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September 17, 2013

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

Re: Proposed Rule on Money Market Fund Reform; Amendments to Form PF

File Reference Number S7-03-13

Submitted Via Electronic Filing

Dear Commissioners,

PFM Asset Management, LLC ("PFMAM") appreciates the occasion to provide our comments to the Securities and Exchange Commission's proposed new rules ("proposal") for Money Market Funds ("MMF").¹ The proposal includes two alternatives, which also could be adopted in combination, for amending the rules that govern registered money market funds subject to the Investment Company Act of 1940.

One of these would require prime institutional funds to effect transactions using a floating net asset value ("FNAV"), while the second alternative would require that a fund impose a liquidity fee to be implemented should a fund's weekly liquidity fall below a specified threshold (unless the fund's board determines that it is not in the best interest of the fund) and would permit fund redemptions to be temporarily suspended. The FNV alternative would apply only to Prime MMFs, while the alternative for liquidity fees and redemption gates would apply to all MMFs. The proposal also adds certain other new or additional reporting and disclosure requirements related to MMFs.

¹ Money Market Fund Reform; Amendments to Form PF, 78 Fed. Reg. 36834 (June 19, 2013); or Money Market Fund Reform; Amendments to Form PF, Release No. IC-30551 (June 5, 2013), available at <http://www.sec.gov/rules/proposed/2013/33-9408.pdf>.



The proposal seeks comment relating to the impact of these proposed rules for investors and the registrants which hold investments in MMFs. PFMAM's comments are focused on those elements of the proposal which we believe directly impact our business and have significant implications for the clients we serve.

Background: PFMAM and the PFM Funds

PFMAM is an investment advisor registered under the Investment Advisers Act of 1940. We are one of the largest investment advisors in the United States that specializes in advising state and local governments and non-profit institutional enterprises performing governmental-type roles such as healthcare and education.

We have more than thirty years of professional investment experience serving the needs and requirements of public service entities and institutions. The preponderance of PFMAM's investment management activity is focused on prime, short-term fixed income investments that are compliant with the delimitation of permissible investments under state and local law. As of June 30, 2013, we provided discretionary investment management for over \$44 billion of such clients' fixed income assets.

PFMAM is also the investment advisor and administrator of the PFM Funds (the "Fund") which is a registered investment company operating as a MMF under Rule 2a-7. Our subsidiary, PFM Fund Distributors, Inc. is registered as a broker under the Securities Exchange Act and performs the function of distributor for the Fund.

The Fund offers both a Prime Series and Government Series money market mutual fund portfolio to meet the short-term investment needs of its institutional investors primarily consisting of state and municipal governments, authorities, school boards, and similar entities; universities, schools, non-profit public service organizations, and other institutional enterprises. As of June 30, 2013, the Fund held a total of over \$6.5 billion on behalf of these investors (the Prime Series investments totaled \$6.36 billion, and the Government Series investments totaled \$188 million).



Floating NAV

In our view, the FNAV alternative does not succeed in meeting the Commission's stated objectives for money market fund investors, would impose further operational costs for MMFs and their investors, and would create additional risks for MMF investors.

At the core of the proposal, the FNAV alternative aims to balance the time-tested usefulness of MMFs as an available cash management instrument for investors' daily liquidity needs with a fundamental change that strikes at the heart of the MMF concept in an effort to reduce the incentive for MMF investors to precipitously redeem shares in times of market stress.² However, the FNAV alternative falls short of meeting the Commission's stated objectives by instead reducing, or perhaps even eliminating, the key aspects of viability for prime institutional MMFs without effectively diminishing the potential for a 'run on the fund' by investors.

