J.P.Morgan
Asset Management

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September 8, 2009

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

Re: Money Market Fund Reform (File No. S7-11-09)

Dear Ms. Murphy:

J.P. Morgan Asset Management[1] appreciates the opportunity to comment on the Securities and Exchange Commission's proposals to enhance the regulatory framework of money market funds. J.P. Morgan Asset Management is the largest money market fund manager in the world with fund assets under management of $586 billion.[2] Domestically, J.P. Morgan provides investment management services for twelve money market funds registered under the Investment Company Act of 1940 with assets totaling $396 billion including the JPMorgan Prime Money Market Fund, the industry's largest money market fund, as well has the industry's largest mutual fund, with assets of $174 billion.

We welcome the Commission's efforts to enhance investor protection by reducing risk and enhancing liquidity, and strongly support the Commission's goals. While we support many of the Commission's proposals, we have serious concerns about certain of them. We believe it is critical to strike the proper balance between strengthening the money market industry in light of the disruptions encountered late last year, and ensuring that money market funds remain a stable and viable part of our financial system.

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1 J.P. Morgan Asset Management is a marketing name for the investment management subsidiaries of JPMorgan Chase & Co. and its affiliates worldwide.

2 Source – iMoneyNet Onshore/iMoneyNet Offshore. All assets levels are as of August 31, 2009 and are in U.S. dollars. Historical FX rates applied. Money Market Funds are defined as funds registered under the Investment Company Act of 1940 managed pursuant to Rule 2a-7, or, in the case of offshore funds, funds managed according to the IMMFA AAA rated style.

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JPMorgan Funds Management, Inc.

J.P. Morgan worked closely with the Investment Company Institute (the "ICI") and other members of the industry to carefully develop a set of recommendations designed to achieve this essential balance. As such, we are in general agreement with the comments made by the ICI in its letter to the Commission of September 8, 2009. However, due to the significance of the Commission's proposals to investors and the overall markets, and the strong leadership position of J.P. Morgan in the industry, we believe that we should specifically comment on certain of the proposals.

We acknowledge that certain of the Commission's proposals will have the effect of reducing money market fund yields. We believe that the cost is appropriate to strengthen the stability of money market funds in order to weather potential liquidity and credit crises and to promote investor confidence. For this reason we support the Commission's proposals to eliminate second tier securities as eligible securities and the requirement for a maximum 120-day Weighted Average Life. And we also support, with modifications, a number of the Commission's other proposals that would impact yield, including a reduction in Weighted Asset Maturity, minimum liquidity requirements and a reduction in permitted investments in illiquid securities. With respect to the proposals we support, J.P. Morgan estimates that the effect of these proposals, with the suggested modifications, on a fund's yield could range from 8.5 to 13 basis points.[3]

A number of the Commission's other proposals benefit investors and would have no material effect on fund yields. We generally support these proposals in line with the ICI's comments. These proposals include an emphasis on periodic stress testing, adoption of know your customer procedures, expansion of the Investment Company Act's Rule 17a-9 to permit affiliates to purchase fund securities, permitting fund boards to effect an orderly liquidation of a fund if deemed in the best interest of shareholders, and enhanced disclosure to investors and to the Commission.

We have serious concerns about one proposal that we believe adds cost but does not provide any demonstrable benefit - inconsistent daily and weekly minimum liquidity standards for "retail" and "institutional" money market funds. In fact, in its current form, the proposal may have unintended consequences. We address this in detail below, together with our views on a number of the Commission's other proposals.

The Commission has also asked for comment on whether money market funds should be required to "float" their net asset values. For the many reasons expressed in the ICI letter and in the Report of the ICI Money Market Working Group of March 17, 2009, we believe floating the NAV of money market funds would be destabilizing for the industry and the financial markets. The success of money market funds over the past decades has been due to the combination of competitive market yields with the ease and convenience of transacting at $1.00 per share.[4] We believe that a significant percentage of money market fund assets would leave money market funds without the stable NAV, and migrate to other products which offer this feature but lack the carefully crafted protections of Rule 2a-7 and the thoughtful oversight of the Commission.

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3 The estimates presented herein are based on market averages over the past 15 years. The impact of these proposals could be significantly greater depending on the particular market environment.

4 As the Commission states in its proposal, "[t]he $1.00 stable net asset value per share...facilitates the funds' role as cash management vehicle, provides tax and administrative convenience to both money market funds and their shareholders, and promotes money market funds role as a low risk investment option." Money Market Fund Reform, 74 Fed. Reg. at 32716.

The opportunity for, and protection of, investors is only one side of the equation. Money market funds finance a significant amount of short term debt issuances, including approximately 58% of the commercial paper market. A significant reduction of money market fund assets would limit the supply of short-term credit to companies, or at the best, make such credit more costly through other means.

