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Federated
WORLD-CLASS INVESTMENT MANAGER®

September 17, 2013

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

Re: Money Market Fund Reform; Amendments to Form PF, File Number S7-03-13 —Comments Regarding Amendments to Disclosure Requirements for Money Market Funds and Current Requirements of Rule 2a-7

Dear Ms. Murphy:

This is one of a series of letters from Federated Investors, Inc. ("Federated") regarding the various money market reform proposals made by the Securities and Exchange Commission (the "Commission") in Investment Company Act Release No. 30551 (the "Reform Proposal").[1] This letter addresses proposed changes to the current requirements of Rule 2a-7, Form N-MFP, Form N-1A and related regulations for sales material, and newly proposed Form N-CR, which are discussed in Subsections F through M of the Reform Proposal. Separate letters address the proposed changes to Rule 2a-7 included in Alternatives 1 and 2 of the Reform Proposal.

1. SUMMARY OF COMMENTS

Federated generally supports the comments made by the Investment Company Institute in its letter to the Commission dated September 17, 2013 (the "ICI Comment Letter"), regarding the reforms discussed in Subsections F through M of the Reform Proposal. Federated is less confident than other industry members, however, in the utility of disclosing vast amounts of additional information on fund websites and in Commission filings. While information technology has lowered the cost of organizing and transmitting information, the Commission should not lose sight of the substantial time and expense required to gather and verify information. The mere possibility that someone might someday find information of some use does not justify the cost of continuously obtaining and disclosing the information. The Commission should only require disclosure of information that is likely to be of regular use to shareholders and to its staff. Disclosure requirements for registered and unregistered funds should also be as uniform as practicable.

This letter also provides further support or emphasis for other comments made in the ICI Comment Letter. In particular:

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[1] 78 Fed. Reg. 36834 (June 19, 2013). An overview of Federated's comments is provided in its initial comment letter on the Proposed Reforms, Reform Proposal, John D. Hawke, Jr., Arnold and Porter, LLP on behalf of Federated Investors, Washington (Sept. 11, 2013), http://www.sec.gov/comments/s7-03-13/s70313-85.pdf.

- Although Federated supports the aggregation of majority owned subsidiaries for calculating diversification,[2] we oppose treating sponsors as de facto guarantors of asset-backed securities[3] and elimination of the "25% basket" for demand features and guarantees.[4]

- Federated opposes the unreasonable and unhelpful expansion of required stress testing and reporting to a MMF's board of directors or trustees (a "Board").[5]

2. PROPOSED DISCLOSURE REQUIREMENTS

The Commission should recognize that it is unnecessary and inefficient for the Commission to impose a market-wide, "one size fits all," disclosure regime on money market funds ("MMFs"). In various instances, MMF shareholders have demanded and received supplemental information that they deem relevant to their assessment of MMFs, including daily disclosure of portfolio holdings and daily disclosure of estimated market value of a share, rounded to the fourth decimal place (the "shadow price"). This demonstrates that market forces may strike a better balance between the costs and benefits of additional disclosure than brute regulations.

For example, in January 2013, Federated began to post the shadow price for five of its institutional prime MMFs on its website, largely in response to changes in the marketplace. These institutional prime MMFs have combined assets of $84.846 billion as of August 30, 2013, and approximately 1,029,183 shareholders. Since that time, there have been 1,446 total "hits" to the shadow price webpage, representing an average of 5 hits per day. Similarly, in April 2012, Federated incorporated prospectus and SAI disclosure into certain of its institutional prime MMFs, indicating that shareholders could submit requests to receive a list of the fund's portfolio holdings on a daily basis. These prime MMFs have combined assets of $70.674 billion as of August 30, 2013, and approximately 245,659 shareholders, yet Federated has received only three requests to receive daily portfolio holdings information during the period that it has been available.

This data suggests that the cornerstones of the disclosure regime under the Reform Proposal, shadow prices and portfolio holdings, are not relevant to the vast majority of MMF shareholders. To the extent that institutional investors are not regularly accessing the core information that is already available to them, Federated anticipates that they will not access the more granular information required under the Reform Proposal. Federated further anticipates that retail investors simply will have no interest in such information.

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[2] Proposed Rule 2a-7(d)(3)(ii)(F). For purposes of these comments, unless otherwise indicated, "Proposed Rule 2a-7" refers to the Alternative 2 version of Rule 2a-7 that begins on page 37005 of the Reform Proposal. For convenience, this letter incorporates the terms defined in Proposed Rule 2a-7, and will refer to paragraphs of Proposed Rule 2a-7, even if such terms or provisions are already defined or included in the current version of Rule 2a-7.

[3] Proposed Rule 2a-7(a)(16)(ii).

[4] Proposed Rule 2a-7(d)(3)(iii).

[5] Proposed Rule 2a-7(g)(7).

2.1 The Commission Should Narrow its Proposed Definition of "Financial Support"

Federated generally supports the Commission's proposal to require MMFs to disclose current and historical instances on which the MMF has received sponsor financial support. Under the Reform Proposal, MMFs would have to provide such information on Form N-CR and on their websites. Additionally, proposed amendments to Form N-1A would require MMFs to include in their SAIs disclosure with respect to each occasion during the last ten years on which an affiliated person, promoter, or principal underwriter of the MMF, or an affiliated person of such person, provided any form of financial support to the MMF.

(a) <u>Issues with Commission Definition of "Financial Support"</u>

However, Federated believes that the Commission's definition of "financial support" is ambiguous and overly broad. The Reform Proposal defines "financial support" to include, but not be limited to: (i) any capital contribution, (ii) purchase of a security from the MMF in reliance on Rule 17a-9, (iii) purchase of any defaulted or devalued security at par, (iv) purchase of fund shares, (v) execution of a letter of credit or letter of indemnity, (vi) capital support agreement (whether or not the MMF ultimately receive support), (vii) performance guarantee, or (viii) any other similar action to increase the value of the MMF's portfolio or otherwise support the MMF during times of stress.

MMFs engage in many routine, ordinary course-of-business transactions that could fall within the scope of this definition. For example, when one MMF ("acquired fund") is being reorganized into another MMF, the adviser to the acquired fund generally contributes capital to the acquired fund in the amount of any net losses previously realized by the acquired fund. The adviser to the acquired fund also may contribute capital if the shadow price of the acquired fund differs materially from the acquiring fund's shadow price. Such capital contributions would appear to come within clause (i) of the proposed definition of "financial support." Other routine matters that could trigger reporting under subsection (viii) of the Commission's "financial support" definition are routine fee waivers and expense reimbursements. Finally, there are many circumstances in which the sponsor or its affiliates purchase MMF shares, including in conjunction with the provision of seed capital to the MMF, or when a MMF is being liquidated, or simply to manage their cash; each of these would trigger reporting under subsection (iv). None of the foregoing examples indicates "stress" on the part of the MMF; and disclosure thereof certainly would not enhance the shareholder's ability to "fully appreciate the risks of investing in the fund."[6] Instead, Federated believes that such disclosure would simply add to "disclosure fatigue," with shareholders being given so much information that they cease to be able to identify what is really relevant.

Accordingly, Federated recommends that the Commission revise its definition of "financial support" to clarify that routine matters, such as those described above, do not constitute financial support. Federated suggests that the "financial support" definition be limited to the following: (i) purchase of a security from a MMF in reliance on Rule 17a-9; (ii) provision of a

[6] Reform Proposal at 36924.

capital support agreement or other conditional credit arrangement; and (iii) capital contributions, but only to the extent that the shadow price of the MMF would have deviated from $1.00 by more than ½ of 1% in the absence of such contribution.

