ funds and provides broker-dealers a needed alternative to current “qualified securities.”

Since April 2003, Federated has advocated for the inclusion of certain money market funds under Rule 15c3-3(a)(6) in response to broker-dealers’ concerns that there are limited options for them to place their required Rule 15c3-3 segregated funds.⁵

In support of permitting U.S. Government Money Market Funds as “qualified securities,” Federated’s petitions have provided detailed discussions demonstrating:

- **Broad governmental approval of the use of U.S. government money market funds:**
 - Numerous financial regulators, self-regulatory organizations, state legislatures and courts approve of the use of U.S. government money market funds for use by institutional investors as the functional equivalent of direct investments in government securities.
 - The CFTC permits FCMs to use U.S. government money market funds to meet CFTC segregation requirements analogous to Rule 15c3-3.
 - An SEC Order permits certain types of collateral for purposes of Rule 15c3-3 which are equivalent to the quality and liquidity of shares of U.S.

³ See “Financial Stability Proposed Rule,” 72 Fed. Reg. 12861, 12865 (Mar. 19, 2007).

⁴ See Money Market Fund Reform, Final Rules, (“Money Market Reform”) 79 Fed. Reg. 47736 (Aug. 14, 2014).

⁵ See Public Petitions for Rulemaking No. 4-478 (Apr. 3, 2003) (available at <http://www.sec.gov/rules/petitions/petn4-478.htm>), as amended (Apr. 4, 2005) (available at <http://www.sec.gov/rules/petitions/petn4-478a.htm>). See also Public Petition for Rulemaking No. 4-577 (Feb. 3, 2009) (available at <http://www.sec.gov/rules/petitions/petn4-577.htm>).

Government Money Market Funds. (In fact, U.S. Government Money Market Fund shares may exceed the quality and liquidity of certain of the types of collateral permissible under Commission Order).⁶

- **The operational flexibility and efficiency to broker-dealers in using U.S. government money market funds:**
 - The use of U.S. government money market fund shares, which may be traded in precise increments (whereas transactions in government securities take place only in large denominations and may cause a broker-dealer to incur a loss when selling a government security), will enable broker-dealers to manage their cash requirements more effectively than the use of Treasury securities.⁷
 - By using U.S. government money market funds, the broker-dealer avoids the operational risk of purchasing and selling Treasury securities and reduces the confusion, complexity and opportunity for error that can result. Broker-dealers will be able to reduce the human and other costs associated with assembling a Treasury portfolio.
 - Smaller institutions do not have the same degree of access to the OTC markets (where Treasury securities are traded), as do primary dealers and other large market participants, and must use primary dealers to purchase and sell Treasury securities. Permitting broker-dealers to utilize shares of U.S. government money market funds in lieu of direct holdings of government securities will enable broker-dealers to access the liquidity of the Treasury securities market in a more cost-effective manner than any currently available alternative.
- **The consistent stability of U.S. government money market funds:**
 - Money market funds that invest in Treasury securities have amassed an impressive record of safety. Because U.S. government money market funds invest almost exclusively in Treasury notes and Treasury bills – instruments backed by the full faith and credit of the United States government – advisers to such funds do not need to purchase portfolio securities in order to preserve the fund's \$1.00 share price.

⁶ See Order Regarding the Collateral Broker-Dealers Must Pledge When Borrowing Customer Securities, Release No. 47683 (Apr. 16, 2003)

⁷ Corporations prefer to outsource cash management to mutual funds rather than holding liquid securities directly as they are able to obtain daily liquidity at par, flexibility and economies of scale that are unavailable through internal management of their liquid assets.

- The deposit of U.S. government money market fund shares into Special Reserve Accounts does not present any increased risk that, if a broker-dealer holding customer property fails, the broker-dealer will not have sufficient reserves to ensure that customers promptly receive their property.
- U.S. government money market funds do not present any increased market or credit risk than a broker-dealer maintaining direct holdings of Government securities.
- **Limiting U.S. Government Money Market Funds to those that satisfy the relevant Rule 2a-7 requirements and only invest in “qualified securities.”**
 - The proposed U.S. Government Money Market Funds would only include funds that satisfy the relevant requirements of Rule 2a-7 of the Investment Company Act of 1940 regarding portfolio maturity, quality, diversification and liquidity.
 - The proposed U.S. Government Money Market Fund, as described in this petition, will invest in “qualified securities,” a narrower subset of “government securities,”⁸ limited to a “security issued by the United States or a security in respect of which the principal and interest are guaranteed by the United States.”⁹

