Goldman, Sachs & Co. | 32 Old Slip | New York, New York 10005
Tel: 212-902-1000

Goldman Sachs

September 8, 2009

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

Re: Money Market Fund Reform (File Number S7-11-09)

Dear Ms. Murphy:

Goldman Sachs Asset Management, L.P.[1] welcomes the opportunity to comment on the proposed amendments issued by the Securities and Exchange Commission ("SEC" or "Commission") to certain rules that govern money market mutual funds registered under the 1940 Act, as set forth in Release No. IC-28807 ("Release"). In general, GSAM supports the SEC's efforts to strengthen money market fund regulation in the United States through a number of the appropriate and thoughtful proposals described in the Release. In this regard, we are pleased that, in many respects, the proposed amendments are consistent with the recommendations of the Investment Company Institute's Money Market Working Group ("Working Group Report") issued last March.

In particular, we support the proposed amendments that are designed to strengthen the portfolio quality and maturity requirements of money market funds. We agree that Rule 2a-7 should prohibit money market funds from acquiring second-tier securities. We also support the proposed amendments that would reduce a money market fund's maximum weighted average maturity from 90 days to 60 days, and similarly believe that the SEC's proposal to establish a "weighted average life" requirement is prudent.

[1] Goldman Sachs Asset Management, L.P. ("GSAM") is a full service registered investment advisory subsidiary of The Goldman Sachs Group, Inc. As of September 2009, GSAM had approximately $205 billion in assets under management in money market mutual funds registered under the Investment Company Act of 1940, as amended ("1940 Act").

We also agree with the proposal requiring a money market fund using the amortized cost method to adopt procedures for periodic stress testing of the money market fund's portfolio. Moreover, we agree with the Commission that money market funds should adopt policies and procedures designed to assure that appropriate efforts are taken to identify risk characteristics of fund shareholders, especially pertaining to foreseeable redemption activity that may present challenges to a fund manager depending on prevailing market conditions.

In short, our view is that the aforementioned proposals and a number of others described in the Release provide prudent additional regulatory safeguards for the money market fund industry and collectively should reduce the likelihood of credit and liquidity problems for money market fund shareholders in the future.

We do have significant concerns about four issues raised in the Release: one relating to a specific Commission proposal and three relating to issues that the Commission is seeking public comment. First, we strongly disagree with the SEC's proposal to mandate different minimum liquidity requirements for retail and institutional money market funds. Instead, we believe that all money market funds should be subject to the same minimum portfolio liquidity requirements. Second, we strongly oppose requiring money market funds to disclose publicly their market-based or, "shadow," NAV at either a portfolio level or on a holding-by-holding basis. Third, we strongly oppose eliminating the ability of money market funds to use the amortized cost method of valuation. Fourth, we strongly oppose requiring money market funds to process redemption requests in excess of a particular size on an in-kind basis. Our views on each of these issues are set forth below:

1. **Opposition to Different Liquidity Requirements for Retail and Institutional Funds**

While we fully support requiring money market funds to maintain minimum levels of portfolio liquidity in order to have a ready supply of cash to meet redemptions, we strongly oppose the Commission's proposal to establish different minimum liquidity standards for retail and institutional money market funds. Instead, we encourage the Commission to adopt minimum liquidity obligations for all money market funds in line with the specific recommendation outlined in the Working Group Report. In relevant part, the Working Group recommended that all taxable money market funds be required to maintain at least 5 percent daily liquidity and 20 percent weekly liquidity. For the following reasons, we believe that this is the appropriate standard for the Commission to adopt at this time:

(i) *The Money Market Fund Industry Is Not Neatly Divided Into "Retail" and "Institutional" Fund Categories, Making Classification Determinations Highly Subjective and Potentially Arbitrary*

Based on the current composition of the money market industry, we believe it would be extremely difficult -- and in many cases, arbitrary -- to categorize all funds as either "retail" or "institutional" for purposes of determining a fund's minimum liquidity obligations. Many money market funds today offer numerous share classes that are designed to cover all or many segments of the investor population. The result is that many money market funds have both retail and institutional investors, albeit often separated by different share classes. Of course, given that liquidity management is a fund level -- and not a share class level -- responsibility, forcing a fund with both retail and institutional investors to classify itself as an institutional fund for liquidity purposes does not seem to be the proper result.

Moreover, institutional share classes of money market funds often encompass a broad range of investors, each exhibiting potentially different redemption tendencies. For instance, an "institutional" fund comprised of investors through portals or from the capital market departments of financial intermediaries may exhibit more active redemption traits than an "institutional" fund consisting primarily of bank trust or custodial investors. In this connection, we do not believe it is appropriate or necessary to subject all "institutional" funds to the higher daily and weekly liquidity requirements set forth in the Release.