Federated's definition incorporates security purchases into a single category, as any purchase made by a sponsor would be subject to the terms of Rule 17a-9. This would codify in Form N-CR the 17a-9 transaction-reporting requirement added to Rule 2a-7 in 2010. Letters of credit or indemnity, capital support agreements and performance guarantees all serve the same function, i.e., the provision of support under specified conditions, and Federated proposes to group these accordingly. Federated believes that its recommended provision regarding capital contributions more appropriately defines the type of contributions that may be indicative of stress. If the Commission considers the threshold in clause (iii) too high, it should at least permit a de minimis level of capital contributions (10 or 20 basis points) in connection with the acquisition or liquidation of a MMF. Finally, Federated believes that clause (iv) of the Commission's proposed definition may be deleted, because it is highly unlikely that a sponsor of a MMF could buy shares in a sufficient quantity to support the net asset value ("NAV") of the fund's shares.[7]

(b) Application to Mergers and Reorganizations

Federated objects to the extension of the Item 16 disclosure to predecessor funds. Specifically, Instruction 2 to Item 16 would require a MMF that acquires another MMF to provide the mandated SAI disclosure with respect to the acquired fund as well as with respect to the surviving fund. In the case of third party reorganization transactions, Federated believes that disclosure of information regarding financial support should be made only in respect of the surviving fund. Federated believes that it would be irrelevant to shareholders whether the sponsor of an acquired fund elected to provide financial support to the acquired fund prior to its acquisition; the other sponsor's support has absolutely no bearing on the surviving fund's management or operations. Moreover, Federated, as a regular participant in reorganization transactions, believes that required disclosure of such information may have a "chilling effect" on its desire to enter into such transactions with MMFs that have received sponsor financial support.

Federated would also propose to limit SAI disclosure regarding financial support (i) to those instances of financial support that occur subsequent to the effective date of the amendments to Form N-1A, and (ii) for a five-year period prior to the effective date of the disclosure.

2.2 The Commission Should Not Require the Filing of a Form N-CR Whenever a MMF's shadow price Falls below $0.9975.

Federated supports the Commission's proposal to require MMFs to provide website disclosure of their shadow prices on a daily basis. MMFs also would be required to maintain a schedule, chart, graph, or other depiction on their websites showing historical information about their shadow price, which would be updated each business day.

[7] For example, a sponsor would have to buy as many shares as are currently outstanding to reduce any deviation between the shadow price and $1 by 50%. Even for a small MMF, it should be more efficient to contribute or agree to contribute capital than to buy shares.

However, Federated objects to the reporting that would be required under Part D of Form N-CR. Specifically, Part D would require reporting if a MMF's current shadow price deviates downward from its intended stable price per share by more than ¼ of 1%. This reporting trigger is arbitrary, as there are no other implications under Rule 2a-7 for the MMF if it has a 25 basis point deviation. So long is the current shadow price is publicly available, Federated does not view such a deviation as a material event that necessitates a separate reporting. Moreover, there is a risk of shareholders using such a filing as a trigger for redemptions, similar to the Redemption Thresholds discussed below in the next section. Form N-CR filings should be limited to reporting how a significant event has been resolved or does not need to be resolved by the MMF; it should not be required for circumstances that would not require any consideration by the Board.

2.3 The Commission Should Reduce the Frequency of Disclosure of Weekly Liquid Assets and Not Require Website Disclosure of Cash Flows

Federated generally supports the Commission's proposal to require MMFs to (i) disclose on their websites the percentage of the MMF's total assets that are invested in daily and weekly assets; and (ii) post on their websites a schedule, chart, graph or other depiction, showing a six-month history of the percentage of the MMF's total assets invested in daily liquid assets and weekly liquid assets. Federated agrees that such disclosure would promote transparency and help shareholders assess the extent to which a MMF stands ready to meet redemptions from available cash sources. Federated also anticipates that publication of such thresholds will prompt consistency among similar types of MMFs with respect to levels of daily and weekly liquid assets, as no one MMF will want to be viewed as an "outlier."

(a) Frequency of Daily and Weekly Liquid Asset Disclosure

Federated opposes the timing and frequency of daily and weekly liquid asset disclosure as set forth in the Reform Proposal. Federated believes that information regarding weekly liquid assets should be disclosed on the first business day of each week, reflecting information from the close of business on the last day of the prior week. Federated believes that the delayed disclosure that it suggests would not materially impact the Commission's goal of promoting transparency to "permit investors to make more efficient and informed investment decisions"[8] Weekly disclosure would, however, substantially reduce the cost of providing the information and the risk of inadvertently posting erroneous information. Moreover, Federated is convinced that the delayed disclosure offers the significant advantage of deterring "reactionary" redemptions that are based on transient liquidity fluctuations.

Specifically, Federated has had extensive conversations with its MMF clients regarding the operation of Alternative Two. One of Federated's intermediary clients stated that several of its clients are planning to establish internal weekly liquid asset thresholds ("Redemption Thresholds") that are higher than the 15% weekly liquid asset threshold proposed in Alternative 2. They have further indicated that they will automatically redeem from a MMF if the fund breaches the Redemption Threshold on a given business day, without any further inquiry. If enough share-

[8] Reform Proposal at 36927.

holders adopt Redemption Thresholds, it is conceivable that their "automatic" redemptions could result in a breach of the 15% weekly liquid assets threshold. Delaying the release of weekly liquid asset information will provide the MMF's investment adviser with an opportunity to explain the circumstances leading to any significant reduction in weekly liquid assets and its plan for restoring weekly liquid assets, which may prevent such automatic redemptions.

(b) Disclosure of Cash Flow

Federated also disagrees with the Commission's proposal to require MMFs to post on their websites a schedule, chart, graph or other depiction, which must be updated each business day as of the end of the preceding business day, showing a six-month history of the MMF's net inflows and outflows. Federated is concerned that shareholders and others could misinterpret this information. Certain of Federated's MMFs, particularly "institutional" funds, experience very large flows and are in fact structured to be able to accommodate such flows. There are also occasions when a large omnibus account, such as a sweep account, switches to another MMF. As part of Federated's "know your customer" procedures, Federated's portfolio managers, traders, and investor services personnel are in constant contact regarding anticipated inflows and outflows, and are fully prepared to handle such large outflows without affecting the risks to the MMF's remaining shareholders. Shareholders and those who report on MMFs do not have the same context with regard to such flows, and may misinterpret a sizeable outflow from a MMF as a sign that the MMF is experiencing stress.

2.4 The Commission Should Limit its Proposed Revisions to Form N-MFP

Federated supports the efforts of the Commission to obtain the information necessary to enable its staff members to effectively oversee the stability of MMFs and to provide MMF shareholders with information that would be meaningful to their decision of whether to invest, and maintain an investment, in a particular MMF. However, Federated believes that certain of the information contemplated under the proposed Form N-MFP would be of limited utility to the Commission, and would not be used at all by shareholders. Federated also believes that a weekly filing of Form N-MFP would be tremendously burdensome, and that monthly filings of Form N-MFP should be retained. Finally, Federated recommends that there be a five-business day delay in the public availability of such information.