Further, due to recently adopted bank regulations, it may become more costly for broker-dealers to comply with Rule 15c3-3 using bank deposits. This is so as cash deposits in Special Reserve Accounts will incur a liquidity charge under the new bank regulations, requiring banks to maintain liquid assets against the deposits based on a liquidity coverage ratio.¹⁰ As such, it is expected that banks might seek to limit a broker-dealer’s cash deposits or increase the cost to the broker-dealer of maintaining a Special Reserve Account with deposits. In contrast, a Special Reserve Account that invests in U.S. Government Money Market Fund shares will not incur a liquidity charge for the

⁸ U.S. government money market funds may invest in “government securities” defined as any “security issued or guaranteed as to principal or interest by the United States, or by a person controlled or supervised by and acting as an instrumentality of the Government of the United States pursuant to authority granted by the Congress of the United States; or any certificate of deposit for any of the foregoing.” See Section 2(a)(16) and Rule 2a-7(a)(14).

⁹ When the Commission adopts the proposed expansion of “qualified security” to include U.S. Government Money Market Funds, the Commission should clarify that U.S. Government Money Market Funds may also invest in repurchase agreements collateralized fully by U.S. Treasury securities. Clarification in this manner would be consistent with the current treatment of repurchase agreements.

¹⁰ See “Federal Banking Regulators Finalize Liquidity Coverage Ratio,” Federal Reserve Board Press Release, September 3, 2014.

bank since the bank will not own the shares and, unlike deposits, will not be able to use the shares in its lending or other banking operations.

B. The Commission deems it appropriate to expand the definition of “qualified securities” to include U.S. Government Money Market Funds.

In 2007, the Commission acknowledged the appropriateness of Federated’s request, proposed to adopt rules to expand the definition of “qualified securities” to include U.S. Government Money Market Funds, and sought public comment on the proposed expansion. The Commission proclaimed,

We believe expanding the definition to include money market funds that only invest in securities meeting the definition of “qualified securities” in Rule 15c3-3 would be appropriate. The assets held by such a money market fund would be same as those a broker-dealer can hold directly in its customer reserve account. Consequently, a broker-dealer might choose to deposit qualifying money market fund shares into the customer reserve account based on operational considerations such as avoiding the need to actively manage a portfolio of U.S. Treasury securities. This operational benefit also could decrease burdens on ... broker-dealers.... A broker-dealer that deposits cash into the customer reserve account to avoid the operational aspects of holding and managing U.S. Treasury securities would have the option of depositing a qualifying money market fund to replace the cash deposit.¹¹

In response to the Commission’s proposal (and the reopening of the comment period in July 2012), twenty commenters addressed the Commission’s proposed expansion of “qualified securities” to include U.S. Government Money Market Funds. **All** – 100% of the commenters – supported or endorsed the expansion of “qualified securities” to permit broker-dealers the operational flexibility of U.S. Government Money Market Fund shares in meeting their deposit obligations under the Special Reserve Bank Account for the Exclusive Benefit of Customers, with the vast majority asserting that the definition of “qualified security” be expanded further to include more types of instruments.

Importantly, with regard to the operational efficiencies of U.S. Government Money Market Funds, commenters echoed those stated in Federated’s petitions and the Commission’s 2007 rule proposal release, noting, among other things, that:

- Adopting the proposal to include U.S. Government Money Market Funds would ease the administrative burden of depositing US Treasury securities in a broker-dealer reserve account and would lower the overall cost of compliance with the

¹¹ “Financial Stability Proposed Rule,” 72 Fed. Reg. 12861, 12865 (Mar. 19, 2007).

Customer Protection Rule without creating any additional exposure of loss to customers.¹²

- Operational efficiencies would include: No need to manage or monitor a portfolio of securities; no need to mark to market; no need to monitor and ensure delivery of multiple securities; no need to monitor principal and interest payments; no maturity date for fund shares; no transactions costs; less time limitations on making fund purchases, and clear documentation of fund account transaction activity.¹³

Notwithstanding, the overwhelming support from industry participants, the Commission in August 2013 determined to defer adoption of expanding the definition of “qualified security” to include U.S. Government Money Market Funds, asserting that proposed amendments on money market funds were currently pending before the Commission, and such amendments could impact U.S. government money market funds.¹⁴

C. The Commission has confirmed the stability and soundness of U.S. government money market funds and will not make any significant changes to U.S. government money market fund regulation.

