



Stephen A. Keen
Direct Phone: +1 970 689 3153
Email: skeen@reedsmith.com

Reed Smith LLP
Reed Smith Centre
225 Fifth Avenue
Pittsburgh, PA 15222-2716
+1 412 288 3131
Fax +1 412 288 3063
reedsmith.com

November 26, 2012

By Electronic Mail

Financial Stability Oversight Council
Attn: Amias Gerety
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Members of the Financial Stability Oversight Council:

This letter is in regard to your Proposed Recommendations Regarding Money Market Mutual Fund Reform, 77 Fed. Reg. 69455 (Nov. 19, 2012) (the "Proposal"). We are writing on behalf of Federated Investors, Inc.¹ to request that the Financial Stability Oversight Council ("FSOC") amend Alternative One in the Proposal to specify whether FSOC is proposing to recommend to the Securities and Exchange Commission (the "SEC"):

- (a) that the SEC "remov[e] the special exemption that currently allows MMFs to utilize amortized cost accounting and / or penny rounding to maintain a stable NAV," as stated on page 30 of the Proposal, or
- (b) that the SEC also adopt new regulations requiring money market funds ("MMFs") to set their price per share at \$100 and calculated their share price to the nearest penny, as described on page 31 of the Proposal.

The current Proposal makes it impossible for the public to tell whether FSOC's proposed recommendation would be "consistent with the requirements that apply to all other mutual funds," as represented in the Proposal, or whether FSOC is proposing to recommend that MMFs comply with a standard ten times more onerous than the standard for other mutual funds. FSOC cannot expect the public to provide meaningful comments on its proposed recommendation, as required by section 120 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, if FSOC does not clearly inform the public of what it proposes to recommend.

There are no current laws or regulations that require any investment company registered under the Investment Company Act of 1940 (the "1940 Act") to offer its shares at any particular price. Although MMFs customarily seek to maintain a stable \$1 price per share, this is not required by rule 2a-7 (the regulation "that currently allows MMFs to utilize amortized cost accounting and / or penny rounding to maintain a stable NAV"). The tendency of other types of investment companies to offer their shares at an initial price of \$10 is also a market custom, not mandated by any regulation.

¹ Federated is one of the largest investment management firms in the United States and the second largest manager of money market funds, managing \$269.6 billion in money market fund assets and \$364.1 billion in total assets as of September 30, 2012.

Thus, removing the special exemption provided by rule 2a-7 would not require MMFs to change their current share prices from \$1. Instead, loss of the exemption would require MMFs to comply with Accounting Series Release No. 219 (“ASR 219”),² as noted in footnote 69 of the Proposal. All that ASR 219 requires is for:

any money market fund which reflects capital changes in its net asset value per share [to] calculate, and utilize for purposes of sales and redemptions, a current net asset value per share with an accuracy of one-tenth of one percent (equivalent to the nearest one cent on a net asset value of \$10.00).

The reference to \$10 is clearly an illustration and not a requirement. ASR 219 would permit a MMF to continue to use a \$1 share price, provided the fund calculated its net asset value per share (“NAV”) to the nearest one-tenth of a cent.

The Proposal claims, however, that “[u]nder this alternative, each floating-NAV MMF would re-price its shares to \$100.00 per share (or initially sell them at that price) to be more sensitive to fluctuations in the value of the portfolio’s underlying securities than under a \$1.00 share price.” To illustrate this point, the Proposal states that, “If the fund’s shares were priced at \$100.00, ... [following a 5 basis point loss] the fund’s share price would decrease by 5 cents to \$99.95.” This would happen only if the SEC (a) adopted a new regulation requiring certain funds to offer their shares at a price of \$100 and (b) changed its interpretation of the 1940 Act to require these funds to calculate their NAV more accurately than currently required by ASR 219.

This means that the current Proposal either (a) incorrectly describes the consequences of recommending that the SEC remove the current exemption provided by rule 2a-7 or, more likely, (b) incorrectly states the recommendation proposed as Alternative One. In either case, this error will confuse and mislead members of the public who may be affected by the recommendation and interested in commenting on Alternative One. Our greatest concern is that the Proposal misrepresents what FSOC intends to recommend. This might lead some users of MMFs who would be willing to accept fluctuations in a MMF’s share price “consistent with the requirements that apply to all other mutual funds,” but who would strongly object to the imposition of a higher standard, not to comment on Alternative One or even to comment in support of Alternative One because they do not understand its true import.

The Proposal’s inconsistent explanation of Alternative One will also impair FSOC’s ability to interpret the comments it receives. Unless the commenter goes into further detail, FSOC could not tell whether general comments in support of “requiring money market to float their net asset value,” “the floating net asset value alternative” or Alternative One support imposition of the same standard as other mutual funds or support imposition of a much higher standard. Even comments explicitly in favor of a consistent standard for all mutual funds (including MMFs) could not be interpreted as definitively against imposing a high standard, due to the Proposal’s inaccurate illustration of the current standard for calculating a mutual fund’s NAV.

² Valuation of Debt Instruments by Money Market Funds and Certain Other Open-End Investment Companies, Investment Company Act Release No. 9786, 42 Fed. Reg. 28999 (June 7, 1977).

Assuming that FSOC intends to propose that the SEC impose a higher standard for accuracy on MMFs than on other mutual funds, the Proposal also lacks two key elements needed for meaningful comments. First, FSOC needs to explain which mutual funds it would recommend subjecting to the higher standard. Otherwise, the “other open-end investment companies that hold a significant amount of debt securities” also addressed in ASR 215 cannot tell whether the recommended higher standard may apply to them as well. Second, FSOC must explain how a higher standard would be consistent with the provisions of sections 2(a)(41) and 22 of the 1940 Act, and rule 2a-4 thereunder, which were interpreted by the SEC in ASR 219. In particular, FSOC should explain how these provisions authorize the SEC to apply inconsistent standards of accuracy to different classes of mutual funds.

Congress clearly wanted FSOC to consider the views of affected parties before making a recommendation to a principal agency under section 120. This cannot happen if FSOC fails to articulate clearly the proposed recommendation in its notice of the public. The difference between recommending that MMFs adhere to the same standards as other mutual funds and recommending that they adhere to a standard that is ten times more exact is striking and cannot be overlooked. Unless corrected, it threatens to undermine the integrity of the public comment process.

We therefore request that FSOC amend Alternative One of the Proposal either: (a) to conform the illustration on page 31 to the recommendation stated and described on page 30³ or (b) to conform the proposed recommendation to the example, by stating that FSOC proposes to recommend new requirements as well as the removal of exemptions, and describing to which funds the new requirements would apply and what they would entail. The amendment also should extend the public comment period to allow a full sixty-day period to comment on the revised Proposal. Failure to amend the Proposal may jeopardize the validity of any recommendation FSOC ultimately may make to the SEC regarding a floating NAV for MMFs.

Please contact me if you have any questions regarding this letter.

Very truly yours,

/s/ Stephen A. Keen

Stephen A. Keen

cc: Commissioner Luis A. Aguilar
Commissioner Daniel M. Gallagher
Commissioner Troy A. Paredes
Commissioner Elisse B. Walter
Director Norm Champ
Director Craig Lewis

³ For example, the illustration could change \$100 to \$10, so a loss in excess of 5 basis points would round down to at least \$9.99.