Different Liquidity Standards are Unnecessary and May Have Unintended Consequences.

The different daily and weekly minimum liquidity requirements proposed for "retail" and "institutional" money market funds are unnecessary and will likely result in unintended consequences for funds, investors and, potentially, the capital markets. We urge the Commission to adopt consistent minimum standards of liquidity across all funds of no more than 5% daily and 20% weekly.[5]

(a) ***Different Minimum Liquidity Standards are Unnecessary***

The Commission's proposal appears to be based largely on redemption activity data for the week of September 15, 2008, arguably the key focal period of the credit crisis, and one of the worst periods of financial chaos in recent history.[6] In light of the other comprehensive reforms proposed by the Commission, it is not necessary for activity during this unprecedented period to be used as a baseline for markets at all times.

The proposed general liquidity requirement requires that "a money market fund at all times hold highly liquid securities to meet reasonable foreseeable redemptions ..." taking into account a number of factors including the "characteristics of its investors and their likely liquidity needs."[7] This requirement, by itself, alleviates the need for mandating different liquidity requirements for "retail" and "institutional" funds.

The Commission has also proposed an enhanced focus on stress testing (with which we strongly agree) that would require testing of a money market fund's ability to maintain a stable NAV based on "certain hypothetical events, including ... an increase in shareholder redemptions... ."[8]

The general liquidity and stress testing requirements are just two among several Commission proposals designed to enhance liquidity by essentially requiring money market funds to evaluate continually the composition of their portfolios and investor bases in conjunction with the market environment. In addition, there are a number of other Commission proposals designed to increase liquidity, including the reduction in Weighted Average Maturity and the adoption of a Weighted Average Life measurement.

Further, the proposal to permit a fund's board to effect a fund's orderly liquidation of a fund serves as a powerful protection for shareholders in the unlikely event that a fund

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5 We support the Commission's proposal that daily liquidity requirements not apply to tax-exempt money market funds.

6 See footnote 201 and accompanying text, Money Market Fund Reform, 74 Fed. Reg. at 32706.

7 Id.

8 Id at 32707.

cannot meet redemption requests and, as such, is an additional strong incentive for advisers to maintain sufficient liquidity to meet redemptions.

We believe that the Commission's proposal for different liquidity standards for "institutional funds" and "retail funds" is unnecessary given the other comprehensive reforms proposed by the Commission.[9]

(b) ***Different Minimum Liquidity Standards May Have Unintended Consequences***

The proposed difference in liquidity standards presents a built-in competitive yield disadvantage for "institutional funds" compared to "retail funds" by requiring that "institutional funds" maintain a greater percentage of their portfolios in lower yielding holdings to meet the requirements of the proposed daily and weekly liquidity buckets. We estimate that the proposed increase in minimum liquidity standards for "institutional funds" to 10% daily/30% weekly from the 5% daily/20% weekly proposed by the ICI would result in a significant impact to yield, which in our experience, would affect the investment decisions of institutional clients.

We are concerned that traditional "institutional funds" investors, in order to gain a higher yielding return, may opt to invest elsewhere, either in interest bearing bank deposits or offshore and unregulated investment vehicles. The more restrictive the liquidity requirements, the less flexibility an investment manager will have to manage during changing interest rate environments. As a result, we fear that an environment of falling interest rates, coupled with competitively lower rates (due to different minimum liquidity requirements), could trigger substantial outflows from "institutional funds." We note that the President's Working Group, in its White Paper issued on June 17, 2009, expressed concern over investor flight into unregulated or less regulated vehicles.

"Institutional fund" investors are also likely to seek the higher yields "retail funds" are able to offer. This will result in greater volatility and could transform "retail funds" into "institutional funds" with all shareholders being subject to lower yields as a result of the greater liquidity requirements. Even though some "retail funds" may try to limit the levels of institutional money, a certain amount of such money inevitably will be invested in "retail funds."

Additionally, the proposed difference in minimum liquidity standards would disadvantage the vast number of individuals who invest in "institutional funds" through financial intermediaries, 401(k) plans or omnibus accounts. The only individuals not disadvantaged by this proposal would be those who invest directly in funds offered through a select number of retail fund families.

Requiring a distinction between "retail funds" and "institutional funds" will put fund advisers and fund boards in the unfair position of having to choose the "right" classification, a determination the Commission correctly points out is difficult to make.[10]

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9 We also note that the President's Working Group, in its White Paper issued on June 17, 2009, noted that consideration should be given to establishment of a private liquidity facility for money market funds. We urge the Commission to consider the further liquidity benefits of such a facility (if implemented).

