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September 9, 2009

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

**RE: File Number S7-11-09, Release No. IC-28807
Money Market Fund Reform (the "Release")**

Dear Ms. Murphy:

FAF Advisors ("FAF") is a registered investment adviser with over $70 billion of money market fund assets under management. We are a wholly-owned subsidiary of U.S. Bank National Association.

The proposed amendments to Rule 2a-7 and related rules set forth in the Release (the "Rule Proposals") reflect a very thorough and thoughtful analysis by the Commission of potential changes to money market fund regulation that will further ensure such funds' stability and provide the public with greater confidence that their money is safe when invested in a Rule 2a-7 money market fund. However, we do believe that certain aspects of the Rule Proposals can and should be modified without compromising the stability they are designed to afford.

We have closely followed the comprehensive review and analysis of the Money Market Working Group of the Investment Company Institute (the "ICI") and its carefully formulated proposals for money market reform. These proposals were submitted to the Board of Governors of the ICI in a report dated March 17, 2009 (the "ICI MMF Working Group Report")[1]. We believe the ICI has developed thoughtful and well reasoned positions on money market reform, reflected in the ICI MMF Working Group Report, and in the ICI's comments on the Rule Proposals under letter dated September 8, 2009 (the "ICI Comment Letter").

In commenting on the Rule Proposals, we want the Commission to know that we support the ICI's positions, as articulated in the ICI Comment Letter, and will not duplicate those detailed comments here. However, we do want to take this opportunity to note certain aspects of the Rule Proposals that have been identified by the ICI that are of particular concern to us.

Liquidity and the Retail vs Institutional Dichotomy

The Rule Proposals include new liquidity requirements for money market funds. Unlike the ICI MMF Working Group Report, the Commission is proposing different liquidity requirements, depending on whether a fund is designated by the fund board as a "retail" fund or as an "institutional" fund.

We fully support the notion that money market funds have a minimum daily and weekly liquidity requirement. However, we believe establishing different standards for so-called "retail" funds than for so-called "institutional" funds is unworkable and is susceptible to too much variance in judgment by different fund boards. Funds that can be designated "retail" will have a significant competitive advantage in their opportunity to produce a higher yielding product. In the absence of clear and unambiguous guidelines for making the retail/institutional designation, we do not think it is fair for the rule to establish different objective liquidity requirements, based on the vagaries of those terms. There is too great a chance that different money market funds with largely the same shareholder characteristics could be subject to different competitive constraints due entirely to how different boards might interpret the relatively loose guidelines identified in the Release. Such a requirement also produces an unfair outcome for money market funds that offer different share classes to different types of clients, likely requiring such funds to reorganize.

We would urge the Commission to accept the recommendation of the ICI MMF Working Group on the liquidity proposal and require all taxable money market funds to maintain 5% daily liquidity and all money market funds to maintain 20% weekly liquidity. This recommendation, when coupled with the other aspects of the Rule Proposals, such as more stringent quality, weighted average maturity and weighted average life requirements and mandatory stress testing, will afford adequate protection without imposing liquidity requirements which, in normal times are unduly burdensome and in abnormal times, most likely would not be adequate. To guard against a run on a fund, the fund management will need to be diligent and adjust a fund's (whether retail or institutional) liquidity requirements to correspond with the exigencies of the times. Indeed, the Commission observed in the Release that some money market funds maintained 50 percent in cash at times in anticipation of redemptions.[2]

[2] Release p 60

While we support an objective liquidity requirement, we believe that any standard adopted cannot possibly provide the protection that can reasonably be expected in the most challenging markets without being unduly burdensome[3] and thus depriving shareholders of an opportunity to realize a better yield on their cash investments. Short of a guaranty regimen, which we would not support, even the most stringent money market fund regulation cannot provide absolute assurances that a fund's NAV will not decline below $1.00. We strongly believe it would not be in shareholders' interest to impose restrictions that are not necessary in nearly all market environments and not sufficient in times of extraordinary market stress. If management fails to structure a portfolio to address extreme market conditions, the Commission's proposal to permit fund boards to suspend redemptions, as discussed below, provides the necessary safeguards to assure fairness in the event a fund cannot accommodate unusually large redemption requests.

Disclosure of Shadow Pricing

The Commission has solicited comment on whether market price NAVs should be disclosed to shareholders. We believe very strongly that such disclosure is likely to promote destabilization of money market funds at the very time such funds are most vulnerable. Such disclosure could very well result in shareholders moving from one fund to another as a fund's market NAV declines below $1.00. That action would cause a further decline in the per share NAV, causing more shareholders to redeem shares, all working toward a self fulfilling prophecy of the market NAV declining below $.9950.

