September 24, 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
Preserving the Ability of Money Market Funds to Invest in A2/P2 Securities

Dear Ms. Murphy:

The undersigned companies and organizations represent a diverse range of industries that rely on a well-functioning and liquid money market to support their financing needs. 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 providing greater protections for investors in money market mutual funds ("Proposal").[1] While we support the majority of changes set forth in the Proposal, we oppose the proposed amendments to prohibit money market funds from investing in securities that carry the second highest credit rating ("Proposed Prohibition").[2] As set forth below, we believe this action would have a negative and unintended impact on capital formation that far outweighs any speculative increase in investor protection.

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 ("A2/P2 Securities"). 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. 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:

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

II. A2/P2 Issuers 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. A2/P2 Issuers are required to hold 100% backstop facilities to offset this risk.

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[1] Money Market Fund Reform, 74 Fed. Reg. 32688 (July 8, 2009), *available at* http://www.sec.gov/rules/proposed/2009/ic-28807fr.pdf.
[2] Money Market Fund Reform, 74 Fed. Reg. at 32695.

III. 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 A1/P1 Issuer.

IV. 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 A2/P2 Issuers 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.

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

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

In the aggregate, A2/P2 Issuers employ over 4 million individuals, are responsible for over $2 trillion in revenue annually, and have over $1 trillion in market capitalization. The median A2/P2 Issuer has approximately $11 billion in revenue, over 21,000 employees, and a market capitalization of over $7 billion. As of June 30, 2009, there were 266 P-1 companies, of which about 75% are U.S. companies (25% foreign) and 51% are financial companies (49% non-financial). There were 204 P-2 issuers, of which 87% are U.S. companies (13% foreign) and 18% are financial companies (82% non-financial). The list of A2/P2 Issuers cuts across a diverse spectrum of industries touching almost every aspect of our economy.

Rule changes that will alter the financing sources for such a large portion of the U.S. economy should only be done with great care and consideration of unintended consequences. We urge the SEC to consider the negative effects that this action could have on capital formation and our nation's economic recovery. In many cases, the reduced financing flexibility and increased cost of capital could negatively impact investors in these companies and be directly passed down to consumers in these industries.

II. A2/P2 Issuers 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. A2/P2 Issuers are required to hold 100% backstop facilities to offset this risk.

Although A2/P2 Issuers are marginally riskier than A1/P1 Issuers by definition, they still have exceptionally high credit ratings that put them in the top ranks of rated companies. The historical default experience of A2/P2 Issuers has been very close to that of A1/P1 Issuers. For example, Moody's reported that from 1972 to 2006, the 180 day default rate for P-2 commercial paper from commercial issuers was a mere 0.03%, compared with 0.01% for P-1 and 0.17% for P-3.[3] This very small increase in risk for A2/P2 Securities does not justify a complete ban on money market fund investment in these securities.

Furthermore, credit rating agencies require A2/P2 issuers to have 100% backstop facilities for their commercial paper programs to maintain the investment grade A2/P2 rating. This means that a disruption in the commercial paper market will not force a default on the paper as the issuer already has alternative financing pre-arranged. The slightly higher default rate between A1/P1 Issuers and A2/P2 issuers is more than compensated for by the incremental yield paid by A2/P2 Issuers.

In the Proposal, the SEC notes that public comments on the 1991 revisions to Rule 2a-7 cited the possibility of rapid deterioration in the credit quality of A2/P2 Issuers.[4] A look at the historic experience of A2/P2 Issuers shows that reductions in credit quality are very similar to A1/P1 Issuers. Moody's reports that from 1972 to 2006, the 30 day probability that a P-2 issuer lost its prime status (including withdrawn ratings as well as downgrades) was 0.75%, compared with 0.42% for P-1 issuers and 3.92% for P-3 issuers.[5]

The SEC also cites data regarding higher and more volatile credit spreads between A1/P1 and A2/P2 commercial paper last fall as evidence of higher risk.[6] However, during this period of volatility, the Federal Reserve Bank was only purchasing A1/P1 Securities for its Commercial Paper Funding Facility ("CPFF").[7] The chart in Appendix A illustrates the contribution of the Federal Reserve Bank's CPFF to the widening of credit spreads between A1/P1 and A2/P2 Issuers.

