Goldman Sachs Asset Management

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

Re: Money Market Fund Reform; Amendments to Form PF (File No. S7-03-13)

Dear Ms. Murphy:

Goldman Sachs Asset Management, L.P.[1] appreciates the opportunity to comment on the proposed amendments (each, a "Proposal" and collectively, the "Proposals") issued by the Securities and Exchange Commission (the "SEC" or "Commission") to certain rules that govern money market mutual funds ("money funds"), as set forth in Release No. IC-30551 (the "Proposing Release"). We commend the SEC and its staff for the substantial amount of care that clearly went into the very thoughtful Proposals. We look forward to continuing to work with the SEC to assure that the final rules will preserve the viability of money funds for the benefit of the many investors and other participants in the money fund industry who rely on money funds to meet their investment needs.

We share the Commission's goal of preserving the ability of money funds to "function as an effective and efficient cash management tool for investors."[2] In order to achieve that goal, money funds must retain features that investors have come to value. Over the past 35 years, money funds have been successful at meeting these expectations with only two exceptions. Few financial products have a comparable performance record.

GSAM appreciates the Commission's view that additional reforms are needed to enhance the stability of money funds and to mitigate systemic risks. We share the Commission's concerns that one money fund's problems may cause serious problems for other money funds, their shareholders, the short-term funding markets and the broader financial markets and economy. In considering changes to the regulatory environment in which money funds operate, we urge that the Commission seek a balanced approach that permits some appropriate risk taking by money funds and that facilitates private and public borrowers' access to term financing in the short-term markets.

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1 Goldman Sachs Asset Management, L.P. ("GSAM") is a full service registered investment advisory subsidiary of The Goldman Sachs Group, Inc. As of June 30, 2013, GSAM had over $125 billion in assets under management in money funds registered under the Investment Company Act of 1940, as amended.

2 Proposing Release at 11.

In our view, a balanced approach should take into consideration that the rules adopted by the SEC in 2010 have significantly improved the regulatory structure of money funds and mitigated the potential systemic risks presented by money funds. In particular, provisions of Rule 2a-7 requiring money funds to (i) maintain minimum liquidity levels, (ii) adopt "know your investor" requirements, (iii) determine whether even higher liquidity levels are warranted and (iv) further restrict exposure to interest rate risk, along with provisions designed to promote an orderly liquidation in cases where a money fund is about to "break the buck," have added a significant level of stability to the operation of money funds over the last three years.

In addition, we urge the Commission to be attentive to the potential unintended consequences of rules it may adopt. If the Commission were to solve one problem and inadvertently create another, more serious problem, its goals will not be achieved and neither investors nor the markets would be well served. As discussed below, we are concerned that some elements of the Commission's Proposals could have just that effect.

These comments reflect our underlying view that there is no perfect solution for money funds that eliminates all risk to investors and to the financial system. Indeed, wringing the last bit of risk out of an investment in money funds, as with any investment product, also would likely wring out the last bit of its economic value. For example, if prime money funds yield less than government money funds as a consequence of regulatory restrictions, there would be no economic purpose for prime money funds, thus eliminating an important source of short-term financing for many highly creditworthy companies.

I. Preliminary Thoughts on Investor Preferences

Before we provide our more specific comments, we would like to convey to the Commission what we have learned from conversations with money fund investors. We believe that investors today are drawn to money funds primarily by a fund's ability to offer a stable $1.00 share price and provide daily liquidity. They also find value in a diversified portfolio of short-term securities, professional management, clear regulatory requirements and oversight by regulators and fund directors. Whatever role yield historically played in the attractiveness of money funds has, for now, declined along with short-term interest rates.

While both stability and liquidity are important features to investors, when pressed, our investors have expressed different preferences between these two alternatives. Some are mostly concerned with stability of share price. For a variety of reasons, these investors cannot accept even small temporary losses in their liquidity investments, including money funds. Should the Commission require money funds to move to a floating net asset value ("NAV"),[3] these investors will have to seek alternative cash investments. Other investors, however, place a greater priority on their ability to obtain full liquidity on demand, whether over a prescribed time period or on short notice. Some of these investors tell us that the inability to quickly access all of their cash could make a money fund legally or operationally unacceptable because of their obligations under their own investment policies, contractual obligations or regulatory requirements. In some cases, the inability to access their investments on demand could have collateral consequences that could be financially catastrophic to them. They may be willing to accept a floating NAV (assuming fluctuations are small) or even the possibility of paying a liquidity fee to access their cash (assuming the amount is small), but these investors mostly fear the imposition of a gate.

