Dreyfus

THE DREYFUS CORPORATION

September 8, 2009

VIA EMAIL TO RULE-COMMENTS@SEC.GOV

Ms. Elizabeth Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Money Market Fund Reform Proposals
File No. S7-11-09; Release No. IC-28807 (the "Release")

Dear Ms. Murphy:

The Dreyfus Corporation appreciates this opportunity to comment on the U.S. Securities and Exchange Commission's ("SEC") proposed amendments to certain rules and forms under the Investment Company Act of 1940, as amended (the "1940 Act") that affect money market mutual funds (collectively, the "Proposals").

The Dreyfus Corporation ("Dreyfus") is registered with the SEC as an investment adviser under the Investment Advisers Act of 1940. Dreyfus manages over $450 billion in assets, including approximately $260 billion in 51 domestic money market mutual fund portfolios that are structured within the confines of Rule 2a-7, with an additional $30 billion in offshore liquidity funds under management. Dreyfus is a subsidiary of The Bank of New York Mellon Corporation ("BNY Mellon"), a global financial services provider with over $920 billion in assets under management and over $20 trillion under administration and custody.

Dreyfus supports the SEC's stated goals of increasing the resilience of money market funds to market disruptions, reducing the risk of runs on funds, facilitating the orderly liquidation of a fund that has broken the dollar share price, and improving the SEC's ability to oversee money market funds. Dreyfus has reviewed each Proposal with a view toward supporting these core goals, balanced against the unique historic circumstances that precipitated these Proposals, as well as with a view toward preserving the characteristics of money market funds that have made them the cash management vehicle of choice among retail and institutional investors and a valuable source of funding to issuers.

Set forth immediately below is a summary of Dreyfus' comments on the Proposals, after which a more detailed discussion is provided in the corresponding sections. Then, in response to the SEC's request for additional comments, Dreyfus presents its views on the issues of a floating net asset value ("NAV") for money market funds and of requiring certain large money market fund redemption orders to be satisfied "in-kind." Again, we thank the SEC in advance for the time and attention to be given to these comments.

Summary of Comments.

A. Portfolio Quality.

1. We support limiting money market fund purchases to First Tier Securities.

2. We support limiting taxable money market funds ("Taxable Funds") to acquiring long-term securities (that have not received a short-term rating) that have received long-term ratings only in the highest two ratings categories. However, we do not support limiting tax exempt money market funds ("Tax Exempt Funds") in this manner, as it is unduly restrictive to such funds.

B. Portfolio Maturity.

1. While certain Dreyfus funds are managed under a 60-day maximum weighted average maturity ("WAM"), we believe the SEC should reconsider the necessity for reducing maximum WAM by one-third on a cost-benefit basis.

2. Similarly, while Dreyfus could manage to a maximum 120-day weighted average life maturity requirement ("WALM"), the SEC also should reconsider the cost-benefit of this proposal.

C. Portfolio Liquidity.

1. We support limiting money market fund purchases to "Liquid" securities.

2. We recommend that "Bank Time Deposits" be included in the proposed definition of "Liquid Assets" (the proposed definition does not appear to cover them).

3. We support Daily and Weekly Liquidity Standards for money market funds.

4. We support in principle having different Liquidity Standards for Retail Funds and Institutional Funds, based on the latter's apparent higher sensitivity to market disruptions and similar types of events, and the greater magnitude of their asset flows, but we do not support assigning the responsibility for classifying funds under these definitions to fund boards.

5. We support the proposed Daily and Weekly Liquidity Standards for Retail Funds and Institutional Funds, but we believe that lower thresholds would be suitable to meet the SEC's stated goals while preserving desirable flexibility for funds.

6. We do not support the proposed General Liquidity Standard because it could impart strict liability for unforeseen circumstances.

7. We support ensuring that fund sponsors responsibly manage fund net flows and, to that end, we would support requiring fund sponsors to adopt written procedures for managing shareholder purchase and redemption activity. We also would support a limited "know your customer" requirement (for liquidity management purposes only), and not one that is analogous to the suitability requirements to which broker-dealers are subject.

8. We support periodic stress-testing of money market portfolios, but we do not support assigning the responsibility for setting related parameters to fund boards.

D. Disclosure of Portfolio Holdings.

1. We support the monthly posting of a fund's Schedule of Investments on the fund's web site, but we do not support having to maintain postings for 12 months.

2. We do not support the monthly filing requirement of the new Form N-MFP, on a cost-benefit basis. Among those aspects of the Form filing, we do not support a two-day time-frame for filing and we do not support the Form's public disclosure.

E. Transaction Processing

1. We support generally the goal of ensuring that money market funds have the operational capacity to process share redemptions at prices other than $1 per share, but only to the extent it would help facilitate the prompt and orderly liquidation of a money market fund. Correspondingly, we would support requiring funds to adopt written procedures designed to facilitate the prompt calculation of shareholder account values and delivery of redemption proceeds in liquidation of a fund.

