



CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

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April 23, 2014

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

Re: Division of Economic and Risk Analysis Memos Regarding Proposed Money Market Fund Reform (File Number S7-03-13)

The U.S. Chamber of Commerce (the “Chamber”) is the world’s largest business federation representing over three million companies of every size, sector, and region. The Chamber created the Center for Capital Markets Competitiveness (the “CCMC”) to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy. The CCMC appreciates the opportunity to comment on the Division of Economic and Risk Analysis’ (“DERA”) recent supplemental submission to file on the Securities and Exchange Commission’s (the “SEC” or the “Commission”) proposed rulemaking on Money Market Fund Reform (the “Proposal”). This submission of DERA, which takes the form of four memoranda to the comment file, undertakes certain analyses of data and academic literature related to a discrete set of issues that should be considered concerning the Proposal.

The CCMC appreciates DERA’s analysis and commends the SEC for pursuing an evidenced-based approach in this rulemaking and including the DERA memoranda in the comment file.

While the issues that DERA addresses are important to the Commission’s deliberations, we believe that the Commission’s deliberations would be materially aided by additional analysis of the impact of the proposed rulemaking on: the cash management practices of American business, the nation’s commercial paper market, and the availability of efficient, low-cost short-term financing for American business.

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Such an impact analysis is critical to this rulemaking. If the SEC adopts a final rule that renders money market funds unattractive, investors as well as American business will be worse off at the expense of the SEC's mission to protect investors and facilitate capital formation.

The CCMC has previously provided an extensive analysis of the Proposal in its comment letter of September 17, 2013¹, in which the CCMC explains that the concerns that led to this rulemaking are best addressed through an enhanced disclosure regime rather than a fundamental restructuring of MMFs through a floating NAV or liquidity fees and gates.

We continue to believe that investors would benefit from the Commission's recommendations to enhance MMF disclosures. The enhanced disclosure regime would achieve the goal of transparency by providing MMF investors with timely and valuable information regarding the condition and operations of MMFs and by impressing upon investors the risks of investing in MMFs. In particular, the Commission proposed a broad array of new advertisement, website, and registration statement disclosure requirements. Among other things, the enhanced disclosures would provide more timely and complete information regarding an MMF's: (i) daily and weekly liquidity levels; (ii) daily current NAV per share; (iii) inflows and outflows; (iv) portfolio holdings; (v) sponsor support; and (vi) the risks of MMFs as an investment. With the benefit of this information, not only would investors be empowered in evaluating for themselves whether and how much to invest in MMFs, but investors would make their judgments fully informed of the risks of MMFs.

The Proposal explains that the rulemaking is designed to address the risk of heavy redemptions, particularly during periods of market stress, and to bring additional transparency to MMFs. If the Commission believes that changes to MMF regulation are warranted beyond the proposed disclosure enhancements, the Commission must ensure that the benefits of MMFs to investors and American business are preserved. The CCMC believes that when measured against the

¹ Letter from David Hirschmann, CEO, Center for Capital Markets Competitiveness, U.S. Chamber of Commerce, to Elizabeth Murphy RE: Money Market Fund Reform; Amendments to Form PF, File Number S7-03-13 (September 17, 2013), available at: <http://www.sec.gov/comments/s7-03-13/s70313-234.pdf>.

Commission's goals, floating the NAV is not justified on a cost-benefit basis. We discuss our analysis below.

Preventing Heavy Redemptions

Liquidity Fees and Gates

As discussed earlier, the CCMC believes that the Commission's enhanced disclosure proposals are the appropriate response to concerns regarding MMFs, but to the extent that the Commission believes that additional actions should be taken, the Commission's liquidity fees and gates may provide the basis for a workable regulatory regime—although we do not believe the liquidity fees and gates are necessary. Whereas a floating NAV presents an existential threat to MMFs and virtually ensures upheaval in business cash management systems and the commercial paper market, properly designed liquidity fees and gates do not.