Furthermore, there was similar spread volatility within the A1/P1 segment as rumors of the impending demise of major institutions flooded the marketplace. Indeed, a large spread developed between financial and non-financial issuers during that time, yet it would be disingenuous to use the same data to justify a ban on all financial issuers of commercial paper. Similarly, the SEC should not use this data to justify a prohibition on money market funds investing in A2/P2 Securities.

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[3] Moody's Investors Service, Short-Term Corporate and Structured Finance Rating Transition Rates, June 2007 [hereinafter "Moody's Report"] *available at* http://www.moodys.com/cust/content/Content.ashx?source=StaticContent/Free%20Pages/Regulatory%20Affairs/Documents/st_corp_and_struc_transition_rates_06_07.pdf

[4] Money Market Fund Reform, 74 Fed. Reg. at 32695.

[5] *See* Moody's Report, *supra* note 3.

[6] Money Market Fund Reform, 74 Fed. Reg. at 32695.

[7] The Federal Reserve Bank of New York, Commercial Paper Funding Facility: Program Terms and Conditions, http://www.newyorkfed.org/markets/CPFF_Terms_Conditions.html

The Cost Benefit Analysis in the Proposal does not consider direct quantitative evidence of the historical default experience of A2/P2 Securities.[8] Instead, it appears the analysis and conclusions regarding the Proposed Prohibition are based on indirect evidence of credit quality such as EBITDA multiples and credit spreads. Although A2/P2 Issuers score slightly lower on these criteria, they are still outstanding credits.

III. 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 A1/P1 Issuer.

The SEC appropriately recognized that A2/P2 Securities were not directly implicated in the recent strains on money market funds.[9] Prohibiting the holding of A2/P2 Securities would not have prevented or minimized the problems experienced in September 2008, which involved the default of an A1/P1 Issuer. Most commercial paper defaults have resulted from unforeseen liquidity events, which is a risk equally applicable to A1/P1 Issuers. For example, Lehman Brothers was an issuer of A1 commercial paper up until the day it filed for bankruptcy. The commercial paper market is generally efficient in removing weaker companies out of the market in an orderly manner prior to default.

Restricting money market funds to holding only A1/P1 Securities limits the pool of potential issuers to invest in and could constrain the ability of money market funds to reduce their risk through diversification. Indeed, had the proposed prohibition been in effect in 2008, the strain on money market funds could have been worse. With fewer issuers to choose from, some money market funds may have had greater exposure to the A1 paper that did default. This could have resulted in even more funds "breaking the buck." Furthermore, the Proposed Prohibition could deter money market funds from investing in A1/P1 Issuers that are perceived to carry a risk of a downgrade to A2/P2.

IV. The Proposed Prohibition could indirectly discourage non-2a-7 investment in A2/P2 Securities which would severely constrict financing sources for A2/P2 issuers. Such a scenario would drive A2/P2 Issuers 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.

Many cash managers for insurance companies, corporations, municipalities, high net worth individuals, and other investors use Rule 2a-7 as a guideline for investment practices. One of the indirect consequences of this action not discussed in relation to the Proposed Prohibition is the potential that a "sheep effect" could occur as other investors could choose not to invest in A2/P2 Securities.

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[8] *See* Money Market Fund Reform, 74 Fed. Reg. at 32722.
[9] Money Market Fund Reform, 74 Fed. Reg. at 32695.

Managers of non-2a-7 assets may use the Proposed Prohibition as a benchmark for best practices and further limit or eliminate their holdings of A2/P2 Securities. This could result in a domino effect that could quickly constrict the market for A2/P2 Securities. Such a scenario could increase the cost of short term-financing and cut off highly rated companies from the economic lifeblood that the commercial paper market provides. Such a scenario would also drive A2/P2 Issuers to draw down their credit facilities which would have a negative impact on banks' ability to lend to other parts of the economy.