The FNAV alternative seems to rest on the doubtful proposition that institutional and governmental treasurers, who as a class have demonstrated trigger-fast reactions to liquidity threats, will in a time of great stress, patiently discriminate among their MMF holdings on the basis of the relative erosion of reported net asset value. It is rather more likely that an institutional investor's conclusion that the underlying investments may have gone bad will compel a wholesale liquidation of MMF investments until the scope of jeopardy becomes clear. Although the FNAV alternative could provide a tool for discriminating among funds, in an environment of the sort which the Commission posits as a systemic threat to the financial system, the treasurers know there is no reward for waiting. (better to take no loss or a small known loss today

² See Release at '78 Fed. Reg. 36837-38 ("Each alternative seeks to preserve the ability of money market funds to function as an effective and efficient cash management tool for investors, but also address certain features in money market funds that can make them susceptible to heavy redemptions, provide them with better tools to manage and mitigate potential contagion from high levels of redemptions, and increase the transparency of their risks.").



than to await the uncertainty of tomorrow.) And thus there is no real value in a scheme that (as we describe below) imposes substantial costs on money market funds to provide data that the most significant investors would not rely upon.

Using the market events of September 2008 as relevant context, subsequent research and study has conveyed the evidence that both \$1.00 NAV MMFs and FNAV 'enhanced cash' funds are both just as likely to experience significant redemptions during times of market stress.³ PFMAM similarly believes the intended imposition of a FNAV has the aesthetic value to display price movements notionally, however the change will not really result in the wished-for outcome or lead to diminished potential for a run on MMFs during times of market stress. We believe investors in PFM Funds, and in other MMFs, will continue to evaluate key factors underlying the portfolio's holdings -- credit quality, weighted-average maturity, and overall duration -- in deciding whether or not to redeem during market stress.

In this respect, while we object to the FNAV alternative as ineffective, we support the Commission's instant proposals for further disclosure of underlying NAV and portfolio holdings, and requirements for more diversification of portfolio holdings.

Increased Costs Associated with a Floating NAV

In our view, in light of the fact that the advantage of the FNAV alternative is not self-evident, it is particularly necessary for the Commission to observe and more justly consider the further costs and undue operational burden associated with the change to a FNAV regime.

We believe that the cost/benefit analysis has not been adequately considered, and must be addressed for all industry participants -- including large, medium, and small funds and the associated registrants

³ See Run Risk in Money Market Funds, HSBC Global Asset Management (November 3, 2011)(This paper suggests that while there are theoretical differences between CNAV [constant NAV] and VNAV [variable NAV] funds, for all practical purposes they behave in the same way during normal markets and during periods of market stress, and neither shows more propensity towards runs than the other).



-- before proceeding to alter the fundamental operation of MMFs by moving away from amortized cost pricing of short-term holdings in favor of a four decimal FNAV.

Among our concerns, which we submit require additional investigation, are:

- additional service provider costs (e.g. the impact of pricing - vendor expenses);
- impact on the cost of cash management services available to investors (e.g. the requirement for striking the net asset value multiple times in a day);
- portfolio accounting system alterations and accompanying updates;
- the operational cost/effect on relatively smaller funds, registrants, and administrators,
- potential for further industry consolidation thereby exacerbating the concentration of industry risk and raising systemic risk.

For the purposes of quantifying these additional costs, PFMAM undertook an initial analysis of the potential impact of the proposal and discovered significant one-time and ongoing increases for the Fund and its Administrator (e.g., changes to accommodate cash management services), the Investment Advisor (e.g., pricing vendor expenses and costs related to increased staffing to manage valuation complications and uncertainties), and for the Transfer Agent (e.g., updates necessary to systems/applications).

Effect of Multi-day NAV Strike Necessary for Cash Management Purposes

The current \$1.00 NAV allows for amortized cost valuation which eases the need for the Fund, and all MMFs, to value each portfolio holding multiple times within a day on a mark-to-market basis. It is vital to many Fund investors to utilize a \$1.00 NAV MMF to facilitate their cash management requirements, and the amortized cost valuation



method provides MMFs with the ability to process efficiently purchase and redemption orders for investors throughout the business day.