Upon reflection, it would have been greatly preferable for the Commission to have devised an approach that would have recognized and accommodated these different preferences. If we believed that

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[3] As used throughout this letter, net asset value, or NAV, refers to net asset value per share.

Alternative 2—as currently proposed—might not have significant unintended adverse consequences (which we discuss below), we might suggest that the Commission provide investors with a choice. Depending on their preferences, investors could choose between a floating NAV money fund with unlimited liquidity or a stable NAV money fund with certain redemption limitations designed to correspond with the liquidity of the assets held in the fund. Some may even choose to allocate part of their cash investment to a floating NAV money fund and part to a stable NAV money fund to accommodate their particular liquidity needs and risk profiles.

While investors have expressed differing preferences between stability and liquidity, they have consistently told us that a combination of Alternative 1 and Alternative 2 could render money funds unworkable for most, if not all of them, since the combination effectively would mean that money funds offer neither stability nor liquidity (nor, in current market conditions, yield). Without preserving one or both of the priorities of money fund investors, the combination, in our view, would lead to a mass exodus from money funds into alternative products.

We look forward to discussing with the members of the Commission these conversations we have had with our investors and how the final rules might accommodate their different preferences, while still addressing the Commission's concern about the potential vulnerability of money funds to runs.

II. Alternative 1 (the Floating NAV Proposal)

Under Alternative 1, the Commission would eliminate exemptions currently in Rule 2a-7 that facilitate money funds' ability to maintain a stable NAV, typically at $1.00. Instead, the Commission proposes that the NAV of certain money funds "float" in most respects like the NAV of other types of mutual funds, reflecting the marked-based value of the money fund's portfolio securities. Shares of money funds, however, would have to be priced to the fourth decimal place instead of the third decimal place required of other mutual funds.

According to the Proposing Release, requiring money funds to convert to a floating NAV would be designed primarily to reduce the incentives of investors to redeem fund shares in times of stress when a money fund's market-based NAV (its "shadow price") is less than $1.00 per share. In addition, the Commission believes that a floating NAV would increase the transparency of the risk of investing in money funds by making "gains and losses a more regular and observable occurrence," which would alter investor expectations of complete safety by making investors more tolerant of investment losses.

Requiring certain money funds to convert to a floating NAV would force a dramatic change affecting not only those funds' sponsors, but also investors, intermediaries and issuers of securities in which money funds invest. As the Commission acknowledges, such a change would require that the infrastructure that has developed around ownership of money fund shares be rebuilt at substantial costs to accommodate daily share price changes, which will require an expensive retooling of accounting, trading and settlement systems. Money funds may have to reorganize into separate institutional and retail funds, at costs that shareholders would be required to bear. They will be a less attractive investment option for many short-term investors and intermediaries who will seek out alternatives. As the Commission acknowledges, the extent to which registered money funds shrink will turn on the availability of substitutes, and investor behavior will be difficult to predict.

While some of our investors have told us that they could accept the Commission's adoption of Alternative 1, we urge that the Commission give due consideration to these costs, which will be justified only if the conversion from a stable NAV to a floating one will yield a substantial reduction in systemic risk as the Commission suggests. While we remain unsure that these costs and the movement to a floating NAV will reap the benefits the Commission believes, GSAM could adapt to this Proposal, provided that the Commission addresses a number of matters that we believe are necessary to achieve the Commission's goals of greater stability as well as preservation of the viability of money funds.

1. *Tax and accounting issues should be resolved before the Commission requires any money fund to convert to a floating NAV.*

Requiring money funds to move to floating NAVs will complicate tax reporting and accounts for their investors. Investors would have to recognize very small gains or losses on multiple transactions each year. Although the additional tax obligations would be negligible, the burden of tracking and reporting those transactions would not. In addition, the wash sale rules likely would prevent shareholders from offsetting some gains with some of their losses, again resulting in little additional tax liabilities but adding complexities for investors preparing their annual tax returns.