We believe the logic of employing amortized cost for Rule 2a-7 funds is sound and that it would be inconsistent with that logic to publically disclose what the market price NAV might be. Under the current regulatory scheme, a fund's board is responsible for monitoring the market price NAV and for determining when it may not be appropriate for the NAV to be calculated using the amortized cost method of accounting. How to deal with a market NAV that might decline below $1.00 is much better left to the board than to individual shareholders, who most certainly would be inclined to act only in their own self interest, which, in these circumstances, necessarily would be detrimental to other shareholders.

Board Suspension of Redemptions Rights

The Rule Proposals include a new Rule 22e-3 that would permit a money market fund board to suspend redemptions if the fund "broke the buck" and the board determined the fund should be liquidated. One need only to look at the confusion and uncertainty around the liquidation of the Reserve Primary Fund to understand the significant value of

[3] The experience of the Primary Fund, a series of The Reserve Fund (the "Reserve Primary Fund"), is illustrative. That fund started the day on September 15, 2008 with about $60 billion in assets. By 3:45 P.M. on September 16, 2008, it had received redemption requests approximating $40 billion, or approximately 2/3rds of the assets in two days. Memorandum of the Independent Trustee of the Reserve Primary Fund in Response to the Investor Submissions Regarding the Securities and Exchange Commission's Proposed Plan of Distribution, *United States District Court Southern District of New York, Case No., 09 Civ, 4346 (PGG) ECF Case.*

this proposal. We fully support the adoption of Rule 22e-3 but question whether it goes far enough. Specifically, we believe there could be real value in giving a money market fund board the authority to suspend redemptions even before a fund actually "breaks the buck" and even if not necessarily done in conjunction with a determination to liquidate the fund. As a practical matter, such action might make liquidation inevitable, but there could be circumstances that would enable the fund to survive, such as securing appropriate credit relief. Also, permitting a board to suspend redemptions before shares actually "breaks the buck" could enable a board to act before some shareholders are made whole at the expense of others.[4]

Role of Credit Ratings

The Commission has asked for comment as to whether references to credit ratings from nationally recognized statistical rating organizations ("NRSROs") should be removed from Rule 2a-7. Alternatively, it has asked for comment regarding whether a fund's board should be required to designate annually three or more NRSROs the fund would look to under Rule 2a-7, based on its determination that the designated NRSROs issue credit ratings that are sufficiently reliable for such use.

We strongly believe that Rule 2a-7 should continue to employ the use of credit ratings to establish the minimum floor for determining whether a security is an eligible security under Rule 2a-7. Notwithstanding that rating agencies recently seemed to have lapsed in their critical review and analysis of certain securities, particularly of certain asset-backed securities, they do continue to play an important role in the credit markets. We believe it is important to continue to have independent parties setting the minimum credit quality floor to which all money market funds are subject. To remove that floor and look only to the minimum credit risk determination made by the fund board, typically through the fund's advisor, serves only to remove a safety net and adds no additional protection. The recent regulatory reform of rating agencies and their heightened sensitivity to their past failings should further bolster the efficacy of their important role.

The alternative posed by the Commission—board designation of at least three rating agencies which a fund will use under Rule 2a-7—was also suggested in the ICI MMF Working Group Report. We believe requiring such designation would be a beneficial requirement, adding some discipline to the process and removing the ability of a management company to engage in forum shopping for favorable ratings. However, since a fund board most likely would be relying on management's recommendation, we believe a better approach, consistent with a board's oversight role, would be for management to make the designation pursuant to procedures approved by the board.

[4] Requiring that a fund "breaks the buck" before the board may suspend redemptions places an additional and unnecessary burden on the board, which might reasonably anticipate a cascade of redemption requests that could extend over more than one NAV-setting period. To allow one set of shareholders to receive $1.00 when a board can reasonably expect that the next redemption period will move the NAV below $.9950 produces a potential unfairness without serving any regulatory purpose. The Reserve Primary Fund liquidation is a good example of why waiting for the NAV to break the buck before suspending redemptions may not serve the public interest

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We thank the Commission for its careful review of the important issues facing money market funds and for developing a stronger the regulatory framework for such funds. Should you have any questions regarding our comments please feel free to contact me.

Very Truly Yours,

Charles R. Manzoni, Jr.
General Counsel

Cc: Honorable Mary L. Shapiro, Chairman
Honorable Kathleen Casey, Commissioner
Honorable Elisse B. Walter, Commissioner
Honorable Luis A. Aguilar, Commissioner
Honorable Troy A. Paredes, Commissioner

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