

LEGISLATIVE VIEWPOINT



New Jersey State League
of Municipalities

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Hon. E. Scott Garrett
Congressman, District Four
137 Cannon House Office Building
Washington, D.C. 20515

RE: Request for Consideration SEC Proposal
Could Damage Local Finance

Dear Congressman Garrett:

On Friday, the House Financial Services Subcommittee on Capital Markets and Government Sponsored Enterprises is holding a general oversight hearing on mutual funds. While the hearing is not on any particular issue, the National League of Cities (NLC) – along with a broad coalition of financial services and public sector groups – is using the opportunity to express concern about an idea suggested by the Securities and Exchange Commission (SEC) to fundamentally alter money markets so they would have a floating NAV (net asset value), instead of the constant value they do today.

Money market mutual funds play a vital role in the economy, providing local governments, among others, short-term funding and convenient cash-management.

Currently, SEC Rule 2a-7 includes many protections for money market mutual fund customers. A distinctive feature of money market mutual funds is the stable \$1.00 NAV, meaning investors can expect to get back at least one dollar for every dollar they invest in the fund, with moderate risk and return. This provides stability and liquidity for investors, including local governments.

NLC opposes moving to a floating NAV, because it would have significant negative effects for municipalities. Some key points to consider:

- A floating NAV will limit the number of investment product options available to government investors, potentially resulting in higher costs and lower returns for hometowns.
- A floating NAV will likely lead to an increase in accounting and record keeping requirements for government investors, which will make it very difficult for hometowns to use money market mutual funds for their daily cash management needs.

- A floating NAV will likely result in a decrease in demand for money market mutual funds. The decrease in demand will likely lead to a severe contraction in the availability of funding for many enterprises, including municipalities.

In summary, moving to a floating NAV would radically change the value money market mutual funds provide to local governments.

Again, while there is no specific proposal before the House Subcommittee on Capital Markets, NLC is using the oversight hearing to re-state our opposition to a floating NAV to help ensure the idea does not gain traction.

The New Jersey State League of Municipalities supports the position taken by the National League of Cities. We, respectfully, request your consideration of our concerns.

If you or your staff have any questions, please contact Senior Legislative Analyst Jon Moran at 609-695-3481, ext. 121 or jmoran@njslom.com.

Very truly yours,

William G. Dressel, Jr.
Executive Director

WGD:jm/sc