Furthermore, many firms manage both 2a-7 and non-2a-7 money for cash management vehicles. When they can invest in A2/P2 Securities, there are efficiencies that can justify the cost of credit analysts covering A2/P2 Securities as the paper could be held by both the 2a-7 and non-2a-7 accounts. Prohibiting the ability of investment companies to invest 2a-7 money in A2/P2 Securities could reduce these efficiencies and force firms to restrict analyst coverage and all of their investments to A1/P1 Securities.

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

Commercial paper plays a critical and cost efficient financing role for A2/P2 Issuers. Allowing money market funds to hold limited amounts of A2/P2 Securities provides useful flexibility to issuers of short-term commercial paper, money market funds, and the overall economy. Many companies use commercial paper to raise cash needed for daily operations and find it to be a more flexible and lower-cost alternative to other sources of financing. Although banks have played an important financing role to help companies meet short-term obligations, the recent economic downturn has severely limited their ability to make these types of loans.

Even when economic conditions improve, money market funds will continue to offer a less expensive, short-term source of financing for companies. For A2/P2 Issuers, money market funds have played a critical financing role by holding a significant percentage of outstanding A2/P2 Securities in recent years. Prohibiting those funds from holding A2/P2 Securities could decrease borrowing flexibility and elevate borrowing costs for A2/P2 Issuers, thereby restricting their ability to meet their short-term cash needs. In many industries, this increased cost of capital would be directly passed down to consumers.

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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 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. In light of the aforementioned considerations, we urge the SEC to preserve the ability of 2a-7 funds to invest up to 5% of total assets in A2/P2 Securities.

We would appreciate the opportunity to discuss this issue with the SEC staff and Commissioners. If you have any questions, please contact Jonathan Jachym at (202) 463-3119.

Sincerely,

David T. Hirschmann
President and Chief Executive Officer
Center for Capital Markets Competitiveness
U.S. Chamber of Commerce

Richard J. Valone
Vice President and Treasurer
Avon Products, Inc.

Alfred B. Quirk, Jr.
Vice President, Finance and Treasurer
Aetna, Inc.

Charles R. Conradi
Vice President, Tax and Treasurer
Clorox Corporation

Peter Hong
Vice President and Treasurer
Alcoa, Inc.

William E. Dordelman
Vice President and Treasurer
Comcast Corporation

Jim Kaitz
President and Chief Executive Officer
Association for Financial Professionals

James P. O'Brien
Vice President and Treasurer
Consolidated Edison

Carol A. DeNale
Vice President and Treasurer
CVS Caremark Corporation

Jeff Agosta
Senior Vice President, Corporate Finance and Treasurer
Devon Energy

G. Scott Hetzer
Senior Vice President, Tax and Treasurer
Dominion Resources, Inc.

Stephen G. DeMay
Senior Vice President, Treasurer and Chief Risk Officer
Duke Energy

Susan Stalnecker
Chair, Financial Executives International's Committee on Corporate Treasury
Financial Executives International

Thomas C. Deas, Jr.
Vice President and Treasurer
FMC Corporation

James H. Biggart
Vice President and Treasurer
Hubbell, Inc.

Thayer Long
President
Manufactored Housing Institue

Carolyn Handlon
Executive Vice President and Global Treasurer
Marriott International, Inc.

Bradley S. Fox
Chairman
National Association of Corporate Treasurers

Christian Bauwens
Treasurer
Nissan Motor Acceptance Corporation

Nicholas M. Bijur
Senior Director and Treasurer
Pacific Gas and Electric Company

Mark W. Peterson
Senior Vice President and Treasurer
The ServiceMaster Company

Christine McCarthy
Executive Vice President, Corporate Finance and Real Estate & Treasurer
The Walt Disney Company

Bradley S. Fox
Vice President and Treasurer
Safeway Inc.

Edward B. Ruggiero
Senior Vice President and Treasurer
Time Warner, Inc.

