



September 16, 2013

Ms. Elizabeth M Murphy  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-1090

**Re: File Number S7-03-13, Money Market Fund Reform; Amendment to Form PF**

Dear Ms. Murphy:

PricewaterhouseCoopers appreciates the opportunity to comment on the Securities and Exchange Commission's ("the Commission's") Release No. 33-9408 "Money Market Fund Reform; Amendments to Form PF" (the "Proposal") dated June 5, 2013. We commend the Commission for pursuing a goal to increase stability in the financial markets and enhance transparency.

This letter includes limited comments on the overall Proposal that are focused on financial reporting matters. Our comments center on the following topical areas:

- The floating net asset value (NAV) proposal
- The liquidity fee and gate proposal
- The support provisions embedded in the Proposal
- Additional clarifying point

In the appendix to this letter we have responded to certain of the questions posed in the Proposal.

**The Floating Net Asset Value (NAV) Proposal**

We agree that it would be appropriate for a registrant to classify an investment in a money market fund that invests in assets in accordance with Rule 2a-7 (or when governed by requirements substantially similar to 2a-7) as a cash equivalent in normal economic conditions, even if the money market fund does not maintain a perfectly stable value at all times as stated in the Proposal. For the avoidance of doubt, we suggest the final rule explicitly confirm this view.

It may be prudent, however, to reiterate that independent of any rules adopted under the Proposal, registrants would typically re-evaluate this classification if either the underlying investments deviate from the requirements in Rule 2a-7 or other factors indicate that classification as a cash equivalent is no longer appropriate. Under current practice, registrants generally consider open-end money market funds that maintain \$1.00 per share to be cash equivalents, and would re-evaluate that conclusion if the fund's NAV



falls below a rounded \$1.00 per share. Under the Proposal, registrants would be required to exercise judgment to assess at which point a meaningful decrease below \$1.00 per share should trigger a change in the classification, in the rare instance this may occur. We recommend that the Commission provide guidance on how to evaluate the magnitude of changes in the NAV in assessing whether the investment in the fund continues to qualify as a cash equivalent.

We also recommend that the Commission conform the guidance in Accounting Series Release 219, which remains effective through Financial Reporting Policies 404.05, with the Proposal. This guidance requires that NAV be calculated to three decimal places, while the Proposal calls for four decimal places. Similarly, we encourage the Commission to conform the current guidance in Item 13 of Form N-1A, "Financial Highlights" which includes a specific instruction that states, "If the offering price is expressed in tenths of a cent or more, then state amounts in table in tenths of a cent."

The floating NAV could also have certain financial reporting implications. If enacted, we recommend that the Commission address the transition in the financial highlights from amortized cost in prior periods to a floating net asset value in both a fund's financial statements, and its Form N-1A filing. As the change in methodology could also affect comparability with prior periods for certain disclosures such as advertisements and SEC yield, we similarly recommend the Commission provide transition guidance in these areas.

"Retail" funds, while still required under the Proposal to value many of their investments at fair value, could round their NAVs to the nearest penny. We believe another possible implication of the Proposal is that two funds managed by the same investment adviser with identical portfolios of investments could have different NAVs - one rounded and the other unrounded - depending on whether the fund is classified as a "retail" or "institutional" fund. We recommend the Commission address the inconsistency in net asset value determination to the nearest penny for the retail funds versus the unrounded net asset value for institutional funds.

Finally, we recommend the Commission consider repealing the provision in the second instruction of Item 27 of Form N-1A, which allows money market funds to omit the investment portfolio from the financial statements. Current U.S. GAAP does not permit the omission of a portfolio from investment company financial statements, so this provision has never been implemented. More generally, though, this option to omit the investment portfolio appears counter to the Commission's goal of enhancing transparency. Moreover, page 341 of the Proposal requires a fund to provide its portfolio holdings on its website at fair value. Therefore, to eliminate this inconsistency we propose that the Commission update Form N-1A as noted above.

### **The liquidity fee and gate proposal**

We agree that it would be appropriate for a registrant to continue to classify an investment in a money market fund that invests in assets in accordance with Rule 2a-7 (or when governed by requirements substantially similar to 2a-7) as a cash equivalent in normal economic conditions, even if the money market fund has a liquidity fee or gate that is expected to be implemented only in unusual circumstances as stated in the Proposal. For the avoidance of doubt, we recommend the final rule explicitly state this.

We recommend the Commission provide guidance on classifying a money market fund under US GAAP in the unusual situations where a gate is in effect as well as where the possibility of instituting a gate has increased. As defined in the FASB Codification, cash equivalents are "(a) readily convertible to known



amounts of cash and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates." We encourage the development of guidance to assist registrants in applying this definition if gates become more likely or are enacted. For instance, the guidance should help answer the question of whether a temporarily enacted gate restricts an entity from meeting the first criteria, and if so would an entity need to evaluate facts and circumstances that could indicate such a gate is imminent even if not enacted yet?