2. We do not support assigning to fund boards the responsibility for determining if funds have the capacity to meet the proposed transactional processing requirements.

F. Exemption For Affiliated Purchases

We support amending Rule 17a-9 as proposed.

G. Fund Liquidation

We support amending Rule 22e-3 as proposed and also would support expanding the board's authority to suspend redemptions under other exigent circumstances, in order to provide fund boards with additional flexibility to take prompt action to prevent a fund from breaking the dollar share price if, e.g., the board believes it to be "imminent."

H. Requests for Additional Comment

1. Floating NAV Money Market Funds. We do not support eliminating the ability of money market funds to utilize the amortized cost method of valuation. The SEC's stated goals can be achieved without extinguishing the key feature of money market funds that have made them the cash management vehicle of choice for retail and institutional investors.

2. Redemptions In-Kind. We would not support requiring money market funds to satisfy redemption requests in excess of a certain size "in-kind," due to the significant portfolio management and shareholder servicing issues involved. Fund sponsors should retain the discretion to utilize this flexibility.

Discussion of Comments.

A. Portfolio Quality.

Proposals. We support limiting money market fund purchases to First Tier securities. As a matter of internal policy, Dreyfus money market funds do not invest in Second Tier securities and have not done so since their respective inception dates.

The challenges raised by this policy, though, are illustrated currently in the case of California tax exempt money market funds. Dreyfus manages three California tax exempt money market funds totaling approximately $1.2 billion in assets. The funds' portfolio managers have been able to successfully manage the funds despite the second tier rating on California's state general obligations. The SEC may wish to consider whether some kind of exception to a complete bar on Second Tier securities is advisable for state-specific Tax Exempt Funds, to reserve some flexibility for such funds to be able to pursue their investment objectives if markets turned even more challenging.

We support limiting Taxable Funds to acquiring long-term securities (that have not received a short-term rating) that have received long-term ratings in the highest two ratings categories from the requisite Nationally Recognized Statistical Ratings Organizations ("NRSROs"), but we do not support this limitation for Tax Exempt Funds because it would remove a large universe of stable credits that Dreyfus' credit group currently deem to present minimal credit risk for purchase in Dreyfus Tax Exempt Funds. It is reasonable to believe that an adviser's credit analysts will continue to approve for investment (with a "top tier" internal rating) many A-rated issuers (particularly general obligation and essential service issuers) based on the determination that related issuances present "minimal credit risks." Moreover, owning these securities (which provide needed supply to Tax Exempt Funds) is consistent with maintaining the strong liquidity characteristics of such funds.

Request for Comment on these Proposals. We do not support eliminating the current references to NRSRO ratings in Rule 2a-7. A fund manager's independent credit risk determinations are necessary and critical to effective money market fund management. However, the Rule's current NRSRO references provide an important investor protection by maintaining a minimum credit review standard. Removing this floor would unnecessarily introduce new uncertainty and risk into the Rule and the money market fund industry. To the extent that the SEC is concerned about the adequacy of fund advisers' money market fund credit review processes, there are other mechanisms for encouraging advisers to dedicate additional resources to strengthening this capacity that do not create the undue risk associated with eliminating NRSRO references in Rule 2a-7.

The responsibility for selecting NRSRO ratings to use as part of the credit review process should continue to rest squarely and solely with the adviser, who is responsible for the credit review determinations overall. The adviser is in the best position to make these determinations, subject to prudent and effective fund board oversight. Accordingly, we do not support assigning the responsibility for designating and reviewing the specific NRSROs that the fund would look to under Rule 2a-7 to fund boards.

Finally, we believe that no further rules are required in order to address the risks associated with investment in structured investment vehicles (SIVs) or asset-backed securities (ABS). The credit issues that arose in 2007 only served to reinforce the basic understanding that the effective use of SIVs or ABS in money market funds is to be derived from strong credit review practices and a complete understanding of the risk, performance, and structural characteristics of those securities.