We commend the Commission and its staff for working with the Department of Treasury and the Internal Revenue Service (the "IRS") to identify these issues, and we note that on July 3, 2013, the IRS proposed a revenue procedure that would avoid application of the wash sale rules for *de minimis* losses.[4] The IRS, however, does not appear to have addressed the need to track sales and redemptions to determine gains in the highly unlikely event that there are more than *de minimis* amounts. We believe that it is critical that investor tracking and reporting burdens also be resolved by the tax authorities *before* any money fund is required to transition to a floating NAV.

GSAM appreciates the willingness of the Commission to address the accounting implications for the financial statements of businesses that invest in a money fund with a floating NAV. We support the Commission's interpretation of U.S. generally accepted accounting principles ("GAAP") as permitting companies that invest in a money fund with a floating NAV to continue to treat their fund shares as "cash equivalents" on their balance sheets. We believe that there is no reason that the accounting treatment should be affected merely by the pricing of an investment (*i.e.*, the money fund) that would retain the same essential characteristics.

We urge the Commission to re-state this interpretation in its release adopting a final rule, and work with other financial accounting standards-setters to extend the SEC's interpretation to the financial statements of other companies, including those whose financial statements are prepared in accordance with international accounting standards.

2. *We strongly oppose different treatment of institutional and retail money funds.*

The Commission has proposed an exemption for "retail" money funds, permitting them to maintain a stable NAV by use of the penny rounding method of share pricing. "Retail funds" would be defined as those funds that limit investors to redeeming directly or indirectly no more than $1 million of fund shares per day. Retail funds wishing to maintain the competitive advantage provided by a stable NAV will have to adopt policies and procedures reasonably designed to allow them to conclude that intermediaries holding fund shares through omnibus and other accounts do not permit redemptions of fund shares of more than $1 million per day per underlying shareholder.

We believe that the SEC's proposed distinction between "institutional" and "retail" funds is arbitrary and may encourage gaming and confusion in the market place. Moreover, it will not achieve the Commission's goal of making money funds less susceptible to substantial redemptions during times of

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[4] Application of Wash Rules to Money Market Fund Shares, Internal Revenue Service Notice 2013-48 at 1 (proposed July 3, 2013).

market stress. Instead, we recommend that any amendments to Rule 2a-7 that require money funds to convert to a floating NAV apply to all money funds, except money funds investing exclusively in government securities, repurchase agreements collateralized by government securities and custodial cash. Differentiating between "institutional" and "retail" money funds is unwise and unworkable for a number of reasons.

First, we do not believe that there is a way to differentiate between the investment behavior of "retail" and "institutional" investors. For example, an institutional fund with shareholders that are bank trust custodial customers may be much less likely to be affected by redemptions in response to market stress than one with a large omnibus account controlled by a broker-dealer on behalf of thousands of "retail" customers. Such omnibus account holders have been reported to have held large positions in the Reserve Primary Fund in the fall of 2008 and suffered severe reputational harm and financial losses when their customers lost access to their funds. These omnibus account holders typically have authority to redeem their customers' shares of a money fund and, having learned their lessons in 2008, may be as quick as any type of institutional investor to redeem shares of "retail" money funds *en masse*. Those omnibus account holders without authority to redeem surely will quickly recommend to their customers that they redeem and help facilitate that transaction quickly. Indeed, after the lessons learned in 2008 and given access to the considerable information about money fund portfolios as the Commission has proposed, in the next market crisis, "retail" (however defined) investors may not behave as they did in 2008.

Second, the proposed retail exclusion implicitly endorses the view that "retail" funds are not capable of having the types of redemption activity that institutional funds experienced in the fall of 2008. Yet the Proposing Release itself cites studies that suggest that before the federal government intervened in the markets, retail investors were beginning to increase redemptions. Even if it were possible to divide funds perfectly between "retail" and "institutional," the next market crisis affecting money funds may not primarily affect institutional money funds. Future events may not involve a retail/institutional dichotomy as much as they may involve a divergence between money funds whose sponsors have access to capital and those that do not. Moreover, as we noted above, retail investors may not behave the way the Commission observes they did in 2008. Accordingly, we encourage the Commission to assess this issue from a long-term perspective, taking into account that future market events may look very different than past market events.

