



June 22, 2011

The Honorable Scott Garrett
Chairman
Subcommittee on Capital Markets and Government Sponsored Enterprises
House Financial Services Committee
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Garrett:

The Association for Financial Professionals (AFP) welcomes the opportunity to provide you and the Members of the Subcommittee with our thoughts on the various options currently being discussed relating to money market reforms, as you prepare for the hearing entitled Oversight of the Mutual Fund Industry: Ensuring Market Stability and Investor Confidence. AFP fully supports amending the current rules governing money market funds (MMFs) in a manner that encourages clear and concise transparency which not only protects investors, but provides them with the necessary information needed to make the most sound and practical investment decisions for their organizations. As such, AFP members have concerns regarding several options that have been presented throughout the course of the debate and we appreciate the opportunity to offer our thoughts to you.

AFP's membership includes more than 16,000 financial professionals employed by over 5,000 corporations and other organizations. AFP members represent a broad spectrum of financial disciplines and their organizations are drawn generally from the Fortune 1,000 and middle-market companies in a wide variety of industries, including manufacturing, retail, energy, financial services, universities/colleges and technology. Many AFP members manage their organization's investment portfolios and have an active interest and a sizable stake in the manner under which MMFs operate. The options discussed in the President's Working Group (PWG) on Financial Markets' study of possible MMF reforms report, address areas that are of critical importance to financial professionals. These professionals are responsible for directing the investment of corporate cash and pension assets for their organizations and are charged with considering action on all available investment alternatives to protect principal, ensure liquidity and prudently maximize returns. Financial professionals are unique in that they are responsible for observing business conditions that affect their organizations and making assumptions on how those conditions will change in both the short and intermediate term. In addition, they must also make critical business decisions—including those concerning corporate borrowing and business investment—based on those observations and assumptions.

AFP recognizes that concerns about the liquidity of MMFs played a role in exacerbating the financial crisis that began in September 2008. As a result, we have been and remain largely supportive of rules already enacted by the Securities and Exchange Commission (SEC) to improve the liquidity and transparency of MMFs. The impact of many of these rules, including the monthly reporting of each fund's shadow NAV, has not yet been fully felt in the market. We believe that these new rules instituted significant changes that will, on their own, substantially reduce the liquidity concerns and systemic risks posed by MMFs. AFP is in favor of allowing these recently-adopted rules to serve their intended purpose **before** instituting any of the PWG's proposals, which are likely to eliminate MMFs as a viable investment alternative for many corporate investors.

AFP offers the following comments on the various options presented by the PWG:

Floating Net Asset Value (NAV) and a Two-Tier System of MMFs with Enhanced Protection for Stable NAV Funds

AFP opposes the proposal to eliminate the stable NAV in favor of a floating NAV, as we believe it would greatly reduce investors' interest in utilizing MMFs as a cash management and investment tool, whether applied to all investors or just institutional investors. For purchasers of MMFs, the return *of* principal is a much greater driver of the investment decision than return *on* principal. For a large number of institutional investors, the potential of principal loss would preclude floating NAV MMFs from being an internally approved investment alternative.

American businesses make their investment decisions based on many factors unique to their organizations. In many instances, MMFs are the vehicle that most closely matches the risk/return profile sought for surplus operating cash, as specified by a written investment policy. Changing to a floating NAV would significantly change the risk/return profile of MMFs.

In December 2010, AFP conducted a survey of its members on expected business conditions for 2011. The *2011 AFP Business Outlook Survey* included a number of questions on the role public policy may have on the business decisions that financial professionals will make in 2011. It specifically discussed the implications that recent proposals to have MMFs report a floating NAV would have on investment strategies and general business choices going forward. Our research indicated that a majority of financial professionals—54 percent—would *not* support dropping the \$1.00 fixed asset value for money market funds for the implementation of a floating NAV. Just 14 percent would support such a move.

Four out of five organizations that currently include MMFs in their short-term investment portfolios would likely move at least some of these funds out of MMFs as a result of a shift to a floating NAV. Fifty-four (54) percent of survey respondents indicate that their organizations would shift corporate cash into bank deposits and U.S. Treasury securities. Twenty-two (22) percent would move funds out of MMFs and into non-2a & fixed-value investment vehicles (e.g., offshore money market funds, enhanced cash funds and stable value vehicles). Four percent (4) of survey respondents anticipate their organization would move funds currently in MMFs into other short-term, variable share price investments (e.g., ultra-short bond funds).

