Government Investment Officers Association
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Government Investment Officers Association

September 10, 2013

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

Re: Proposed Rule on Money Market Fund Reform Amendments to Form PF
Release Numbers 33-9408, IA-3616, IC-30551
RIN 3235-AK61
File Number S7-03-13

Via E-Mail: rule-comments@sec.gov

Dear Ms. Murphy:

The Government Investment Officers Association ("GIOA") represents government investment officers across the United States. While primarily an educational institution, we felt it appropriate to comment on potential changes and proposed rules that could affect cash management practices for governmental organizations.

As the Securities and Exchange Commission (the "Commission") considers proposed changes to money market mutual fund ("MMF") regulation, including the implementation of a floating net asset value ("NAV") for institutional prime funds, the GIOA urges the Commission to consider the following thoughts on MMF changes, especially with regards to the floating NAV option of the proposed changes to existing regulation.

We occupy a unique position with regard to commentary as the use of MMF impacts both sides of our balance sheet – assets and liabilities – as well as funds that we manage on a fiduciary basis for related governmental entities within our states and counties.

There are several attributes that make MMFs an important investment vehicle for public sector entities:

- Principal Preservation – The safety of MMFs is one of their most critical characteristics. Principal preservation is a primary objective of most public sector investment policies and MMFs are able to fulfill that requirement.
- Risk Diversification – Given restrictions requiring diversity of investment assets, MMFs

provide a way for public sector clients to hold a diverse portfolio of high-quality short-term securities.

- Same Day Liquidity – The ability to redeem shares and receive cash on a same-day basis makes MMFs a practical way to fund daily cash disbursements such as payroll and vendor payments.
- Ease of Administration – Perhaps most importantly, the stable $1 NAV share price dramatically eases the accounting and administrative burden for public sector investors.

In 2008, public sector entities were significantly impacted by the outcome of the "freezing" of the Reserve Fund and the failure of Lehman Brothers. That experience led the SEC -- working with the fund industry -- to adopt changes to the Investment Company Act ("Rule 2a-7"), strengthening MMFs by reducing risks associated with liquidity, credit and interest rate changes.

The changes to Rule 2a-7 required modification to MMF systems and internal accounting practices. The changes did not impact the systems and processes of investors. We feel that the 2010 changes, along with the 2008 experience of a large MMF that encountered difficulty, fundamentally changed the way that the industry is both managed and regulated.

While we understand that the Commission would like to incorporate changes which potentially help the industry, we feel that the proposed changes may ultimately hurt the public investment sector.

In this comment letter we would like to explore three ways in which the proposed legislation affects us -- as investors in MMFs; as issuers of debt instruments; and finally as managers of pooled investment funds on behalf of public sector entities.

As Investors

GIOA Members directly manage cash balances of governmental units. Collectively, we manage billions of dollars that are invested until disbursed by state and local government entities.

As public-sector asset managers, the floating NAV proposal will potentially:

A. Remove MMFs as an option for the investment of liquidity balances. A move to a variable NAV structure could force public sector investors into purchasing short-term investment securities directly. Ironically, this could open demand to offer privately managed and unregulated fund pools that complied with a $1.00 NAV, decreasing Commission oversight of investment alternatives;

B. Increase costs associated with the accounting required to track slight changes in NAV pricing -- potentially in only the 4th decimal. This change may mean that the amount of money expended in tracking these subtle changes is far in excess of what the Rule is attempting to address;

C. Increase costs due to the required change over in internal systems which are geared for an asset type of $1.00 NAV funds. Internal system changes will need to add average cost methodologies and date and time tracking for intra-day NAV resets;

D. Increase costs due to accounting rule selections regarding average cost or other elective methodologies for valuing MMF positions;

E. Increase costs of personnel and staff in regards to the added time required to reconcile MMF positions and costs;

F. Change cash management processes by not utilizing MMF. Public sector investors may have to utilize Repurchase Agreements, Commercial Paper and other overnight and short-term investments on a less diversified basis;

G. Push less sophisticated investors into investment vehicles. Unfortunately, many entities that use MMFs as short-term investment vehicles will be forced to find alternative investments with limited staff and resources; and

H. Require significant time to implement investment policies and revise state statutes to conform to Commission regulations.

As Issuers of Debt Instruments:

Many GIOA Members are also issuers of short-term tax-exempt debt obligations. These obligations are primarily purchased by tax-exempt MMFs.

As issuers of debt, the floating NAV proposal will potentially:

I. Decrease demand for tax-exempt securities such as tax-exempt commercial paper (TECP), bond anticipation notes (BANs), tax and revenue anticipation notes (TRANs) and other short-term issuance vehicles. Due to the long budget cycle at many public sector entities, these vehicles provide additional fiscal flexibility with regard to short-term financing; Resulting in,

J. Increase costs of financing for governmental entities. If the demand for these vehicles is diminished, costs for public-sector entities will increase.

As Fiduciaries of Governmental Funds:

Many GIOA Members manage Local Government Investment Pools (LGIPs) on behalf of smaller entities within our states. LGIPs offer these investors professional money management through these county and state-level investment pools. While not regulated by the Commission, many pools manage to a "2a-7 like" set of guidelines established by the Governmental Standards Accounting Board, including the presumption of a $1.00 NAV.

As fiduciaries, the floating NAV proposal will potentially:

K. Create significant confusion for clients if the LGIP adopts the revised 2a-7 "like" characteristics;

L. Require changes at the state statutory level to address the proposed changes;

M. Potentially push less sophisticated investors away from state-sponsored LGIPs into more complex investment options;

N. Require significant changes to LGIP accounting systems in order to address the accounting requirements of a variable NAV as well as intraday NAV pricing;

O. May require outsourcing of internal processes in order to address the complexity inherent in a variable and intraday NAV pricing;

P. Require significant outreach and education to diminish confusion amongst public sector investors;

Q. Require significant changes to on-line web portals which members use for their account access; and

R. Significantly decrease participant yields as these changes are implemented and their costs absorbed.

While we applaud the Commission for the changes adopted in 2010 in response to the significant financial dislocation of 2008, it is our opinion that the additional costs of implementing the floating NAV proposals included in this Rule far outweigh any potential benefits. We believe that the changes adopted in 2010 combined with the experience gained during the market dislocation have fundamentally changed the way that MMFs are managed and positioned with regard to credit, liquidity and interest rate risk.

With regard to the second alternative proposal requiring liquidity fees or the "gating" of a fund, we wish to remind the Commission that many public sector investors utilize MMFs as cash alternatives to lower-yielding bank demand deposit accounts. To the extent that market dislocations trigger the implementation of some form of "gating", the unintended consequence of the liquidity restriction could potentially effect the ability of governmental entities to meet payroll, vendor or debt payments.

If we can offer any assistance to the Commission in your deliberations, or if we can answer any questions concerning about the use of MMFs by public sector entities, please don't hesitate to contact us.

Respectfully,

Maurine Day, Executive Director, GIOA

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