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Secretariat
The Council of
State Governments

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

Re. File S7-11-09

Comment Letter to the Securities and Exchange Commission Opposing Floating Net Asset Value for Money Market Funds

Dear Ms. Murphy:

At its recent annual conference, the National Association of State Treasurers (NAST), the organization that represents the treasurers or chief financial officers of the fifty states, the District of Columbia, and Puerto Rico, considered the SEC proposal to promote a floating Net Asset Value (NAV), rather than a stable $1 per share, for money market funds. In the opinion of NAST, going to a floating NAV could significantly change investor behaviors (especially institutional investors) and, as a result, potentially destabilize financial markets for both investors and debt issuers. Currently money market funds are a relatively low-cost, efficient, and convenient cash management tool for managers of public funds, and NAST would like to see them remain that way.

In its effect on short-term public investors, a floating NAV could decrease investor demand if stability is removed (and potentially eliminate money market funds as a product). In this event, money market funds would essentially become short-term bond funds, which would negatively impact the current money market fund benefits in the areas of:

1. Stability & capital preservation – could increase investment risk, especially in volatile market conditions. Money market funds are currently well regulated by the SEC (Rule 2a-7). Money market investors understand there is some level of risk, but relatively small.

2. Liquidity – could eliminate daily liquidity and lengthen time to obtain cash (up to 3-days).

3. Yield – could increase fund administrative costs which decreases net yield

4. Reduce Diversification – may even preclude certain public investors from using floating NAV money market funds.

In addition, this organization believes that a floating NAV would:

1. Push investors to less regulated or non-regulated markets increasing risk.

2. Increase accounting requirements of investors (e.g., mark-to-market).

Finally, NAST believes that the floating NAV would reduce or eliminate a market for short-term public and non-profit debt. We would point out that money market funds are currently the largest buyer of public debt. Furthermore, a floating NAV could lead to a contraction in short-term public financing capability as investors, especially institutional investors, move to other products. It would also increase short-term debt costs for states due to the reduction of placement options. As a result, states would be forced to rely heavily on banks, causing banks to have to significantly increase their capital.

While NAST understands that reasonable individuals can and have made arguments in favor of a floating NAV, this organization is firmly of the opinion that the arguments against a floating NAV are much stronger than are those in its favor. For these reasons, the National Association of State Treasurers hereby goes on record as opposing a floating NAV for money market funds.

Sincerely,

Jeb Spaulding
President, National Association of State Treasurers
Treasurer, State of Vermont