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February 11, 2013

Mr. Norm Champ, Director
Division of Investment Management
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: Proposal to Enhance Board Oversight of Money Market Funds

Dear Mr. Champ:

I am writing to follow up on a matter that J. Christopher Donahue, Chief Executive Officer and President of Federated Investors, Inc. ("Federated"), [1] and I discussed with the Commissioners and their staff during our recent meetings on January 16, 2013. The matter relates to possible reforms to the responsibilities of the board of directors or trustees (a "Board") of a money market fund (a "MMF") and their ability to suspend redemptions by its shareholders (sometimes referred to as "gating"). Enclosed with this letter is a detailed term sheet outlining our proposed reforms (the "Term Sheet"). We would appreciate the staff considering these reforms in connection with any proposal regarding further revisions to MMF regulations that may be under consideration by the Division of Investment Management (the "Division").

As you are aware, Federated has consistently opposed proposals that would alter the fundamental character of MMFs. These include proposals that would:

- limit the daily liquidity of MMFs (such as requiring shareholders to maintain a minimum account balance or holding back a percentage of each redemption),
- shift the risk of loss from a MMF's shareholders to third parties, the fund's sponsor or to those who recently redeemed shares (such as requiring funds to create subordinated securities or sponsors to hold capital against fund assets), or
- prohibit MMFs from seeking to maintain a stable net asset value per share ("NAV") through the amortized cost or penny rounding method by requiring MMFs to calculate a floating NAV.

The docket for comments on the President's Working Group on Financial Markets' study of possible money market fund reforms (the "PWG Report") contains numerous comment letters

[1] Federated is one of the largest investment management firms in the United States and the third largest manager of money market funds, managing $285 billion in money market fund assets and $380 billion in total assets as of December 31, 2012.

from or on behalf of Federated explaining the basis for our opposition to such proposals. [2] We remain convinced that the object of these proposals—the reduction in the systemic risk to the U.S. financial system that might result from a run on MMFs—is misguided, insofar as MMFs have not been shown to be a source of systemic risk and the proposals would more likely result in the elimination than in the improvement of MMFs.

Federated supports the study of proposals that might truly improve MMFs by better protecting their shareholders. This is why Federated generally supported the reforms adopted by the Commission in 2010. As the Division of Risk, Strategy, and Financial Innovation has shown, in a report dated November 30, 2012, responding to questions posed by Commissioners Aguilar, Paredes and Gallagher regarding money market funds (the "RSFI Report"),[3] these reforms greatly increased the resiliency of MMFs. It seems axiomatic to us that reforms designed to increase the resiliency of MMFs and better protect their shareholders will reduce overall risks in the U.S. financial system.

The RSFI Report's most critical (if unacknowledged) finding is that most MMFs have maintained a stable NAV for years, many for decades, without any support from their sponsors. This finding is a corollary to the limited number of MMFs identified in the RSFI Report as having been subject to events that prompted sponsors to support, or consider supporting, their MMFs. The RSFI Report confirms that threats to a fund's stable NAV are rare exceptions, while daily liquidity at a constant $1 share price is the rule. There is no justification for reforms that would treat MMFs as constantly threatened with breaking a dollar.

When considering possible reforms, it is also essential to keep in mind the PWG Report's advice that "[a]ttempting to prevent any fund from *ever* breaking the buck would be an impractical goal that might lead… to draconian and—from a broad economic perspective—counterproductive measures …." This suggests that the Commission and other financial regulators should accept the possibility that some MMFs will infrequently break a dollar. Rule 2a-7's stringent risk controls already assure that breaking a dollar will be a rare occurrence that should not produce significant losses to shareholders. The findings of the RSFI Report suggest that further reforms would not reduce the risk of breaking a dollar to any appreciable extent.

If additional reforms cannot alter the intrinsic risk of MMFs (other than by eliminating them as a viable investment alternative for cash), the most reasonable objective of any further reforms would be to mitigate the consequences of a MMF breaking a dollar. Several of the 2010 reforms served this objective. For example, MMFs must have the operational capacity to break a dollar, which should reduce the disruption to shareholders. New Rule 22e-3 gives the Board the option of suspending redemptions while the MMF is liquidated, to prevent a "fire sale" of the portfolio. Increased transparency has reduced the risk that one MMF breaking a dollar might lead to redemptions by shareholders of other MMFs due to uncertainty regarding their holdings or

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[2] Release No. IC-29497, President's Working Group Report on Money Market Funds (Nov. 3, 2010), available at http://www.sec.gov/rules/other/2010/ic-29497.pdf.

[3] The RSFI Report is available at http://www.sec.gov/news/studies/2012/money-market-funds-memo-2012.pdf.

financial condition. To the extent that shareholders do react to another fund breaking a dollar, all MMFs must now have substantial liquidity buffers to handle heavy redemptions, which should reassure their shareholders.