Striking the NAV multiple times during a day while seeking to price each portfolio holding with market-based valuations creates significant operational issues. The FNAV alternative would likely not allow for MMFs to be able effectively to establish intra-day holding valuations, and provide accommodation for the intraday settlement of securities. As noted earlier, one component of the Fund's design and operation seeks to meet the investment and cash management needs of public-sector and similarly focused institutional investors, however we estimate that the costs and complexities associated with a FNAV will lead to the considerable reduction or possible elimination of cash management services offered by the Fund.

Our discussions with the Fund's Board of Trustees strongly signifies that there is a fundamental need for cash management services to facilitate the operating requirements for state and local governments. The Commission can clearly find support for this concern in the abundance of previous comments made by public entities or their member organizations describing the impact to the governmental investors. The proposed exemption of "retail" funds from the FNAV alternative provides no relief for the Fund's investors or for other state and local government investors who rely on MMFs for cash management services.

Effect of Further Limiting Alternatives of State and Local Governments for Short-Term Investments

For many of our investment management clients, legislative and entity-specific investment policy requirements include reference to investing in "Rule 2a-7" registered money market funds and can also include the necessity for the investments of operating or bond proceeds accounts to maintain a "\$1.00 NAV". The resulting, though seemingly unintended, complications of the FNAV alternative could bring additional risks and disadvantages for state and local government investment officials as they look for alternatives to meet their liquidity and cash



management needs. All are material and lingering side-effects of the proposal on the effectiveness of cash management services.

Among the alternatives and their potential risks are the following:

Table 1: Possible MMF alternatives

Holding Type:	Potential Risks / Disadvantages:
Bank deposits	<ul style="list-style-type: none"> • Lack of investment diversification
Shift assets to Government MMFs	<ul style="list-style-type: none"> • Already near zero yields will be further depressed by increase in institutional investor demand threatening the viability of Government MMFs
Separately managed accounts	<ul style="list-style-type: none"> • Often not feasible for smaller investors • Loss of pooled vehicle efficiencies and investment advantages
"Short-duration" bond funds	<ul style="list-style-type: none"> • Increased credit and duration risk • Reduced liquidity
"Enhanced cash" funds	<ul style="list-style-type: none"> • Increased credit and duration risk • Reduced liquidity

In sum, PFMAM believes that the FNAV alternative will have the effect of driving many investors into alternative liquidity options such as banks or short-term bond mutual funds, which will only serve to increase moral hazard and further act to reduce the competitive landscape.

Concerns Surrounding the Liquidity Fee and Redemption Gate Proposals

The liquidity fee and redemption gate alternative (the "Fees and Gates alternative") reflect two additional methods for MMF funds and



their Boards to institute limitations which would affect the continued redemption of shares at a stated value during times of extreme market stress on liquidity. Basically, this alternative would require, unless a Board determined otherwise, for MMFs to introduce a liquidity fee if a MMF's weekly liquid assets fall below 15% of its total assets, and would permit a MMF board to impose a temporary suspension of redemptions. The principal explanation given for this alternative is to protect shareholders against the effects of a run on a fund, and also to shield the investment marketplace from the disruption caused by wholesale liquidations to meet panic redemptions. Both aspects of this alternative - the imposition of a liquidity fee and/or redemption gate -- may have the intended effect to slow the run on a fund in times of market stress.

The force and effect of the 2010 amendments to Rule 2a-7 increased fund and portfolio manager sensitivity to changes in the dollar-weighted average maturity and further amplified consideration of liquidity requirements. The presence of these newly-proposed barriers to redemption would undoubtedly effect change to fund and portfolio manager activities, but the disruption and uncertainties which these will impose on an investment system that has generally worked well are not clearly justified. There is already dedicated focus on managing both assets and liabilities and a portfolio manager must seek to know its clients in order to attempt to anticipate cash flow needs. PFMAM holds the opinion that further changes are not necessary. Furthermore, we are apprehensive that they may create a commercial result that, at a time when reliability is most essential, would accelerate fear among the investment community.

