June 28, 2012

The Honorable Tim Johnson
Chairman
Senate Committee on Banking, Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Richard C. Shelby
Ranking Member
Senate Committee on Banking, Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Johnson and Ranking Member Shelby:

For nearly three decades, money market funds have served as a cost-effective means for a wide array of investors to achieve market rates of return, while promoting stability of principal and liquidity of their investment. Money market funds are highly regulated by the Securities and Exchange Commission (SEC) and according to the Investment Company Institute, $2.7 trillion of all investments in mutual funds – approximately 22 percent – are in money market funds. These funds also serve as a crucial source of short-term financing, especially in the recovering U.S. economy, where cash flow for the government, employers and others may be uneven.

Because of their design, money market funds allow corporations to meet short-term operating needs, such as payroll and accounts payable. Financial institutions use them to finance holdings of short-term assets such as consumer loans and credit card receivables. State and local governments may use money market funds to fund expenditures in advance of tax receipts or for a variety of other short-term borrowing needs. In sum, the current money market fund system provides borrowers with enormous flexibility in financing during a period of uncertain economic recovery, while offering investors stability of principal and great liquidity – which benefit individuals and families facing their own difficult financial straits.

In October 2010, the President's Working Group on Financial Markets proposed that money market funds shift from the standard $1 per share valuation, to a floating Net Asset Value (NAV). This proposal was designed to reduce large shareholder redemptions when financial markets experience heightened volatility and sharp declines. While well-intentioned, the floating NAV proposal would have serious consequences for an important mechanism that is helping facilitate our nation's economic recovery. In particular, states and municipalities around

the New England region could face a contraction of available financing, just at a time when they are struggling with some of the tightest budget restrictions in memory.

The intent of the original President's Working Group proposal for a floating NAV was to help investors understand, and reduce, the risk associated with investment. It was thought that if the NAV fluctuated in a money market fund, investors would have a clearer sense that there was some risk involved. The New England Council believes most investors understand the modest risk associated with money market funds. Further, such a shift could well force investors to seek other less-regulated products that seek to maintain a stable unit price. There are a number of other products, such as offshore money fund or enhanced cash pools, which are not regulated under the Investment Company Act.

Money market funds are highly regulated under Rule 2a-7 of the 1940 Act. In response to the credit crisis and liquidity concerns arising in late 2008 -2009, the SEC reviewed the investment guidelines, credit quality, and financial reporting. This review led to the 2010 rule amendments that changed the investment requirements by raising the credit quality, reducing the maturity of money market funds' portfolio and increasing the reporting requirements. Money market funds are required to perform stress test scenarios reflecting the impact certain market conditions and investor redemption activity would have on the money market fund's net asset value. The SEC amendments also required monthly financial reporting to the SEC including holdings information and shadow pricing results. This added disclosure helps to better inform and protect investors and these amendments have had a significant impact on increasing the amount of liquid assets held by money market funds.

At this point, the consequences of a move to a floating NAV are multifold. A shift to a floating NAV would add significantly to the administrative costs for a money market fund, thereby decreasing net yield. It would also add to the administrative burden for the shareholder in terms of tax, accounting, and record-keeping. One of the major benefits of money market funds with a stable NAV is the convenience and easy liquidity of the holdings, so individuals and families can quickly access their cash when needed, with a minimum of record-keeping requirements.

From the borrowers' standpoint, a move to a floating NAV would reduce the funds available for expenses, such as corporate operating needs, infrastructure projects and other municipal cash requirements. It is likely that a substantial number of investors would not continue to use money market funds; many institutional investors are precluded from investing cash balances in pools which do not maintain a stable NAV. Similar legal restrictions may apply to corporations, municipalities and various state-regulated entities around the country. This constriction in ready capital would hamper the efforts of states, cities and towns trying to manage difficult financial circumstances.

According to the National Association of State Treasurers, a shift to a floating NAV "would not be in the interests of either investors or debt issuers and could potentially destabilize the market." Within the New England region, these concerns are echoed. The Rhode Island Economic Development Corporation wrote in comments submitted to the Securities and Exchange Commission, "American business would lose one of its most important sources of capital raising and instruments to meet investment needs if money market funds are, directly or indirectly, forced to abandon their stable net asset value (NAV) under proposals discussed in the President's Working Group on Financial Markets Report." According to comments submitted to the Securities and Exchange Commission last year, "The New Hampshire Treasury believes that such a change would not be in the interests of either public-sector investors or debt issuers and could potentially destabilize the market. Furthermore, the New Hampshire Treasury believes that a floating NAV could decrease investor demand and transform the current money market funds into short-term bond funds with its inherent risk, volatility and liquidity problems." Bruce Poliquin, Maine State Treasurer, notes "It would be unlikely for Maine State Treasury to use floating NAV money market funds. Such vehicles would increase investment risk for the State's short term liquidity and capital preservation needs, especially during volatile market conditions. Also, fund administrative costs would likely rise, thereby decreasing net yield – another negative." Steve Grossman, Massachusetts State Treasurer notes, "A change to a floating NAV would severely hamper government entities in their ability to have a secure, liquid and convenient instrument for investing. This proposal could unintentionally subject an investor to losses when withdrawing cash, a prospect that would undermine Massachusetts' financial position.

Given the unintended, but very negative, consequences of a shift to a floating NAV for money market funds, particularly for city, state and local governments around the New England region, we respectfully ask that such a proposal be rejected. If there is any additional material or information that you need, please do not hesitate to contact me.

Sincerely,

Michele M. Jalbert
Executive Director – Policy & Strategy