The reforms proposed in the Term Sheet are intended to further mitigate the consequence of a MMF breaking a dollar and to promote the equitable treatment of its shareholders. The Term Sheet begins by defining various indicators of potential threats to a MMFs' ability to maintain a stable NAV (termed "Trigger Events"). As noted in the Term Sheet, Rule 2a-7 already specifies several circumstances that require a Board's consideration. Federated proposes to expand the list to include circumstances in which the fund's liquidity may be impaired, the market price of a security may reflect more than minimal credit risk, or the fund incurs more than de minimis realized losses. These conditions would alert the Board to an elevated risk of shareholders running from the MMF or to an incipient run by its shareholders.

Next, the Term Sheet establishes the consequences of a Trigger Event. Rule 2a-7 currently provides for two general alternatives: either the condition is resolved by disposing of the affected portfolio securities or the Board meets to decide what action, if any, should be taken. This might be viewed as a "soft trigger," in that the event does not require any response from the Board. The virtue of this approach is that it leaves the Board free to exercise its fiduciary responsibility to the fund's shareholders. The Board may choose to have the fund break a dollar, to accept an offer of support from the sponsor or to determine whether other action is appropriate in light of evolving circumstances. The effectiveness of this tool is clear: 1) it prevents runs; 2) eliminates first mover advantage; 3) avoids "fire sale" disposition of portfolio securities; and 4) provides the adviser and Board needed time to find the best solution for the situation. The combination of a Putnam MMF with a Federated MMF during the financial crisis in September 2008 illustrates the creative solutions that may be devised by leaving the response to the Board's discretion.

Other members of the MMF industry have proposed "hard" triggers: objective events that would *require* a MMF to take a specific action, such as imposing redemption fees, temporarily suspending redemptions or even breaking a dollar. The behavior of structured investment vehicles ("SIVs") and other types of asset-backed securities ("ABS") during the recent financial crisis cautions against reliance on hard triggers. The terms of many SIVs included conditions (such as downgrades of portfolio securities) that triggered "enforcement events" requiring liquidation of the portfolio and winding up the SIV. These terms created a risk of fire sales when several SIVs experienced enforcement events simultaneously late in 2007.

Other forms of ABS included terms that triggered the subordination of one class of securities to another under certain conditions (such as excessive delinquencies on the underlying financial assets). These subordinate securities suddenly became worthless as a result of relatively small changes in the delinquency rate or other performance factors. This form of sudden and discontinuous risk caused the market for these subordinated ABS to "freeze up" during the summer of 2007.

The Term Sheet proposes an intermediate response to a Trigger Event. Initially, the Term Sheet continues the current practice of treating events as soft triggers: only requiring the Board to meet (in person or by phone) to review the Trigger Event and decide if any response is

appropriate. If conditions become more severe, however, the Board would be required to take some appropriate action in response to the event. The Term Sheet defines these more severe conditions as “Mandatory Action Events.” The action taken would remain in the discretion of the Board, but the Board would no longer have the option of waiting for further developments. This could produce a “hard” consequence for a Mandatory Action Event without specifying exactly what the consequence must be.

Finally, the Term Sheet proposes to give the Board more time to decide how to respond to a Trigger Event. Under current mutual fund pricing regulations, the Board must decide whether to break a dollar before the end of the business day on which a Trigger Event occurs. Forcing the Board to make critical decisions under such a tight deadline limits the options that the Board can consider and increases the risk of an ineffective or erroneous response. It may even create a conflict for the Board if a course of action that is clearly in the best interests of shareholders cannot be completed within the required period.

The Term Sheet would reduce this risk by allowing the Board to suspend redemptions for a brief period so the Board has a reasonable opportunity to obtain information and explore alternative responses. Each shareholder could continue to redeem amounts up to a fixed dollar limit in order to limit the disruptions that the temporary suspension may produce. Although the Term Sheet uses a suspension period of up to ten days for purposes of illustration, fixing the maximum term of the suspension will require the Commission to balance the Board’s interest in seeking the best outcome for shareholders against disruptions to the payment system and shareholder liquidity produced by suspending redemptions. Allowing redemptions up to a limited dollar amount would mitigate the impact of the suspension, but would also give shareholders with balances under the limit a “first mover advantage” over larger shareholders. The Commission will need to strike an appropriate balance among these competing interests when crafting a reform proposal.