Third, institutional investors preferring stable NAV money funds may seek to preserve their ability to invest in those funds by adjusting their investments to meet whatever parameters for retail funds that are set by the SEC. These adjustments may take a form analogous to participation in available programs that permit investors with large amounts of cash to invest in FDIC-insured bank deposits with the help of services that break up the investments into smaller accounts below the $250,000 limit for insured deposits. A money fund with a substantial number of $1 million investors through such intermediaries would be full of what the industry calls "hot money," much of which could be redeemed immediately in the event of market distress. The intermediary could redeem all of the many $1 million investments in the same money fund at the same time, draining it of its liquidity and potentially precipitating a fire sale of assets, causing losses that would be borne by the actual retail investors.

The Commission should consider carefully the potential unintended consequences of a retail exemption, including a retail exemption structured in some alternate form. If, in fact, the next market crisis does involve the same types of larger investors that fled prime money funds in 2008, any retail exemption could lead unintentionally to retail funds being fully involved in that crisis and at an earlier stage.

3. We support a limited exemption for money funds that invest in government securities.

We support an exemption that would permit money funds that invest almost exclusively in government securities to continue to maintain a stable NAV. As the experience in 2008 demonstrated, even when the private debt markets are stressed, it is highly likely that government money funds will experience inflows, the government securities markets will be highly liquid, and there will be a negligible risk that such a fund will "break the buck."

GSAM strongly objects, however, to an exemption that would permit up to 20% of a government money fund's portfolio to be invested in securities other than government securities (or cash or repurchase agreements collateralized by government securities). In 2008, investors sought the safety of government money funds because these funds had <u>no</u> exposure to Lehman Brothers or other troubled or potentially troubled issuers, despite Commission rules permitting them to hold up to 20% in commercial paper and other non-government securities. Today, according to the Commission's own Form N-MFP database, government money funds hold 99.5% of their assets in government securities (or repurchase agreements collateralized by government securities).

If the Commission were to provide for an exemption as proposed, we expect that a new class of money funds could emerge that would invest 19.9% of their assets in higher yielding commercial paper and other privately-issued debt while maintaining a stable NAV and, under Commission rules, would be able to hold themselves out as government money funds. We are concerned that this could cause investor confusion and, in a future market crisis, investors may lack confidence in the safety of government money funds that could be holding up to 20% of their assets in securities of issuers in distress.

We recommend that if the Commission proceeds with Alternative 1, it exempt only money funds investing exclusively in government securities, repurchase agreements collateralized by government securities and custodial cash.

4. The Commission should require funds with a floating NAV to sell and redeem their shares at an NAV calculated to the third decimal place, as is required of other mutual funds.

We urge the Commission to reconsider its Proposal to require money funds to transact in shares based on an NAV rounded to the fourth decimal place or, as the Proposing Release describes it, "basis point" rounding in which a fund with a $1.00 per share value would price at $1.0000. Transacting using four decimal places would require fund precision and materiality levels that are ten times greater than other mutual funds. Because of the nature of the market for short-term debt in which money funds invest, we believe that the greater price sensitivity the Commission seeks is illusory and perhaps unattainable.

As the Commission recognizes, most money fund portfolio securities are not regularly traded in secondary markets and thus their prices are calculated largely through "mark to model" or "matrix pricing" estimates. These are estimates of fair value based on techniques and judgments that can vary among experts, including pricing services that many fund boards use in determining the fair value of portfolio securities. A price derived based upon a discounted value methodology, for example, will depend upon the model, interest rate and various assumptions. A price based on a matrix will depend upon the construction of the matrix and the securities included. As a result, it is not unusual for pricing services to provide different marks within a range, and for different fund boards to adopt different policies (such as averaging) to reconcile them.

It is not at all clear to us that converting these estimates to prices calculated to the fourth decimal place (one hundredth of a penny) will contribute to greater transparency. At that level, we believe that price distinctions among money funds could turn substantially more on the valuation models used rather than the intrinsic value of the securities, let alone the price at which a security could be sold.[5] We caution the Commission against seeking additional price precision simply to demonstrate risk to investors without giving careful consideration to the validity of the resulting prices.

