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January 23, 2013

Financial Stability Oversight Council
Mr. Amias Gerety, Deputy Assistant Secretary
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Re: Proposed Recommendations Regarding Money Market Mutual Fund Reform (FSOC-2012-0003)

Members of the Financial Stability Oversight Council:

The Independent Directors Council[1] appreciates the opportunity to comment on the Financial Stability Oversight Council's proposed recommendations regarding money market mutual fund reform.[2] Mutual fund independent directors—whose primary responsibility is to protect the interests of fund shareholders, including money market fund shareholders—have a keen interest in the issues raised in the proposal and the potential impact of any of the proposed recommendations on fund shareholders.

As a preliminary matter, and as regulatory agencies continue to study possible reforms, it is critical to not lose sight of the very basic fact that money market funds provide incomparable benefits to investors and the capital markets. They offer investors liquidity, stability of principal value, and market-based yields, while serving as a critical source of financing for businesses and state and local governments. With approximately $2.7 trillion invested in money market funds—with near-zero yields—investors have effectively demonstrated that they value the stability, convenience, and liquidity of these funds.

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[1] IDC serves the fund independent director community by advancing the education, communication, and policy positions of fund independent directors, and promoting public understanding of their role. IDC's activities are led by a Governing Council of independent directors of Investment Company Institute member funds. ICI is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds, and unit investment trusts. Members of ICI manage total assets of $13.9 trillion and serve over 90 million shareholders, and there are approximately 1,900 independent directors of ICI-member funds. The views expressed by IDC in this letter do not purport to reflect the views of all fund independent directors.

[2] The FSOC proposal is available on the Treasury Department's website at: http://www.treasury.gov/initiatives/fsoc/Documents/Proposed%20Recommendations%20Regarding%20Money%20Market%20Mutual%20Fund%20Reform%20-%20November%2013,%202012.pdf ("FSOC Proposal").

IDC has long participated in the policy debate regarding money market fund reform, and our views have been constant: we have supported appropriate money market fund reform that preserved the essential benefits of these funds.[3] We also have urged that any new rules or requirements reflect that the fund board's role is to oversee, and not to micro-manage, money market funds, and not impose inappropriate responsibilities on fund boards that are inconsistent with this oversight role. Our specific comments on the FSOC's recommendations are discussed below.

The SEC, Rather than FSOC, Should Have the Lead on Money Market Fund Reform

We do not believe FSOC's intervention is appropriate at this time, given the Securities and Exchange Commission's continued review of this matter. The SEC is the primary regulator for money market funds and, as FSOC acknowledges, has the requisite "institutional expertise and statutory authority."[4] Moreover, and most importantly from the fund directors' perspective, investor protection is one of the SEC's primary missions. The SEC did not propose money market fund reforms in August 2012, because a majority of the commissioners did not believe that sufficient study had been conducted at that time regarding, among other things, the effectiveness of the SEC's 2010 reforms. Since then, SEC staff issued a report responding to questions raised by the commissioners.[5] The SEC continues to make progress in its evaluation of the issues,[6] and FSOC should permit it to do so.

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[3] *See*, *e.g.*, Letter from Michael S. Scofield, Chair, IDC Governing Council, to Elizabeth M. Murphy, Secretary, SEC, regarding Money Market Fund Reform (File No. S7-11-09) (September 8, 2009), available at: http://www.sec.gov/comments/s7-11-09/s71109-105.pdf; Letter from Dorothy A. Berry, Chair, IDC Governing Council, to Elizabeth Murphy, Secretary, SEC, regarding President's Working Group Report on Money Market Fund Reform (File No. 4-619) (January 10, 2011), available at: http://www.sec.gov/comments/4-619/4619-31.pdf ("PWG Letter"); and Letter from Independent Directors Council and Mutual Fund Directors Forum regarding President's Working Group Report on Money Market Fund Reform (File No. 4-619) (May 2, 2012), attaching a joint statement ("IDC/MFDF Statement"), available at: http://www.sec.gov/comments/4-619/4619-173.pdf.

[4] FSOC Proposal, *supra* n. 2, at 15.

[5] *See* Response to Questions Posed by Commissioners Aguilar, Paredes, and Gallagher, from the SEC's Division of Risk, Strategy, and Financial Innovation (November 30, 2012), available at http://sec.gov/news/studies/2012/money-market-funds-memo-2012.pdf ("SEC Staff Report").