B. Portfolio Maturity.

Proposals. We believe that a maximum WAM of 60 days may serve to strengthen an already proven system. The various statistics cited in the Release regarding industry maturity averages[1] appear

[1] On pages 43-44 of the Release, it reads: *"The ICI Report recommended reducing the maximum weighted average maturity to 75 days. Historically, however, most funds have maintained shorter maturities. During the last 20 years, the average weighted average maturity of taxable money market funds (as a group) has never exceeded 58 days. As of June 16, 2009, it was 53 days. Some money market funds have, from time to time, extended their maturities substantially longer than the average to gain a yield advantage, anticipating declining or stable interest rates. By doing so, these funds assumed greater risk and would be more likely to experience losses that could result in their breaking the buck if interest rates rise, credit markets do not behave as they expect, or they receive substantial redemption requests."*

to drive the conclusion that funds managed to a longer average maturity present a higher systemic risk. From an interest rate risk perspective, the current 90-day maximum WAM is designed to allow for an immediate 150 basis point move in rates without causing a dollar problem, under most circumstances. Thus, while we acknowledge that WAM is a factor in overall liquidity management, we believe reducing maximum WAM by one-third is too severe on a cost-benefit basis. WAM alone was not the leading factor contributing to the market stresses in 2008. Rather, the problems in 2008 arose from a global seizure of the credit markets that attacked every financial product and financial firm with vigor.

The Release seeks to justify a maximum 60-day WAM from the fact that money market funds have "on average" maintained average maturities in the 53-day range. This logic presumes that the average is derived solely from active decision-making. However, it does not account for historical market conditions that may have driven the maturity decision-making process (as has been the case year-to-date) and it discounts the ability of a fund's adviser to add value for the benefit of money market fund shareholders without taking undue risk. We have long believed that, in appropriate market environments, prudent and successful money market mutual fund management calls for extending average maturity beyond 60 days, to the benefit and with the understanding of fund shareholders, in order, for example, to capture higher prevailing yields (or based on prevailing supply and demand conditions), all in a manner consistent with pursing the fund's stated investment objective. It is unfortunate that money market funds that historically may have been managed to longer average maturities from time to time now appear to be branded as "too risky" when it may also have been the case that the manager was simply adding value to the process without taking on undue credit or liquidity risks.

While several Dreyfus money market funds currently are managed under a maximum 60-day WAM (because it is a condition imposed by relevant NRSROs that have issued their respective top tier ratings to these Funds), we emphasize that we would not support a maximum WAM that is less than 60 days and that, while we were not a participant in the Investment Company Institute's (the "ICI") Money Market Working Group, the recommendation made in the Working Group's March 2009 report (the "Working Group Report") for a 75-day maximum WAM would appear to be a reasonable middle-ground. Finally, with respect to "rated" funds, there is the potential for NRSROs to impose a corresponding maximum WAM of lower than 60 days if Rule 2a-7 is amended as proposed. This would pose major systemic risk for all "rated" institutional money market funds, which dominate the industry.

Request for Comment on these Proposals. We believe that it is unnecessary to reduce the maximum maturity for an individual money market fund security to less than 397 days, given the SEC's other risk-limiting proposals, in order to further the SEC's stated goals.

C. Portfolio Liquidity.

Proposals. We support limiting money market fund purchases to "Liquid" securities. The only securities in which Dreyfus money market funds historically have earmarked for a fund's "illiquid basket" (at the time of purchase) were certain kinds of master and promissory notes that are not integral to the effective management of Dreyfus money market funds. However, we recommend that the definition of "Liquid Securities" refer to a security's market value, not amortized cost value, as this more closely reflects the transactional value of securities.

We also recommend that Bank Time Deposits ("TDs") be included under the proposed definition of "Liquid Assets," which are proposed to be defined as *cash, direct obligations of the U.S. Government, or securities that will mature or are subject to a demand feature that is exercisable and payable in one/five business day(s).*" The issue arises because TDs are not "cash", "government obligations," or "securities."[2] We believe that "Liquid Assets" properly should include TDs. They are commonly utilized by Prime Funds for overnight liquidity as an alternative to repo (mainly, when Treasuries are in short supply for repo collateral) and TDs have similar liquidity characteristics to repo. Accordingly, the proposed definition of Liquid Assets should be expanded to include TDs that mature within the requisite one or five days, as applicable.

We support generally the principles underlying establishing specific Daily and Weekly Liquidity Standards and concur that different liquidity standards may be appropriate for "Retail" and "Institutional" Funds, in recognition of the different sensitivity of institutional shareholders to market events and of the greater order of magnitude with which such shareholders move assets. We would have supported the consensus recommendations made in the Working Group Report for 5% and 20% Daily and Weekly Liquidity thresholds, respectively, for all money market funds. These standards appeared to offer a sufficient floor that would enable money market funds to endure high net redemption rates during periods of market stress.[3]

With respect to the proposed Daily and Weekly Liquidity Standards for Retail Funds and Institutional Funds, we could support the proposed percentage thresholds provided that such percentage requirements were applied "under normal circumstances." We are concerned with the challenges that a 30% threshold provides for Institutional Prime Funds. We believe the Rule should offer some flexibility to allow for fund managers to appropriately manage their funds without violating the Rule when market conditions either would not permit them to do so. This position is not inconsistent with other current rules under the Investment Company Act of 1940, as amended (e.g., Rule 35d-1), as it affords reasonable flexibility for unforeseeable circumstances and relies on the manager's fiduciary responsibility under those circumstances.