5. *The Commission should be careful to ensure a smooth transition for money funds converting from a stable NAV to a floating NAV.*

GSAM agrees with the warnings in the President's Working Group Report that a transition by money funds from stable NAVs to floating NAVs, unless done carefully, could be systemically destabilizing.[6] As the Commission recognizes in the Proposing Release, if investors anticipate that the market-based NAV of a money fund's shares will be less than $1.00 on the transition date, they will likely redeem ahead of time to avoid losses, shifting those losses to remaining shareholders and perhaps forcing the fund to "break the buck."

We urge that the Commission adopt a transition process with several components. First, we recommend that the Commission delay the compliance date for the final rules for three years to give money funds, transfer agents, distributors, retirement plan administrators and others adequate time to make the systems changes necessary to implement a floating NAV. Fund sponsors will need that time to reorganize their money funds (especially if the Commission adopts a retail fund exemption), which likely will require solicitation of shareholder votes, redesign of prospectuses and accounting and other systems. Institutional investors, as well as other participants, may have to rebuild accounting and other systems to accommodate money funds with a floating NAV. They also may need to revise investment guidelines, and in some cases seek their own regulatory approval for such changes. That time period also will permit money funds to implement the investor outreach and education programs that the Commission acknowledges will be necessary to help prepare investors to understand the changes that will occur.

Secondly, we urge the Commission to adopt exemptions sufficient to permit money funds the flexibility to implement an additional option to ensure a smooth transition from stable to floating NAVs in an environment when NAVs are below $1.00. Under this scenario, a money fund should be granted relief to transition to a floating NAV by establishing a new fund with an identical investment objective except with a floating NAV. The Commission would prohibit any new shares in the "old" stable NAV money fund from being sold to investors after the end of the three-year transition period. All new investments (including dividend reinvestments) would be made in the "new" floating NAV money fund, and any redemptions would be made from the "old" money fund. In this way, the assets of the "old" money funds would roll off into the "new" money funds, and without the need for a particular transition date that could give rise to destabilizing redemptions. Given the high rate of turnover in shares of money funds, the "old" money funds would quickly shrink and their boards could be expected to close them as they ceased to be economically viable.[7]

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5 We do not, however, object to the Commission requiring money funds to disclose their market-based share price calculated to the fourth decimal place. GSAM currently discloses share prices of its money funds calculated to the fourth decimal place.

6 President's Working Group Report on Money Market Fund Reform Options, Release No. IC-29497 app. at 1 (Nov. 3, 2010).

7 Because operating two funds side-by-side involves additional operational expenses, this suggested transition approach likely would only be used by money funds whose market-based NAVs are less than $1.00 and are concerned that investors might redeem in anticipation of losing share value on the transition date.

We believe that this approach would address the concerns the Commission and the President's Working Group have expressed more effectively than an extended compliance period. Economic conditions at the end of an extended compliance period could result in there being deviations between money funds' marked-based NAVs and their $1.00 share prices sufficient to encourage heavy redemptions by investors seeking to avoid investment losses upon transition. Because fund managers and investors will wish to retain the benefits of stable NAV money funds for as long as possible, there is a good chance that there would continue to be sufficient assets in stable NAV money funds at the end of a transition period to present significant risk to money funds and the short-term markets. Our suggested approach is one means to address that concern.

Finally, we urge that the Commission remain prepared at the end of the transition period to further delay the compliance date of the final rule amendments should economic conditions (as reflected in the market-based NAVs of money funds) suggest that the transition could lead to destabilizing runs on money funds.

III. Alternative 2 (the Fees/Gates Proposal)

1. *If the Commission decides to adopt Alternative 2, the Commission should give careful consideration to whether the imposition of standby liquidity fees and gates may precipitate runs on money funds.*

We sympathize with the Commission's concerns that underlie Alternative 2. A money fund faced with heavy redemptions could suffer a loss of liquidity that would force the untimely sale of portfolio securities at losses. It would be very helpful if money fund managers had tools such as liquidity fees and gates to slow redemptions, forestall a potential calamity and protect the fund and its remaining shareholders who otherwise will bear losses that redeeming shareholders have avoided. The imposition of a fee in times of stress would force redeeming shareholders to bear the cost of their liquidity demands, perhaps forcing many to re-assess a hasty decision to redeem and thus stopping a run before it starts. If the effect of the fee is insufficient, then temporarily suspending redemptions may provide a money fund with "breathing time" to permit panic to subside or to allow a money fund and its manager to find other sources of liquidity to satisfy investor demand.