(a) Background on N-MFP Process

As a preliminary matter, Federated would note that the preparation of the Form N-MFP requires substantial time and effort on the part of portfolio managers, analysts, and accounting personnel, as well as interaction with third party vendors. Generally, Federated requires the full five business days to prepare and review the Form N-MFP in its current form for its forty-two MMFs. The Form N-MFP preparation process generally begins on the 2nd business day after month end, when vendors provide pricing information with respect to a MMF's underlying portfolio securities. At that point, the portfolio manager begins her review process of the portfolio holdings; this is typically an intensive and iterative process. Among other things, the portfolio manager spends significant time reviewing collateral underlying repurchase agreements, verifying that the collateral description provided by the subcustodians is sufficient, and reviewing margin percentages.

Frequently, Federated does not complete the Form N-MFP filing until the afternoon of the fifth business day. Federated does not believe it is possible to add significantly more information to the form and still meet a five-business day deadline. Therefore, to the extent that Form N-MFP is amended to require the inclusion of additional data points, particularly the lot level information required under Items C.17 and C.25, Federated recommends that the deadline for making the Form N-MFP filing be extended to the 10th business day after the end of each month.

(b) Lot Level Reporting Regarding Portfolio Securities

Federated strongly opposes the changes to Part C of Form N-MFP (Items C.17 and C.25) that would require lot level reporting with respect to portfolio securities. The Reform Proposal speculates that this additional information "would have the incidental benefit of facilitating price discovery and would enable the Commission and others to evaluate pricing consistency across funds (and identify potential outliers)."[9] Requiring lot level information in Form N-MFP would be a wasteful, inefficient and inequitable means of evaluating pricing in the money markets. The Commission obtains price information from the equity and bond markets by requiring reporting of every trade, by anyone, within a short time (measured in minutes) after the trade occurs. Only the terms of the trade (e.g., time, price and quantity) are reported; the parties to the trade are not disclosed.[10]

Rather than working with other regulators to impose an effective trade reporting regime on the money markets, the proposed inclusion of lot level information in Form N-MFP would place on MMFs the entire burden of "facilitating price discovery" in the money markets. Although MMFs are substantial participants in the markets for commercial paper, certificates of deposit, Treasury and agency bills, repurchase agreements and other money market instruments, they do not represent a majority of the trading in any of these markets. Reporting lot level information on Form N-MFP would therefore allow the Commission and others to view only a fraction of the trading in these markets. The information provided in Form N-MFP would also be as much as a month stale. "Price discovery" based on such incomplete and out-of-date information is unlikely to be helpful to the Commission or others.

The Reform Proposal does not specify who the "others" are who might use this information, but clearly it would not be shareholders. A few shareholders might be concerned with the MMF's shadow price and the extent of any realized losses, which are already disclosed elsewhere in Form N-MFP, but they should not have any interest in historical trading information. Only other market participants would be interested in this information, in order to use it to trade

[9] Reform Proposal at 36942. Footnote 766 further suggests that "Information about any securities sold by the fund during the reporting period would also provide the Commission and others with important information about how the fund may be handling heavy redemptions (e.g., selling securities at a haircut)."

[10] A summary of various trade reporting systems may be found at http://www.finra.org/Industry/Compliance/MarketTransparency/.

to their advantage and the MMF's disadvantage. This is one reason why money managers seek to maintain the confidentiality of their trades and why trades of stocks and bonds are reported on an anonymous basis. A lot-level disclosure requirement would thus represent an unprecedented intrusion into what has previously been regarded as proprietary information.

There are better means of factoring this information into portfolio pricing, without sacrificing confidentiality. Dealers and fund managers routinely provide pricing services with "color" about current trading and quotations. Pricing services incorporate this data into their yield curves for each issuer, and thus into the price estimates they provide for MMFs to compute their shadow price. This information is provided regularly, so that it is quickly incorporated into the price estimates. The pricing services agree to maintain the confidentiality of any information provided, so there is no risk of the information being used against the interest of the dealer or manager that provided it.

In addition, the Commission does not need lot-level information to find outliers. When the estimated market value of each portfolio security is incorporated into Form N-MFP, as proposed, the Commission can easily identify any difference in the estimated value of a security across MMFs. The Commission can also identify when the realized losses of a MMF have increased and what securities a fund has sold. (Any month-to-month decrease in holdings of securities that did not mature during the period represents a sale.) In the rare case where the Commission requires further information, it can make an examination request. There is no need for every MMF to report information every month that will only be useful on rare occasions for isolated MMFs.

Finally, as noted before, Federated does not believe that it can incorporate this information and still meet a five-day deadline for filing Form N-MFP. The provision of this information would add exponentially to the time associated with preparing and reviewing the Form N-MFP. At August 28, 2013, the Federated municipal MMFs held 1,966 securities and 2,918 lots; the Federated government MMFs held 1,153 securities and 2,505 lots; and the Federated prime MMFs held 1,444 securities and 3,761 lots. Accordingly, the provision of lot level information would result in thousands of extra line items on Form N-MFP.

(c) Fair Value Characterization under GAAP

Federated also opposes the amendments to Part C of Form N-MFP (Item C.20) that would require MMFs to report whether each portfolio security is categorized as a level 1, level 2, or level 3 measurement in the fair value hierarchy under U.S. Generally Accepted Accounting Principles. Currently, the accounting agent of the MMF provides a categorization level on a monthly basis, and such categorization levels are reported quarterly in Form N-Q and semi-annually in shareholder reports. The staff is correct that generally, the portfolio securities of a MMF will be categorized as level 2. In fact, as reflected in the current semi-annual report and annual report of each of Federated's prime MMFs, all of the assets were categorized as level 2 as of the close of the accounting period. Accordingly, Federated is unclear why the Commission would want to add to the length or complexity of the Form N-MFP to incorporate categorization levels that rarely change. If the Commission wants to identify level 3 securities, this can be accomplished by simply requiring a MMF to note any estimated market values that are level 3.

(d) Disclosure Regarding Largest Record Shareholders

Federated opposes providing the information that would be required under Item A.19, related to the total percentage of shares outstanding, to the nearest tenth of one percent, held by the twenty largest shareholders of record. Federated believes that, without proper context, a shareholder could draw incorrect conclusions from such information. Federated is specifically concerned that shareholders may incorrectly perceive that a MMF has shareholder concentration risk when it does not, due to the fact that the responses to Item A.19 likely would typically represent omnibus accounts, representing multiple underlying accounts.

2.5 Disclosures Regarding Liquidity Fees and Temporary Suspensions of Redemptions

In connection with the Alternative 2, the Commission has proposed disclosure-related amendments to Rule 482 under the Securities Act of 1933, and Form N-1A. Federated generally supports the content and purpose the disclosures set forth in Rule 482(b)(4) and Item 4 of Form N-1A, as described herein. However, Federated would propose to limit SAI disclosure regarding historic instances of liquidity fees and suspensions of redemptions to a five-year period prior to the effective date of the registration statement incorporating the SAI disclosure.