Separately, we are concerned that high liquidity thresholds will significantly increase the daily demand for Treasury securities, both for direct investment and as repo collateral (and perhaps for other types of "Liquid Assets" as well). While intuitively this may appear to be an enhancement for funds, such a shift also may have other potential negative consequences due to the changing supply and demand conditions for Treasuries and lower fund yields. We believe the SEC should consider carefully the incidental effects of establishing high percentage thresholds on portfolio management, shareholders, and the fixed income markets.

On the matter of classifying Retail Funds or Institutional Funds, absent the Rule offering an objective definition, we believe that the adviser (and not fund boards) is in a better position to account for the liquidity needs of each fund and should be assigned responsibility for this determination. Reasonable board oversight of this process, rather than assigning this responsibility to fund boards, is the more appropriate approach. Further, after the initial determination, only the adviser should have to formally make a subsequent determination regarding a fund if something material changes in its operations. A routine annual determination, for example, seems unnecessary.

We believe that the SEC also should provide guidance that good-faith business judgments underlying these determinations (by adviser or by fund board) will not be impugned. For example, like many of its competitors, many Dreyfus money market funds serve as "sweep vehicles." These types of funds can be classified as "institutional" because they sweep corporate cash, or they can be classified as "retail" in other cases because they sweep individual investor/corporate cash into brokerage accounts. Similar issues are raised in deciding how to classify a single fund that offers both "retail" and "institutional" share classes. The classification perhaps could hinge on which

[2] The clause "*securities that will mature or are subject to a demand feature that is exercisable and payable in one/five business day(s)*" seems to be intended to refer to daily and weekly variable rate demand notes ("VRDNs") only.

[3] While the Release notes that "institutional money market funds" lost $119 billion in assets during the week of September 17, 2008, this $119 billion represented approximately 5% of total institutional money market fund assets (based on assets totals reported in the August 5, 2009 issue of iMoneyNet's *Money Fund Report*).

classes have the majority of assets or it could be based on which type of shareholder has higher transactional activity.[4] Good faith determinations can be made that can produce different results for apparently identical products.

Accordingly, because good faith determinations can be made for certain funds being either Retail or Institutional Funds, the SEC should acknowledge that the Rule's Daily and Weekly Liquidity Standards may be applied differently to funds that may otherwise appear similar and provide guidance that a reasonable, good faith classification, properly documented and disclosed, will be honored. Similar guidance should be provided regarding potential challenges to the good-faith business judgments that would be applied to setting the parameters, assumptions, and frequency of portfolio stress tests, based on the same concerns.

While the proposed General Liquidity Standard may appear to embody the daily business practices of responsible money market fund portfolio managers and service providers who actively manage their cash flows, as proposed it threatens strict liability for the application of hindsight to subjective, non-quantifiable determinations. This proposal would require advisers to subjectively determine what constitutes *highly liquid assets...* [which are not "Liquid Assets"]*...sufficient to meet reasonably foreseeable redemptions.*" Despite Dreyfus' demonstrated history of managing portfolios that have had ample ready liquidity to meet investors' redemption demands, and Dreyfus' active communication with its shareholders in managing inflows and outflows (including prospectus disclosure which urges such mutual cooperation and communication), there is significant concern that this Standard would be enforced as a "gotcha" provision. As proposed, fund companies would be forced to negotiate (and be strictly liable and accountable for) future operating requirements where it is impossible to do so with any precision, particularly under an open-ended time frame.

To address these concerns, we believe the SEC should articulate how the General Liquidity Standard might have been applied historically (albeit, hypothetically) and how the SEC would assess funds under this Standard during the examination process. Would express criteria be applied to the analysis and would they be different under normal and stressful market conditions? How would *"reasonably foreseeable"* have been applied in September 2008 when the credit markets froze? How much deference would the SEC give to the adviser's determination of what is *"reasonably foreseeable?"*

The General Liquidity Standard also could pose serious shareholder servicing issues for the industry. It is quite common for fund companies to confirm to institutional shareholders that their money market fund portfolios are "structured within the confines of Rule 2a-7." If the General Liquidity Standard is adopted, it is unclear if funds will be able to continue to provide this confirmation because of the vagueness of the Standard. Often, the ability to provide this confirmation is material to an institutional customer selecting the fund for investment.

Further, as noted in the Release, we believe it is desirable for a fund, or its adviser or underwriter, to adopt policies and procedures that identify the redemption characteristics of its fund shareholders, and believes that the SEC can achieve its goals in this regard by codifying such a requirement in lieu of the General Liquidity Standard. Like many of our peers, we already actively monitor and manage daily net flows into Dreyfus money market funds and are able to successfully protect shareholder value as a result through our strong customer relationships. The SEC can reasonably expect that asking fund companies to formalize their existing practices (under a set of "*Money Market Fund Purchase and Redemption Activity Procedures*") would further the stated liquidity goals.

