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September 17, 2013

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

Via Electronic Submission

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

Ladies and Gentlemen:

In the interest of our members – the men and women of the U.S. military and their families – United Services Automobile Association (USAA) is pleased to provide our comments to the U.S. Securities and Exchange Commission (SEC or Commission) with respect to the proposed Money Market Fund Reform; Amendments to Form PF[1] (Proposing Release).

In this letter, we urge the Commission to provide a retail exemption from ***all alternatives*** that the Commission may choose to adopt in its efforts to reform money market funds. This letter provides USAA's own data to illustrate the characteristics and behavior of truly "retail" investors. As the data show, retail money market investors have not exhibited the behaviors that the Commission seeks to address through money market fund reforms. Therefore, we submit that retail investors should continue to receive the beneficial features of stable value money market funds – simplicity, tax efficiency, instant liquidity and convenience. A failure to provide a full retail investor exemption from all alternatives will make money market funds less attractive to retail investors and would fundamentally alter retail investors' experience with, and their perception of, money market funds.

USAA previously submitted a comment letter on money market fund reform to the Financial Stability Oversight Council.[2] We thank the Commission for its consideration of our letter and appreciate the Proposing Release's inclusion of a retail exemption from the floating net asset value (NAV) per share proposed in Alternative 1, similar to the one espoused in our initial letter.

USAA is a membership-based association, which together with its family of companies, serves present and former commissioned and noncommissioned officers, enlisted personnel, retired military, and their families. Since USAA's inception in 1922 by a group of U.S. Army officers, we have pursued a mission of facilitating the financial security of our members and their families by providing a full range of highly competitive financial products and services, including personal lines of insurance, retail banking and investment products. Many of these financial products, including money market funds, are also available to the public. Our core values of service, honesty, loyalty and integrity have enabled us to perform consistently and be a source of stability for our members and customers, even in the midst of the financial crisis of recent years.

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[1] Money Market Fund Reform, Amendments to Form PF, 78 Fed. Reg. 36834 (proposed June 19, 2013).

[2] Comment Letter of United Services Automobile Association (Feb. 15. 2013) (available in File No. FSOC-2012-0003).

A. True "retail" money market funds should be exempt from any proposed reforms.

USAA's family of mutual funds proudly serves the financial needs of everyday Americans who use money market funds as an uncomplicated and stable asset to manage their cash and help meet the needs of daily life. We offer money market funds with features that have broad appeal such as low fees and no load. More importantly, our money market funds have retail-oriented features such as low minimum and periodic investment options, ATM access, check-writing, online bill-pay, mobile services and remote check deposits. In addition, we know our investors because we offer our money market funds directly, without external distribution. Therefore, because of these design attributes and characteristics, USAA is uniquely positioned to describe a true "retail" money market fund investor.

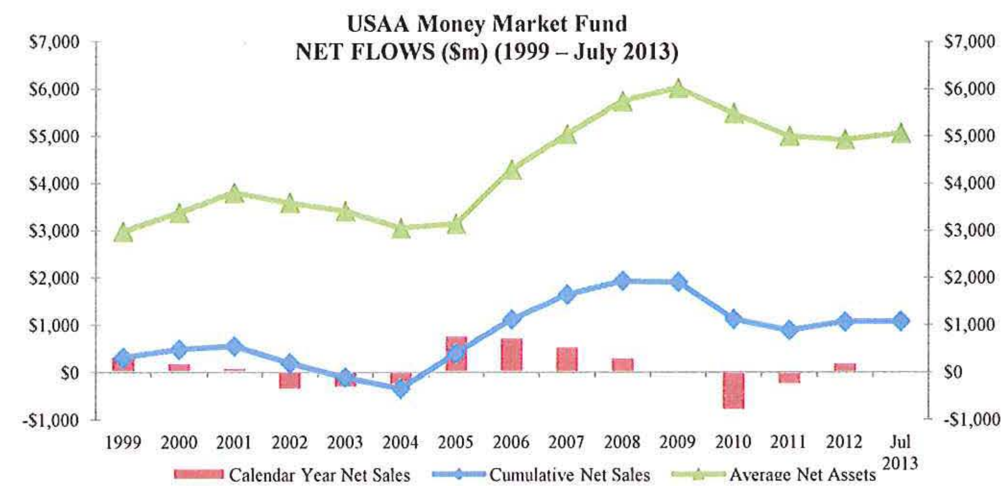
In this section we present data that illustrate what investors in the USAA Money Market Fund look like and how they behave, including in times of financial stress. These data show that a truly "retail" money market fund has (1) small account size, (2) low redemption amounts and (3) stable investment levels. Finally, these data support our position that a retail exemption from all proposals is appropriate.