(a) Risk Disclosures in Advertisements, Sales Materials and Prospectus

Federated concurs with the Commission's bulleted risk disclosure statements that would be required to be included in (i) advertisements and sales materials of MMFs pursuant to Rule 482(b)(4);[11] and (ii) the summary section of the statutory prospectus (and accordingly, in the summary prospectus) (hereinafter, the "Summary Prospectus") pursuant to Item 4 of Form N-1A.[12] However, Federated believes that the addition of any of the additional disclosure statements with respect to which the Commission solicits comments would be unnecessarily duplicative, adding to the length and complexity of such documents without contributing any meaningful additional information regarding the risks associated therewith. For example, the statements "You could lose money by investing in the Fund,"[13] and "Your investment in the Fund therefore may experience losses,"[14] are virtually identical. Moreover, advising retail shareholders that they should "not invest all or most of the cash that they might need for routine expenses (e.g., mortgage payments, credit card bills, etc.) in any one money market fund"[15] is financial advice, not risk disclosure. Such disclosure would only serve to dilute the effect of the relevant risk disclosure, i.e., that "The Fund may temporarily suspend your ability to sell shares of the Fund when the Fund is under considerable stress."[16] In the event of a bank failure, unin-

[11] Reform Proposal at 36894.

[12] Reform Proposal at 36894, Form N-1A, Item 4(b)(ii).

[13] Reform Proposal at 36894.

[14] Reform Proposal at 36895.

[15] Reform Proposal at 36895.

[16] Reform Proposal at 36894.

sured deposits may not be immediately accessible, but account holders are not warned against putting money that they may need for routine expenses in a bank account.

A similar conflict between risk disclosure and other information would arise if the Commission "require[d] fund sponsors to publicly disclose their financial statements, in order to permit non-shareholders to evaluate the sponsor's capacity to provide support."[17] This would engender the investor confusion the Reform Proposal seeks to avoid. Investors would read on the cover page of the prospectus that "The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time," and also receive a copy of the sponsors financial statements so they could "evaluate the sponsor's capacity to provide support." Federated does not believe that the Commission should require any disclosure that might cloud an investor's understanding that "the Fund's sponsor has no legal obligation to provide financial support to the Fund."

The Summary Prospectuses for Federated's government MMFs currently have a full page of risk disclosure, and the Summary Prospectuses for Federated's prime MMFs have more than a page of risk disclosure. The inclusion of additional mandated risk disclosures, which simply reiterate what has been clearly communicated, would be inconsistent with the Commission's stated goal that all summary information be presented "in plain English in a clear and concise format" and "succinctly, in three or four pages, at the front of the prospectus."[18]

(b) Disclosures regarding Operation of Liquidity Fees and Suspension of Redemptions in Prospectus and SAI

Federated concurs with the Commission's view that Item 11(c)(1) and 23 of Form N-1A would require MMFs to fully describe the circumstances under which liquidity fees could be charged or redemptions could be suspended or reinstated, how shareholders would be notified thereof, and other implications for shareholders, including the tax consequences associated with the MMF's receipt of liquidity fees.

However, Federated does not believe that it is necessary for MMFs to describe in either of the prospectus or SAI the process of fund liquidation if the fund's weekly liquid assets fall below 15%, and the MMF's Board determines that the fund would be unable to stay open without further harm to the fund. Subsequent to the adoption of Rule 22e-3 under the Investment Company Act of 1940, Federated and other industry participants added risk disclosure, in accordance with Item 4(b) of N-1A, regarding the ability of the Board to suspend the redemption of shares and liquidate the MMF under Rule 22e-3. No MMFs have relied on Rule 22e-3 to suspend the redemption of shares and liquidate the MMF since its adoption, despite significant market turmoil. Moreover, the process of MMF liquidation may vary depending upon the very circumstances that prompt its necessity. Even if the MMF included disclosure regarding the pro-

[17] Reform Proposal at 36925

[18] Investment Company Act Release No28584, Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, 74 Fed. Reg. 4546 (January 26, 2009).

cess that it anticipates would be implemented, it would likely need to supplement such disclosure at the time of any such liquidation.

Federated also opposes the inclusion of information about the basic operation and effects of liquidity fees and suspensions of redemptions the Summary Prospectus. The operational sections of the Summary Prospectus are generally limited to a notation of the fund's minimum initial investment requirements and a brief identification of the fund's procedures for redeeming shares. The Summary Prospectus does not even include basic information that is relevant on a day-in, day-out basis, including cut-off times for purchases and redemptions and times for determination of net asset value. It would appear to be highly inconsistent with the Commission's goal of "providing prospectuses that are simpler, clearer, and more useful to investors"[19] to include operational language regarding an exigent circumstance (i.e., charging liquidity fees or suspending redemptions) which is highly unlike to ever occur.

(c) Provision to Permit Negative Disclosure in Summary Prospectus

Alternative 2 of the Reform Proposal would exempt government MMFs from having authority to impose a liquidity fee or temporarily suspend redemptions, but would allow them to "opt in" to liquidity fees and suspensions of redemptions if they properly disclosed their ability to do so.[20] Federated anticipates that, if the Commission adopts Alternative 2, there could be a "bifurcated" market for government MMFs, with certain government MMFs electing to have the ability to charge liquidity fees and suspend redemptions, and other government MMFs electing not to do so. Federated further anticipates that those of its government MMFs that would not have the ability to impose a liquidity fee or temporarily suspend redemptions would want to explicitly state this in the Summary Prospectus. However, Instruction 3(b) to Form N-1A prohibits a fund from including any "additional" information in the Summary Prospectus.[21] Accordingly, to the extent that it adopts Alternative 2, Federated encourages the Commission to clarify its instructions in respect of Form N-1A to make it clear that a government MMF can disclose in its Summary Prospectus that it does not have the ability to impose liquidity fees or temporarily suspend redemptions.

2.6 Unregistered Money Market Funds Should Be Subject to the Same Disclosure Requirements as Registered Money Market Funds

Federated supports the Commission's proposal to conform the disclosure requirements of Form PF for liquidity funds to the requirements of Form N-MFP. Federated remains concerned that further MMF reforms will increase the demand for unregistered stable value investment funds as compared to registered MMFs. Any reforms that drive substantial amounts of cash from funds under the Commission's jurisdiction to unregulated funds will increase risks to investors

[19] Securities and Exchange Commission, Release Nos. 33-8998; IC-28584; File No. S7-28-07, Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, page 16.

[20] Proposed Rule 2a-7(c)(2)(iii). In a separate letter, Federated has recommended also including tax exempt funds in this exemption.

[21] Instruction 3(b) to Form N-1A provides that "Items 2 through 8 may not include disclosure other than that required or permitted by those Items."

and to the markets, contrary to the underlying intent of the reforms. While the Commission's jurisdiction over unregistered funds is limited, reporting to the Commission is one key area in which the Commission can work to maintain a level playing field between registered and unregistered fund. Federated therefore recommends that the Commission require the same reporting for liquidity funds under Form PF as it requires from MMFs under Form N-MFP.

3. RULE 2A-7 SHOULD NOT TREAT SPONSORS OF ASSET-BACKED SECURITIES AS *DE FACTO* GUARANTORS

Currently, Rule 2a-7's diversification provisions do not require diversification of exposure to sponsors of asset-backed securities ("ABS") unless the sponsor provides a guarantee or demand feature for the ABS. [22] Instead, Rule 2a-7 requires, in effect, diversification of the qualifying assets held by the special purpose entity ("SPE") issuing the ABS by treating the SPE and any person whose obligations comprise more than 10% of the SPE's qualifying assets as issuers of the ABS. Providers of guarantees and demand features for the ABS (including sponsors) are also subject to diversification requirements—but only to the extent of their guarantee or demand features. For example, if a bank (including the ABS sponsor) agrees to buy defaulted qualifying assets of up to 10% of the SPE's outstanding ABS, then, for purposes of Rule 2a-7 diversification, the bank would be treated as a guarantor of 10% of the ABS held by a MMF.