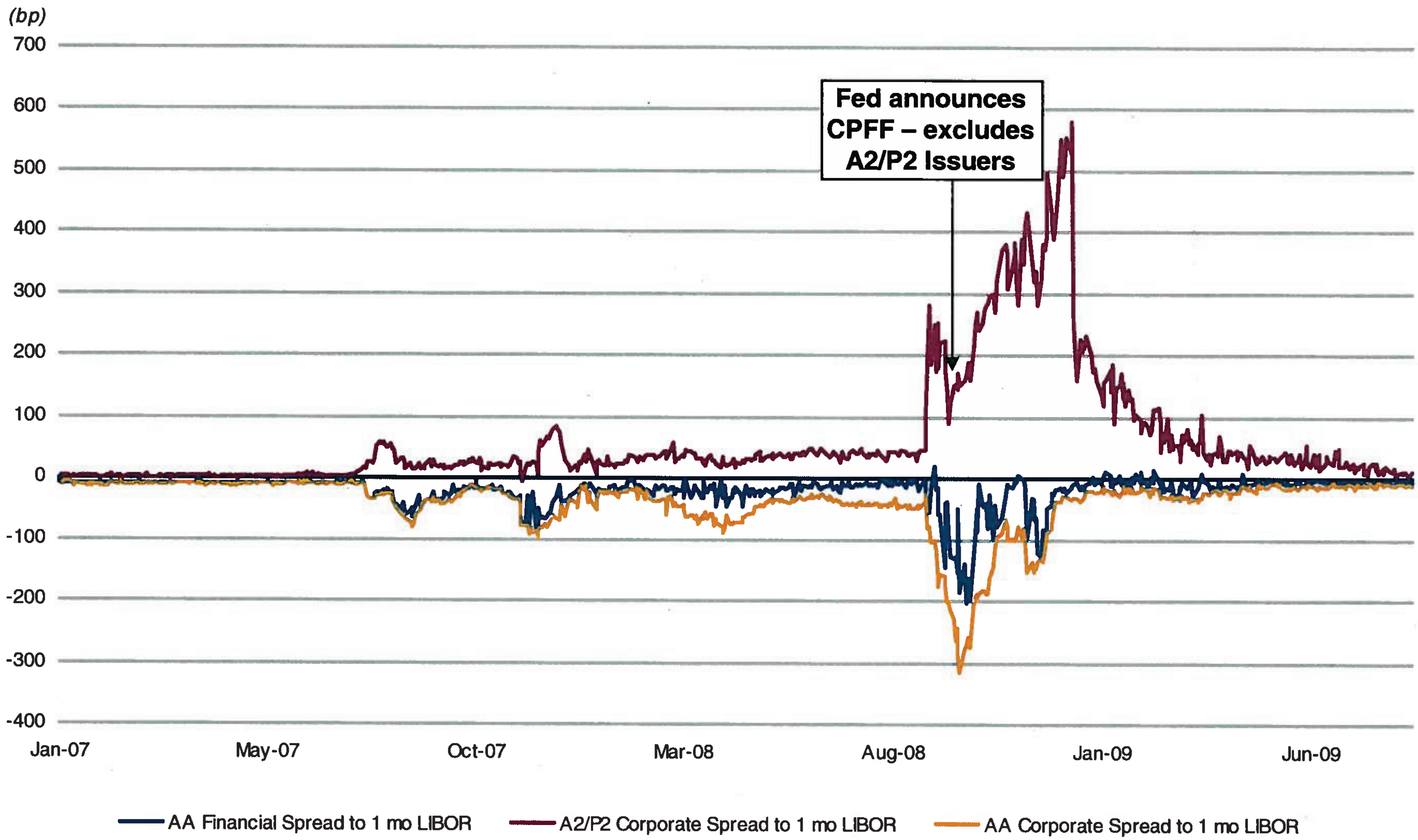
Brent W. Clum
Senior Vice President and Treasurer
XTO Energy Inc.

Matthew Siegel
Senior Vice President and Treasurer
Time Warner Cable

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
Andrew J. Donohue, Director, Division of Investment Management, U.S. Securities and Exchange Commission
Robert E. Plaze, Associate Director, Division of Investment Management, U.S. Securities and Exchange Commission

Appendix A
U.S. Commercial Paper Market: Spread Analysis

Historical Commercial Paper Spread Analysis [1]



(1) Source: Federal Reserve. Spread to 1-month LIBOR.