We also recommend that guidance be provided on how an entity should reclassify the money market fund in and out of "cash equivalent," including how to disclose this change in the cash flow statement in order to establish consistent practice.

### **The Support Provisions Embedded in the Proposal**

In Section III.F, the Proposal requires an explicit statement in Form N-1A that the sponsor has no legal obligation to provide financial support to the fund - a statement that is only removed if the sponsor has actually entered into such a legal obligation. Page 356 of the Proposal provides certain examples of what is considered "financial support." A fund would be required to furnish additional limited financial information if financial support has been provided.

We agree with the Commission that requiring a fund to only disclose limited financial information about the sponsor is appropriate in these facts and circumstances. However, we believe that certain of the examples could be interpreted similar to either an obligation under U.S. GAAP or as if the sponsor acts as a guarantor. To avoid different interpretations, we recommend providing explicit guidance noting that the types of financial support outlined in the Proposal do not constitute an obligation, third party enhancement, or other arrangement that could trigger a requirement under Regulation S-X to provide complete financial statements of the sponsor.

The Proposal also considers other arrangements between the sponsor and a money market fund such as expense waivers and reimbursements. These arrangements are not explicitly included as examples for "financial support" as defined on page 356, and we believe this omission is appropriate. Under current practice it is our view that an expense waiver is more often than not a means to limit a fund's expense ratio, and not to avoid the NAV falling below \$1.00 per share. However, a clause on page 356 discussing reportable events on proposed Form N-CR ("any other similar action to increase the value of the fund's portfolio or otherwise support the fund during times of stress") could be read as including fee waivers or expense reimbursements. For example, in the recent extended period of low interest rates, many expense waivers were intended to maintain a yield at least of zero. Had expense waivers not been in place, yields would have been negative and NAVs would have been impaired, in some cases eventually resulting in a fund's NAV falling below \$1.00 per share. Our view would not change if the fund's NAV were required to float.

Further, expense waivers as a means of limiting an expense ratio are a common arrangement for money market and non-money market funds. However, page 384 of the Proposal discusses waivers in a way that could cause them to be construed as financial support by noting that one of the stated reasons for requiring a fund to disclose a waiver is to help provide an understanding about potential strains on a fund's investment adviser during periods of low interest rates. We believe, in context, the Commission did not intend these types of arrangements to constitute financial support. Accordingly, we recommend the Commission clarify that expense waivers of this nature are different from the types of financial support listed on page 356 for which disclosures are required.



**Additional Clarifying Point**

As discussed informally by the staff, the Proposal lists US government and agency securities as level 1 under ASC 820, *Fair Value Measurement*. While this may be true in some cases, we wanted to clarify that this may not be true in all cases. We recommend this be clarified in any final rule.

\* \* \*

We would be pleased to discuss our comments or answer any questions that the Commission or its staff may have. Please contact Paul Kepple, (973-236-5293), Donald Doran (973-236-5280), or Chris May (973-236-5729) regarding our submission.

Sincerely,

*PricewaterhouseCoopers LLP*



## Appendix

### File Number S7-03-13, Money Market Fund Reform; Amendment to Form PF

This appendix provides PwC's response to certain of the specific questions in the Proposal.

#### Financial Support Provided to Money Market Funds

*Question: Instead of, or in addition to, requiring funds to disclose historical information about financial support received from a sponsor or fund affiliate on the fund's SAI, should we require fund sponsors to publicly disclose their financial statements, in order to permit non-shareholders to evaluate the sponsor's capacity to provide support? Why or why not?*

Response: We do not believe a requirement to provide a full set of financial statements would be necessary because we believe more limited disclosures could also achieve the Commission's objective. However, we believe it would be helpful to provide guidance to differentiate these arrangements from guarantees described in Regulation S-X, or more broadly in US GAAP.

In addition to clarifying the scope of the required information, we foresee a need for guidance when assessing how to determine who the sponsor is within an adviser's consolidated group. For instance, should the disclosure focus on the ultimate parent of the sponsor or the entity listed in the legal agreement?

If the financial statements of the sponsor are required instead of more limited disclosures, this creates additional layers of complexity. What if public financial statements were not previously required because the sponsor is private? Would the financial statements need to be prepared as if it were a public company? Additionally, would the financial statements only be required if support is expected or has been provided thus far rather than an implied support arrangement? Based on these complexities, we recommend requiring the disclosure of selected information rather than the financial statements.

*Question: We request comment on the proposed instruction clarifying the meaning of the term "financial support" by providing a non-exclusive list of examples of actions that would be deemed to be "financial support" for purposes of the proposed disclosure requirement. Should the proposed instruction be expanded or limited, and if so, how and why?*

Response: We believe that expense waivers and payments by advisors for expense reimbursement could be interpreted by some constituents as financial support. Since these are common tools used by a variety of funds and these amounts are presented in financial statements when material, we recommend they be explicitly excluded from the definition.