The consequences to a money fund and its manager of having to impose a liquidity fee, however, will be severe. Knowing this, a money fund's manager will be forced to carefully manage the fund's liquidity, both by maintaining a sufficient cushion of liquidity at all times and by avoiding concentrated share ownership or preventing significant amounts of "hot money" to enter the fund. The Commission's proposed additional disclosure requirements will allow investors to monitor each money fund's current liquidity (although, as discussed below, not the hot money). These changes will impose a market discipline on money fund managers that could be more effective in curbing inappropriate risk-taking than any new regulatory requirements.

While some of our investors have told us that they could accept the prospect of liquidity fees and gates, nonetheless, we are concerned that the threat of potential investment losses or the loss of liquidity could render money funds legally or operationally unacceptable as an investment option for many investors. In addition, if these provisions encourage investors to engage in preemptive redemptions—as the Proposing Release acknowledges they might—then the Proposal may do more harm than good.

Alternative 2, together with the proposed additional disclosure requirements, may in fact address some of the uncertainties of investing in money funds that contributed to their instability in 2008. We are concerned however, that Alternative 2 will create two new risks that money fund investors will be unable to monitor, and thus two new uncertainties. The first uncertainty is whether a liquidity fee will be triggered by investor redemptions, the likelihood of which will turn on the size of positions of other investors and the stability of their investments. If a significant portion of fund assets is comprised of what in industry parlance is known as "hot money," that fact will not be transparent to investors under either the current or proposed disclosure requirements. The second uncertainty is whether the fund's board of directors will waive the liquidity fee or impose a gate. The Commission should consider carefully how investors—particularly those with fiduciary responsibilities—will behave in the face of these significant new uncertainties.

We believe that a money fund's imposition of a liquidity fee or gate will be viewed by investors as equivalent to its having "broken the buck." In the face of significant uncertainty about whether a liquidity fee or a gate is likely to be imposed, investors in money funds who have the capacity—particularly larger investors or those with financial advisors—will monitor fund liquidity carefully and will likely redeem at any indication that a fund's liquidity may be impaired. Since there is no cost to redeem as long as the shareholder is an early redeemer (*i.e.*, has redeemed before the 15% liquidity threshold is reached), investors will be encouraged to redeem earlier. These early redeemers will further deplete fund liquidity which will be reported to investors the following day, leading to additional redemptions in a spiral that the money fund's board may be able to stop only by suspending redemptions.

Over time, we believe that the market may well establish its own significantly higher liquidity threshold, a breach of which by a money fund could result in significant shareholder redemptions regardless of whether the liquidity loss reflects any underlying problems with the fund's portfolio securities. A small loss of liquidity (rather than the 50% loss envisioned by the Proposal) could trigger a liquidity crisis that a fund's manager may find difficult to contain. Such a crisis would arise not from real fund losses, but because of fears of the imposition of liquidity fees and/or gates that were designed to provide fund boards with additional tools to prevent a crisis.

The news of one money fund's imposition of a liquidity fee or gate could spread fear among money fund investors that their fund could be next. Uncertain as to whether other investors intend to redeem or how their fund's board will respond, some investors may simply redeem first and evaluate the fund's portfolio later. This dynamic may lead to the very type of contagion the Commission seeks to avoid.

We think it is unlikely that a money fund, once it has suspended redemptions, will ever be in a position to re-open for business because the overhang of pending redemption requests will be too large for the fund to manage in any manner other than liquidation. We are unaware of any money fund or similar type of liquidity fund that has suspended redemptions and later resumed operations. The funds that made such efforts in 2008 subsequently liquidated or were transferred to other managers.

In a time of crisis, the board of a money fund may feel that its options are limited. If it permits a fee to be automatically imposed or imposes a gate, the fund may be destroyed as a viable business and (in the case of a gate) lock up investor funds until the fund can be liquidated. If the board waives a fee or fails to impose a gate, it may be subject to assertions in the litigation that inevitably will follow that it failed to take steps necessary to protect the fund and its investors from a run.