1. Small account size.

Retail funds typically have a broad and granular investor base with average account balances that are much smaller than institutional accounts. As a pure retail fund, shareholders in the USAA Money Market Fund have an average account size of approximately \$10,500 and an average redemption amount of approximately \$3,700. Moreover, in the previous 12 months, accounts under \$1 million represented 94% of the total assets of the USAA Money Market Fund. Further, more than half (56%) of USAA Money Market Fund assets are in accounts under \$100,000.

2. Low redemption amounts, even in times of financial stress.

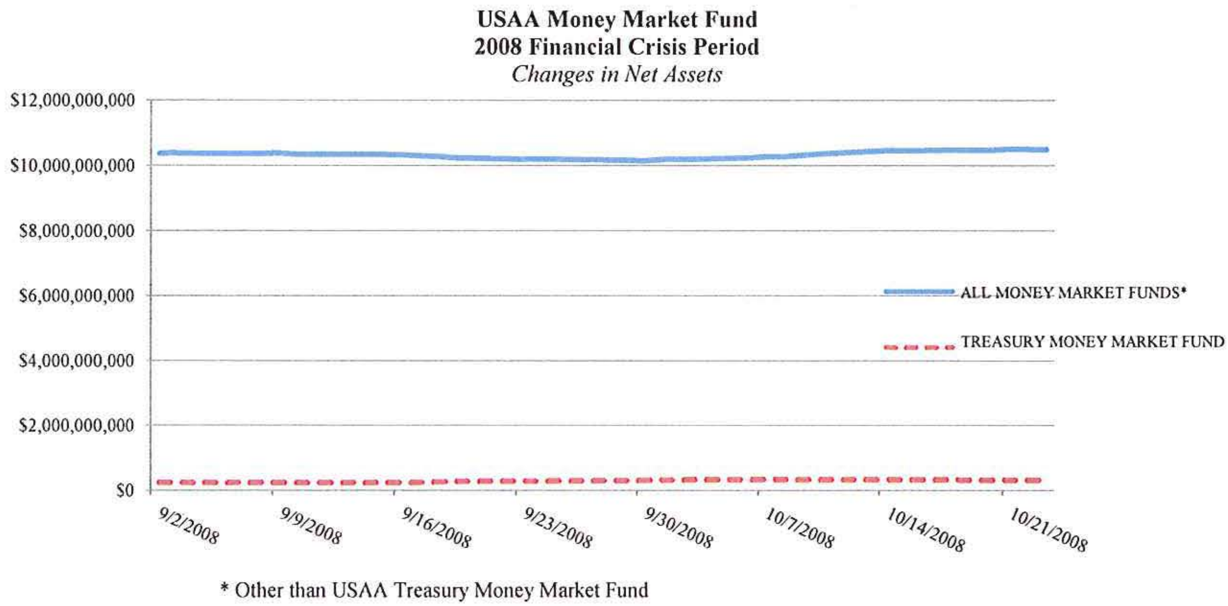
Our data also demonstrate that individual redemptions from retail money market funds tend to be low dollar amounts. For example, between August 2012 and July 2013, the average redemption from the USAA Money Market Fund was \$3,713. During that 12-month period, less than 0.5% of all redemptions from the USAA Money Market Fund were over \$100,000 and only 0.004% (less than 150 transactions) were over \$1 million. As the following chart shows, even during the 2008 financial crisis, the average net assets in the USAA Money Market Fund had positive net flows.



More specifically, the USAA Money Market Funds experienced net inflows during the last four months of 2008. Overall, our data indicate that retail money market funds are not prone to high redemption activity during times of financial stress.