We believe that the mere threat of a gate will be enough to drive public sector investors, who use MMFs as a temporary place to invest funds for liquidity needs such as debt service and payroll, out of these funds and into other more risky investments. The risks, as enumerated in Table 1 above, are similar to those of the FNAV alternative.

Notwithstanding the effects already referenced, there remain realistic concerns surrounding the timing and effect of having the independent members of a Board be available for decision-making purposes on a day where a MMF might cross the weekly liquidity threshold. The practical scenarios are not difficult to imagine given the



known variables of sudden market movements, the time schedules of busy Board members, and the need to coordinate the operational aspects of imposing a fee or a gate. PFMAM believes the Commission must act to revise the proposal to ensure that adequate procedures be instituted to allow MMF investment managers and their boards the opportunity to consider all alternatives and ultimately act in the shareholders' best interests.

Small MMFs Should be Exempted from FNAV Alternative and Fees and Gates Alternatives

If the Commission adopts a final rule applying the FNAV alternative or the Fees and Gates Alternative we believe that MMFs with assets of less than \$25 billion should be exempted because there is no evidence that their activities are systemically significant. Even assuming that such a fund were to "break the buck" there is no reason to believe that such an event would cause market disruption. To the contrary, the relative small size as compared with the estimated of \$9 trillion of outstanding dollar denominated money market securities, suggests the contrary: the activities of small MMFs will not disrupt the markets. Second, the cost of implementing either or both of these alternatives could well drive many, if not all, small money market funds out of business.

The Potential Combination of Both Proposals -- Instituting FNAV and the Liquidity Fee/Redemption Gate

PFMAM urges the SEC not to adopt a final proposal that would combine a FNAV and liquidity fees and gates as MMF requirements.

The combination would amplify:

- a material negative impact on investors;
- a significantly increased probability that prime MMFs would no longer be offered or would alter their offering terms in an effort to avoid the proposal's implications;



- the realistic concern that more risky investment alternatives would be take over a satisfactory market;
- a failure to achieve the Commission's stated objectives for making the proposals.

Conclusion

We appreciate the opportunity to share our experience and suggestions regarding the proposal. PFMAM continues to be supportive of current provisions of Rule 2a-7 and the MMF as a viable investment vehicle for state and local governments and non-profit or institutional enterprises performing governmental-type roles such as healthcare and education.

We do not believe either of the two alternatives is necessary at this time because current Rule 2a-7 provisions are sufficient to afford protection for the interests of shareholders and the overall marketplace. We further believe moving the industry to a FNAV would be unnecessarily detrimental to all industry participants and would likely result in exodus of institutional investors, including our clients.

Finally, we observe that the financial crisis of 2008 had not one but multiple causes, and the many changes to laws and regulations, both in the United States and globally are designed -- and in many cases have already demonstrated effectiveness -- to reduce systemic risk. Further squeezing investors in this segment of the market cannot be expected to lead to measurable reduction in risk. In fact this may, by increasing concentration of assets in mega-institutions and pushing investors to other risky investments, have the opposite effect.

Thank you for considering our viewpoint, and we would welcome the occasion to further review this letter or any additional questions or information deemed helpful to the Commission as you proceed forward toward a conclusion.



Sincerely,

PFM Asset Management LLC

A handwritten signature in blue ink, appearing to read "Marty Margolis".

Marty Margolis
Managing Director

cc: Mary Jo White, Chairman, Securities and Exchange Commission

Luis A. Aguilar, Commissioner, Securities and Exchange
Commission

Daniel M. Gallagher, Commissioner, Securities and Exchange
Commission

Kara M. Stein, Commissioner, Securities and Exchange
Commission

Michael S. Piwowar, Commissioner, Securities and Exchange
Commission

Norm Champ, Director, Division of Investment Management,
Securities and Exchange Commission