September 17, 2013

Ms. Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: File Number S7-03-13

Dear Secretary Murphy:

On behalf of the 19,000 cities and towns represented by the National League of Cities (NLC), I submit these comments in opposition to the Security and Exchange Commission's proposal to change Rule 2a-7, S7-03-13 to move money market funds from a stable $1.00 price per share to a floating net asset value (NAV) or subject them to redemption restrictions in the form of fees or gates. Certainly, NLC understands the Commission's goal to protect investors by strengthening financial regulation. Imposing a floating NAV or redemption restrictions on money market funds, however, is simply not in the best interests of investors or issuers; rather, it would undermine a key instrument that investors rely on for stability and liquidity, while depriving local governments of an important cash management tool and a crucial source of financing.

We understand the underlying theory to be that a floating NAV for prime money market funds would provide greater transparency into the underlying market value of a fund and therefore prevent runs if there was fear of it "breaking-the-buck." However, there is no empirical evidence showing that a floating NAV would serve this purpose. While the ability to transact at the $1 NAV, however, provides real benefits to local governments by allowing them to use automated cash management processes, facilitating same day transaction processing, shortening settlement cycles, and reducing float balances and counter party risk. In addition to losing these benefits, if a municipality used a floating NAV fund to hold cash, it would likely face tax and accounting consequences when purchasing or redeeming shares, thus subjecting it to new operational and administrative costs. Accordingly, many local governments have investment polices precluding investing cash in anything other than stable value investments. The proposed floating NAV rule would undermine long-standing stability beneficial to local governments holding public funds. Similarly, imposing redemption restrictions on prime money market funds would reduce their attractiveness as a cash management tool because ready liquidity is a critical feature for local governments that need to meet payment obligations.

In addition, a floating NAV or redemption restrictions on municipal money market funds would cause local governments to pay more to borrow money to finance the construction of basic infrastructure such as schools, roads, bridges, sewers and hospitals. Tax-exempt money market funds play a crucial role in public finance, as they currently hold almost three-fourths of the short-term securities issued by state and local governments (72 percent in April 2013). These funds are attractive to their investors because they realize the tax benefit of the underlying municipal bonds. A floating NAV or fees and gates would result in fewer funds purchasing short-term municipal securities; thus, increasing costs for local governments as demand for their tax-exempt securities is diminished. By making money market funds less attractive to investors, and increasing the cost of capital for state and local governments, the Commission would cause less investment in infrastructure at a time when jobs are scarce and the physical condition of public works is deteriorating.

Thank you for the opportunity to provide these comments. We urge the Commission to reject adopting a floating NAV for municipal money market funds or to subject them to redemption restrictions in the form of fees or gates. If you have any questions, please do not hesitate to contact Lars Etzkorn at 202-626-3173 or by email at *etzkorn@nlc.org*.

Sincerely,

Clarence E. Anthony
Executive Director