Government Finance Officers Association
International City/County Management Association
National Association of Counties
National Association of County Collectors, Treasurers and Finance Officers
National Association of State Auditors, Comptrollers and Treasurers
National League of Cities
U.S. Conference of Mayors
American Public Power Association
Council of Infrastructure Financing Authorities

September 8, 2009

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

RE: S7-11-09

Dear Ms. Murphy:

The organizations listed above are pleased to comment on the SEC's Proposed Changes to Rule 2a-7, S7-11-09. We support the SEC's initiative to strengthen money market funds and ensure that investors are investing in high-quality securities. However, as investors in money market mutual funds (MMMFs), we are sensitive to any changes that would alter the nature of these products and eliminate our ability to purchase these securities. As issuers of municipal bonds, we know that the current rating system limits what MMMFs may purchase. We are interested in both enhancing opportunities for money market mutual funds to continue to invest in our bonds and in highlighting the strong creditworthiness of municipal securities.

We are very concerned with the question posed in the notice as to whether the SEC should propose or adopt a rule that would change the fixed net asset value (NAV) – the hallmark of money market funds – to a floating net asset value (NAV). We believe that such a move would be harmful to state and local governments and the entire MMMF market. The fixed NAV is the trademark of money market funds and changing its structure likely would eliminate the market for these products, leading to fewer investors of municipal bonds, and forcing state and local governments to divest their MMMF holdings.

MMMFs are the largest investor in short-term municipal bonds, holding 65% of all outstanding short term bonds equaling nearly $500 billion[1]. Changing the NAV from fixed to floating, would make MMMFs far less attractive to investors, thereby limiting the availability for money market funds to purchase municipal securities. Losing this vital investing power could lead to higher debt issuance costs for many state and local governments across the country.

As investors, many state and local governments look to MMMFs as part of their cash management practice. In the GFOA recommended practice "Use of Various Types of Mutual Funds by Public Cash Managers," governments are encouraged to look to money market funds for short-term investments, with appropriate cautions. One of the critical reasons for this recommendation is the fixed NAV found in these products. In fact, many governments have specific policies that mandate money market funds are to be used for their short-term investments due to the fixed NAV. MMMFs are a popular cash management tool because they are highly regulated, have minimal risk, and are easily booked. If the SEC were to adopt a floating NAV for MMMFs, the

[1] Report of the Money Market Working Group, Investment Company Institute, March 2009, pages 18-19.

organizations listed above expect that many, if not all, of their members would divest a significant percentage of their MMMFs and would have to look at competing products that in turn could be more susceptible to market conditions, more difficult to account for and manage, and would have a lower rate of return.

Therefore, with regard to the SEC's request for general comment on a floating NAV, we recommend that the SEC be cognizant of the negative effect such action could have on state and local governments. If the SEC does plan to advance the idea of a floating NAV, we request that a hearing and formal proposal of rules be provided for comment and thorough discussion.

It is also important to note that money market mutual funds can invest only in securities in the highest two short-term rating categories, which leaves some high-quality municipal bonds ineligible for purchase. Credit rating agencies use different criteria and scales for municipal and corporate securities, which do not always reflect the high-quality of municipal bonds. Furthermore, despite the fact that the default rate for single-A rated municipal bonds is far lower than triple-A corporate bonds[2] and the ratings criteria is far steeper for municipal rather than corporate bonds, the SEC rules do not differentiate the bond rating purchasing criteria for mutual funds between the two.

State and local governments are concerned about the dual ratings system and the likelihood that many municipal securities ratings have been unduly suppressed over the years, as the GFOA noted in its comments to SEC proposed rule S7-19-08. Therefore, we support action that would call on the SEC to give NRSRO accreditation only to entities that use a comparable or uniform rating scale for all securities. The varying scales can be confusing and even misguide investors on the credit quality of various securities. With regard to proposed rule S7-11-09, the differing scales could result in investors not purchasing municipal securities whose credit quality is better than higher-rated securities in the corporate market.

We reiterate our recommendation that the SEC mandate uniform ratings for all securities so that money market funds are purchasing bonds based on the same criteria, and in the interim, that the rules allow for mutual funds to purchase A-rated municipal bonds. We believe this would create a level playing field for all securities and attract more investors to the municipal securities market.

Thank you for the opportunity to comment on the proposed rule changes to SEC Rule 2a-7.

Sincerely,

Government Finance Officers Association, Susan Gaffney, 202-393-8468
International City/County Management Association, Beth Kellar, 202-289-4262
National Association of Counties, Steve Traylor, 202-942-4254
National Association of County Collectors, Treasurers & Finance Officers, Tom Malzahn, 208-446-1011
National Association of State Auditors, Comptrollers and Treasurers, Cornelia Chebinou, 202-624-5451
National League of Cities, Lars Etzkorn, 202-626-3173
U.S. Conference of Mayors, Larry Jones, 202-861-6709
American Public Power Association, Amy Hille, 202-467-2929
Council on Infrastructure Financing Authorities, Rick Farrell, 202-547-1866

[2] Figure 3, *The US. Municipal Bond Rating Scale: Mapping to the Global Rating Scale and Assigning Global Scale Ratings to Municipal Obligations*, Moody's Investor Service, March 2007.