[4] For example, "sweep" money market funds can be found in both the Retail and Institutional Categories of iMoneyNet's *Money Fund Report®*. In addition, different share classes of the same fund can be found in these separate Categories.

Request for Comment on these Proposals. With respect to the liquidity needs and capabilities of Tax Exempt Funds, it has been our experience that while the volatility of net flows in Dreyfus Tax Exempt Funds generally has been less severe (on a comparable percentage basis) than for the Dreyfus Taxable Funds under normal market conditions, Dreyfus Tax Exempt and Taxable Funds experienced similar volatility of flows during the recent liquidity crisis. In times of increased market demand for money market funds, we have found that a fund's ability to reject purchase orders was of paramount importance in protecting fund yields and liquidity.

Further, the ability of a Tax Exempt Fund being able to meet a daily liquidity requirement is contingent upon there being a sufficient supply of daily VRDNs in the market. Because supply and demand conditions for VRDNs are not the same as for Treasuries, the ability of Tax Exempt Funds to be able to continuously meet a Daily Liquidity Standard is potentially more problematic.

D. Portfolio Holdings Disclosure.

Proposals. Since early in 2008, we have posted each Dreyfus money market fund's Schedule of Investments on www.dreyfus.com on a daily basis, with a one-day lag, and keeps each posting on the site for six months. Thus, to us, it seems excessive to have to maintain these Schedules on web sites for 12 months. On a semi-annual basis, funds prepare and deliver their "Section 30" financial reports to shareholders, which are publicly available through various sources and which contain the same information required to be posted monthly. Due to the rapid turnover of money market fund portfolios (which is noted in the Release and which would accelerate under a 60-day WAM), there is no compelling reason for continuing to publicly disclose stale portfolio holdings reports when an "updated" semi-annual financial report has been issued. A six-month requirement for maintaining this information on a web site would appear to be more than sufficient for transparency purposes with respect to a product with a maximum 60-90 day WAM.

We do not support proposed new Rule 30b1-6 under the 1940 Act on a cost-benefit basis. The burden associated with the monthly filing of the new Form N-MFP for every money market fund (which, for Dreyfus, would be 612 additional filings annually) outweighs the potential benefit when viewed against the multiple sources of related information already available to the SEC. The SEC already receives substantially the same portfolio information for money market funds annually, albeit separately, within the Form N-SAR, Form N-CSR, and Form N-Q (information from the latter two of which also already is posted on company web sites). If the SEC believes that the Form N-MFP provides a more convenient means for the SEC to gather consolidated information on money market funds, for its direct oversight purposes, then the SEC should consider providing a corresponding exclusion for money funds from existing duplicative filing requirements, to balance the cost-benefit burden. As to the Form N-Q in particular, the SEC should reconsider continuing to require money market funds to file a certified Form N-Q (if the Form N-MFP is adopted) when the Schedule of Investments would not be included. Because the Internal Control certification is expressly directed to the *"information required to be disclosed on Form N-Q"*, this would appear to be an inappropriate exercise to continue.

We also offer the following additional comments related to the Form filing. First, the time period for filing the Form should be more than two days. There appears to be no reason for pressuring firms that would have to file 50+ Forms on a monthly basis to have to do so within such a narrow time frame, where a 7-10 business day requirement would give fund companies the time needed to draw this information from its various sources, and compile and review it to ensure the accuracy of the associated filings, while not compromising the SEC's concern for timely disclosure. Also, even though we post portfolio information on www.dreyfus.com on a daily basis, that task is less burdensome than the accurate preparation of these 51 monthly Form filings would be.

Secondly, the Form should not be made publicly available. The information items contained in the Form generally are available in other, more meaningful sources for public consumption (e.g., fund financial reports and web sites). Further, the express acknowledgement in the Release that the information is mainly intended for use by third-party research firms is disconcerting.[5] Disclosure for the principal benefit of third-party research firms, and not individual investors, is excessive and beyond the appropriate scope of "transparency." Also, the expectation that third-parties will draw fair and accurate characterizations from raw statistical data provided without any context or controls is no higher than it would be for individual investors. This could result in the dissemination of inaccurate and negative characterizations of fund market value changes, with detrimental effects to funds and their shareholders.