A money fund's board that understands the potential dynamics involved in imposing liquidity fees or gates might reasonably conclude that it would be in the best interest of the fund never to impose a liquidity fee or gate (other than to permanently shutter the fund as permitted under current SEC rules). It might reason that if investors are not threatened by the imposition of a fee or a gate, they will be less likely to redeem at the first indication of some impairment of liquidity. If the Commission adopts Alternative 2, we urge it to consider whether a money fund's board so concluding could adopt a policy disclosed in the fund's prospectus that the fund will not impose a gate absent an intention to liquidate the fund in an orderly fashion under the 1940 Act.

IV. Combination of Alternatives 1 and 2

1. We strongly oppose the adoption of rule amendments that would put in place a combination of Alternative 1 and Alternative 2.

As we discussed, GSAM supports certain regulatory changes designed to address systemic risk. As we stressed in the opening of this letter, however, such changes should preserve money funds, which are an integral part of the short-term funding markets and an important part of many individual and institutional portfolios. We have reservations about each of the two alternatives the Commission has proposed, which we hope the Commission will address.

We have no reservation, however, in informing the Commission of our view that a combination of the two alternatives will destroy the utility of money funds for most investors. Together, the two alternatives will remove both the price stability and promise of liquidity which have been the key features that have made money funds attractive investments for millions of investors and an essential component of many financial products. These features are the reason that despite current yields of only a few basis points, more than $2.5 trillion of investor assets remains in money funds.

In the Proposing Release, the Commission discussed the current options that investors in money funds have when considering alternatives to money funds, many of which are unavailable for some or many investors. Some are available but only at a cost that, as the Commission points out, may today make them unattractive to many investors. If the utility of registered money funds is sufficiently impaired, alternatives outside of the Commission's regulatory reach will become more attractive. The investors in our institutional money funds prefer the attributes of a registered investment company, including the regulatory construct established by Rule 2a-7, but if Commission rules cause registered money funds to no longer meet their needs, we have no doubt that those investors will move elsewhere.

We believe that many institutional investors will be drawn to private liquidity funds and other alternative investment options. These investment alternatives will be beyond the Commission's authority to protect both investors and the financial system. They lack the transparency (under the Commission's own rules) that the Commission has identified in this Proposal as important to help investors understand the risks of money funds and reduce the overall systemic risks associated with investing in these funds.[8] By driving large amounts of investor assets into unregistered products, the Commission may effectively undo its own efforts to address the systemic weaknesses made apparent in the fall of 2008.

V. Support for Additional Disclosure Requirements

We strongly support the Commission's proposed rules and rule amendments designed to increase transparency of money funds to investors. We agree with the Commission that daily transparency of both money fund NAVs and liquidity information will have the salutary effect of allaying concerns about how a money fund might be affected by the occurrence of negative market events. For similar reasons, in January 2013 we led the industry and began voluntarily disclosing the daily current market-based NAV (*i.e.*, the shadow price of their shares) of our Financial Square Money Market Funds and VIT Money

[8] Form PF, which is filed by private liquidity funds, is not publicly available. *See SEC Annual Staff Report Relating to the Use of Data collected from Private Fund Systemic Risk Reports.*

Market Fund, and in June 2013, we began voluntarily disclosing the percentage of the daily and weekly liquid assets percentage for certain of these funds.

Daily disclosure of a money fund's daily and weekly liquid assets could permit investors to make more efficient and informed investment decisions. Such disclosure would help investors estimate, in near-real time, the likelihood that a money fund can satisfy redemptions by using internal liquidity (rather than by selling portfolio securities) in times of market stress, or, if Alternative 2 is adopted, whether a money fund may approach or cross the 15% liquidity threshold.

As discussed above, if Alternative 2 is adopted, the most critical information from an investor's perspective is the level of liquid assets and the rate at which a money fund's daily and weekly liquid assets could be drained by redemptions from other shareholders. It is unclear, in light of the significant role played by omnibus accounts, how this information could be disclosed to all investors. Without it, information about a money fund's daily and weekly liquid assets will provide investors with an incomplete picture of their exposure to the fund's liquidity risks, which, if the Commission adopts Alternative 2, includes the risk that shareholders who are slow to redeem may pay a liquidity fee or may be unable to redeem because a gate has been imposed.