10 As the Commission notes in its proposal "[a]lthough the ICI and others who compile data about money market funds have traditionally distinguished between retail and institutional money market funds, in practice the distinctions are not always clear... An institutional fund may have investors who invest on behalf of retail investors. For example, institutional money market funds commonly have investors that

Although the distinction may be obvious in extreme cases, where there is any question or debate on the issue, funds will likely be classified as "institutional" so that advisers and boards do not run the risk of being second-guessed after the fact by regulators, plaintiff lawyers and others. This potential over-classification of money market funds as "institutional" will amplify the issues discussed above.

For the reasons noted above we believe that imposing different minimum liquidity standards for "institutional funds" and "retail funds" would be anticompetitive and not in the best interests of investors, the money market industry or the capital markets. We are concerned that imposing these standards on top of the several useful and well thought out proposals put forth, is counterproductive.

However, we do recognize that a meaningful and sustained level of liquidity has the potential to ease concerns of investors and may be useful for unforeseen events. As such we recommend, for all money market funds, consistent 5% daily and 20% weekly minimum liquidity standards.

Know Your Customer and Stress Testing are Essential for Effective Management of Money Market Funds

(a) ***Know Your Customer***

"Know your customer" procedures are an essential part of the discussion in the Commission's proposal relating to funds meeting the liquidity requirements under Section 22(e) of the Investment Company Act of 1940. We strongly believe that such procedures are critical to gain a better understanding of a fund's clients and cash flows, and encourage the Commission to provide further guidance in this area. We believe that the lack of understanding of client concentration caused significant problems for certain money market funds during the credit crisis.

We encourage the Commission to require money market funds to post monthly disclosure of concentration levels of client type on their websites. This is important information for investors. Excessive client concentration poses risks and can increase liquidity pressures on a fund.

Additionally, we note that the use of certain omnibus accounts and transaction-oriented portals has reduced the ability of funds to analyze cash flows of their ultimate shareholders. We strongly urge the Commission to promote greater transparency with respect to shareholders investing through omnibus accounts and portals to help reduce the uncertainty such shareholders add to a fund's liquidity redemption analysis. Such information should include an analysis and profile (although not the identity) of the largest shareholders investing through each omnibus account and portal.

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are bank sweep accounts or master funds in master-feeder arrangements...Although these investors ordinarily provide cash flows to the fund that are more similar to retail funds, a single decision-maker may be in a position to redeem all of the shares of the money market fund and move the sweep account to another money market fund." Money Market Fund Reform, 74 Fed. Reg. at 32705

(b) ***Stress Testing***

We strongly support the Commission's proposal requiring funds to adopt procedures for periodic stress testing.

We have found that stress testing provides a disciplined approach to help identify potential risks to a portfolio and allows a fund the opportunity to address such risks. Stress testing should include all the factors believed relevant to impact a fund's ability to maintain a stable $1.00 net asset value including changes in interest rates, changes in credit spreads and redemption activity. We recommend that the impact of changes with respect to each of these factors on a money market portfolio using a broad range of assumptions (e.g., redemptions from 10% to 40% of a fund's assets), together with the impact of a combination of these factors, be performed at least monthly, or at more frequent intervals in light of the fund's investments, investor base and market conditions.

Limitations on the Acquisition of Illiquid Securities

We support reducing the amount of illiquid securities a fund may hold from the current limit of 10% to 5% of a fund's net assets. We do not support prohibiting money market funds from investing in illiquid securities.

We believe that a 5% limit appropriately balances the risk of holding illiquid securities and the benefits of a fund having the opportunity to avail itself of a number of appropriate investments including time deposits and term repurchase agreements with maturities of greater than 7 days.

We believe it would be helpful to the industry for the Commission to issue current guidance for money market funds on the factors that should be considered in making a determination that a security is liquid. Such guidance would enhance investor protection by promoting a more uniform approach to liquidity by money market funds.

Portfolio Quality and Construction Considerations

(a) ***Use of NRSROs***

We strongly believe that Rule 2a-7 continue to include minimum NRSROs rating requirements. As noted in industry comments given to the Commission in 2008,[11] NRSRO ratings provide a floor below which investments cannot be made. This provides important investor protection by setting a minimum limit with respect to the amount of risk any fund may take as funds seek to provide yield to their investors. Continuing to include a minimum rating requirement does not and should not diminish a fund's investment adviser's responsibility with respect to independent credit analysis and its determination regarding the credit quality of each investment.

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11 See, e.g., comment letter from Paul Schott Stevens, President, Investment Company Institute (Sept. 5, 2008) available at http://sec.gov/comments/s71908-38.pdf.

We also support designation by the investment adviser of three or more NRSROs that the investment adviser would use for rating purposes under Rule 2a-7. We do not see the benefit of requiring a fund's board to make this determination. The investment adviser is in a much better position to evaluate and judge the reliability of any NRSRO and its ratings. Fund boards typically do not have the necessary expertise or resources to make this type of determination. In addition, such a determination goes far beyond the oversight role of the board. Asking the board to make this determination would likely result in boards delegating this function back to the investment adviser.

