CENTER FOR CAPITAL MARKETS COMPETITIVENESS
OF THE
UNITED STATES CHAMBER OF COMMERCE

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September 8, 2009

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

RE: File Number S7-11-09; Release No. IC-28807; Money Market Fund Reform

Dear Ms. Murphy:

The U.S. Chamber of Commerce ("Chamber") is the world's largest business federation representing over three million companies of every size, sector, and region. The Chamber's Center for Capital Markets Competitiveness ("CCMC") works to ensure that our nation's capital markets are the most fair, efficient, and innovative in the world. Money market mutual funds play an important role in our marketplace by serving as a fundamental source of short-term financing for American businesses and state and local governments. This role in capital formation has proven to be particularly critical during the recent disruptions in our credit markets. Money market funds also offer investors unique access to strong and safe investment opportunities in the money market.

We commend the U.S. Securities and Exchange Commission ("SEC") for proposing amendments to Rule 2a-7 of the Investment Company Act of 1940 with the goal of strengthening protections for investors in money market funds. We support the majority of the SEC's proposed changes to Rule 2a-7 ("Proposed Rule") and believe that these reforms will ensure the resiliency of these important investment vehicles. However, we are concerned that certain aspects of Proposed Rule could have a negative impact on money market funds and unnecessarily limit their important role in our capital markets.

Specifically, we oppose the proposal to prohibit money market funds from investing up to 5% of assets in securities that carry the second highest credit rating, A-2 or P-2 ("A2/P2 Securities"). Although this may appear to represent a small change to Rule 2a-7, this action would have a significant and unintended impact on companies, investors, and our economy. These companies carry investment grade credit ratings, span across nearly every industry, and represent a major sector of our economy. As described below, this action would do little to reduce investor risk and would severely inhibit short-term financing for issuers of A2/P2 Securities. This action could also create broader disruptions in the commercial paper market and increase capital formation costs that would be passed down to consumers in these industries.

The SEC also invites comment on the advisability of proposing other reforms, including the concept of requiring money market funds to "float their net asset values" ("NAV") by letting their share price fluctuate. As set forth below, we do not believe that this would reduce the risk of another "run" on money market funds and instead would prevent many investors from utilizing money market funds as a cash management tool. Accordingly, we strongly oppose this concept and believe it is critical that the SEC preserve this key investment feature of money market funds.

Money Market Funds Play an Important Role in Capital Formation and Provide Investors with Unique Investment Opportunities

The regulatory success story behind money market funds illustrates the ability of the investment company industry and regulators to work together to promote innovation in our capital markets. Retail and institutional investors increasingly rely on money market funds as a low-cost, stable, and convenient cash management tool. Since its advent in the early 1970's, the industry has grown to approximately $3.6 trillion in assets. Money market funds offer investors a unique investment avenue into the money market that they would not have access to otherwise. Money market funds also play a critical role in capital formation by serving as a fundamental source of short-term financing for businesses across a broad spectrum of industries as well as state and local governments. The Investment Company Institute ("ICI") reports that money market funds hold nearly 40% of commercial paper and 65% of outstanding short-term state and local government debt.

When the Reserve Primary Fund "broke the buck" amid the extreme market conditions of September 2008, it was only the second fund ever to do so. The Department of the Treasury ("Treasury") quickly responded by implementing its Temporary Guarantee Program to enhance market confidence and alleviate investors' concerns about the ability for money market funds to absorb a loss. This successful program has also benefitted American taxpayers with significant returns and Treasury has indicated that they will not extend the program past its expiration this September.

Since last September, the industry has taken many important steps to facilitate a timely transition out of the program and to strengthen the ability of money market funds to weather future periods of market distress. In amending Rule 2a-7, the SEC must ensure appropriate steps are taken that will not unnecessarily constrain money market funds and will allow this important investment vehicle to continue to benefit all market participants and our economy.

The SEC Should Preserve the Ability of Money Market Funds to Invest in A2/P2 Securities

Rule 2a-7 currently allows taxable money market funds to acquire securities that receive the highest credit rating ("A1/P1 Securities") and second highest credit rating. Rule 2a-7 also places a reasonable limit on the total exposure to A2/P2 Securities to 5% of fund assets. The SEC seeks to amend the Rule 2a-7 definition of "eligible security" to require that securities receive "the highest" as opposed to "one of the two highest" short-term rating categories, as the current definition provides ("Proposed Prohibition"). As set forth in the Chamber's joint letter with 20 corporate treasurers filed on September 3,[1] we urge the SEC to preserve the ability of 2a-7 funds to invest up to 5% of total assets in A2/P2 Securities for several reasons:

- Issuers of A2/P2 Securities represent a major part of our capital markets and are significant contributors to our nation's economy.