Finally, GSAM generally supports the amendments to Form PF, which will help ensure that further money fund reforms do not decrease transparency in the short-term financing markets, assist the Financial Stability Oversight Council in fulfilling its responsibilities and better enable the Commission to develop effective regulatory policy responses to any shift in investor assets from money funds to private liquidity funds.

VI. Support for Additional Diversification Requirements

1. We support changes to the diversification requirements under Rule 2a-7; however, we urge the Commission to reduce the "25% basket" to a 15% basket rather than eliminate it altogether.

We believe that the Commission's Proposal to require that a money fund aggregate its holdings of affiliated entities for purposes of meeting diversification requirements would further diversify the risks to which money funds may be exposed. As a matter of good portfolio management, we evaluate the exposures of GSAM-advised money funds in a similar manner. Aggregating affiliates may reduce the impact of any single issuer's financial distress on a money fund.

We also agree that the Commission's Proposal to require money funds to treat the sponsor of a special purpose entity issuing ABS as a guarantor of the ABS, thus subjecting sponsors to Rule 2a-7's guarantor diversification requirements. We agree with the Commission's observations that ABS sponsors have provided explicit as well as implicit credit and liquidity support for the vehicles they have sponsored, and it is therefore appropriate that such support be presumed for purposes of applying Rule 2a-7's diversification limitations. We commend the Commission for recognizing that, in some instances, sponsors do not offer support to the special purpose entities they create, in which case it is appropriate, as the Commission has proposed, not to treat the sponsor as a guarantor when the money fund is not relying on either the implicit or explicit support of the sponsor to provide liquidity, credit or other support. Indeed, when the Volcker Rule is finalized such guarantees may be prohibited when made by a banking entity. The Commission's proposed approach is consistent with Rule 2a-7's treatment of other types of guarantees on which the money fund does not rely.

We also support amendment of the so-called "25% basket," under which as much as 25% of the value of securities held in a money fund's portfolio may be subject to guarantees or demand features from a single institution. We agree with the Commission that such concentrated exposure of a money fund may be unnecessary. We suggest, however, that instead of eliminating the 25% basket, the Commission consider reducing it to 15%.

Although the 25% basket may not, as Commission data suggests, recently have been used frequently by money funds, we believe that the availability of a basket would provide useful flexibility to money fund managers to use on occasion. Given the decreased number of creditworthy institutions that today provide financial guarantees (as defined by Rule 2a-7), the elimination of the basket entirely may from time to time restrict a fund's ability to invest in the most creditworthy securities available. Future industry consolidation may further reduce the number of such institutions, the consequences of which, we expect, will be felt most significantly by tax-exempt money funds, which invest a substantial portion of their assets in securities supported by financial guarantees. The Commission's data is limited to a rather short period of time (between February 2010 and February 2013) and supports that a smaller basket, as we suggest, would satisfy portfolio management of most funds during the period.

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In closing, we are highly supportive of many of the Commission's proposed goals as set forth in the Proposing Release. We appreciate the willingness of the Commission to engage with us and with other members of the industry regarding issues affecting money funds. We appreciate the extent to which the Commission has sought to address many concerns that we and investors in our money funds have expressed. We feel strongly, however, that some Proposals would threaten the viability of money funds and should not be adopted. In particular, we oppose a combination of the two proposed alternatives, which would eliminate the value of money funds to most investors. We appreciate the opportunity to comment and look forward to working with the Commission. We would be pleased to discuss any of our comments with you at your convenience.

Sincerely,

/s/ James A. McNamara
James A. McNamara
Managing Director
President, Goldman Sachs Mutual Funds

/s/ David Fishman
David Fishman
Managing Director
Co-Head of Global Liquidity Management,
Goldman Sachs Asset Management

cc: The Honorable Mary Jo White
The Honorable Luis A. Aguilar
The Honorable Daniel Gallagher
The Honorable Michael S. Piwowar
The Honorable Kara M. Stein

Norm Champ, Director
Diane C. Blizzard, Associate Director
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