Thirdly, while the items in the Form do not appear to constitute "confidential information", some modifications are recommended. Items 12, 13, 14, and 37 should be provided to the nearest cent, not to the nearest hundredth of a cent. Disclosing to four decimal places has little value and is inconsistent with how this data is otherwise disclosed to clients directly (which is to two decimal places). This would create confusion among investors who are accustomed to receiving this data to the nearest cent. The instructions to Items 16 and 17 should be clarified to note that the respective WAM and WALM calculations be made in the manner prescribed by the Rule and the Rule proposal, respectively. Item 20 should be eliminated because issuer CIK numbers are not generally maintained and are difficult to obtain. In fact, these numbers do not even exist for certain security types. The burden associated with tracking down this information for literally hundreds of securities is not justified given the limited value of such information. As to Item 38, it is noted that securities valued at amortized cost are uniformly considered "Level 2" securities. Even certain Lehman Brothers issues in the market continue to be classified as Level 2. Thus, we ask that the SEC recognize the limited value of requiring this information to be disclosed repeatedly for virtually all securities to be listed on the Form.

Request for Comment on these Proposals. We would not support public disclosure of information on client concentration levels[6] (beyond that which is disclosed in fund Statements of Additional Information) or market-based values (including the reasoning presented in the prior section) for several reasons. Ostensibly, these disclosures are designed to give insight into the likelihood, or the imminent risk, of a money market fund breaking the dollar price. Instead, this information would not appear to further the SEC's stated goals and is likely to be misinterpreted by investors.

We disagree with the view that the public disclosure of market values would give investors (particularly retail investors) greater understanding of whether a fund may be unable to maintain the $1 share price. To the contrary, we believe that in the overwhelming majority of cases short-term market value changes would have no predictive value on a fund's ability to maintain a stable $1 share price. When disclosed without proper context, this information is more likely to be interpreted irresponsibly and accelerate net outflows and a "run" on a fund.

Further, fund shareholders should not be invited to rely on data that may only reflect inconsequential daily price changes. Public disclosure of market values likely would increase shareholder servicing burdens needlessly, because such disclosures would create undue alarm and require fund service providers to have to explain, perhaps even on a daily basis, small inconsequential

[5] On page 81 of the Release, it reads as follows: *"Although the portfolio reports to the Commission are not primarily designed for individual investors, we would expect to make the information available to the public two weeks after their filing. We anticipate that academic researchers, financial analysts and economic research firms would use this information to study money market fund holdings and evaluate their risk information. Their analyses may further help investors and regulators better understand risks in money market funds."*

[6] Fund SAIs already disclosure client concentration levels and these disclosures are publicly available on fund company web sites and www.sec.gov.

market movements. In fact, it could be the case that a fund would be unable to adequately satisfy a shareholder's inquiry because it would require selective disclosure of holdings-related information.

E. Transaction Processing.

We generally support the SEC's goal of ensuring that money market funds have the capacity to redeem shares at less than the $1 share price. We believe the Rule should be amended to make this operational capacity a requirement, but only to the limited extent necessary to liquidate a fund and wind up its affairs. Because establishing this capacity on a comprehensive basis would be time-consuming and expensive, the requirement should be narrowly tailored to address the SEC's concern, as cited in the Release, over the operational limitations that contributed to the delays in redeeming shareholders accounts in the money market fund(s) that went into liquidation in September 2008. The SEC should consider if this Proposal is overbroad and if the goal of ensuring the capacity for fund companies to be able to promptly and accurately calculate account values and deliver redemption proceeds in liquidation of a fund can be achieved with a narrower and less costly requirement.

The Proposal also would facilitate shareholders being able to elect to redeem shares at a price of less than $1, a matter on which the SEC has requested comment, and which we do not support.[7]. This suggests further that the proposal may be overbroad. The focus here should remain on the narrow concern for promptly and accurately liquidating a fund and for not overextending fund companies to achieve that limited purpose, which goal can be achieved by requiring funds to adopt written procedures designed to ensure that, upon liquidation, fund accounts will be promptly and accurately valued and that proceeds will be promptly delivered. This would likely be a much less burdensome requirement than essentially requiring fund companies to maintain parallel accounting and processing system for their money market funds. Following this reasoning, the appropriate role for fund boards is to approve written procedures that facilitate this objective to oversee the implementation of those procedures if they in fact must ever be relied on. Fund boards are not in position to "determine" that a fund has achieved and maintains the requisite operational capacity.

F. Exemption For Affiliated Purchases

We support amending Rule 17a-9 as proposed. We agree that the authority granted by these proposals provides important flexibility for the benefit of fund shareholders.

G. Fund Liquidation.

We support amending Rule 22e-3 under the 1940 Act to exempt money market funds from Section 22(e) to permit funds to suspend redemptions in order to facilitate an orderly liquidation of fund assets. We believe that this authorization provides funds and their sponsors with a meaningful and important tool to manage a fund's asset flows and protect shareholder value. Consistent with the related views provided above, we believe that this authority is necessary to prevent a "run" on a fund while it implements an orderly liquidation, and also is important companion authority to have along with the operational capacity to effect redemptions at less than the $1 share price, because otherwise a fund would be compelled to allow shareholders to redeem shares at market value while a fund is in liquidation, again perpetuating a "first to the door" result.