Under the Reform Proposal, a MMF would be required to treat the sponsor of the SPE issuing an ABS as a guarantor of the ABS subject to Rule 2a-7's diversification limitations applicable to guarantors and demand feature providers. As a result, a MMF could not invest in an ABS if, immediately after the investment, it would have invested more than 10% of its total assets in the sponsor's ABS and in securities issued by or actually subject to demand features or guarantees from the sponsor. The Reform Proposal would provide an exception to the requirement, however, if the Board (or its delegate) determines that the MMF is not relying on the ABS sponsor's financial strength or its ability or willingness to provide liquidity, credit, or other support to determine the ABS's quality or liquidity.

Federated opposes this change for the following reasons: (1) MMFs place significant emphasis on the evaluation of the underlying qualifying assets, along with a plethora of other information, in deciding whether to invest in an ABS program; (2) incidental reliance on the financial strength of the ABS sponsor should not require treatment of the sponsor as a 100% guarantor of the ABS issued by its SPEs; and (3) overseeing determinations that a MMF is not relying on ABS sponsors would impose further burdens on the MMF directors' limited time. Fundamentally, this proposal requires MMFs to presume that a sponsor will support an ABS even when it does not have any legal obligation to do so, which is precisely the presumption the Commission proposes to warn MMF shareholders against with new risk disclosure. ("The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.")

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[22] *See,* rule 2a-7(a)(17) (definition of a guarantee); rule 2a-7(a)(9) (definition of a demand feature).

3.1 MMFs Evaluate the Qualifying Assets Held by an SPE When Assessing the Credit Risks of its ABS

The Reform Proposal seems to reflect a misunderstanding that asset-backed commercial paper ("ABCP", a type of ABS commonly held by prime MMFs) investors make investment decisions based entirely on the structure of the ABCP programs and the financial wherewithal of their sponsors, without analyzing information about the qualifying assets owned by the SPEs issuing the ABCP. In the Reform Proposal, the Commission cites a comment letter written by the American Securitization Forum ("ASF")[23] to support this conclusion ("ASF Comment Letter").[24] However, the ASF Comment Letter did not claim that purchasers of ABCP base their investment decision primarily on the sponsor's financial strength. Schedule I of the ASF Comment Letter set forth two pages of data points commonly disclosed in ABCP offerings, not one of which related to the sponsor as such. Moreover, the letter only claimed that investors consider, among many other factors, "the experience and policies of the program's sponsor when deciding whether to invest (and re-invest) in such ABCP,"[25] not that they consider the sponsor's financial strength.

The Reform Proposal assumes that MMFs do not receive any significant information about the qualifying assets or obligors underlying the ABCP in which they invest.[26] This is not the case at Federated and, we expect, at other MMF managers. Federated is a prime example of how investors in ABCP conduct a comprehensive evaluation of ABCP before investing, relying significantly on information regarding the character, quality and performance of the qualifying assets supporting the ABCP. In evaluating ABS, Federated reviews each SPE in accordance with the following criteria: 1) asset quality (performance of the underlying pool of qualifying assets and historical cash flow); 2) default protection (credit enhancement, including overcollateralization of qualifying assets); 3) liquidity protection (e.g., credit facilities, which may be provided by a bank other than the sponsor, or even a syndicate of banks); 4) originator and servicer (experience originating or servicing qualifying assets, and size and significance of origination or servicing as a line of business); 5) types of qualifying assets; and 6) technology used in origination and servicing. Each of these areas is reviewed and an overall level of credit protection (from the qualifying assets, liquidity providers and credit enhancement, including guarantees, if any) is assessed. After Federated's investment analysts complete their assessment of the level of credit protection provided for the SPE's ABS, Federated's credit committee reviews and approves the

[23] The ASF split from the Securities Industry and Financial Markets Association ("SIFMA") three years ago and includes buyers, dealers and sponsors of ABS. Federated believes that the need to balance the views of its constituents has led the ASF to understate the extent to which buyers obtain and review information regarding the qualifying assets underlying an ABS. In fact, dissatisfaction with, among other matters, its ability to express a balanced view on such issues has led to the establishment of an alternative organization, the Structured Finance Industry Group, to represent the securitization industry.

[24] Comment Letter of the American Securitization Forum (Aug. 2, 2010) (available in File No. S7-08-10) ("ABCP investors, in comparison to investors in other categories of asset-backed securities, … focus less on individual asset information and much more on program-wide liquidity and credit characteristics and program performance.").

[25] *Id.* at 2.

[26] *See* Reform Proposal at 36960 ("If funds do not receive any significant information about the underlying assets or obligors, *which we understand they generally do not for ABCP*, then on what are they relying other than the ABS sponsor's support?") [emphasis added].

program prior to any investment in the ABS. After approval of the SPE's program, the analyst continues to monitor, among other information, the performance of the qualifying assets held by the SPE based on monthly tracking service reports provided by the program's servicer.

It is important to note that only a portion of the Federated analysis is based on the sponsor and, contrary to the Commission's assumption, significant emphasis is placed on the qualifying assets. Unless the sponsor actually provides a 100% guarantee of the ABS, Federated would never determine that an ABS program presents minimum credit risk based solely on the sponsor's financial strength.

3.2 Incidental Reliance on the Financial Strength of the ABS Sponsor should not Require Treatment of the Sponsor as a 100% Guarantor

Currently, Rule 2a-7 counts towards a company's diversification limit any ABS for which the company actually provides a guarantee or demand feature. However, if a company only guarantees or provides a demand feature for a portion of the qualifying assets, then only that portion of the ABS is counted towards the diversification limit. The Reform Proposal would change this result by treating a company that sponsors an ABS as guarantying the *entire* amount of the ABS held by a MMF, even if the company's guarantee or demand feature is limited to a smaller amount. The credit support provided by a partial guarantee is the same regardless of whether the company providing it sponsors the ABS. There is no justification for treating sponsor guarantees differently from other guarantees.

Furthermore, the Reform Proposal would treat a sponsor who has no legal obligation to support an ABS as guarantying the entire amount of the ABS. This would be the case even if the sponsor expressly disclaims any obligation to support its ABS. Consequently, the Reform Proposal would encourage investors that are assessing the credit risk of an ABS to rely on an unproven assumption that a sponsor will voluntarily assume losses on its financial products. Such "implicit guarantees" are not reliable and endorsing this practice would only increase the risks to MMFs that invest in ABS.

The Reform Proposal also appears to reflect a misunderstanding that MMFs "make investment decisions based, at least in part, on the presumption that the sponsor will take steps to prevent the ABCP from defaulting, including committing capital."[27] As Federated's process for evaluating ABCP demonstrates, credit risk determinations for ABCP are not based on any such "presumption." Federated supports the following comment made in the ICI Comment Letter regarding this presumption:

> One can acknowledge that the composition and performance of qualifying assets "are not the only, or even primary, factors in the credit analysis of ABCP," without presuming that a sponsor will commit capital to its ABCP program. Legally enforceable obligations to support ABCP are critical factors in the assessment of ABCP, which is why credit analysts devote time to "reviewing existing legal documentation defining the contractual obligations of the counterparties providing

[27] Reform Proposal at 36959.

liquidity and credit support facilities to a conduit, and assessing the creditworthiness of those counterparties." Such review and analysis would be unnecessary if analysts simply "presumed that the sponsor will take steps to prevent the ABCP from defaulting."