In August 2014, the Commission adopted final rule amendments regarding money market funds.¹⁵

- 1. The Commission’s August 2014 Money Market Fund Reform release confirms that U.S. government money market funds are stable and sound.**
 - **The Commission confirms that U.S. government money market funds are stable during financial crises.**

The Commission’s Money Market Fund Reform release analyzes the 2008 and 2013 financial crises and concludes that U.S. government money market funds are resilient and function well during financial crises.

¹² See Curian Clearing, Comment Letter, May 7, 2007.

¹³ See FAF Advisors, Comment Letter, May 23, 2007.

¹⁴ See Financial Responsibility Rules for Broker-Dealers, Final Rule, 78 Fed. Reg. 51824, 51843-44 (Aug. 21, 2013). The SEC Office of the Secretary also issued a letter to Federated on August 27, 2013, advising that “in light of recently proposed amendments to its rules regarding money market funds the Commission is deferring consideration any further expansion of the definition of ‘qualified security’ in Rule 15c3-3....”

¹⁵ See Money Market Reform, 79 Fed. Reg. 47736 (Aug. 14, 2014).

For example, the Commission's Money Market Fund release provides that during the financial crisis in September 2008, investor redemptions, particularly after Lehman's failure, were heaviest in institutional share classes of prime money market funds, while institutional share classes of U.S. government money market funds, which include Treasury and government funds, experienced heavy inflows.¹⁶ Further, during the worst two-week period of the October 2013 crisis, i.e., the U.S. debt ceiling impasse, government and treasury money market funds experienced combined outflows of \$54.4 billion, which was 6.1% of total assets of such money market funds. Importantly, despite the financial crisis, U.S. government money market fund shadow prices were unaffected. Once the impasse was resolved, assets flowed back into these funds, returning government and treasury money market funds to a pre-crisis asset level before the end of the year, indicating their resiliency.¹⁷

- **The Commission confirms that U.S. government money market funds have virtually no default risk and are highly liquid even during market stress.**

The Commission's Money Market Fund Reform release acknowledges that U.S. government money market funds historically have faced different redemption pressures in times of stress and have different risk characteristics than other money market funds because of their unique portfolio composition. U.S. government money market funds have lower credit default risk and greater liquidity than non-government portfolio securities typically held by money market funds.¹⁸

- **The Commission confirms that U.S. government money market funds hold assets with short maturities wholly mitigating interest rate risk of U.S. government money market funds.**

The Commission's Money Market Fund Reform release identifies only one potential risk regarding U.S. government money market funds, i.e., interest rate risk or, in other words, the risk that changes in the interest rates will result in a change in the market value of portfolio securities. However, the Commission acknowledges that such risk is wholly mitigated because U.S. government money market funds hold assets that have short maturities and generally hold those assets to maturity. In fact, the Commission notes that because of the required structure of their portfolios, U.S. government money market funds generally have at least 30% weekly liquid assets.¹⁹

¹⁶ See Money Market Reform, 79 Fed. Reg. at 47744.

¹⁷ See Money Market Reform, 79 Fed. Reg. at 47746. Indeed, the Commission states that U.S. government money market fund assets tend to appreciate in value in times of stress rather than depreciate.

¹⁸ See Money Market Reform, 79 Fed. Reg. at 47744 n. 77 and 47792.

¹⁹ See Money Market Reform, 79 Fed. Reg. at 47792.

2. The Commission's Money Market Fund Reform does not make any significant changes to U.S. government money market funds.

