CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

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June 23, 2011

The Honorable Scott Garrett
Chairman
Subcommittee on Capital Markets and
Government Sponsored Enterprises
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Subcommittee on Capital Markets and
Government Sponsored Enterprises
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Garrett and Ranking Member Waters:

The U.S. Chamber of Commerce, the world's largest business federation, representing the interests of over three million businesses and organizations of every size, sector, and region, believes that a coherent, stream-lined regulatory structure and effective commonsense regulations will ensure the safety and soundness of the financial markets while promoting economic growth and job creation.

As the House Financial Services Subcommittee on Capital Markets and Government Sponsored Enterprises holds a hearing entitled "Oversight of the Mutual Fund Industry: Ensuring Market Stability and Investor Confidence," it is important to highlight that money market fund reform would have far ranging implications for the mutual fund industry, their investors and the American economy.

In October 2010, the President's Working Group on Financial Markets proposed several reform options that would make structural changes to money market funds. Among these options is a requirement that money market funds float the net asset value, whereas the current practice for funds is to maintain a stable $1.00 price per share value. The Chamber strongly opposes the proposal to abandon the stable per share value. Shifting to a floating net asset value would leave a noticeable void as there are no ready, affordable alternatives to money market funds. Moreover, it would not accomplish the fundamental reform goal of preventing another run on the money, but rather add risk to the financial system.

Money market funds allow businesses and institutional investors to efficiently and affordably manage liquidity as funds can be invested and withdrawn on a daily basis. The stable net asset value makes money market funds an attractive investment product for excess cash because of its convenience and simplicity. The cost and complexity of accounting for money market fund investments with a floating net asset value will lead corporate treasurers and institutional investors to find other investment vehicles to place excess cash. Additionally, many businesses have investment policies that preclude corporate treasurers from investing cash in anything other than stable value accounts. Institutional investors, too, may be restricted by law or investment policy from investing in a product with a floating value.

Flight from money market funds will have significant consequences, shrink the capital pool and make financing less available and less affordable for commercial paper issuers. Businesses issue commercial paper to meet short-term financing needs such as payroll and inventory. For decades, money market funds have been major, reliable purchasers of commercial paper issued by businesses. With a shrinking money market capital pool, businesses will be forced to find alternative financing sources that are more costly and less flexible. Bank lending does not have the capacity to replace the void that would be left by a defunct $1.1 trillion commercial paper market. While larger businesses will almost always secure bank financing because of their sheer size and creditworthiness, smaller businesses in need of growth capital will struggle to compete for bank financing. Inevitably, there will be a ripple effect to the American economy, endangering the already fragile economic recovery.

If significant fundamental changes are made to money market funds making them less attractive investments, investors may seek investments in other, less regulated products. Encouraging investors to migrate to less regulated investment vehicles is not consistent with efforts to reduce risk, increase market transparency, and ensure greater market stability. Concentrating investments choices in a more narrow band of financial products and institutions increases systemic risk and weakens the stability of the financial markets.

The Chamber supports appropriate steps to preserve and strengthen money market funds as a vital source of business financing and investment. Last year, the Securities and Exchange Commission adopted new safeguards through changes to Rule 2a-7 of the Investment Company Act of 1940, including enhanced liquidity requirements and tightening existing investment and disclosure rules. Corporate treasurers are already experiencing the impact of these changes in their commercial paper programs. As the Committee conducts oversight of the mutual fund industry, the Chamber recommends that regulators fully consider and anticipate the potential unintended consequences of any reforms to the money market industry and that implemented reforms do not make the money market industry less useful as a source of investing and financing for main street businesses.

The Chamber looks forward to working with the Subcommittee on this issue and others to ensure the vibrancy of the American capital markets.

Sincerely,

R. Bruce Josten

cc: Members of the House Committee on Financial Services