3.3 Overseeing Determinations that a Fund Is Not Relying on the Sponsor Would Waste Valuable Board Time

The Reform Proposal would not require a MMF to treat a sponsor as a guarantor if the Board "has determined that the fund is not relying on the sponsor's financial strength or its ability or willingness to provide liquidity, credit or other support to determine the quality or liquidity of the asset-backed security, and maintains a record of this determination.[28]" Federated does not believe that it would be a productive use of the directors' time and attention to make such a determination.

Rule 2a-7 already requires the Board to oversee the minimum credit risk determination of all portfolio securities, including ABS. Federated provides the Board with a large volume of information regarding its process for making minimum credit risk determinations and the issuers that have been approved for use by Federated's MMFs. Requiring the Board to oversee determinations that Federated's MMFs are *not* relying on an ABS sponsor's financial strength will add to the material provided to the Board, require the Board to commit time to the review and ratification of the determination, and require maintenance of yet another record of such determination and ratification. Federated believes the Board's time would be better spent overseeing the analysis of the credit strength of companies that are actually obligated to support the ABS, rather than confirming that the sponsor does not have any such obligation.

4. THE COMMISSION SHOULD RETAIN THE "25% BASKET"

The Reform Proposal would eliminate the exception to Rule 2a-7's diversification requirements for providers of guarantees and demand features known as the "25% basket." Generally, Rule 2a-7 prohibits a MMF from acquiring a security subject to a guarantee or demand feature (an "Enhanced Security") if the acquisition would result in the MMF holding more than 10% of its total assets in securities issued by or subject to guarantees and demand features from the provider of the guarantee or demand feature (the "Enhancement Provider"). The 25% basket allows a MMF to acquire first tier Enhanced Securities in excess of this 10% limit, provided:
(a) the Enhancement Provider is not an affiliate of the issuer of the Enhanced Security, and
(b) the acquisition would not result in more than 25% of the MMF's total assets being invested in securities issued by or subject to guarantees or demand features from Enhancement Providers that exceed the 10% limit.

Federated's comment letter regarding tax exempt funds explains in detail how and why these funds use the 25% basket and why retention of the 25% basket is critical to their continued operation. Although other types of MMFs rarely use the 25% basket, we nevertheless would recommend that the Commission retain the current exception for all MMFs.

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[28] Reform Proposal at 36960.

Prior to the implementation of the amendments to Rule 2a-7 adopted by the Commission in 1996, only tax exempt funds could rely on the 25% basket. In 1993, the Commission proposed to eliminate the basket and force tax exempt funds to comply with the same limits as taxable MMFs.[29] After receiving the same comments that the Commission has received in response to the Reform Proposal regarding the importance of the 25% basket to tax exempt funds, it reversed course and extended the 25% basket to all MMFs, provided that the Enhancement Providers were all first tier and not affiliated with the issuers of the underlying securities. The Commission did not explain its reasons for permitting non-tax exempt funds to rely on the 25% basket, but the change was consistent with the general approach of simplification and uniformity taken in the 1996 amendments and 1997 technical amendments to Rule 2a-7.

The Reform Proposal does not cite any instances of prime MMFs using the 25% basket inappropriately over the past 15 years.[30] Having a uniform requirement for diversification of demand features and guarantees has simplified compliance with Rule 2a-7 and avoided an arbitrary distinction between tax exempt funds and other MMFs. In the absence of any problems in prime MMFs attributable to their reliance on the 25% basket, there should be no reason to prevent them from continuing to have the same ability to use the 25% basket as tax exempt funds.

Additionally, if—notwithstanding Federated's and the industry's strong objections—the Commission adopts its ill-advised proposal to treat a sponsor as the guarantor of its ABS, reliance on the 25% basket is likely to become more important to prime MMFs. The 25% basket may be the only means, once a sponsor has reached the 10% diversification limit, that a prime MMF could acquire an ABS fully guaranteed by an Enhancement Provider unrelated to the sponsor. Although Federated does not believe that the Commission should adopt either proposal, it certainly should not adopt a combination of proposals that would prevent prime MMFs from acquiring ABS that would increase the fund's diversification of true Enhancement Providers.

5. THE COMMISSION SHOULD NOT UNDULY COMPLICATE THE STRESS TESTING REQUIREMENTS

Federated joins in the extensive comments provided in the ICI's comment letter questioning the proposed expansion of Rule 2a-7's stress testing requirements. Federated is further concerned that these proposals overestimate the importance of stress testing and fail to appreciate its limitations. An in-depth analysis of one particular proposal—the proposed requirement that a MMF report "the magnitude of each hypothetical event that would … cause the fund to have invested less than fifteen percent of its assets in weekly liquid assets"[31]—will illustrate the general problems with the proposed stress testing requirements.

[29] Revisions to Rules Regulating Money Market Funds, SEC Release No. IC-19959, 58 Fed. Reg. 68585 (proposed December 17, 1993).

[30] Government MMFs do not need to rely on the 25% basket, because federally guaranteed securities are not subject to diversification limits under Rule 2a-7.

[31] Proposed Rule 2a-7(g)(7)(ii)(A).

One of the “hypothetical events” MMFs are required to stress test is an “[i]ncreas[e] in the general level of short-term interest rates.”[32] Currently, Rule 2a-7 requires a MMF to report “the magnitude of [a general increase in interest rates] that would cause the deviation of the money market fund's net asset value calculated using available market quotations (or appropriate substitutes which reflect current market conditions) from its net asset value per share calculated using amortized cost to exceed ½ of 1 percent.” A MMF can calculate this magnitude because there is a mathematical relationship between an instrument’s yield and its price; in order for the yield to go up to a specified amount, the price must fall by a corresponding amount. The current stress test requirement essentially requires the MMF to answer the question: “How far must interest rates rise before the resulting decrease in the value of the portfolio results in an estimated net asset value per share of $0.995?”

The proposed stress testing reform would require the MMF to answer the question: “How far must interest rates rise before the resulting decrease in weekly liquid assets results in the weekly liquid assets equaling 15% of the MMF’s total assets?” The problem is there is no direct correlation between an increase in interest rates and a decrease in weekly liquid assets. Whereas the current rule looks at the *value* of the portfolio, which changes as a result of external market forces, the proposed requirement would look at the *composition* of the portfolio, which can change only as a result of the MMF selling portfolio securities. The current test is based on a *mathematical* relationship between yield and price, but the proposed test would have to be based on a *behavioral* relationship between changes in interest rates and decisions by the MMF’s portfolio manager to sell portfolio securities.

The Reform Proposal simply assumes the existence of this behavioral relationship, without any attempt at investigation or even a request for comments. Give the stability of interest rates since the imposition of the weekly liquid asset requirement, no one could confirm (much less quantify) any relationship between general changes in interest rates and holdings of weekly liquid assets. Even if sufficient data were available and a purported correlation found, Federated would be skeptical of the underlying premise of the analysis. Portfolio managers make investment decisions based on the full range of information available to the market; they do not reflexively sell securities whenever interest rates increase.

