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September 17, 2013

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

RE: File Number S7-03-13

Dear Secretary Murphy,

The Government Finance Officers Association (GFOA) appreciates the opportunity to provide comments to the SEC on the Commission's Proposed Changes to Rule 2a-7, S7-03-13. The GFOA is the professional association of state, provincial and local finance officers in the United States and Canada. The GFOA has served the public finance profession since 1906 and continues to provide leadership to the government finance profession through research, education and the development of best practices. Our more than 17,000 members are dedicated to the sound management of government financial resources.

The GFOA understands the Commission's desire to further increase the resiliency of money market mutual funds (MMMFs/funds). However, we believe that the proposed reforms would do more harm than good. For the reasons discussed below and per the concerns raised in our previous comment letters on the SEC's proposal to float the net asset value (NAV) for MMMFs, we oppose this change to these products, which would limit or eliminate the ability for state and local governments to purchase them, and would limit the funds' purchase of municipal securities. We also have serious concerns about the impacts of the alternative proposal, which would impose liquidity fees and redemption gates during times of market stress, as well as the SEC's proposed definition of retail funds.

Floating NAV – Effect on Government Investments

The GFOA is opposed to the SEC's proposal to require all institutional MMMFs to transact at a floating NAV. Such a move would be harmful to state and local governments and the entire MMMF market. The fixed NAV is the trademark of MMMFs and changing its structure likely would impose significant costs on state and local governments as both investors and issuers of debt.

As investors, state and local governments rely on money market funds as one of the main components of their short- and mid-term investing needs. For example, while state and local governments do not have a steady and predictable inflow of revenue (tax payments and payments from state and local governments are collected only at certain times of the year), the

accounts payable – including payroll and general bill paying – is constant. Many governments invest in money market funds because of their secure nature, simple accounting methodology and management, and liquidity – all features that are necessary for governments to protect public funds, access cash and pay bills when they are due. Changing the main feature of these funds to a floating NAV would create administrative and costly burdens to governments, large and small.

Many state and local governments are subject to policies and legal restrictions permitting them to invest only in funds that do not fluctuate in value. If a floating NAV is imposed on money market funds, governments will be forced out of these funds and will have to look to other investment vehicles that have historically paid lower yields, or to other less secure products with equal or less liquidity than money market funds MMMFs[1]. All of these potential scenarios would increase costs to state and local governments.

If state and local governments chose to maintain their investments in MMMFs, with a floating NAV they would be confronted with new and costly cash management and accounting system needs, as state and local cash management systems are not equipped to handle such a change. While no official estimate has been generated to illustrate these cost increases, a recent report by cash-management consultants Treasury Strategies Inc. estimates that the total up-front costs for U.S. money market fund institutional investors to modify operations in order to comply with a floating NAV will be between $1.8 and $2 billion. We expect that moving to a floating NAV would also carry similarly significant costs for state and local governments.

Floating NAV – Effect on Issuance of Municipal Securities

The floating NAV proposal would also harm state and local governments that issue municipal securities. MMMFs are the largest investor in short-term municipal bonds, holding 72 percent of all outstanding short term bonds totaling over $500 billion[2]. State and local governments rely on the sale of these bonds to support government functions important to their citizens. Changing the NAV from fixed to floating, would make MMMFs far less attractive to all investors, thereby limiting the appetite for MMMFs to purchase municipal securities. Losing this vital investing power would lead to higher debt issuance costs for many state and local governments across the country.

Floating NAV – Effect on Issuance of LGIPs

The floating NAV requirement could also adversely affect Local Government Investment Pools (LGIPs). Many state governments operate LGIPs, which are critical investment tools, especially for smaller governments who are able to utilize these programs with the state pooling together the investments of numerous local governments into one larger fund that has greater investing power. States running LGIPs must comply with standards set for them by the Government Accounting Standards Board (GASB). As GASB requires LGIPs to operate in a manner consistent with the SEC rule governing money market funds (Rule 2a-7), the SEC's proposal to modify this rule and institute a floating NAV would put many of these LGIPs out of compliance with GASB. GASB rules state that those LGIPs not complying with Rule 2a-7 must report to

[1] For example, bank deposits are only insured up to $250,000 and many state and local governments have laws that require their bank deposits to be collateralized by marketable securities at a higher amount (often over 100 **percent** of the deposits after the deduction of the amount of deposit insurance).

