



## National Association of State Auditors, Comptrollers and Treasurers

September 17, 2013

### EXECUTIVE COMMITTEE OFFICERS

**President**  
JAMES B. LEWIS  
State Treasurer  
New Mexico

**First Vice President**  
WILLIAM G. HOLLAND  
Auditor General  
Illinois

**Second Vice President**  
CALVIN MCKELVOGUE  
Chief Operating Officer  
Department of Administrative  
Services  
Iowa

**Secretary**  
RICHARD K. ELLIS  
State Treasurer  
Utah

**Treasurer**  
DEBRA K. DAVENPORT  
Auditor General  
Arizona

### EXECUTIVE DIRECTOR

R. KINNEY POYNTER  
Lexington, Kentucky

### CONTACT INFORMATION

Headquarters Office  
449 Lewis Hargett Circle  
Suite 290  
Lexington, KY 40503-3590  
(859) 276-1147  
Fax (859) 278-0507

Washington Office  
444 N. Capitol Street, NW  
Suite 234  
Washington, DC 20001  
(202) 624-5451  
Fax (202) 624-5473

[www.nasact.org](http://www.nasact.org)

Elizabeth M. Murphy  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

Re: File Number S7-03-13

Dear Ms. Murphy:

On behalf of the National Association of State Auditors, Comptrollers and Treasurers (NASACT), I am writing to express NASACT's strong concerns with the U.S. Securities and Exchange Commission's money market fund proposal which could affect the cost and availability of financing and investments for state and local governments. We are specifically alarmed about the proposal to change the fixed net asset value (NAV) of money market funds to a floating NAV. Such a change, if enacted, would negatively affect the ability of our members to use money market funds as an efficient cash management tool, but more importantly, it would also hamper the ability of state and local governments to attract investors for debt issued to meet a variety of constituent needs.

Money market funds are an extremely valuable cash management tool for state and local governments which currently hold more than \$120 billion dollars in short- and mid-term investments in such funds. A large percentage of these funds invest in securities that mature within a week, making these products extremely liquid and invaluable to state and local governments in managing cash on a short-term basis.

Additionally, many state laws and regulations require that investments be made in stable NAV funds. If money market funds are required to float their NAV, many state and local governments would be unable to use these funds to manage their cash. Instead, state and local governments would have to shift their investments to other types of products that historically have paid lower yields and are less secure.

Money market funds (MMFs) themselves are an especially important component of state and local financing, as they are the largest investor in short-term municipal debt. Almost three-quarters of state and local short-term debt is held by MMFs. Changes that affect the operation of these funds could have harmful repercussions in the market for municipal debt, making states pay higher issuance costs, which could ultimately impact the economic recovery underway. Funds may curtail their municipal bond purchases, and investor interest in money market funds may wane, which could limit financing options available to state and local governments. Such actions could ultimately lead to higher financing costs, reduced services, increased taxes, and potential layoffs.

In addition to these serious concerns, the proposed change would also place more financial burden on governments due to operational complexities and upfront costs to modify operations in order to comply with the changes.

We are equally concerned with the effect that moving from a fixed NAV to a floating NAV will have on local government investment pools (LGIPs). In many states, LGIPs are required to maintain a stable NAV, either by statute or through investment policies. Government accounting rules as dictated by the Governmental Accounting Standards Board may also be in conflict as they allow LGIPs to use a stable NAV as long as they operate in a manner consistent with SEC Rule 2a-7. Any changes to Rule 2a-7 may thus require burdensome and costly changes to state statutes related to LGIPs in order to comply with accounting rule changes related to the NAV feature of MMF funds.

The Commission's 2010 reforms have enhanced the ability of money market funds to withstand market stresses. We strongly believe that any newly adopted rules should preserve MMFs in a form that does not threaten the viability of money market funds as holders of state and local short-term debt and should retain their value as a cash management tool. These reforms sharply reduce the risk profile of money market funds by requiring substantially more liquidity within five business days and by shortening fund weighted average life and maturity. Both of these reforms have served to stabilize funds' net asset values by reducing the risk posed by duration related price volatility.

MMFs are a vital component for state and local governments in financing important and needed public projects. There is no demonstration of systemic risk either in the municipal bond sector or the manner in which state and local governments invest in these funds that would warrant such drastic and costly changes. Proposals to float the NAV do not stop redemptions or protect MMF shareholders in general, but they do present direct and significant accounting, tax, and operational implications for governments, and they do erode the value of such funds as a cash management tool. We strongly advise the Securities and Exchange Commission to rethink its proposal to float the NAV and consider the potential effects the changes could have on state and local governments.

Sincerely,

A handwritten signature in black ink that reads "James B. Lewis". The signature is written in a cursive style with a large, looping initial "J".

James B. Lewis  
President