Moving to a floating NAV would have implications on the balance sheets of organizations according to many financial professionals. MMFs are currently treated as cash equivalents for accounting purposes because they are readily convertible to a known amount of cash. If corporations report balances of MMFs that use a floating NAV, those corporations will no longer be permitted to treat their investments as cash equivalents.

Due to these changes to the risk/return profile of MMFs and the accounting treatment of these instruments, many corporate investors will either be precluded from investing in MMFs, or will be required to modify their investment policies to allow for the flexibility to invest in instruments that fluctuate in value. Expanding permissible investments to allow for principal fluctuation may result in increased risk in corporate investment portfolios, as financial professionals could potentially be authorized to pursue other highly liquid, but riskier short-term investments, such as enhanced cash funds and short-term bond funds. More likely, organizations will choose to abandon MMFs as viable investment options.

The move to a floating NAV would also create significant disruptions in the corporate funding market. Many organizations issue commercial paper to meet their short-term financing needs, such as funding payroll, replenishing inventories, and financing expansion. Since the mid-1980s, MMFs have been major, reliable buyers of those securities and today purchase more than one-third of the commercial paper issued by American businesses. Should regulators eliminate the stable NAV of MMFs, some corporate investors will be forced to walk away due to mandatory investment guidelines that require a stable per-share value. The resulting reduction in MMF balances would reduce the capital available to purchase commercial paper, making short-term financing for these businesses less efficient and more costly.

AFP is not opposed to multiple investment options being available for corporate investors. The likely success of any individual investment product will be a function of the characteristics of the investment, measured against the needs of the investor. For example, a stable NAV MMF with a redemption-in-kind mechanism would not be attractive to corporate investors, who may not be willing to accept anything but the original investment in repayment. Corporate investors currently have the opportunity to purchase variable NAV MMF-like products. These are cash enhanced and separate-account investments. These products have not enjoyed the same success as stable NAV MMF products, due to the fact that the characteristics of the investment have not matched the needs of corporate investors.

Private Emergency Liquidity Facilities for MMFs and Insurance for MMFs

AFP opposes the introduction of a private emergency liquidity facility or insurance for MMFs. Corporate financial professionals recognize that there is liquidity risk associated with MMFs. Instituting a private liquidity backstop or insurance for MMFs could help to mitigate some of the systemic risk that MMFs cause to the system. However, AFP believes that the creation of this type of guarantee only attempts to morph MMFs into a more secure vehicle than they were ever intended to be, and results in investment characteristics that look very similar to bank deposits.

If a private emergency liquidity facility or insurance were put in place, AFP suggests that participation should be mandatory for all MMFs. Funding should be assessed fairly to each MMF using a risk-based approach.

It needs to be stated that there will always be a trade-off between risk and return. To the extent we increase the safety of MMFs through a private liquidity facility or insurance, the cost of the liquidity facility or insurance will ultimately be borne by the investor, resulting in a lower yield. Investors will have to determine whether they are interested in purchasing a safer but lower yielding investment.

Mandatory Redemptions in Kind

AFP strongly advises against the introduction of a redemptions-in-kind payment mechanism for MMFs. We believe such a payment mechanism would effectively render MMFs as an ineligible investment option for most corporate investors.

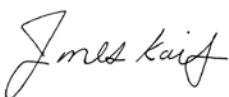
The focus of corporate investors is the preservation of principal and to maximize liquidity. The possibility that an organization would not receive cash as a result of a MMF redemption request, but instead may receive securities that it must attempt to liquidate on its own, would not provide adequate assurances of liquidity for most corporate investors. Therefore, AFP believes that any change that could result in investors receiving securities rather than cash in response to a redemption request would render MMFs as unattractive to most financial professionals.

Regulating Stable NAV MMFs as Special Purpose Banks

We believe that regulating MMFs as Special Purpose Banks (SPBs) would have the net effect of turning the MMF product into nothing more than a bank deposit. There is nothing wrong with bank deposits as an investment option, and in fact, bank deposits already represent a very large portion of corporate investment portfolios. However, we believe this option would have the net effect of removing an attractive investment alternative from the corporate investors' list of investment choices.

We appreciate the opportunity to provide our thoughts and offer data to some of the possible alternatives offered to reform the money market fund industry. If you have any questions about our comments, please contact Jeff Glenzer, Managing Director, at 301.961.8872 or jglenzer@AFPonline.org.

Sincerely,



James A. Kaitz
President and CEO
Association for Financial Professionals