The SEC has proposed that a money market fund's board of directors be responsible for classifying the fund as "retail" or "institutional" on an annual basis. Based on the current landscape of the money market fund industry and the fact that many money market funds operate in both the "retail" and "institutional" space, it will be extremely challenging for mutual fund boards to make informed and accurate decisions on how to classify the money market funds that they oversee for these purposes. Under the framework proposed by the Commission, it is entirely possible that two mutual fund boards with oversight responsibilities for separate money market funds having comparable shareholder bases and redemption tendencies will make a different retail/institutional classification decision for their respective funds.

Thus, the Commission's proposal may very well lead to unintended consequences that would weaken, rather than strengthen, the investing public's confidence in money market funds. First, because of the highly subjective nature of classifying funds as "retail" or "institutional," the resulting determinations likely could create competitive advantages, whether by design or unintentionally, for money market funds that classify themselves as "retail" but who sell their funds in the same markets and to the same types of clients as other funds classified as "institutional" for these purposes. Under these circumstances, funds classified as "institutional" may experience commercial pressure either to re-categorize themselves as "retail," again owing to the highly subjective nature of the process, or to make more aggressive investment decisions in their portfolios in order to compensate for the apparent yield deficit that they will experience vis-à-vis the "retail" funds.

Second, the Commission's proposal implicitly endorses the view that "retail" funds are not capable of experiencing in the future the same types of liquidity pressures that "institutional" funds experienced in the Fall of 2008. Even assuming money market funds could be perfectly divided into "retail" and "institutional" categories and further assuming the "institutional" funds were the predominant subject of last year's liquidity crunch, we are concerned that the Commission's proposal is designed only to solve for past market crises without taking appropriate precautionary steps to prepare for future market events. For instance, future market events may not involve a retail/institutional dichotomy as much as they would involve a split between money market funds whose sponsors have access to capital and those that do not or some other formulation. Accordingly, we encourage the Commission to assess this issue from a long-term perspective taking into account that future market events may look very different than past market events. In our view, the best way to solidify the industry going forward on this very important issue is to apply one consistent liquidity standard to all money market funds.

(ii) *There is not an objective standard that can effectively divide the industry into "retail" or "institutional" categories either*

We also are convinced that there is not an objective or quantifiable means of assessing whether a money market fund is "retail" or "institutional," again underscoring our view that this distinction from a liquidity management perspective is misplaced. We note that at least one commenter has suggested classifying any money market fund with at least one share class that offers same day liquidity to shareholders as an "institutional fund" for these purposes, and that all other money market funds should classified as "retail."[2] While this sort of approach would eliminate much of the subjectivity and arbitrariness discussed above, we also believe that it highlights the primary defect in the Commission's proposal: namely, the retail/institutional dichotomy for liquidity management purposes is an artificial construct that will create more problems than it solves. In other words, if the Commission were to adopt this objective standard for determining retail and institutional classifications, what would prevent large investors with aggressive redemption tendencies from migrating to T+1 funds that would be able to operate as "retail funds" with lower minimum liquidity levels? Under this scenario, a "retail" fund would still be subject to a run on the fund, albeit it on a one-day lag. Thus, it is highly foreseeable that this type of solution would result in a chase for yield by some categories of investors who do not need same-day redemptions, and would undercut the

[2] Letter to the Securities and Exchange Commission dated August 24, 2009 from Scott C. Goebel, Senior Vice President and General Counsel, Fidelity Investments.

Commission's goal of isolating certain types of investors in money market funds required to maintain higher levels of liquidity.

(iii) *Based on many of the other proposals outlined in the Release, higher liquidity levels for "institutional" funds are unnecessary*

Finally, we note that the Release contains a number of other proposals that obviate the need for mandating that "institutional" funds maintain greater levels of portfolio liquidity than retail funds. We believe that the appropriate outcome on this issue is one where all money market funds are required to maintain a minimum of 5 percent daily and 20 percent weekly liquidity, as recommended in the Working Group Report, provided the following additional proposals described in the Release are adopted:

- Reducing the weighted average maturity limit from 90 days to 60 days.
- Limiting the weighted average life of portfolio securities to 120 days.
- Prohibiting money market funds from acquiring second tier securities.
- Requiring money market funds to hold at all times highly liquid securities sufficient to meet reasonably foreseeable redemptions, taking into consideration, among other factors, the characteristics of their investors and their likely liquidity needs.
- Requiring amortized-cost fund boards to adopt procedures providing for periodic stress testing of their portfolios.

We believe that these proposals, when implemented collectively, will cause money market funds to invest in safer and more liquid securities than is presently required. Moreover, these requirements will necessitate greater levels of scrutiny by money market fund investment advisers and boards of directors as to whether a sponsor's money market funds are capable of meeting reasonably foreseeable redemptions based on the redemption characteristics of fund investors. While we believe that adopting mandatory minimum portfolio liquidity requirements is an important component of this new regulatory tapestry for money market funds, the additive requirement of forcing an artificial distinction between "retail" and "institutional" funds for these purposes is unnecessary.

