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August 10, 2022

Commissioner Mark T. Uyeda
Securities and Exchange Commission
100 F Street, NW
Washington, DC 20549

VIA OVERNIGHT MAIL

Dear Commissioner Uyeda:

Thank you for joining us on our call last Monday. We very much appreciate having the opportunity to discuss the very important topic of preserving money market funds ("MMFs") for the benefit of investors, issuers and markets.

Below for convenience is a summary of my remarks at the beginning of our meeting.

1. Swing Pricing is a plague on MMFs. It will finish off the task of regulating institutional prime MMFs out of existence. One trillion was taken out during the last round of changes and the remaining 300 billion will be largely taken out with swing pricing.

2. Discretionary fees and gates are much better answer as opposed to swing pricing. Ensuring fund boards have lots of tools in the toolbox is the best way to enhance the resilience of MMFs. It has been endorsed by global regulators, including the FSB. Fund boards have, and will continue to, exercise their fiduciary duty, even in stressed markets. We understand regulating speed limits for fear that some would drive too fast, but imposing swing pricing (or adopting a mandatory approach to liquidity fees) is more like putting nails and rocks on the road to make it unusable. And please do not forget the Fed received 1% on all the $53 billion of transactions and took no principal risk.

3. Simply fixing the mistaken linkage of 30% liquidity with fees and gates is the best thing to do and the only fix supported by data. Please do not create another threshold mistake. Fix the problem and declare victory.

4. Forget requiring intermediaries to have the capacity to redeem and sell shares based on a 4 digit NAV because of the remote possibility of negative rates. This will simply have the effect

of eliminating at least $1 trillion of sweeps in government MMFs because the clients, as before, will choose not to retool. The result will be more dollars in low yield deposit products.

I also wanted to take this opportunity to follow-up on several issues discussed at our meeting.

MMFs continue to provide investors, issuers and markets with a short-term, diversified, high-quality investment option other than bank deposits or so-called stable coins, despite constant central bank pressure to eliminate the utility of MMFs, thereby regulating them out of existence, a concept considered by the Federal Reserve in 2010.[1] Former Federal Reserve Bank President Rosengren, a long-standing critic of MMFs, stated, and we quote in our April 11, 2022 comment letter to the Commission's proposed rules regarding MMFs, that his "personal preference would be not to have prime money market funds."[2] In pushing their false narrative as to the role MMFs have in short-term funding markets and, specifically, the impact MMFs had on the market turmoil experienced in the Liquidity Crisis, central banks continue to ignore not only the lack of any data supporting its assertions that MMFs played a role in the Liquidity Crisis, but also the dramatic reduction in size of the prime MMF universe after the SEC's 2014 amendments.

Unfortunately, this false narrative has impacted the proposed rule, as certain aspects of the proposal are unsubstantiated and have no regard to the market consequences. There is no data supporting any benefits of Swing Pricing,[3] swing pricing has never been used by MMFs and all evidence and market intelligence notes that an unencumbered discretionary liquidity fee is the most appropriate targeted mechanism to apply the cost of liquidity to redeeming shareholders in times of market stress. To avoid any material dilution, should the Commission be wed to the concept of swing pricing, we urge the Commission to follow the approach of global policy makers and include swing pricing, along with discretionary fees, as alternative tools in a Board's tool bag, which can be considered based upon the specific facts and circumstances of the fund and the particular type of stress experienced.

Similar to the Commission's proposal on swing pricing, there is a complete lack of data supporting a mandatory move to a 4 digit NAV (and a prohibition on the use of a reverse distribution mechanism ("RDM")) in a negative interest rate environment. Ours is a disclosure regime, and we fully support ensuring that any disclosure regarding the use of a RDM is written

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[1] Z. Pozsar, T. Adrian, A. Ashcroft & H. Boesky, *Shadow Banking*, Federal Reserve Bank of New York Staff Reports No. 458, at 6 (July 2010). As originally published, at page 6 the Staff Report read: "whether shadow banks should have access to official backstops permanently, or be regulated out of existence." Available in its original 2010 form at https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr458_July_2010_version.pdf. The Staff Report was subsequently revised in February 2012 to delete this sentence: https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr458.pdf.

[2] Eric Rosengren, President, Federal Reserve Bank of Boston, Financial Stability Factors and the Severity of the Current Recession, Robert Glauber Lecture, Harvard Kennedy School Institute of Politics, at minute 101:08-104:40 (Nov. 10, 2020), available at https://iop.harvard.edu/forum/financial-stability-factors-and-severity-currentrecession.

[3] See 2022 MMF Release, page 185, noting a lack of data which would support estimates of dilution that could have been recaptured or the prevalence of other sources of dilution.

in clear plain English to minimize any potential investor confusion. Matters, far more complex than RDM, are disclosed to US investors today.

As you so rightly observed, the only support provided by the Commission to substantiate their belief that RDM would be too confusing for investors, are the words of Jose Joseph, whose comment letter is referenced in Footnote 248 of the release, nearly in its entirety. In fact, the footnote referencing the "opinion" of Jose Joseph is longer than Mr. Joseph's actual comment letter. Jose Joseph's comment letter includes no actual data or studies to support the views of a single individual (although we have no knowledge as to who Jose Joseph is), yet this is the support cited within the proposal which puts at jeopardy trillions in funding for US Government Securities.

We believe the record, and lack of supporting data, is very clear. Other than delinking, the proposals on swing pricing and RDM are not supported by any data and the imposition of these proposals without such support is arbitrary and capricious.

I very much appreciate your continued consideration of these very important points and we will continue to make ourselves available for any further follow-up discussions deemed appropriate.

Sincerely,

_____/s/_______________________
J. Christopher Donahue
President & Chief Executive Officer