

MEMO# 23769

September 9, 2009

ICI Comment Letter on SEC's Proposed Amendments to Money Market Fund Regulation

[23769]

September 9, 2009

TO: ACCOUNTING/TREASURERS COMMITTEE No. 14-09
BANK, TRUST AND RECORDKEEPER ADVISORY COMMITTEE No. 40-09
BROKER/DEALER ADVISORY COMMITTEE No. 50-09
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 35-09
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 40-09
OPERATIONS COMMITTEE No. 16-09
SEC RULES MEMBERS No. 94-09
SMALL FUNDS COMMITTEE No. 16-09
TRANSFER AGENT ADVISORY COMMITTEE No. 68-09
VARIABLE INSURANCE PRODUCTS ADVISORY COMMITTEE No. 15-09 RE: ICI COMMENT
LETTER ON SEC'S PROPOSED AMENDMENTS TO MONEY MARKET FUND REGULATION

The Institute has filed a comment letter expressing its overall strong support for the Securities and Exchange Commission's proposed amendments to Rule 2a-7 and other rules that affect money market funds under the Investment Company Act of 1940. [\[1\]](#) The amendments, which are similar to those recommended last March by the Institute's Money Market Working Group ("Working Group"), [\[2\]](#) are designed to better enable money market funds to withstand certain short-term market risks, and to provide greater protections for investors in a money market fund that is unable to maintain a stable net asset value per share.

The Institute's letter is attached and briefly summarized below.

Risk-Limiting Conditions of Rule 2a-7

- **Portfolio Liquidity:**
 - **Daily and Weekly Requirements:** We support adding explicit daily and weekly liquidity requirements; however, we strongly oppose different regulatory thresholds for money market funds depending on whether their investors are considered retail or institutional. Instead, we recommend the SEC follow the Working Group's recommendation (5 percent daily for taxable funds and 20 percent weekly for all funds), which provides a minimum liquidity "floor" that can be adjusted upwards based on an individual fund's liquidity needs.
 - **Illiquid Securities:** We do not support changing the SEC's current guidance that allows a money market fund to invest in illiquid securities up to 10 percent of its total assets.
- **Portfolio Quality:**
 - **Credit Ratings Requirement:** We do not support removing credit ratings from Rule 2a-7. The rule already prevents undue reliance on ratings and the elimination of credit ratings will decrease protection for investors and undermine investor confidence. Instead, we support requiring fund advisers (rather than the boards as the SEC has suggested) to designate and disclose three or more NRSROs that funds would look to for all purposes under Rule 2a-7.
 - **Second Tier Securities:** We support limiting money market fund purchases to first tier securities but suggest that the SEC follow the Working Group's recommendation that would continue to allow a fund to hold a first tier security that is downgraded to second tier after an adviser has purchased the security for the fund.
 - **Asset Backed Securities:** Given the Working Group's recommendations to improve the process by which money market funds select potential investments, we do not believe it is necessary for the SEC to make specific changes to Rule 2a-7 regarding asset backed securities.
- **Portfolio Maturity:**
 - **Weighted Average Maturity (WAM):** We do not support reducing the WAM limit to 60 days because it would constrain the ability of many money market funds to produce yields that cover their expenses, particularly during times of low interest rates. Instead, we suggest that a WAM of, for example, 75 days, as recommended by the Working Group, would reduce interest rate risk without significantly impairing portfolio flexibility during different market conditions.
 - **Weighted Average Life (WAL):** We support a WAL limitation of 120 days, which would limit the portion of a fund's portfolio that could be held in longer term variable- or floating-rate securities.
 - **Maturity Limit for Other Portfolio Securities:** In light of the proposed reduction in the WAM and the new WAL maturity test, we do not believe it necessary, and so do not support reducing the current maximum maturity of 397 days for individual non-government securities acquired by a money market fund.
- **Diversification:** We do not support further restricting the diversification limits of Rule 2a-7 relating to issuers and/or guarantors. In particular, the universe of institutions issuing or providing guarantees or liquidity for eligible money market fund securities has become extremely limited.

- **Repurchase Agreements:** Although we do not believe the proposal to limit money market funds to engaging in repurchase transactions collateralized by cash items or government securities would have a significant effect on the operations of most money market funds, we caution that the proposal could have an effect on funds utilizing joint trading accounts.

Disclosure of Portfolio Securities:

- **Public Website Posting:** We support requiring money market funds to publicly disclose certain portfolio holdings information monthly. We do not support, however, conforming the portfolio disclosure to Regulation S-X because it would unnecessarily complicate the required disclosure. Based upon our recent experience, we recommend that money market funds be required to post this information each month after a delay of at least seven to ten days (rather than the proposed two business day delay).
- **Reporting to the SEC:** We support enhancing the SEC's access to money market fund data; however, we do not support making detailed fund-level and security-level information (as proposed by the SEC) available to the public. We also offer comments to proposed Form N-MFP and, given the amount of information that the form would require funds to compile and review each month, recommend money market funds be given at least a 12 to 15 business day delay to file the Form (rather than the proposed two business day delay).
- **Public Disclosure of Market-Value Based Information:** We are particularly pleased that the SEC's proposal would not require money market funds to publicly disclose their shadow prices and the market-based prices of their portfolio securities. We believe that this information would not be helpful or informative to investors and could increase systemic risks.

Money Market Fund Operations:

- **Authority to Suspend Redemptions:** We support authorizing boards to suspend redemptions in connection with any fund liquidation (not just after a fund has broken a dollar) and temporarily under other exigent circumstances other than liquidation.
- **Processing of Transactions:** We appreciate the SEC's desire to ensure that funds can process transactions at a price of other than \$1.00 per share; however, we are concerned that the proposal would require costly changes to a myriad of systems at a financially precarious time for the industry. We therefore do not support the proposed operational capability requirements and recommend they be eliminated from the final rule.

Request for Additional Comment:

- Floating Net Asset Value: We strongly oppose eliminating the ability of money market funds to use the amortized cost method of valuation because the stable net asset value provides far more benefits to money market fund investors than a floating net asset value; the floating net asset value could lead to substantial and far reaching negative consequences for the money market fund industry; and a floating net asset value is unlikely to reduce systemic risk.
- Redemptions in Kind: We do not support requiring money market funds to satisfy redemption requests of a certain size through redemptions in kind because this method of redeeming shareholders poses operational challenges for both funds and shareholders and could aggravate an illiquid or declining market.

Jane G. Heinrichs
Associate Counsel

[Attachment](#)

endnotes

[1] See Money Market Fund Reform, SEC Release No. IC-28807 (June 30, 2009), 74 FR 32688 (July 8, 2009), available on the SEC's website at <http://sec.gov/rules/proposed/2009/ic-28807.pdf>.

[2] A copy of the press release announcing the formation of the Working Group is available on the Institute's website at http://www.ici.org/mmfs/08_news_mm_group. See generally Report of the Money Market Working Group, available on the Institute's website at http://www.ici.org/pdf/ppr_09_mmwg.pdf.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.