We look forward to discussing this proposal at your meeting with our general counsel on February 19, at which time we can discuss the range of appropriate Trigger Events and responses that a Board might consider. Even if the Commission decides not to adopt this specific proposal, Federated strongly believes that this represents the best general approach to reform. That is to say that reform proposals that seek to identify when a fund is at risk and require a prompt and appropriate response to the risk are clearly preferable to reforms that would alter the fundamental nature of MMFs even when no risks are present. Various proposals from other industry members, such as HSBC, Blackrock and the ICI, also use this same approach. This suggests that a consensus might be built around reforms based on this general approach.

Please feel free to contact us if you have any questions or require additional information relating to our proposal.

Yours very truly,

/s/ John W. McGonigle
John W. McGonigle, Vice Chairman

cc: Chairman Elisse B. Walter
Commissioner Luis A. Aguilar
Commissioner Daniel M. Gallagher
Commissioner Troy A. Paredes
Mr. Craig Lewis, Director of the Division of Risk, Strategy, and Financial Innovation

February 11, 2013

Enhancement of Board Oversight to Protect Shareholders from Potential Threats to a Money Market Fund's Stable NAV

Overview of Proposal

Proposals to require money market funds ("Funds") to continually hold back or otherwise limit the redemption of their shares are unnecessarily broad and harmful to shareholders. There is no reason to continuously restrict redemptions if there is a system to assure equitable treatment of shareholders in the event of a threat to a Fund's stable net asset value per share ("NAV").

Money market fund boards ("Boards") have specific responsibilities under Rule 2a-7 to assure the protection of shareholders. Instead of focusing on discredited proposals that do not further the regulatory goal of preventing runs, the Commission should consider enhancements to Board oversight of Funds to assure that appropriate actions are taken if needed to mitigate the risk of run by the shareholders and avoid any "first mover" advantage.

1. One such enhancement could be to expand the events ("Trigger Events") under which Rule 2a-7 requires a Board meeting to determine whether a Fund should continue to maintain, or should take some action to assure it continues to maintain, a stable NAV. For example, Boards are not currently required to consider action where a Fund's weekly liquid assets drop below a certain amount, but this type of circumstance could be added to the list of events requiring Board consideration.

2. Another could be to require the Board to take action in response to a subset of Trigger Events ("Mandatory Action Events"). For example, Rule 2a-7 currently requires the Board to meet and consider what action should be taken in response to a deviation in the shadow price of ½¢ or more below $1.00, but does not require the Board to take any action. The Commission could amend its rule to require some action to protect shareholders in this circumstance.

3. In addition, while currently the only course of action for a Board that suspends redemptions is to liquidate a Fund, the Commission could authorize the Board, in response to a Trigger Event, to temporarily suspend redemptions in excess of a certain dollar amount (the "Redemption Limit") while the Board explores responses to the Trigger Event. This would allow a Board to explore options that may be more beneficial and less disruptive to shareholders than liquidation of a Fund or breaking a dollar.

TRIGGER EVENTS

Current Trigger Events Rule 2a-7 requires the Board to meet and consider what action, if any, should be taken in response to (1) a Fund's NAV based on estimates of its portfolio's current market value (its "shadow price") deviating by more than ½¢ from $1.00 or (2) a deviation in the shadow price that may result in material dilution or other unfair results to investors or existing shareholders. In addition, if a security: (a) defaults, (b) is subject to an event of insolvency, (c) no longer qualifies as an eligible security or (d) is determined to no longer present minimum credit risks, then the Fund must "dispose of such security as soon as practicable consistent with achieving an orderly disposition of the security … absent a finding by the [Board] that disposal of the portfolio security would not be in the best interests of the [Fund]."

Comments *Although the security specific current trigger events require a Board meeting only if the Fund does not dispose of the security, in practice, Funds regularly call Board meetings to review these events and determine an appropriate course of action.*

Additional Trigger Events The Board could be required to meet and consider responding to events short of a Fund needing to break a dollar or a portfolio default. These additional Trigger Events are described below.

Comments *Since the goal should be to enable a Board to act before any first-mover advantage develops, Trigger Events should be based on information that is not publicly available, so that shareholders cannot try to redeem in anticipation of the Board acting. Trigger Events should also not be so severe as to possibly warrant public disclosure prior to the Board meeting*

1. The Fund's Weekly Liquid Assets would be less than 10% of its Total Assets, after taking all pending portfolio transactions into account.

Comments *A large amount of redemptions should not require Board action, so long as the manager anticipates the redemptions and increases the Fund's liquidity. A large reduction in liquidity due to unanticipated redemptions may warrant Board review, however.*

2. The shadow price of a portfolio security is less than 95% of its amortized cost.

Comments *A significant decrease in a portfolio security's market value indicates a market perception of deterioration in its credit quality. Additional Board oversight of the manager's minimum credit risk determination may be appropriate in this circumstance.*

3. The Fund's net realized losses exceed 25 basis points of its net assets.

Comments *Temporary fluctuations in a Fund's shadow price will rectify themselves quickly without the need for Board action. Net realized losses, in contrast, will continue to reduce the shadow price unless the Fund takes appropriate action. This would also encourage managers to realize offsetting gains whenever possible, so as to avoid a build-up of realized losses that might trigger a Board meeting.*

Reporting Trigger Events A Fund would report the occurrence of any Trigger Event to the Division of Investment Management within one business day, and would report the Board's response to the Trigger Event within three business days, of its occurrence.

