

MEMO# 16453

August 19, 2003

ICI COMMENT LETTER IN SUPPORT OF RULEMAKING PETITION RELATING TO TREATMENT OF MONEY MARKET FUNDS UNDER EXCHANGE ACT RULES

[16453] August 19, 2003 TO: MONEY MARKET FUNDS ADVISORY COMMITTEE No. 16-03 RE: ICI COMMENT LETTER IN SUPPORT OF RULEMAKING PETITION RELATING TO TREATMENT OF MONEY MARKET FUNDS UNDER EXCHANGE ACT RULES The Investment Company Institute has prepared a comment letter in support of the rulemaking petition submitted on behalf of Federated Investors, Inc. to the Securities and Exchange Commission seeking amendments to Rules 15c3-1 and 15c3-3 under the Securities Exchange Act of 1934.¹ The Institute's comment letter is attached, and is substantially similar to the draft letter we sent to you previously.² The Institute's letter supports the Petition's proposed amendments, which would accord to a broker-dealer's investments in shares of money market funds that invest exclusively in U.S. Treasury bills and notes and meet certain other criteria ("Designated Funds") the same treatment with respect to net capital, customer collateral, and special reserve accounts that these rules accord to direct investments in U.S. Government or agency securities having maturities of less than three months ("Qualifying Government Securities").³ While supporting the proposition that investments in Designated Funds should serve as the functional equivalent of investments in Qualifying Government Securities, the letter also recommends modifying the requested relief to enable Designated Funds to invest not only in U.S. Treasury bills and notes, but also in repurchase agreements that themselves are collateralized fully by U.S. Treasury bills and notes, which would expand the number of U.S. government money market funds that could be utilized by broker-dealers. The letter explains, among other things, that repurchase agreements are recognized by the Commission as having

1 See Letter from Dechert LLP, on behalf of Federated Investors, Inc., to Jonathan G. Katz, Secretary, Securities and Exchange Commission, dated April 3, 2003 (the "Petition"). The Petition is available from the SEC's website at <http://www.sec.gov/rules/petitions/petn4-478.htm>. 2 See Memorandum to Money Market Funds Advisory Committee No. 13-03 (#16400), dated August 1, 2003. 3 Specifically, the Petition would amend Rule 15c3-1 to provide the same net capital treatment to broker-dealers' investment in shares of the Designated Funds as is currently available to Qualifying Government Securities. The Petition also would amend Rule 15c3-3 to: (a) provide the same collateral treatment to Designated Fund shares as is provided to cash, U.S. Treasury bills and notes, irrevocable letters of credit issued by banks, and such other collateral as the Commission designates by order; and (b) treat such shares as "qualified securities" that may be deposited into a broker-dealer's Special Reserve Bank Account for the Exclusive Benefit of Customers. 2 substantially the same safety and

investment quality characteristics as the underlying securities to which they relate, as evidenced by Rules 2a-7 and 5b-3 under the Investment Company Act of 1940, which permit money market and other mutual funds that invests in repurchase agreements that are collateralized fully to “look through” the repurchase agreements to the underlying securities. Barry E. Simmons Associate Counsel Attachment (in .pdf format)

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