2. Opposition to Public Disclosure of Market-Based NAVs

The Commission requested public comment on whether money market funds should be required to disclose their market-based net asset value per share and the market-based prices of their portfolio securities as part of the proposed monthly website disclosure obligations outlined in the Release. While we generally support the

Commission's proposal to require the monthly disclosure of portfolio holdings, we strongly oppose requiring the disclosure of a money market fund's market-based net asset value or the market-based prices of its portfolio securities. We also oppose requiring funds to disclose this information through proposed Form N-MFP.

We do not believe that disclosing shadow prices or market-based prices of portfolio securities would be informative to investors. Assuming this information was required to be provided as of a month-end period, its value to investors during the course of the following month is minimal. Market values of money market fund securities will fluctuate, if at all, on a daily basis. Therefore, the market value and shadow NAV information disclosed on a fund's website or through Form N-MFP would not necessarily represent a fund's current condition, thus either resulting in inappropriate reliance or undue alarm on the part of investors. Moreover, investors who perceive a NAV differential between two money market funds may wrongly assume that the fund with the lower market NAV is experiencing a material credit or liquidity problem. This may result in destabilizing -- and unnecessary -- levels of redemption activity in that fund, which could infect other funds managed by the same adviser or other funds as well. The Commission should be mindful of this type of unintended consequence before adopting regulations mandating the disclosure of market-based NAV's and market-based pricing of portfolio securities.

3. Opposition to Requiring Floating Net Asset Value

The Commission requested public comment on the possibility of eliminating the ability of money market funds to use the amortized cost method of valuation. We strongly oppose any requirement prohibiting money market funds from relying on amortized cost.

First, we believe that the $1.00 stable NAV provides more benefits to money market fund investors than a floating net asset value. There are significant tax and accounting advantages for investors being able to invest in a stable value product. Moreover, many investors are under legal or other constraints that preclude them from investing in anything other than a stable net asset value product.

Second, if money market funds were required to float their net asset values, it would undoubtedly cause significant numbers of shareholders to find alternative investment products that offer a stable net asset value for their cash investing needs. These alternative options would consist of bank products, which generally do not provide the same type of returns as money market funds, or unregulated private pools or separate accounts, which are not subject to the exacting regulatory framework applicable to US-registered money market funds. Accordingly, this foreseeable exodus from floating-NAV money market funds would result in: (1) the diminished supply of short-term credit to corporations to the extent money market assets migrate into bank deposits; and (2) greater systemic risk to the extent a significant amount of money market assets migrate to unregulated investment pools.

4. Opposition to Mandatory Redemptions-in-Kind

The Commission has requested public comment on whether money market funds should be required to satisfy redemption requests in excess of a certain size through redemptions-in-kind. According to the Release, the Commission noted that requiring redemption-in-kind for requests in excess of a certain size might be an effective means of reducing the risks posed by significant and sudden redemptions.

We strongly oppose a mandatory redemption-in-kind requirement. First, as noted in the Release, most money market funds already are permitted voluntarily to handle redemptions on an in-kind basis today. It is true that money market fund redemptions are rarely handled on an in-kind basis, but for important reasons. First, redeeming money market securities in-kind presents valuation and operational problems for both the fund and shareholders. Specifically, a fund may not necessarily be able to transfer title to certain securities or instruments held in the fund. Second, other securities may not be eligible for transfer because the client does not meet eligibility standards to hold the securities directly. Third, the complexities of ensuring the proper valuation of securities to be redeemed in-kind, especially during the periods of market stress, could be significant. Finally, fairly allocating money market securities on an in-kind basis so that neither the redeeming investor nor the fund is unfairly disadvantaged presents a considerable and challenging compliance obligation.

Moreover, many investors are not equipped to accept securities on an in-kind basis. In particular, many money market fund investors have chosen to invest their cash in funds instead of directly in the money markets to avoid such responsibilities as valuation and determining eligibility requirements.

Finally, requiring investors to receive in-kind redemptions has the potential to further destabilize a market that may already be under stress. Many money market fund investors will not wish to or be permitted to hold onto securities received as part of an in-kind redemption. Accordingly, a likely result of forced in-kind redemptions is simply to transfer the selling responsibility from presumably sophisticated and experienced asset managers to a disparate group of investors who do not necessarily have any reason to know how to dispose of these securities effectively.

Accordingly, we strongly recommend that the Commission not propose any regulations that would impose mandatory redemption in-kind obligations on money market funds.

* * * *

In conclusion, we are highly supportive of a majority of the Commission's proposal set forth in the Release. Overall, the Commission has proposed a series of regulatory enhancements that we believe will strengthen the stability of the money market fund industry.

Please feel free to contact me at (212) 357-7709 if you wish to discuss our comments in more detail or any other aspect of this important initiative.

Sincerely,

James A. McNamara
Managing Director
President, Goldman Sachs Mutual Funds

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

Andrew J. Donahue, Director, Division of Investment Management
Robert E. Plaze, Associate Director, Division of Investment Management