It is conceivable that the Commission intended for MMFs to base this stress test on an indirectly relationship between increases in interest rates and reductions in weekly liquid assets. For example, some may suppose that higher interest rates lead to higher redemptions, and that the MMF may need to dispose of weekly liquid assets in order to cover the net redemptions. This might explain the proposed new requirement to assess “how the fund would meet the redemptions, taking into consideration assumptions regarding the relative liquidity of the fund’s portfolio securities, the prices for which portfolio securities could be sold, the fund’s historical experience meeting redemption requests, and any other relevant factors.”[33] As proposed, this assessment would be required only in connection with the redemption stress test, so this would not be the natural interpretation of the requirement.

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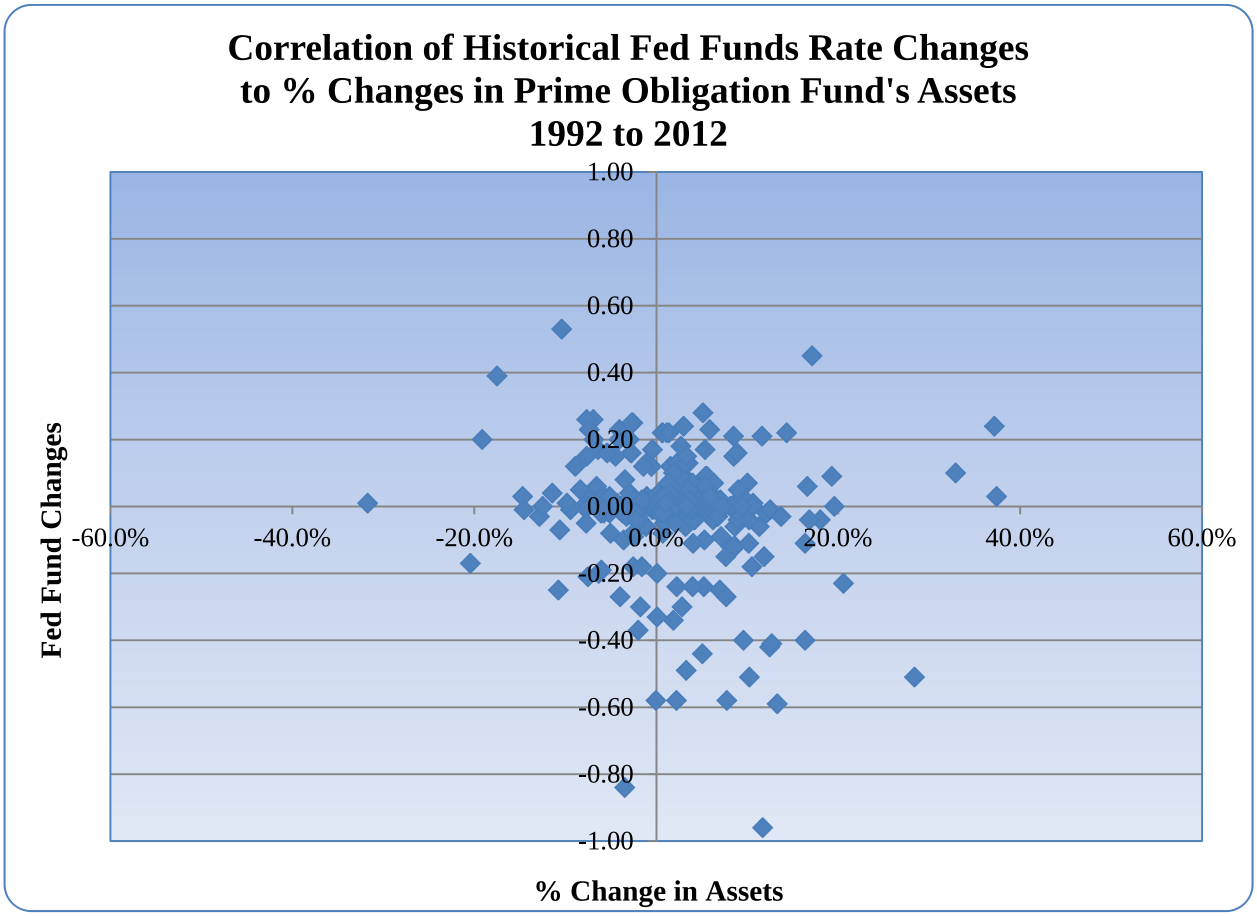
[32] Proposed Rule 2a-7(g)(7)(i)(A).

[33] Proposed Rule 2a-7(g)(7)(i)(B).

Even if this were the Commission's intent, it would still be based on an assumed behavioral relationship, in this case between increases in interest rates and shareholders' decisions to purchase or redeem shares. Federated has, on several occasions, shown the Commission's staff charts that graph net cash flows against changes in the Federal Funds rate. These charts showed that liquidity needs are the primary driver of cash flows, with no apparent connection to interest rate changes. The following chart shows the actual correlation between monthly changes in the Federal Funds rate and monthly percentage changes in the assets of Federated's Prime Obligation Fund over a twenty-one year period.



The dense concentration of points around the chart's origin, with a small tendency towards increases in the fund's assets (consistent with a growing fund), demonstrates that there is no regular correlation between changes in the Federal Funds rate and changes in the fund's assets. The largest increases in the Federal Funds rate (between 40 and 60 basis points) have been associated with both an increase and a decrease in assets, with the increase being more than twice as large as the decrease. The next range of rate increases (between 20 and 40 basis points) shows more instances with the same pattern: about the same number of increases and decreases, with the increases having a larger magnitude. Perhaps most significantly, the largest decline in net assets was not associated with any change in interest rates and the second largest was associated with decrease in interest rates. In summary, Federated cannot establish any meaningful correlation between interest rate changes and redemptions that could be used for purposes of stress testing.

Nevertheless, it might be suggested that applying the proposed "assessment" to each hypothetical level of redemptions would allow a MMF to calculate the percentage of weekly liquid assets left after such redemptions. In other words, the MMF could "assess" how it would respond to redemptions of 10%, 20%, etc. under the given levels of market stress, and then determine how the potential response would affect the fund's weekly liquid assets. It should be noted that "assessment" in this context means "assumption:" how the test would *assume* that the MMF would raise cash to meet the hypothetical redemptions. If the test assumes that the fund will use weekly liquid assets (which, by definition, also includes daily liquid assets) first, then the level of weekly liquid assets will fall rapidly; if the test assumes that the MMF will sell portfolio securities which are valued at or above their amortized cost, the level of weekly liquid assets may increase. (For example, if the fund can meet the redemptions using sales of non-weekly liquid assets, then then reduction of total assets due to redemptions will increase the percentage of weekly liquid assets.)

In either case, the test must make further assumptions about compliance with Rule 2a-7. For example, the test would need to assume that the MMF would not sell portfolio securities if the resulting weighted-average maturity would exceed the 60 or 120-day limits imposed by Rule 2a-7. This might result from either the disposition of weekly liquid assets (if, for example, the weekly liquid assets are not government securities, so their maturities would be seven days or less) or the disposition of non-weekly liquid assets (if, for example, the fund's weekly liquid assets are longer-term Treasury securities, and the test assumed that the fund sold with shorter deemed maturities for purposes of calculating the weighted-average maturity). As the ICI Comment Letter notes, irresolvable conflicts can arise from such a complex array of assumptions.[34] Further, assumed relationships between redemptions and portfolio dispositions are very different from the mathematical relationship between yield and price.

