ES151556

United States Senate

WASHINGTON, DC 20510

March 28, 2014

The Honorable Mary Jo White
Chair
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Dear Chair White,

We write to you as former state and local officials who are concerned about a Securities and Exchange Commission ("SEC" or "Commission") regulatory proposal that would have a deleterious effect on the nation's states and municipalities. The proposal would subject municipal money market funds (MMFs) to a new round of significant reforms and impair the vital role that such funds have played in providing low-cost financing for state and local governments for some 40 years.

Together, the signatories of this letter have decades of municipal and local governance experience, so we know very well how important it is for states and municipalities to have ready access to the capital markets. Municipal MMFs play a primary role in providing such access in a cost-efficient manner for low-cost borrowing needs – for example, to help fund such important local projects and services as schools, hospitals, water treatment plants, public power facilities, highways, and mass transit systems. Municipal MMFs provide more than two-thirds of the short-term funding for such projects and services, making them the largest purchaser of short-term municipal debt. The SEC's proposed regulations will shrink this critical source of funding, leading to significantly higher borrowing costs for states and municipalities – or a reduction of projects and services, with a corresponding decline in the quality of life – or even both.

We note that in 2010 the Commission implemented an extensive array of reforms that substantially improved the resiliency, safety and transparency of all MMFs. The Commission proposed another round of reforms in 2013 involving structural changes that would either require certain funds to abandon their stable $1 net asset value (NAV) and move to a floating NAV or impose redemption restrictions on investors under specified circumstances. The proposal exempts all Treasury and U.S. government MMFs from these proposed structural changes. However, municipal MMFs were not exempted from the proposal even though these funds – like Treasury and U.S. government MMFs – did not exhibit signs of stress during the 2008 crisis. In fact, municipal MMFs remained remarkably stable during the financial crisis of 2008, with only modest outflows.

Municipal MMFs have extraordinary levels of liquidity, short maturities and high credit quality – just like Treasury and U.S. government funds -- and should receive the same exemption from structural reforms. Moreover, municipal MMFs hold only about $270 billion of assets – a very small fraction of the $2.7 trillion MMF industry. They simply do not pose a systemic risk to the financial system.

Subjecting municipal MMFs to a floating NAV or redemption restrictions would diminish the desirability of such funds by investors, who value the stability and liquidity they offer. Surveys have found that investor demand for municipal MMFs would decline significantly, setting in motion a series of negative consequences. The amount of short-term municipal debt that MMFs would be able to purchase would dwindle, and there is no readily apparent substitute purchaser for these securities. Debt issuance costs would rise significantly – by a multiple of five or even more, according to some municipal treasurers. Subjecting municipal MMFs to burdensome new regulations will directly – and quite literally – affect Main Street. We have heard directly and loudly from state and local officials in our states about these concerns.

Municipal MMFs have provided generous economic benefits to states, towns, cities and taxpayers alike, without imposing undue risks to the financial system. We are concerned the proposed regulation will place additional stress on municipal budgets by making it more expensive and difficult to raise capital to meet short-term borrowing needs. We ask the Commission to carefully consider the costs of its proposed regulations on state and local governments and whether these costs outweigh any perceived benefit.

Thank you for your attention to these important issues.

Sincerely,

Bob Casey, Jr.

Robert P. Casey, Jr.
United States Senator

Michael B. Enzi

Michael B. Enzi
United States Senator

Michael F. Bennet
United States Senator

Cory A. Booker
United States Senator

John Boozman

John Boozman
United States Senator

Saxby Chambliss

Saxby Chambliss
United States Senator

ES151556

Susan M. Collins
United States Senator

Joe Donnelly
United States Senator

Martin Heinrich
United States Senator

John Hoeven
United States Senator

James M. Inhofe
United States Senator

Johnny Isakson
United States Senator

Mike Johanns
United States Senator

Tim Kaine
United States Senator

Angus S. King, Jr.
United States Senator

Joe Manchin, III
United States Senator

Claire McCaskill
United States Senator

James E. Risch
United States Senator

Marco Rubio
United States Senator

Tim Scott
United States Senator

ES151556

Jeanne Shaheen
Jeanne Shaheen
United States Senator

Mark R Warner
Mark R. Warner
United States Senator