Comments *This will alert the Division to Trigger Events and allow it to monitor the Board's response.*

MANDATORY BOARD ACTION

Mandatory Action Events The Board would be required to take some action in response to particularly significant Trigger Events. These Mandatory Action Events might include the following:

1. The Fund's Weekly Liquid Assets would be less than 7.5% of its Total Assets, after taking all pending portfolio transactions into account.

Comments *This would represent a significant depletion of the Fund's liquidity.*

2. A default on a portfolio security that exceeds ½% of the Fund's Total Assets.

Comments *Defaults are public events, and therefore likely to prompt redemptions if the Board does nothing in response.*

3. The Fund's net realized losses exceed 40 basis points of its net assets.

Comments *A large net realized loss may bring a Fund to the verge of breaking a dollar.*

4. The Fund's shadow price falls below $0.995.

Comments *Although Rule 2a-7 currently does not require the Board to act in this event, it is unlikely that the Board would do nothing in response. Setting a trigger higher than $0.995 would be the same as reducing the maximum permitted deviation in the shadow price.*

Potential Responses

In response to a Mandatory Action Event, the Board must take one of the following actions that it determines would be in the interest of shareholders:

1. Stop using the amortized cost or penny rounding method to maintain a stable $1 share price, and calculate a fluctuating share price in accordance with Rule 2a-4;
2. Adopt a plan of liquidation and suspend redemptions in compliance with Rule 22e-3;
3. Temporarily suspend redemptions in excess of the Redemption Limit for a period not to exceed 10 business days (the "Suspension Period"); or
4. Take other actions (which may occur during the Suspension Period) reasonably designed to assure that the Fund continues to maintain a stable $1 share price notwithstanding the Mandatory Action Event (such as a Rule 17a-9 transaction or other form of external support, merger with another money market fund, redemption in kind, restricting investment of new cash flows to highly liquid investments such as Daily Liquid Assets, a communication plan to correct reports causing unwarranted shareholder concerns or other appropriate steps).

TEMPORARY SUSPENSION OF REDEMPTIONS

Authority to Impose Temporary Suspension of Redemptions

In response to a Trigger Event, the Board may direct the Fund's transfer agent to suspend redemptions in excess of the Redemption Limit. The transfer agency could accomplish this by placing a hold on each account for amounts in excess of the Redemption Limit.

Intermediaries authorized to maintain subaccounts on behalf of the Fund would be permitted to redeem shares up to the Redemption Limit from each subaccount. Intermediaries would be required to provide a reconciliation showing compliance by their subaccounts with the Redemption Limit in order to redeem shares from their master account with the transfer agent in excess of the Redemption Limit.

Comments

Temporary suspension of redemptions will give the Board time to explore alternative responses to a Trigger Event and implement the response that is in the best interest of shareholders. Permitting redemptions up to a Redemption Limit would mitigate any impact on the payment system, as most checks and debit payments drawn in the ordinary course should come within the limit. The reconciliation process for subaccounts should assure that all shareholders are treated equally.

This approach favors smaller shareholders over larger shareholders, as smaller shareholders may be able to redeem all or most of their account without exceeding the Redemption Limit, and thereby avoid any eventual loss. Nevertheless, the Redemption Limit appears to be a better approach than sus-

pending redemptions entirely (which would maximize the disruption to the payment system) or imposing a percentage limit on redemptions (which would be more complicated to calculate and would require some form of subordination or redemption fee so redeeming shareholders continue to bear their share of any ultimate loss).

Termination of the Suspension At or before the end of the Suspension Period, the Board must determine whether:

1. If the Trigger Event is resolved without a material loss, to find that the amortized cost or penny rounding method continues to fairly reflect the market price of the fund's shares, and resume redemptions at a stable price per share; otherwise,

2. To stop using the amortized cost or penny rounding method to maintain a stable $1 share price, and calculate a fluctuating share price in accordance with Rule 2a-4; or

3. To suspend redemptions entirely and adopt an irrevocable plan of liquidation for the Fund.

SEC Imposed Suspension During the Suspension Period, the SEC could exercise its authority under Section 22(e) to declare an emergency or issue orders extending the Suspension Period.

Comment *The Suspension Period would also give the SEC time to determine if a wider scale or longer term response is appropriate..*