Peter E. Madden
Chairman of the Independent Trustees of the Federated Funds
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February 13, 2013

Financial Stability Oversight Council
Attn: Amias Gerety
1500 Pennsylvania Avenue NW
Washington, DC 20220

Re: Proposed Recommendations Regarding Money Market Mutual Fund Reform: Docket No. FSOC-2012-0003

Members of the Financial Stability Oversight Council:

I am writing in regard to your Proposed Recommendations Regarding Money Market Mutual Fund Reform, 77 Fed. Reg. 69455 (November 19, 2012) (the "Release"). I am writing this letter on behalf of the Independent Trustees of the Funds advised by subsidiaries and affiliates of Federated Investors, Inc. (the "Federated Funds") to comment on the Release and to provide the insights from the perspective of the independent trustees of a money market fund on ways to ensure investor protection and the reduction of any alleged systemic risk posed by money market funds. 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 funds and $380 billion in total assets. I do not plan to repeat all the arguments as to why the alternatives set forth in the Release would wreak havoc on the money market fund industry and the investors who rely on money market funds. In that regard I refer you to the letters submitted by or on behalf of Federated dated December 17, 2012, the three letters dated January 25, 2013, and the letter submitted January 30, 2013.

Money market funds have been one of the most successful financial product innovations of the past half century. Investors of all types have come to rely on money market funds as a convenient means for managing cash. The key features of money market funds, daily liquidity at par, and relative safety, are highly prized by shareholders. It is also abundantly clear to the independent trustees that neither money market funds nor their shareholders caused or exacerbated the Financial Crisis of 2008 (the "Financial Crisis"). Rather, it seems clear that both the underlying causes and the accelerants of the Financial Crisis had their roots in misguided government, monetary and regulatory policy. Clearly money market funds were far removed from the housing bubble and the use of leverage in the financial marketplace that gave rise to the myriad of problems that exploded in September 2008. We are, therefore, shocked and disappointed that money market funds would become the first target of the Financial Stability Oversight Council (the "Council") for a Section 120 letter recommendation to the Securities and Exchange Commission (the "SEC"). I have been involved in the financial services business for most of my adult life and, including my past position as President and Chief Operating Officer of State Street Bank and Trust Company, have been involved with the mutual fund business for more than 40 years. In all those years I have never seen a more inappropriate direction of regulatory ire toward a product or an industry. This, after all, is a product that has been a manifest benefit for shareholders since they first became popular during the late 1970's, a period of high short-term interest rates. Money market funds were indeed one of the few ways average investors could protect their savings from the ravages of runaway inflation.

As I indicated before, I have no intention of describing the reasons why a fluctuating NAV or a NAV buffer and minimum balance at risk or other structural reforms to money market funds are unwarranted and potentially destructive to the product. Other commenters have made that crystal clear. I am writing rather to suggest that there is a different reform tool identified in your Release that could actually assist boards of directors in protecting investors and, while not conceding that money market funds involve any real element of systemic risk, could reduce the untoward effects on shareholders of runs on funds in periods of market turmoil. Specifically, on pages 62-65 of your Release, you requested comment on other possible reforms including "gates".

We believe that "voluntary gating" is a tool that can be given to boards of directors of money market funds that could have a beneficial impact on the situation at hand. Specifically, we believe that boards of directors of money market funds should be given the right to temporarily suspend redemptions without a subsequent liquidation of the fund as currently required by Rule 22e-3 under the Investment Company Act of 1940. We believe this tool, for example, would have avoided the adverse impact on shareholders that resulted from the failure of the Reserve Primary Fund to immediately suspend redemptions following the Lehman bankruptcy. An example of where suspending redemptions actually worked was the case of the Putnam Prime Money Market Fund, which in September 2008, suspended redemptions while arranging for a liquidation of the fund into shares of the Federated Prime Obligations Fund. This "self help" prevented a run, the forced sales of securities, unfair results to shareholders of the fund, and it ensured that shareholders would not be locked up in a delayed liquidation process.

I also understand that money market funds in Europe already provide boards with the ability to suspend redemptions without liquidation and that in at least three cases, that authority was used successfully to temporarily halt redemptions during the market turmoil in 2008. This was discussed in the comment letter submitted by the ICI dated January 24, 2013, at pp. 52-54. We think boards of directors of U.S. based money market funds should also be given this authority.

We understand that some have questioned whether boards of directors 1) would like this authority and 2) would exercise this authority at the moment of impact. First, we believe that this authority is entirely consistent with the role assigned to directors under the Investment Company Act, and that it is precisely the role contemplated for the board under current Rule 2a-7. Current Rule 2a-7 requires board involvement in a number of specified circumstances as well as ongoing board oversight. The board, for example, is required to meet if a fund's shadow NAV reaches .995 to determine what action, if any, needs to be taken in order to prevent "material dilution or other unfair results". In a situation where a money market fund is facing a potential run or other unforeseen circumstances, a temporary suspension of redemptions could prevent unfair results such as redeeming shareholders being advantaged over remaining shareholders. We believe that, with appropriate guidelines in the rule for board consultation and ultimately board action, this "voluntary gating" concept would provide an additional level of protection for shareholders beyond the very well structured reforms adopted by the SEC in 2010.

We already know that boards of money market funds have a duty to protect investors and prevent unfair results. We do not shirk this responsibility, nor do we believe it would be a burden to ask boards to take action in such exigent circumstances. Those who question a board's willingness to do this need only look at the actions of the Putnam Prime Money Market Fund Board in 2008 for an example of a board that did the right thing, notwithstanding the potential consequences to the adviser. We feel the Putnam Board is probably more representative of boards of money market funds than other examples that have been cited.

It is also our view that this authority would likely be used rarely and only in exceptional circumstances. Given that money market funds have only "broken the buck" twice in the last 40 years, we believe this provides a good indication of how often the board might need to invoke this authority.

We therefore endorse the letter recently submitted by Federated Investors to the SEC Director of the Division of Investment Management Norm Champ dated February 11, 2013, outlining its "voluntary gating" proposal (a copy of which was separately submitted to FSOC in comment on the Release). We think this would be an important tool for boards to have in the event of a return to the volatility and uncertainty of the markets that prevailed in 2008. Finally, we believe, in light of the 2010 amendments to Rule 2a-7 and the improved resiliency of money market funds that this additional reform represents the best possible outcome for investors while addressing concerns raised by regulators.

Yours truly,

Peter E. Madden
Chairman, Federated Funds Board of Directors
On behalf of the Independent Trustees of the Federated Funds

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