[6] *See* Remarks of SEC Commissioner Daniel M. Gallagher before the U.S. Chamber Center for Capital Markets Competitiveness (January 16, 2013), available at http://www.sec.gov/news/speech/2013/spch011613dmg.htm.

A Thorough Analysis of the Effectiveness of the 2010 Reforms Should be a Predicate to Any Additional Reforms

Any reform proposals should be based on a full understanding of the relevant facts, and critical to that understanding is a thorough analysis of the effectiveness of the SEC's 2010 reforms. FSOC's proposal fails to include such an analysis. We commend the SEC's staff for beginning this work.[7]

The new liquidity, credit quality, and maturity standards and required stress testing have made money market funds much more resilient to market stresses than they were in 2008. Money market funds also are far more transparent today, as they are now required to report their portfolio holdings and per-share mark-to-market value on a monthly basis. This information has significantly improved the ability of investors, as well as regulators, to monitor money market fund exposures.

In addition, the 2010 reforms gave fund boards critically important new authority to make determinations to facilitate an orderly liquidation of a fund that is at imminent risk of "breaking the buck." This new tool—which was not available in 2008—is intended to reduce the vulnerability of investors to the harmful effects of a run on the fund and minimize the potential for disruption to the securities markets. The authority helps fund boards to ensure equitable treatment for all of the fund's shareholders.

The 2010 reforms addressed many of the concerns raised following the 2007-08 market events. The efficacy of those reforms was tested in 2011, when challenges such as Europe's ongoing sovereign debt crisis and the U.S. debt-ceiling impasse resulted in outflows. Money market funds passed these tests.[8]

FSOC's Recommendations Would Detrimentally Alter the Essential Characteristics of Money Market Funds

FSOC has proposed three recommendations that have previously been considered and debated, and IDC has weighed in on these options before. In a previous comment letter to the SEC, IDC made clear that we strongly oppose requiring the net asset value of money market funds to float instead of retaining a stable $1 net asset value (NAV).[9] IDC also has expressed opposition to restricting investor redemptions or imposing capital requirements on money market funds.[10] These changes would have a

[7] *See* SEC Staff Report, *supra* n. 5.

[8] *See* "Money Market Mutual Funds, Risk, and Financial Stability in the Wake of the 2010 Reforms," *ICI Research Perspective*, January 2013, Vol. 19, No. 1, available at http://www.ici.org/pdf/per19-01.pdf.

[9] PWG Letter, *supra* n. 3.

[10] IDC/MFDF Statement, *supra* n. 3.

significant negative impact on investors and the capital markets, and their need and efficacy have not been demonstrated.

Each option would drastically alter the essential characteristics of money market funds, rendering them substantially less attractive as cash management vehicles. Implementing any of those changes likely would cause investors to move their cash to less-regulated and/or less-transparent products, or to banks. As the SEC Staff Report noted, a shift to bank deposits would increase reliance on FDIC deposit insurance and expand the size of the banking sector, which would raise additional concerns about the concentration of risk in the economy.[11]

Moreover, such fundamental changes to the structure and operation of money market funds would cause major disruptions in the short-term financing markets, representing a potential negative impact on the overall economy and investor confidence. They also could cause a number of money market fund sponsors to exit the business, reducing investors' options.

The proposed reforms would not eliminate the potential for investors to rationally decide, in times of market stress, to shift their assets to what they perceive to be less risky investments. It is questionable whether other cash management products could handle such large withdrawals as well as money market funds, given the stringent new liquidity requirements applicable to money market funds.

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If, after careful consideration of the comments and a thorough analysis of the effectiveness of the 2010 reforms, it is determined that additional reforms should be proposed, we urge that consideration be given to a more tailored and targeted regulatory approach—such as reforms that would operate only during times of market stress—that preserves the essential characteristics of money market funds for their investors.[12]

If you have any questions about our comments, please contact Amy B.R. Lancellotta, Managing Director, at (202) 326-5824.

Sincerely,

[11] *See* SEC Staff Report, *supra* n. 5, at 45.

[12] *See* Letter from Paul Schott Stevens, President & CEO, Investment Company Institute to the Financial Stability Oversight Council regarding Proposed Recommendations Regarding Money Market Mutual Fund Reform (FSOC-2012-0003) (to be filed).

Susan B. Kerley

Susan B. Kerley
Chair, IDC Governing Council

cc: The Honorable Elisse B. Walter
The Honorable Luis A. Aguilar
The Honorable Troy A. Paredes
The Honorable Daniel M. Gallagher

Norm Champ, Director, Division of Investment Management

Securities and Exchange Commission