3. *Stable investment levels.*

In the Proposing Release, the Commission notes that institutional prime money market funds came under stress during the 2008 financial crisis.[3] As the Commission has acknowledged, the same was not true for retail money market funds.[4] Our experience during this time period shows stable investment levels across all of our money market funds. For example, in the graph below, the volatility of net assets between September 2, 2008 and October 21, 2008 – the height of the financial crisis – is nearly flat. It is also worth noting that we did not witness an exodus from our other money market funds into the USAA Treasury Money Market Fund. The investment levels in both remained very stable. This is despite negative commentary about the risk of investing in money market funds and the historically low yields available in these products at that time.



As our data show, a retail exemption from *all alternatives* is appropriate because true retail investors, who have small account balances and low redemptions, also do not react to market fluctuations like institutional investors, thus insulating retail money market funds from runs and sudden losses of liquidity.

[3] 78 Fed. Reg. at 36844, 36856 (highlighting the tendency of retail investors to continue to hold money market fund shares in times of market stress.).

[4] *Id.*

B. A retail exemption from all alternatives preserves money market funds for retail investors.

1. Any alternatives proposed without a retail exemption would complicate and change the character of money market funds.

Retail investors are attracted to money market funds in large part because of the simplicity and ready access to their money. They know, like and understand money market funds with a stable NAV. They invest in money market funds for both their small, and significant, needs of daily life – from paying for groceries to making a down-payment on a car. As the Commission analyzed in the Proposing Release, a floating NAV fundamentally alters the retail investor's experience with the product, thereby justifying the retail money market exemption from Alternative 1.[5]

The same reasoning applies to fees and gates. The ability to redeem investments in a predictable manner is fundamental to retail investors, and uncertainty over the types, levels and timing of redemption restrictions could create a hardship for these investors. Accordingly, based on our interaction with our retail investors, we are convinced that retail money market fund investors would shy away from money market funds knowing that a possible gate would prevent them from immediately accessing *their money* for something special – the right automobile, for example, that just became available. The possibility of a redemption fee would also deter retail investors from money market funds, as a 2% principal loss is not insignificant.

2. Retail investors have limited investment opportunities to access yield on liquid assets.

When money market funds were initially created in the early 1970s, retail investors had few options for maintaining liquid assets other than bank accounts that paid little or no interest. At that time, the creators of the first money market funds recognized that only institutional investors could invest in large scale certificates of deposit, commercial paper or other liquid investments offering market rates of interest. Money market funds were created as a way for small investors to combine their resources to access higher yields and diversify risks through investing in these types of assets.

Our experience with retail investors demonstrates that this class of investor still has few alternatives for selecting products offering liquidity and a rate of return. Without money market funds, investor options for liquid funds would be limited to checking accounts with low (or no) yield and relatively higher transaction costs, or bank savings accounts that limit monthly withdrawals and thus do not offer the same level of liquidity.

If the Commission changes the characteristics of retail money market funds by imposing a floating NAV or redemption fees and gates without a retail exemption, retail investors will likely migrate away from money market funds for fear of not being able to access their money when needed. As such, the SEC would unintentionally eliminate money market funds as a viable product for retail investors – an unfortunate result, given the comparative few financial products available to them.

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[5] *See* 78 Fed. Reg. at 36856.

As the Commission reasoned in the Proposing Release, either alternative, or a combination thereof, would fundamentally change the investor's experience with the product in substantive ways, thereby deterring investments in money market funds by retail investors. Thus, we urge the Commission to exempt retail money market funds from the fees and gates alternative and any other possible reform alternatives that may be advanced.

C. Considerations regarding the definition of "retail."

1. *USAA supports the definition of "retail" money market fund in the Proposing Release.*

We support the Commission's proposed definition of "retail" money market funds as those which do not permit redemptions of more than $1 million in a single business day. We believe the $1 million limitation would accommodate the disparate needs of the retail industry and also work well to house occasional "big ticket" items for our larger accountholders. [6]

In addition, we support the option discussed in the Proposing Release's commentary that would allow investors to redeem more than $1 million in a single day with certain safeguards and advance notice. The most common circumstances that would lead our investors to redeem more than $1 million would be events such as home purchases, estate settlements and account closures. We do not believe providing advance notice would be problematic in these cases because investors would likely be working with our account representatives in advance of such transactions. We believe three days written notice is a reasonable requirement, and we support a weekly limit on redemptions of, for example, $5 million.[7] We believe such safeguards sustain almost all retail investor needs while preventing institutional investor "gaming."