(b) ***Long Term Unrated***

We do not support the proposal limiting the acquisition of long term securities that do not have short-term credit ratings solely to those securities that have been given a long-term rating in the highest two long-term ratings categories. We believe the current rule allowing a fund to make a determination that such a security presents minimal credit risk, unless an NRSRO has given that security a long-term rating below the three highest categories provides appropriate protection to investors in light of the other investor protections proposed by the Commission. Additionally, we believe such a restriction would limit the universe of possible issuers in which a fund may invest and, as a result, be detrimental to fund shareholders. This is particularly true in the municipal market where many issuers do not have short-term ratings.

(c) **Asset Backed Securities**

We agree with the ICI position that each fund advisor should have a "new products" or similar type of committee to address the risks presented by structured investment vehicles and other similar asset-backed securities. The new products committee should include representatives from portfolio management, accounting, risk, compliance and other functional areas necessary to review and approve, subject to board oversight, any new type of investment that is substantially different in structure or credit risk than investments currently approved for purchase in money market funds advised by the investment adviser. We believe that a keen focus on minimal credit risk is the hallmark of a successful money market fund, and advisers should be given latitude to prudently exercise their investment authority.

(d) **Portfolio Maturity**

(i) **Weighted Average Maturity**

We support the proposal to reduce the current Weighted Average Maturity limit from 90 days; however, we believe that 60 days is too restrictive. Instead, we support reducing the Weighted Average Maturity to 75 days. Given the Commission's other proposed limitations, specifically the proposed limit of a 120 day Weighted Average Life, we do not believe that limiting a fund's Weighted Asset Maturity to 60 days as compared to 75 days, adds significant shareholder protections. But, such a limitation would unduly restrict a fund's flexibility to structure its portfolio in changing interest rate environments and compel issuers to issue shorter term securities with more frequency resulting in greater cost. We also estimate that the reduction of Weighted Average Maturity from 75 days to 60 days could adversely affect a fund's yield by 2.5 to 3 basis points.

(ii) Maturity Limit on Other Portfolio Securities

We do not believe that reducing the maximum final maturity of portfolio investments from 397 to 270 days would provide any meaningful investor protections due to the other risk limiting provisions set forth in the Commission's proposals, specifically, the limitations on Weighted Asset Life and, to a lesser extent, the limits on Weighted Asset Maturity, liquidity and credit quality. Further, the vast majority of non-asset backed commercial paper issuances are already limited to 270 days. As a result, this limitation would adversely affect other types of investments such as bank notes and CDs, among other short-term instruments. This restriction would also limit the flexibility to structure a fund's portfolio in a changing interest rate environment and have negative consequences for issuers by requiring them to seek financing more frequently making such financing more costly, and in adverse markets, more difficult.

(e) Diversification

The Commission has asked for comment as to whether the 5% diversification limit of Rule 2a-7 should be reduced. We would not support reducing diversification limits from 5% of a fund's assets per issuer. We do not believe that simply requiring a fund to hold more issuers create a safer portfolio. Instead, it could force a fund to purchase issuers that it otherwise would prefer not to hold, and could, under those circumstances, expose funds to risks it might otherwise avoid.

In-Kind Redemptions

We support a fund's ability to maintain the option to redeem assets in kind, however we oppose any requirement for mandating in kind redemptions for transactions above a certain size. An in-kind redemption should only be used when an adviser believes it is in the best interest of a fund to do so. The operational difficulties of redeeming money market instruments in kind, both for the fund and for the investors can be very significant. Further, not all shareholders are able to accept assets in kind, for example, 401k plans and other fiduciary intermediaries. Shareholders receiving assets in kind would likely liquidate those positions as quickly as they can in order to meet their liquidity needs. Such liquidations, without the benefit of orderly portfolio trading expertise, are likely to have negative impacts on the liquidity and pricing of money markets. We do not believe that requiring in-kind redemptions is necessary, particularly in light of the Commission's proposal to allow a fund board to effect an orderly liquidation of a money market fund that cannot meet its immediate liquidity requirements.

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J.P. Morgan appreciates the opportunity to comment on the Commission's proposed rule. We would be pleased to provide any further information or respond to any questions that the Commission or the staff may have.

Very truly yours,

George C.W. Gatch

cc: The Honorable Mary L. Schapiro, Chairman
The Honorable Kathleen L. Casey, Commissioner
The Honorable Elisse B. Walter, Commissioner
The Honorable Luis A. Aguilar, Commissioner
The Honorable Troy A. Paredes, Commissioner

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