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[7] Such an arrangement would be contrary to the fund sponsor's effective discharge of its fiduciary duty. Similar to the issue of requiring proceeds to be delivered in-kind for certain large shareholder redemption orders (see below), decision-making related to protecting the interests of fund shareholders should be left to the fund manager, to be executed in accordance with its fiduciary responsibility. Also, offering "choice" at the time of liquidation is merely something else that would just perpetuate a "run" on a fund.

We also would support a fund board's authority to suspend redemptions under other exigent circumstances, such as to prevent a fund from breaking $1 if the board believes it's imminent. Given the events of 2008, we believe that fund boards should be empowered to take those steps that, in their business judgment, are in the best interests of a fund and protecting shareholder value.

H. Requests for Additional Comment.

1. Floating Net Asset Value.

We strongly support pricing money market funds at $1 pursuant to the amortized cost method of valuation. While we generally have supported many of the SEC's proposals that seek to improve a money market fund's credit and liquidity risk profile in order to enhance its ability to withstand market stresses, we would not support proposals that compromise the integrity of money market funds as currently constituted and would not support eliminating the ability of the money market fund to be managed to a $1 share price.

Money market funds are the investment of choice for retail and institutional investors' cash management needs due to their unique combination of capital preservation, ready liquidity, and high current yields, all implemented under the umbrella of the dollar share price. Investor demand for this product should not be summarily dismissed. In particular, we note that money market fund industry assets are approximately $200 billion higher than on September 15, 2008, and that the fear that permeated the markets in 2008 did not facilitate a secular shift away from money market funds.

To assist in our consideration of this matter, Dreyfus (with the help of the relevant BNY Mellon affiliates) surveyed 37 of the largest shareholders in Dreyfus' institutional money market funds, who represent over $60 billion in fund assets, regarding the issue of a floating NAV versus a stable $1 NAV. These clients come from a cross-section of business lines within and across Dreyfus and BNY Mellon (e.g., broker-dealer sweep, asset servicing, corporate trust, cash collateral management, operating cash management).

<u>These clients first were asked two corollary questions</u>:

(1) "What role does safety of principal and a stable NAV play in your investment decision to utilize a money market fund?"; and

(2) "If a floating NAV was introduced, could your business continue to utilize money market funds as short term investment options?"

On question (1), 86% responded that a stable NAV was "very important" to their investment decision. Several of these respondents noted that operational issues associated with floating NAVs would virtually eliminate the money market fund as an eligible option for sweeping cash assets. On question (2), 67% responded that their business could not continue to invest in a floating NAV product and that they would have to seek an alternative investment option. Of these latter respondents, 50% said the reason was that they could not bear the principal risk associated with a floating NAV, 16% cited systems support obstacles, and 8% said that relevant investment guidelines prohibited it.

<u>Clients that responded "No" to question (2) also were asked</u>:

(3) "What investment alternatives would you seek and what business implications would you anticipate?"

Of these respondents, 28% said that they did not know what replacement product they would use, 25% said they would utilize insured bank deposits and free credit balances, and 28% said they would invest in other money market instruments directly (one-half of which said they would invest in Government securities only). These clients indicated that changing their investment from money market funds to direct investments could increase processing costs to the underlying clients and increase risk as some institutions admitted to not having the intellectual capital/experience to manage short-term investments.

Many clients also indicated that floating NAV products are in the market today, but that they do not use them because they do not provide the same flexibility, liquidity, or stability that fixed price money market funds offer. Other clients indicated that they have found some use for floating NAV products, but only to support their demand for direct investment in a longer duration product. These clients further indicated that floating NAV products are not their product of choice for operating or excess cash needs, which require same-day liquidity without capital gain/loss issues. They also indicated that floating NAV money market funds would be difficult to differentiate from other types of short-term mutual funds, which would possibly add confusion to their investment selection process.

We believe it is fair to conclude from these responses that institutions rely on money market funds for diversification, operational convenience, experienced money management, transparency, and cost control due to the scalability money market funds can achieve with large trade processing. While not part of our survey, it would seem equally fair to conclude that these benefits also serve the average retail money market fund investor.

<u>These clients were asked a fourth question, which was</u>:

(4) "Would you view a floating NAV money market fund as 'more risky'?"

In response, 83% of those surveyed indicated that they would consider a floating NAV money market fund "more risky." We note that the Release asks if a floating NAV would make money market funds more stable. Based on this response, we believe that a floating NAV would not make a money market fund more stable. Responses also indicated that a floating NAV would require a greater amount of due diligence in explaining variations in prices (as would be the case with publicly disclosed market values). Based on this information, we concluded that the time that would have to be spent on these due diligence requirements likely would cause some money fund providers to have to exit the business.

