FTAM
FIFTH THIRD ASSET MANAGEMENT

September 8, 2009

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

Re: Response to Release No. IC-28807; File No. S7-11-09

Fifth Third Asset Management, Inc. (hereinafter "FTAM") appreciates the opportunity to comment on the Securities and Exchange Commission's (hereinafter "Commission") proposed amendments to Rule 2a-7 (hereinafter "the Rule"), Rule 17a-9, Rule 30b1-5, and proposed Rules 22e-3 and 30b1-6 of the Investment Company Act of 1940.

We commend the Commission in its effort to create a regulatory framework designed to protect investors.[1] We generally agree with the Commission's proposed amendments concerning portfolio quality, portfolio maturity, portfolio liquidity, and diversification. We believe the proposed changes will strengthen the financial stability of money market funds and reduce the systemic risks to the industry. However, we believe that some of the proposals are excessive, overly burdensome and do not further the Commission's goal of investor protection. Additionally, as discussed throughout, we have some concerns about the unintended consequences associated with effectively implementing portfolio and non-portfolio management proposals.[2]

In the discussion that follows, we provide comments and perspective relating to the proposed Rule as well as recommended alternatives that we believe more effectively and efficiently accomplish the Commission's stated goals. We respectfully request that the Commission consider these comments, as we believe that they set forth a more reasonable

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[1] The Commission's draft proposal contains many elements designed to (1) tighten the risk-limiting conditions of the Rule by requiring funds to maintain a portion of their portfolio in instruments that can be readily converted to cash, reducing the weighted average maturity of portfolio holdings, and limiting funds to investing in the highest quality portfolio securities; (2) require money market funds to report their portfolio holdings monthly to the Commission; and (3) permit a money market fund that has "broken the buck" to suspend redemptions to allow for the orderly liquidation of fund assets.

[2] For example, we ask that the Commission carefully weigh all comments and consider the Rule's impact on money market yields. Without careful analysis of the market impact, the Commission's actions may have the unintended consequence of lowering yields, resulting in a more homogeneous product. This will inevitably cause market consolidation and disintermediation to other higher yielding, and sometimes less regulated, investment alternatives. Additionally, we ask the Commission to take into account the administrative and/or operational proposals centered on the stress tests and portfolio disclosures that may increase the overall cost structure of the fund, result in industry consolidation, and reduce the competitive landscape.

approach for limiting money market fund risks without unnecessarily impacting the viability of the money market fund industry and the U.S. capital markets.

<u>I. Liquidity</u>

Generally speaking, we do not oppose the Commission's efforts to increase investor protection by amending or adding certain liquidity requirements. However, there appear to be gaps in the Commission's proposal with no acknowledgment of funds' existing liquidity determination policies and procedures. We ask that the Commission clarify that funds' current liquidity determination procedures are not affected by the proposed rule. For example, does the proposed Rule affect the current manner in which the board determines that certain restricted securities are liquid, such as Section 4(2) commercial paper and Rule 144A securities?

Additionally, FTAM disagrees with the Commission's proposed creation of different regulatory thresholds for retail and institutional funds. FTAM believes that the Commission should apply a single, consistent standard to all money market funds. Requiring a board to determine whether a fund is retail or institutional does little to further the Commission's liquidity objectives.[3] Given that the distinction between retail and institutional is vague at best, having two standards would not necessarily protect against a run on a fund.

We recommend that the Commission develop a different framework to achieve its liquidity objectives. For example, we recommend that the Commission develop a 10% minimum daily liquidity standard for all funds. Similarly, we recommend a 25% minimum weekly standard for all funds. In addition to these minimum liquidity requirements, money market funds should be required to maintain higher liquidity levels based on certain risk characteristics and stress testing results.[4]

As stated above, FTAM disagrees with the Commission's proposal that requires a board to distinguish between retail and institutional funds. However, if the Commission requires boards to make this determination, we ask that the Commission set forth specific standards that boards should utilize in performing their analysis. Without a minimum set of standards, there is increased risk that each fund (or board) takes a different approach in making its determination.

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[3] There are several reasons why creating a bright-line between retail and institutional investors would do more harm than good. As some commentators have suggested, many funds include a substantial combination of both types of investors. For example, retail investors may invest in institutional share class such as 401(k) plans or broker or bank sweep accounts.

4 We agree with the proposal to require funds to continually evaluate risk characteristics (stress testing) that may potentially affect its liquidity requirements and to retain higher levels of liquidity when deemed necessary. However, we believe that liquidity stress testing requirements should be included in determining specific fund liquidity requirements under Rule 2a-7(c)(5)(iii) and (iv) ("Portfolio Liquidity") rather than separately under Rule 2a7(c)(8)(ii)(D)(1) ("Required Procedures: Amortized Cost Method").

Differing standards may cause confusion among investors and ultimately, may hinder the Commission's efforts to mitigate systemic risks.

In addition to the foregoing, we ask that the Commission clarify the definition of "daily liquid assets" (proposed Rule 2a-7(a)(8)) regarding the expectation that securities can be readily converted to cash within one day (proposed Rule 2a-7(c)(5)(iii)). It is unclear whether the one-day requirement implies a same-day settlement or a next-business-day settlement. Therefore we ask that the definition address this distinction.

Finally, we disagree with the Commission's proposal to amend Rule 38a-1 to include the adoption of policies and procedures to assure that appropriate efforts are undertaken to identify risk characteristics of shareholders. We believe this requirement should be specifically incorporated into the Rule 2a-7's liquidity requirements and not within Rule 38a-1.