Because U.S. government money market funds are sound and stable, they are not subject to the significant reforms issued by the Commission in its Money Market Fund Reform. Based on the documented soundness and stability of U.S. government money market funds, U.S. government money market funds are permitted to continue to value portfolio securities using amortized cost and use the penny-rounding method of pricing. No floating NAV changes for U.S. government money market funds have been required. In addition, the Commission's required liquidity fees and redemption gates will not apply to U.S. government money market funds.²⁰

Indeed, the Commission's Money Market Fund Reform makes only one change to U.S. government money market fund regulation in its money market reforms -- decreasing the non-governmental basket permitted for U.S. government money market funds from 20% to 0.5% (to limit risk taking with non-governmental securities). The Commission asserts that this change will NOT be a significant change to U.S. government money market funds for, among other things,:

- **U.S. Government money market funds already have the systems in place to monitor for compliance with the 0.5% non-government basket of assets.**

The Commission's Money Market Fund Reform release states that, "[The Commission] does not believe that government funds will be required to make any systems modifications as a result of changing to a 0.5% de minimis basket because funds are already required to monitor compliance with the existing 20% non-government basket requirement."²¹

- **Industry practice already conforms to maintaining only a 0.5% non-government basket of assets in U.S. government money market funds.**

The Commission's Money Market Fund Reform release states, "Based on the staff's analysis, we expect that the 0.5% non-conforming basket is consistent with current industry practices and strikes an appropriate balance between providing U.S. government money market fund managers with adequate flexibility to manage such funds while preventing them from taking on potentially high levels of risk associated with non-government assets."²²

²⁰ See Money Market Reform, 79 Fed. Reg. at 47791.

²¹ See Money Market Reform, 79 Fed. Reg. at 47794.

²² See Money Market Reform, 79 Fed. Reg. at 47794.

- **U.S. government money market funds will not experience any material reduction in yield by maintaining a 0.5% non-government basket of assets.**

The Commission's Money Market Fund Reform release states, "Because we believe that the de minimis basket we are adopting is consistent with current industry practice, we do not believe that government funds will experience any material reduction in yield, based on current interest rates, as a result of our amendments."²³

- **Current shareholders will remain invested in U.S. government money market funds.**

The Commission's Money Market Fund Reform release states that the Commission anticipates that "current investors in government funds will likely remain invested in these funds, as they will offer the price stability, liquidity, and yield to which these investors are accustomed."²⁴ Moreover, the Commission states that "[b]ecause the regulatory landscape for these funds will remain largely unchanged, we anticipate current investors will likely remain invested in the funds."²⁵

D. Now is the time for the Commission to adopt the proposed rule.

Now is the time, without further delay, for the Commission to adopt its rule proposal to expand the definition of "qualified security" under Rule 15c3-3 to include U.S. Government Money Market Funds.

As the August 21, 2013, letter from the Commission to Federated noted, the Commission determined to defer consideration of the amendment to expand the definition of "qualified securities" in Rule 15c3-3(a)(6) in light of pending proposed amendments to money market fund regulation which could have an impact on U.S. government money market funds. The Commission has now assessed the potential impact, having concluded that U.S. government money market funds are stable and sound, both historically and prospectively. That being the case, the Commission is in a position to render an important service to the broker-dealer industry and investors by promptly adopting this long-sought, but limited and simple, expansion of the definition of "qualified securities" in Rule 15c3-3 to include U.S. Government Money Market Funds.

²³ See Money Market Reform, 79 Fed. Reg. at 47794.

²⁴ See Money Market Reform, 79 Fed. Reg. at 47906.

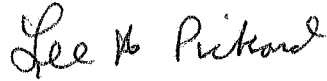
²⁵ See Money Market Reform, 79 Fed. Reg. at 47900. In fact, in light of the extensive reforms placed on other money market funds, the Commission "expects some non-government money market fund shareholders will likely reallocate their investments to government money market funds." See Money Market Reform, 79 Fed. Reg. at 47906.

Mr. Brent Fields
October 20, 2014
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We thank you for your consideration of this request for rule making.

Please do not hesitate to contact Lee A. Pickard or Peter E. McLeod of Pickard and Djinis, LLP at (202) 223-4418 with any questions or requests for further information with respect to the matters set forth in this letter. We look forward to your response.

Respectfully submitted,

A handwritten signature in cursive script that reads "Lee A. Pickard".

Lee A. Pickard

cc: The Honorable Mary Jo White
The Honorable Luis A. Aguilar
The Honorable Daniel M. Gallagher
The Honorable Kara M. Stein
The Honorable Michael S. Piwowar
Mr. Stephen Luparello, Director, Division of Trading and Markets
Mr. James Burns, Deputy Director, Division of Trading and Markets
Mr. Michael Macchiaroli, Associate Director, Division of Trading and Markets