We wish to thank the Dreyfus institutional money market fund shareholders who participated in this survey for their generous time and support and for allowing their views to be shared with the SEC on this important topic.

With respect to the question posed in the Release regarding whether a change to a floating NAV would lessen systemic risk, we acknowledge that a system comprised exclusively of floating NAV money market funds should lower systemic risk. However, we also note that floating NAV money market funds would not be immune from "runs" and investors and issuers would not be immune to the consequent harmful effects of a run. Thus, replacing the fixed price money market fund with the floating NAV money market fund may only have different (but potentially as severe) consequences for financial services companies, markets, and the economy in times of market stress. We also believe that investor demand for floating NAV money market funds would be less than for fixed price money market funds.

Taken together, we believe that the opportunity to successfully introduce a "Rule 2a-7" floating NAV money market fund arises <u>as a companion offering</u> to the fixed price money market fund, and not as a replacement for a fixed price money market fund. Because we believe that the floating NAV money market fund would be less in demand than a fixed price money market funds, for many of the reasons already stated in this letter, it may be that the investment objectives and goals of investors who carry a paramount concern for high current yields and ready liquidity at any NAV, and who do not have the need for the operational conveniences afforded by fixed price money market funds, could be better served in a floating NAV money market fund. Of course, offering these two different kinds of money market funds side-by-side raises its own obvious issues, so we recommend that the SEC carefully pursue this analysis. <u>However, we reiterate our principal position, which is that we do not support eliminating the ability of money market funds to use the amortized cost method of valuation.</u>

Moreover, we caution against abolishing the $1 share price in the context of the events of September 2008, because in September 2008 *everything* was at risk, including FDIC-insured bank accounts. The collateral damage from the credit and liquidity crisis permeated the entire financial services industry and no entity was spared from the seizure of the credits markets. While money market funds were not immune from the credit crisis, they also were not the source for the crisis. We believe the lesson to be learned from September 2008 is not to eliminate fixed price money market funds, but to consider whether the liquidity needs of certain investors would have been better served in a product that would be an alternative to a money market fund - but not a replacement to a money market fund – and whether this would have reduced systemic risk. To this end, the SEC should carefully consider how the allocation of institutional investment among fixed price and floating NAV money market funds will serve the investment community and efforts to alleviate systemic risks.

As an aside, we note that the seizure of the credit markets would have impacted both a fixed price and a floating NAV money market fund with equal severity, and the ability of either type of fund to accommodate substantial net redemptions most likely would not have been any different. As evidence, we suggest that the SEC also consider the extent to which "Rule 2a-7 like" unregistered products (which have existed in the market for over 30 years) withstood the 2008 market stresses compared with 1940 Act money market funds. We further note that such "Rule 2a-7 like" money market funds have never achieved the broad acceptance that fixed price money market funds have achieved, and we suggest the SEC consider the impact of extinguishing the source of this acceptance.

2. **<u>In-Kind Redemptions</u>.**

We do not support requiring redemptions that exceed a certain amount to be satisfied in-kind, due to the portfolio disruption and shareholder servicing issues that can be associated with such a step. Not only is this idea contrary to the basic liquidity characteristics of money market funds (characteristics which ostensibly will be enhanced with these proposals), but also to a fund manager's basic fiduciary principles. Faced with the possibility of receiving redemption proceeds in kind may precipitate a run on a fund if investors believe they musr "get out now" before their cash investment is redeemed to them in securities. Large institutional investors with large investment amounts might eschew money market funds altogether if faced with the likelihood that their investment would only be redeemed in-kind. In-kind transactions also would impose complex pricing, valuation, cost, and operational issues on both the fund and on investors who receive them. Ultimately, we believe prudent fund management requires that the fund's adviser retain the flexibility to determine the appropriateness of delivering redemption proceeds in cash or in-kind (presuming the fund has made the requisite election to be able to do so). The adviser must retain this flexibility in order to most effectively discharge its fiduciary responsibility to all shareholders in a fund.

Like a floating NAV, delivering redemption proceeds in kind is antithetical to the characteristics that make money market funds so popular. However, to follow on our prior comment, it may be that in the context of a floating NAV money market fund, in-kind redemptions would have more reasonable application and perhaps should be considered in the "product development" for that kind of fund.

If you have any questions or require additional information, please do not hesitate to contact me at (212) 922-6680. Also, you may wish to contact John B. Hammalian, Managing Counsel, at (212) 922-6794 or at hammalian.j@dreyfus.com.

We thank you for your attention and consideration.

Sincerely,

J. Charles Cardona

J. Charles Cardona
President
The Dreyfus Corporation