As the Proposal notes, liquidity fees dissuade investors from redeeming shares, whether the motive to redeem is created by a fund's valuation and pricing methods or by a flight to liquidity, transparency, or quality as an investor seeks to avoid loss. Liquidity fees require a redeeming investor to pay for taking liquidity. When they have to absorb some of the fund's liquidity costs, investors are discouraged from redeeming. Accordingly, liquidity fees help prevent runs and counter any "first-mover advantage" that an investor may have by redeeming before others. As for those investors that do redeem, the liquidity fees they pay benefit the remaining investors in the fund by stabilizing the fund through supporting its NAV. The Proposal itself explains, "This explicit pricing of liquidity costs in money market funds could offer significant benefits to such funds and the broader short-term financing market in times of potential stress by lessening both the frequency and effect of shareholder redemptions."²

When it comes to gates, there can be no doubt that gates stop runs. Liquidity fees reduce the incentives to redeem, but they do not eliminate them entirely. For example, during periods like September 2008, investors may only be willing to hold

² Money Market Fund Reform; Amendments to Form PF, 78 Fed. Reg. 36,833, 36,880 (proposed June 19, 2013).

the safest assets, such as U.S. Treasuries. If a MMF faces redemption pressures, such as if the fund's investors begin seeking out the highest quality assets they can find during a period of economic distress, fund boards would be allowed to halt redemptions. If gates are in place, investors are not able to redeem their shares and thus are unable to run.

Considered as a whole, fees and gates would succeed in preventing heavy redemptions, thereby satisfying the primary purpose of the SEC's rulemaking.

Floating NAV

The CCMC believes that there is no benefit from a floating NAV that justifies the cost of abandoning a stable \$1 NAV—especially if a 2a-7 regulatory regime allows liquidity fees and gates.

The Commission should first consider that money market fund investors, such as corporate treasurers, may be motivated to redeem for reasons that have nothing to do with a stable share price or the structure of MMFs more generally. Specifically, investors may flee to liquidity, transparency, and quality when they are fearful of any loss. These incentives to redeem or run during a period of market stress can be enough to lead to heavy redemptions even with a floating NAV in place, which was evidenced by, among other things, a run from French floating NAV funds in late 2008. Investors can be motivated to redeem in order to flee from any potential loss, including the loss an investor can suffer if the price of a floating NAV fund decreases. Even investors who have become used to funds' fluctuating NAVs may redeem to avoid a loss if the price of a floating NAV fund were to drop.

Accordingly, because a floating NAV will not prevent investors from redeeming, there is no benefit of implementing a floating NAV to prevent heavy redemptions, especially if properly designed liquidity fees and gates are in place that already discourage and stop runs. Even if one believes that a fund's valuation and pricing methods can create some incentive to redeem, the *marginal benefit* of floating the NAV would not justify the costs of doing so. As explained above, a benefit of liquidity fees and gates is that they would address any incentive to redeem that stems from a fund's stable \$1 NAV without incurring all of the costs associated with floating the NAV. Put differently, whereas any marginal benefit of floating the NAV is

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lacking because other aspects of the Proposal succeed in preventing heavy redemptions, a floating NAV would impose significant costs on MMFs and investors along with American business.

Regarding the costs of floating the NAV, the CCMC remains extremely concerned about the tax issues and significant operational challenges associated with a floating NAV, all of which will be extremely costly. The impact of a floating NAV mandate on the operational efficiency of American business and the resulting cost to our economy is significant. Specifically, the substantial effort and costs in overcoming operational challenges of the floating NAV will deter many corporate treasurers and other institutional investors from continuing to invest in institutional prime funds, thereby reducing demand for commercial paper. As such, issuers will likely face higher financing costs stemming from more competition in securing short-term financing. As we noted in our prior comment letter, an economic analysis undertaken by Professor James J. Angel of Georgetown University estimates the initial costs of a floating NAV to be in the range of approximately \$14 billion to over \$90 billion. Professor Angel estimated the recurring annual costs would range from approximately \$5 billion to \$24 billion. As suggested earlier, this is why we recommend that DERA undertake its own analysis.