[2] Per Investment Company Institute data as of April 2013.

each participant its share of any unrealized gains or losses. Participants must also report these gains or losses on their balance sheets. Because this would not be an acceptable option for most states, many LGIPs will be faced with higher operational costs related to floating NAV compliance.

Floating NAV – Other Concerns

Another feature of the SEC's floating NAV proposal would be to apply the floating NAV to institutional MMMFs, with exemptions for U.S. government funds and retail MMMFs. Under this feature the SEC proposes to define retail MMMFs as those which limit investor redemptions to no more than $1 million per business day. The GFOA has serious concerns with the language of this definition, as many state and local governments have money market fund cash flows that are greater than $1 million per business day, and some governments may need to redeem more than $1 million of their investments per day. If the money market funds that these governments are invested in will no longer be permitted to use a stable NAV, this will only add to pressures on issuers to discontinue investing in MMMFs. As a result governments will be forced out of these funds and required to look to other investment vehicles that have historically paid lower yields or to other less secure products with equal or greater liquidity.

The GFOA is also troubled with the proposed rule's deviation from parity between U.S. government and state and local government financing. The proposed rule would allow money market funds that invest largely in Treasury and U.S. government agency securities to continue to use a stable NAV. However, institutional tax-exempt funds that invest in state and local government securities would be required to float their NAVs. This lopsided treatment favors financing for the federal government and its agencies over the funding needs of state and local governments, which are no less pressing or important to taxpayers. Municipal securities are the second safest investment, aside from U.S. Treasuries, with state and local governments having nearly a zero default rate. The SEC should not grant one level of government finance advantages over another in its rules.

The SEC should also recognize the differences between tax-exempt and institutional prime money market funds in its reform proposals to prevent significant investor redemptions during times of fiscal stress. The SEC is proposing to impose floating NAVs on both institutional tax-exempt funds (which invest in municipal securities) and institutional prime money market funds (which invest in a wider range of securities). The proposals come as a further response to the heavy redemption pressure that institutional prime funds experienced during the financial crisis of 2008–2009. The change of the NAV should not apply to municipal securities funds, as these funds did not show a heavy sell-off or present any problems during the financial crisis. In fact, they behaved more like government money market funds and retail prime funds, which the SEC proposes to exempt from the floating-NAV requirement.

Alternative Two – Liquidity Fees and Redemption Gates

As an alternative to floating the NAV for institutional MMMFs, the SEC is proposing to require all MMMFs to impose a 2 percent liquidity fee on all redemptions if a MMMF's level of weekly liquid assets falls below 15 percent of its total assets. Further, should a MMMF breach this threshold the fund would also be able to temporarily suspend redemptions under this alternative. The GFOA is wary about how this alternative proposal would impact state and local government investors. Adopting a proposal that would impose liquidity restrictions on MMMF investors at a time fiscal stress will drive state and local MMMF investors away from MMMFs due to concerns about liquidity and potential losses that could result during such times. We believe that this

alternative is unnecessary given the additional fund reporting requirements adopted in 2010, which, coupled with the enhanced disclosure and transparency requirements included the SEC's broader 2013 MMMF reform proposal should be sufficient to increase investor awareness of the market-based value of a fund's asset and reduce fund susceptibility to heavy redemptions, without imposing potentially significant costs on state and local governments.

Thank you for the opportunity to comment on the proposed rule changes to SEC Rule 2a-7. We would appreciate an opportunity to discuss further our comments and concerns with the Commission, and would be prepared to testify at any future hearings or forums the SEC may have on this issue.

Sincerely,

Dustin McDonald
Director, Federal Liaison Center