[1] U.S. Chamber of Commerce and Joint Corporate Treasurer Signatories, *Preserving the Ability of Money Market Funds to Invest in A2/P2 Securities*, Sept. 3, 2009, available at http://www.sec.gov/comments/s7-11-09/s71109-55.pdf.

- Issuers of A2/P2 Securities are high quality credits with investment-grade long-term debt ratings. The historic default risk of A2/P2 Securities is very similar to that of A1/P1 Securities. Issuers of A2/P2 Securities are required to hold 100% backstop facilities to offset this risk.

- The Proposed Prohibition would not have prevented the recent strains on money market funds. In fact, the inability to diversify a money market fund portfolio could exacerbate the negative effects of another major default by an Issuer of A1/P1 Securities.

- The Proposed Prohibition could indirectly discourage non-2a-7 investment in A2/P2 Securities which would severely constrict the market for A2/P2 commercial paper. Such a scenario could also drive companies to draw down their credit facilities which would have a negative impact on the ability of banks to lend to other parts of the economy.

- The Proposed Prohibition could decrease borrowing flexibility and elevate borrowing costs for companies that issue A2/P2 Securities thereby restricting their ability to meet their short-term cash needs, increasing their cost of capital, and driving up consumer costs.

We urge the SEC to consider the direct and indirect impact that the Proposed Prohibition will have on the market for A2/P2 Securities and on the many companies that rely on money market funds to provide critical financing. The negative and unintended consequences the Proposed Prohibition would have on companies, investors, and our economy far outweigh any speculative increase in investor protection.

The SEC Should Not Propose a Requirement for Money Market Funds to Maintain a Floating NAV

The SEC invites comment on the advisability of proposing a rule that would require money market funds to "float their NAV" by letting their share price fluctuate. Money market funds play a vital role for state and local governments, businesses, and non-profits as an important source of short-term funding. According to the ICI, money market mutual funds hold an estimated 65 percent, or $491 billion, of outstanding short-term state and local government debt. State and local governments use these funds as a significant source of financing to support public projects, such as schools, roads, bridges, airports, and water and sewage treatment facilities.

The stable NAV is the hallmark of a money market fund that provides investors with significant benefits over alternative investments. Moving to a floating NAV would make money market funds significantly less attractive to investors. In addition to the tax and operational convenience and accounting simplicity that a stable NAV provides, under many state laws and regulations, municipalities, insurance companies, and others are authorized to invest in money market mutual funds only if the funds maintain a stable NAV.

If a floating NAV is adopted, investors with a strong need for a stable value would be forced out of money market funds. This likely decrease in demand would lead to a severe contraction in the availability of funding for many enterprises, including municipal issuers. This would increase the cost of borrowing by municipal issuers that would be passed directly onto taxpayers. These investors would also be forced into investments that offer a lower yield without a proportionate reduction in risk.

Rule 2a-7 currently includes robust protections for investors and many of the proposed amendments to Rule 2a-7 will enhance the ability of these investment vehicles to weather future periods of market distress. Adopting a floating NAV would destroy the usefulness of this investment and capital formation vehicle and negatively affect issuers and investors that use money market funds as sources of financing and cash management vehicles. Accordingly, we urge the SEC not to propose a rule that would require a floating NAV for money market funds.

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We appreciate the opportunity to comment on the proposed amendments to Rule 2a-7 and believe the combined efforts of the SEC and the money market fund industry will ensure the long-term resiliency of this important investment vehicle.

However, we urge the SEC to consider the negative and unintended consequences associated with the aforementioned aspects of the Proposed Rule. Accordingly, we urge the SEC to preserve the ability of 2a-7 funds to invest up to 5% of total assets in A2/P2 Securities and not propose a rule that would require funds to float their NAV.

We would be happy to discuss these issues with the appropriate SEC Staff.

Sincerely,

cc: The Honorable Mary L. Schapiro, Chairman, U.S. Securities and Exchange Commission
The Honorable Kathleen L. Casey, Commissioner, U.S. Securities and Exchange Commission
The Honorable Elisse B. Walter, Commissioner, U.S. Securities and Exchange Commission
The Honorable Luis A. Aguilar, Commissioner, U.S. Securities and Exchange Commission
The Honorable Troy A. Paredes, Commissioner, U.S. Securities and Exchange Commission