II. Disclosure of Portfolio Information on Website

Generally speaking, FTAM agrees with the Commission's proposal to require monthly website postings of a fund's schedule of investments. However, we are concerned that the Commission's proposed two-business-day standard does not properly account for operational and technological requirements needed to comply with this Rule. We recommend that the Commission allow funds five business-days in which to publish its monthly portfolio holdings information. Additionally, we strongly recommend against requiring the reporting of market-based valuations. Providing this information may result in unintended consequences such as creating unnecessary liquidity and volatility concerns among investors. It may also create an advantage for sophisticated investors who may benefit from this information at the expense of less sophisticated retail investors. As currently written, Rule 2a-7 prescribes sufficient standards for funds that follow the amortized cost valuation method.

We also ask the Commission to reassess its recordkeeping requirements under proposed Rule 2a-7(c)(12). The Commission's twelve-month retention requirement seems unnecessarily burdensome and potentially confusing to investors. We suggest the Commission adopt standards similar to what is currently required for disclosure of portfolio holdings.[5]

III. Reporting to the Commission

Given recent events, we see merit in funds providing certain information to the Commission on a routine basis. However, we believe the Commission's proposal is unduly

[5] *See*, e.g. SEC Final Rule Release regarding Disclosure Regarding Market Timing and Selective Disclosure of Portfolio Holdings (Release Nos. 33-8408; IC-26418; File No. S7-26-03) wherein Instruction 3(b) to Item 11(f)(2) of Form N-1A requires a fund to display portfolio securities information on its website until it files Form N-CSR with the Commission (i.e. filed on a semi-annual basis).

burdensome, costly and is not an efficient approach for monitoring systemic risks.[6] Rather, we recommend that the Commission re-evaluate its reporting requirements by specifically considering the following recommendations:

- Permit funds at least five business days to provide required information. The Commission's two-business day proposal fails to consider operational and technological requirements needed to perform such reporting. Additionally, for most advisers, this period is usually the busiest time of the month.

- All money market fund information reported to the Commission should be kept confidential and should not be released to the public. The transparency the Commission seeks will be accomplished via the public reporting requirements under Rules 12-2 and 12-14 of Regulation S-X. If the Commission decides to make additional information available to the public, we suggest that these reporting requirements be reviewed in a different context and not within this proposed Rule.

- The Commission should re-evaluate the fifteen or more proposed reporting requirements under proposed Form N-MFP as they appear excessive and costly. We do not believe that the Commission should seek information that exceeds what money market fund boards are required to review under the current or proposed Rule. Instead, we recommend that the Commission adopt risk-based reporting requirements. This approach would limit the administrative and operational impact on money market funds while also improving the Staff's monitoring capability. Alternatively, if, in addition to risk-based reporting, the Commission deems it necessary to capture certain basic information on a routine basis, we recommend that routine Form N-MFP information be consistent with the proposed monthly data to be made available on the fund's website.

IV. Processing of Transactions

We appreciate the Commission's intent under proposed Rule 2a-7(c)(1) (share price calculations) but we question its practical effectiveness. It is widely known that only two money market funds have ever "broken the buck." Such an event is catastrophic; its specific facts and circumstances cannot be anticipated and/or properly tested. We believe that the Commission's proposed requirement will have no impact on a fund's ability to process shareholder transactions in a timely manner. We agree with the Commission's intent to suspend redemptions under proposed Rule 22e-3 and we believe that it is more appropriate for money market funds to establish contingency procedures under Rule 22e-3, including standards for (1) calculating the NAV at market-based values; (2) involving the board of directors; and (3) notifying the Commission. We request that Commission eliminate proposed Rule 2a-7(c)(1).

[6] Such monitoring efforts presume that the Commission can develop and maintain a central database to provide proactive oversight of money market funds and current systemic risks.

If the Commission elects to adopt 2a-7(c)(1), we request that the Commission provide specific standards that fund boards should use to evaluate a fund's operational capacity to redeem and sell its securities at the market-based NAV.

V. Request for Comment

We appreciate the opportunity to respond to some of the inquiries posed by the Commission throughout the Proposed Rule. As it relates to the notion of a floating net asset value, FTAM disagrees with this approach and strongly supports the continuation of the stable money market fund NAV. Any change from a stable to a floating NAV will likely cause significant adverse affects on the money market fund industry, U.S. capital markets, and money market fund investors.

Additionally, while we agree conceptually with the Commission's suggested in-kind redemption requirements, we believe that such a requirement creates operational challenges as well as potential unintended consequences to money market investors and the U.S. capital markets. We recommend that the Commission work with the industry to develop in-kind redemption best practices. Having the ability --not a mandate-- to redeem in-kind may provide additional defense to certain liquidity risks.

VI. Conclusion

Although the portfolio management proposals will provide a more conservative investment management framework, these proposals do not represent a significant shift from reality as most money market funds, especially rated funds, were already in compliance with the proposed regulations in September 2008 prior to the government support. While we applaud the proposed rule changes, systematic risk cannot be completely eliminated based on the current proposals. The money market industry will continue to be faced with the most critical risk: the liquidity risk borne by the sponsors created by the mismatch between the daily liquidity required by shareholders versus the duration of the portfolio holdings.

If you have any questions or concerns, please do not hesitate to contact FTAM's Chief Compliance Officer, James Mautino, at (513) 534-7452.

Respectfully submitted,

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