A rigorous analysis of the economic implications of a floating NAV will demonstrate the tremendous drag that a floating NAV will have on our economy. This information will be indispensable to the SEC as it considers whether the benefits of a floating NAV mandate are justified given the costs. We remain convinced that the goals of this rulemaking can be achieved much more effectively and at much lower cost to investors and our economy if the NAV is not floated because the rest of the Proposal accomplishes the Commission's objectives, including preserving the benefits of MMFs.

Promoting Transparency

As the Proposal indicates, the SEC's other goal is greater transparency of the risks of MMFs for investors. The Commission's transparency goal is met by the other features of the Commission's Proposal without having to float the NAV.

As the CCMC explained in its September 17th comment letter, the proposed disclosure enhancements, if adopted, would achieve the goal of transparency while only imposing incremental and relatively minor compliance costs. Unlike a floating NAV, the disclosure enhancements would not threaten the benefits of MMFs to investors or American business. Stated otherwise, the disclosure enhancements provide investors with all of the “transparency benefits” of a floating NAV, without imposing substantial costs on investors, American business, or our commercial paper markets that could impede our nation’s economic growth. We believe that the SEC would be well served if DERA were to undertake a rigorous analysis of just what these costs of a floating NAV will be. Armed with this information, we are convinced that the regulatory judgment would be to not impose a floating NAV—in other words, that when it comes to promoting transparency, once the disclosure enhancements are put into place, that there are no *marginal benefits* from floating the NAV that justify the significant costs of doing so. The improved disclosure regime would do more than enough to ensure that investors have the information they need to understand the condition of any MMF in which they may invest and the risks of investing in MMFs.

Furthermore, liquidity fees and gates themselves highlight for investors the risks of MMFs. The risks of MMFs become more transparent and salient when investors realize that they may have to pay a fee if they redeem or that they may even be prevented from redeeming if the fund faces redemption pressures. The fees and gates alternative, therefore, meets the floating NAV goal of sensitizing investors to the risks of MMFs. Indeed, as it is, based on the redemptions by institutional investors from MMFs during the financial crisis, institutional investors already seem to understand the risks that the Proposal is designed to sensitize them to.

To summarize, there are no *marginal* transparency benefits from floating the NAV once the transparency benefits of the disclosure enhancements and fees and gates are taken into account. There is no need to float the NAV to impress upon investors what they will already understand: the nature of MMFs and the risks of investing in them. It is also important to underscore that, as has been well-documented and widely-discussed, there are serious costs associated with floating the NAV, including the cost of denying investors an investment product that they have come to value. To the extent there is any lingering worry over a first-mover advantage, it is best dealt with through disclosure. The enhanced disclosures, as

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noted, make transparent and salient for investors the nature of MMFs generally and the condition of each particular fund so that investors are fully informed.

Conclusion

While the CCMC appreciates the efforts of the Commission to provide transparency and seek comment on certain analyses of data and academic literature related to a discrete set of issues concerning the Proposal, we believe that an impact analysis should also be conducted on the Proposal's impact on cash management practices of American business, including and the commercial paper markets and the availability of other efficient, low-cost short-term financing. We believe that such analysis will demonstrate the marginal benefit of a floating NAV does not justify the substantial costs imposed all stakeholders. As the SEC works toward a final rule on money market mutual funds, we urge the Commission to ensure appropriate analysis is completed to avoid any action that could cause serious and unwarranted harm to capital formation, competition and efficiency of American businesses and the economy.

Sincerely,



David Hirschmann

cc: The Honorable Mary Jo White, Chair, SEC
The Honorable Luis A. Aguilar, Commissioner, SEC
The Honorable Daniel M. Gallagher, Commissioner, SEC
The Honorable Michael S. Piwowar, Commissioner, SEC
The Honorable Kara M. Stein, Commissioner, SEC
Mr. Norm Champ, Director, Division of Investment Management, SEC
Mr. Craig M. Lewis, Director and Chief Economist, Division of Economic and Risk Analysis, SEC