2. *The proposed definition of "retail" effectively slows redemptions and eliminates the need for gates.*

The definition of a retail money market fund in the Proposing Release has the attributes of a "gate" – effectively slowing redemptions from those few retail accounts consisting of $1 million or more – without creating uncertainty or affecting the availability of funds to the average retail investor. (Of course, this would be prophylactic as our data shows that retail investors do not move their money out of money market funds during a crisis.) In addition, the $1 million daily redemption limit creates a "self-selection" feature. Institutional investors that may need to

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[6] The redemption limit has a number of advantages over the maximum account size limit proposed by other commentators and discussed in the Proposing Release's commentary. (1) It allows asset managers to provide services at a lower expense ratio whereas limiting account size would have downward pressure on fund size, thus spreading fixed costs over a smaller asset base, reducing the benefits of scale and resulting in unnecessary costs to investors. (2) It focuses directly on the goal of money market fund reform – to promote liquidity and prevent runs. (3) It is easy to understand and implement and allows investors to self-select. By restricting only the activity, not the characteristics of the account, investors who are willing to accept the redemption limit still have the freedom to invest in a stable NAV money market fund.

On the other hand, a maximum account size inconveniences and harms the consumer. Customers having assets greater than the single account limit would face three alternatives: (1) open and manage accounts at multiple institutions or in multiple funds, (2) concentrate significant liquid assets into bank accounts (which reduces diversification and increases systemic risk) or (3) turn to more risky, less regulated products in an attempt to diversify.

[7] This limit would equate to five daily $1 million transactions taken together on one day.

redeem more than $1 million daily will not choose a retail money market fund to hold their money. Fund companies could implement policies and procedures designed to prevent circumventing the rule through the creation of multiple accounts.

Because the limitation on redemptions slows redemptions, it eliminates the need for gates. Therefore, we urge the Commission to apply the same retail exemption to Alternative 2, thus making fees and gates for retail money market funds unnecessary.

3. Apply the retail exemption at the accountholder level not the shareholder level.

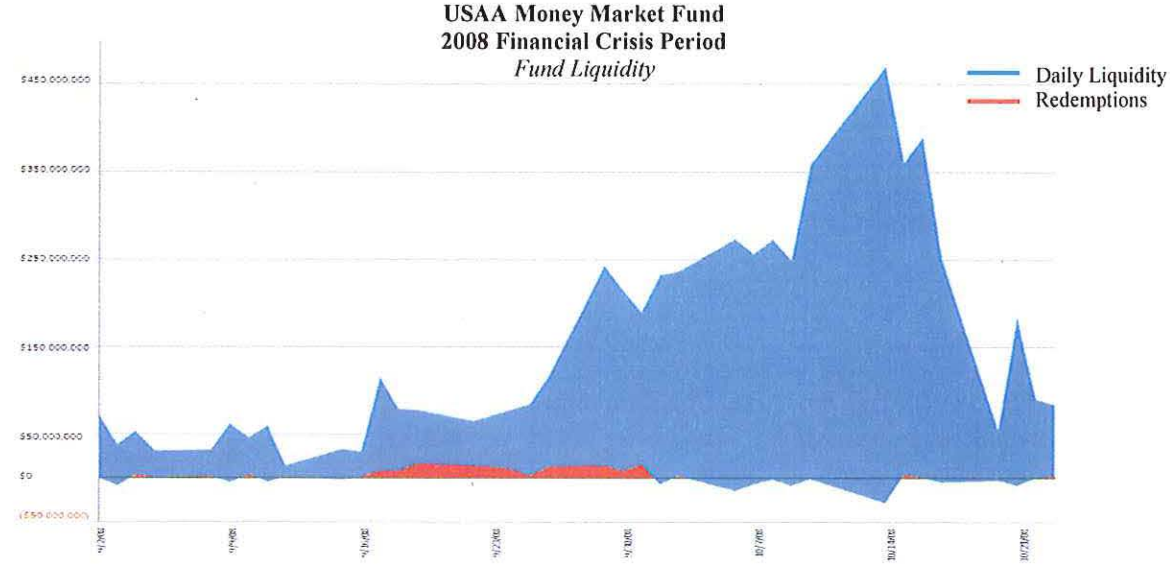
The retail exemption provides that in order to be considered a retail fund, it must not permit "*any shareholder of record*" to redeem more than $1 million on any one business day. To ease the costs of industry implementation, we urge the SEC to change the exemption to prohibit "*any accountholder*" from redeeming more than $1 million on any one business day.

