



TEXAS TECH UNIVERSITY

Rawls College of Business™

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

Dear Elizabeth Murphy:

The proposed rule changes for money market funds (MMFs) include moving MMFs from a fixed \$1 NAV to a floating NAV. There are many reasons why this is a bad idea, but the most basic reason is that it will not work as desired.

Equity and bond mutual funds report portfolio value using a floating NAV, while MMFs use the fixed \$1 NAV. Proponents of moving MMFs to a floating NAV suggest the floating NAV works for all other mutual funds, so it should work for MMFs. This position is flawed. Proponents also suggest that floating NAV will provide MMF investors better information about the value of their investment. This position is also flawed. Both positions rely on the idea that the value of the fund's underlying securities can be accurately valued. This is based on the idea that securities trade and transaction prices provide a reasonable measure of value, which is correct. The problem is that most money market securities seldom, if ever, trade and therefore do not have transaction price to provide measures of value. Without transactions MMFs will have to estimate value and the current process used to estimate value under the fixed \$1 NAV is the best method for estimation.

To test my arguments, my co-authors and I examined floating NAVs of closed-end fixed-income funds to determine if the floating NAV informed investors and therefore informed the price of the closed-end fund. Our paper is available on SSRN at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2335005. We examine closed-end fixed income funds because their securities trade infrequently and therefore would have the same problems as MMFs. We find that the floating NAV for the fixed income funds is not informative. In fact, our results show that changes in the floating NAV often lag changes in the fund's share price.

The bottom line is that a floating NAV for MMFs will not work as desired. A floating NAV for MMFs will not have the desired outcome, but will expose the entire industry to the possibility of unintended consequences.

Drew B. Winters
Lucille and Raymond Pickering Chair in Finance