Rather than piling assumptions onto hypotheticals, the ICI has proposed a simpler test that might prove useful. If we assume the MMF uses only weekly liquid assets to meet redemptions, then we will generate the worst-case result for a given level of redemptions. This result will be the same regardless of any of the other hypothetical events, because the other events (e.g., changes in interest rates or spreads) will not change which portfolio securities are weekly liquid assets. When this level of redemptions is combined with the other events, the combined test will show the loss of resiliency that might be associated with a reduction in weekly liquid assets to the 15% (or, as we would recommend, 10%) threshold.

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[34] Even without a conflict, the assessment may never yield a result in which weekly liquid assets are reduced to 15% of total assets. Tax exempt funds, for example, start with very high levels of weekly liquid assets (mostly daily and weekly variable rate demand obligations). As a result, any increase in interest rates is fully reflected in their yield within a week, which tends to attract cash inflows rather than outflows. In this circumstance, the assessment would be that the fund would try to invest more cash in weekly liquid assets, which would raise the percentage.

While this might be considered an argument for conducting different stress tests for different types of funds, Federated believes that this would also needlessly add to the complexity of the stress-testing requirement. We recommend using a standard set of tests for all funds and educating the Board on the limitations inherent in those tests.

Any plausible scenario will necessarily be better than this worst-case result. Nevertheless, knowledge of the worst case result may help the Board decide, if a MMF is experiencing substantial redemptions, when to monitor more closely the level of weekly liquid assets and the conditions for raising liquidity through the sale of non-weekly liquid assets. Giving the Board more results based on various complex assumptions is more likely to cloud than to aid their assessment of the situation. Fundamentally, it is more important for the Board to discuss what the fund's manager *plans* to do to meet redemptions, than it is to *assume* what the manager might do in a stress test.

Forcing risk discussions into a stress-testing format may even impede communications between the Board and the fund's manager regarding current risk conditions. Federated frequently provides (both on its initiative and at the Board's request) reports on specific risks that may affect MMFs. During the 1990s, for example, Federated provided reports on the financial condition of Japanese banks and the limited conditions under which Federated's MMFs were permitted to rely on these banks. Early in 1997, Federated provided an assessment of its MMFs' potential indirect exposure to subprime mortgage-backed securities. Examples of topics of more recent presentations and reports include:

- Structured Investment Vehicles and ABCP,
- Tender Option Bonds and other Variable Rate Demand Obligations,
- Monoline Insurers,
- "Too Big To Fail" Banks,
- European Debt Crisis – Phases 1, 2 and 3,
- US Debt Ceiling, Budget Negotiation, and Sequester Process, and
- Detroit's bankruptcy filing and municipal market implications.

None of these reports took the form of stress tests, as we could communicate these risk assessments more effectively in other formats. The proposed requirement for stress tests to include "any other events the adviser deems relevant,"[35] could be interpreted to require that all special risk assessments take the form of stress tests. Given our experience with special risk assessments for the Board, we do not see any justification for making stress tests the preferred format for providing risk information to the Board.

One further point: the type of stress testing and "assessments" envisioned by the Reform Proposal will be very expensive. Federated contacted the provider of a widely-used risk management system that could perform the types of test contemplated in new subparagraphs (E) and (F) of Proposed Rule 2a-7(g)(7)(i), and determined that the software costs alone would range between $250,000 and $750,000 per year. Federated confirmed that this system could not test a

[35] Proposed Rule 2a-7(g)(7)(i)(F).

MMF's ability to maintain weekly liquid assets at or above 15% of its total assets; this proposed requirement appears beyond the capacity of any existing software. Software costs are the tip of the iceberg, however, in comparison to the time and effort required to load data into the software, run the test and analyze the results. The system would allow Federated to produce a prodigious quantity of nearly identical results. Showing the Board a multiplicity of situations in which a MMF will maintain its stable NAV might impress them with the fund's resiliency, but it is hard to suppose that it will increase their understanding of the risks faced by the fund.

The Commission has a database for conducting stress tests with the information regularly provided on Form N-MFP. The staff has complete portfolios, monthly flows and shadow prices for every MMF for the past three years. The staff can run whatever stress tests they can devise using this data, which will confirm that MMFs can withstand even severe market conditions.[36] Working with stress tests will give the staff a full appreciation of the difficulties of conducting complicated tests and the limitations of interpreting the test results. If the staff happens to find a particularly insightful test, the Commission will be able to explain the assumptions and parameters of the test with much greater precision than the vague suggestions in the Reform Proposal.

Clarifying the assumptions and parameters of proposed tests should help the Commission draft less vague and open-ended testing requirements than those included in Reform Proposal. New paragraphs (E) and (F) of the proposed stress testing requirements do not indicate how many tests, or even what types of tests, a MMF must conduct. As proposed, neither the fund's Board nor its Chief Compliance Officer could confirm that a MMF's stress testing procedures complied with the new requirements. The Commission must be more careful in drafting stress-testing requirements, to not only assure that MMFs can comply with the requirements, but encourage more specific comments to the proposed changes.

6. CONCLUSIONS

The disclosure and reporting proposals in the Reform Proposal contain many useful elements, but also other elements that would be excessively costly and burdensome without a corresponding benefit to investors or systemic stability. The Commission's proposed definition of "sponsor financial support" would be overly broad and would capture many routine transactions that are not indicative of stress. Daily disclosures of current weekly liquid assets, flows, top shareholders and 25 basis point deviations in conjunction with Alternative Two have the potential to be destabilizing because the disclosures could result in reactionary redemptions that are based on transient liquidity fluctuations. The lot level reporting contemplated under Form N-MFP would be a wasteful, inefficient and inequitable means of evaluating pricing in the money markets, and could be used by other market participants to trade to their advantage and the

[36] This was the result of the tests summarized in Appendices 1 and 2 of the RSFI Study, which found that "Under the assumptions in the model, the probability of breaking the buck for a money market fund with a WAM of 60 days is close to zero." Response to Questions Posed by Commissioners Aguilar, Paredes, and Gallagher, a report by staff of the Division of Risk, Strategy, and Financial Innovation (Nov. 30, 2012), http://www.sec.gov/news/studies/2012/money-market-funds-memo-2012.pdf. Sharing such results with other members of the Financial Stability Oversight Council might give them a more realistic understanding of the inherent strength of MMFs.

MMF's disadvantage. The Commission should tailor the scope of proposed Form N-CR and proposed changes to Form N-MFP more carefully.

The Commission should not treat sponsors of ABS as de facto guarantors of the ABS. Such change is inconsistent with the fundamental credit analysis that the investment adviser to a MMF performs in respect of ABS, which analysis places significant emphasis on the evaluation of the underlying qualifying assets, along with a plethora of other information. Any incidental reliance on the financial strength of the ABS sponsor should not require treatment of the sponsor as a 100% guarantor of the ABS issued by its SPEs. The Commission should also retain the 25% basket for both tax exempt and prime MMFs.

Finally, the Commission should retain the core stress testing requirements, with the modifications recommended in the ICI Comment Letter. The proposed stress test for maintaining weekly liquid assets is unworkable, and the proposed requirements for correlations and assessments excessively complicated. The proposed additional tests are so vague and open-ended as to make it practically impossible to tell what tests would be required, and could impede communication with the Board..

Federated appreciates the opportunity to comment on the Reform Proposal and the Commission's consideration of our comments. Please feel free to contact John McGonigle if you have any questions regarding these comments.

Very truly yours,

/s/ John W. McGonigle
Vice Chairman
Federated Investors, Inc.