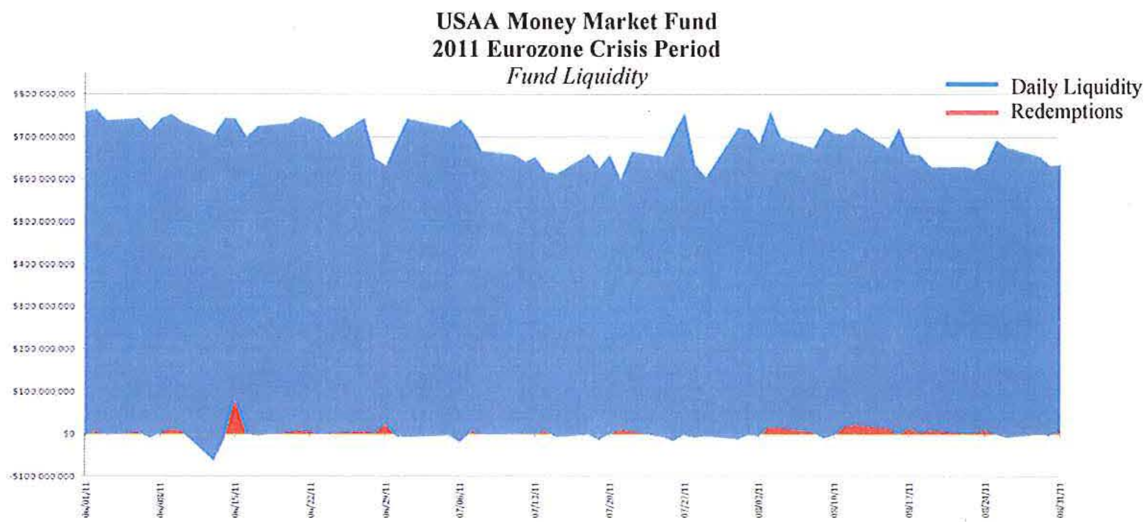
As our data has shown, in a typical retail fund, the vast majority of accounts are well under $1 million. For this reason, a retail investor would be unlikely to attempt redemptions in excess of $1 million, even if the investor had more than one type of account. Further, when dealing with omnibus accounts, the Proposing Release already contemplates separate limits for directly held accounts and accounts held by third parties. Modifying systems to aggregate account activity based on a shareholder of record will be costly and will only be relevant in a small handful of situations. A better alternative is to require advisers to enforce policies and procedures that are designed to detect account opening behavior that is aimed at skirting the redemption limitations or further limit the dollar amount of daily redemptions.

D. The minimum liquidity rules adopted in 2010 [8] ("2010 Amendments"), taken together with the characteristics of retail investors, support a retail exemption from all proposed reform alternatives.

One primary goal of a money market fund is to ensure liquidity for its investors. Under the 2010 Amendments, retail money market funds already have high levels of daily liquidity. The vast majority of USAA's portfolio is less than 60 days and often less than 7 days. These graphs compare crisis liquidity levels before and after the 2010 Amendments and clearly demonstrate that the 2010 Amendments have accomplished the goal of increasing liquidity.

[8] Money Market Fund Reform, 75 Fed. Reg. 10060 (March 4, 2010).





The 2010 Amendments, taken together with the unique characteristics of retail investors (small account size, low redemption amounts and stable investment levels), support including a retail exemption from *all alternatives* proposed.

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We appreciate the Commission's consideration of our comments. Should you have any questions or wish further clarification or discussion of our points, please contact James Whetzel, Executive Director at 210-498-4628.

Sincerely,

Steven Alan Bennett
Executive Vice President
General Counsel & Corporate Secretary