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Secretariat
The Council of
State Governments

September 16, 2013

Ms. Elizabeth M. Murphy, Secretary
United States Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: Comment on the Proposed Rulemaking on Money Market Fund Reform File No. S7-03-13

Dear Ms. Murphy:

The National Association of State Treasurers ("NAST") appreciates the opportunity to provide comments on the proposed rulemaking of the U.S. Securities and Exchange Commission (the "SEC") on money market funds ("MMFs").[1] NAST is a non-partisan membership organization composed of all state treasurers, or state finance officers with comparable responsibilities, from the United States, its commonwealths, territories and the District of Columbia. As the chief investment officers of the states, state treasurers directly manage billions of dollars in state and local government funds. They have a direct stake in their respective states' financial well-being as well as in the health of the nation's economy. Treasurers diligently share their expertise in fiscal and investment matters with other government officials and with the general public. NAST seeks to provide educational conferences and webinars, publications, working groups, policy advocacy and support that enable states to pursue and administer sound financial policies and practices of benefit to the citizens of the nation.

We have divided our response into the following sections to address three distinct concerns State Treasurers have in regards to the SEC's proposed rule changes. These three concerns are:

**I.** Impact on Local Government Investment Pools ("LGIPs")
**II.** Burden on States as Purchasers of Money Market Funds ("MMFs")
**III.** Higher Funding Costs to Issuers of Short-term Municipal Securities

**I.** Impact on Local Government Investment Pools ("LGIPs")

Because of their sovereign ownership, LGIPs are exempt from SEC regulation under section 2(b) of the Investment Company Act. However, the proposed changes to Rule 2a-7, if adopted, could significantly harm the financial condition of state and local governments. Therefore, we believe it is important to provide comments to the SEC in connection with its proposed changes to Rule 2a-7.

In Section III(A)(6)(C) of the rulemaking release, the SEC requests comment as to the potential impact of the proposed rulemaking on LGIPs that operate as cash investment vehicles used exclusively for the investment of public funds.

LGIPs have been created by several states and operated by State Treasurers or authorized governing boards for the exclusive benefit of governmental entities within each state. LGIPs are created to provide a service to state and local government entities that otherwise would have difficulty investing public funds safely and efficiently. Although enabling legislation of each state's LGIP is unique, they all share common objectives – to provide safety of capital and liquidity while optimizing interest for participating state and local entities. In most cases, they are designed to serve as short-term investments for funds that may be needed by participants on a day-to-day or near term basis. Most participants use LGIPs for both principal preservation and as a cash management tool. Consequently, LGIPs attract public fund investors who are unable or unwilling to tolerate even small losses. Such entities can be loss averse for a variety of reasons, including general risk tolerance, legal restrictions, budget constraints, investment limitations, or liquidity requirements.

Unlike MMFs, LGIPs are not open for investment to the public. Eligibility to invest in LGIPs is determined by state statutes, and accountholders must be approved prior to investing. LGIPs are not designed to compete with the private sector for investment dollars. LGIPs accept deposits from cities, counties, colleges, school districts, authorities and other government entities that need to safeguard operating funds, trust funds, bond proceeds, fiduciary funds, reserve funds and other funds that must remain liquid. Additionally, some states that sponsor LGIPs commingle their own assets with those of LGIP participants to benefit from economies of scale. In such cases, the State that administers the LGIP is often the largest accountholder.

Many, but not all LGIPs are indirectly impacted by the SEC as a result of references to Rule 2a-7 in Governmental Accounting Standards Board (GASB) reporting statements 31 and 59. Rule 2a-7 allows MMFs to use amortized cost to report net assets. A "2a-7 like" pool is not registered with the SEC as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with Rule 2a-7. Also as GASB 31 explains, governmental external investment pools that are "2a-7 like" pools are permitted to report their investments at amortized cost. GASB 59 (issued June 2010) clarified GASB 31 to indicate that a "2a-7 like" pool, as described in GASB 31, is an external investment pool that operates in conformity with SEC Rule 2a-7 as promulgated under the Investment Company Act of 1940, as amended. According to GASB 59, to qualify as a "2a-7 like" pool, the pool should satisfy all SEC requirements of Rule 2a-7, including that a group of individuals fulfills the functions of a board of directors.

State and local governments are permitted to use amortized cost accounting to value short-term debt instruments with a remaining maturity of up to one year that are held directly or through a single-government pool ("internal pools"). Under current GASB and many states' accounting guidance, LGIPs that accept investors from more than one governmental entity ("external pools") are also permitted to use amortized cost to value portfolio assets under any of several different sets of conditions. GASB Statements 31 and 59 prescribe use of amortized cost by external pools to conform to most Rule 2a-7 requirements. This method is available to those LGIPs that voluntarily comply with Rule 2a-7 and operate as "2a-7 like" external pools. The specific conditions of Rule 2a-7 referenced in the guidance supportive of this accounting treatment include asset quality, portfolio maturity, liquidity, and diversification requirements. These conditions in the current Rule 2a-7 help assure the stable asset value of LGIP portfolios.

LGIP participants have limited investment alternatives that vary from state to state. Individual state statutes specify eligible investments, which typically include, but are not limited to, collateralized bank deposits, U.S. treasuries and agencies, and in some states, MMFs. Should some LGIPs that operate as "2a-7 like" pools find themselves unable to adjust to the proposed Rule 2a-7 changes, they may have to scale back or cease operations. This would cause participants to seek other legally eligible investment alternatives for potentially billions of dollars. Numerous governmental entities, many with little or no investment experience would face losing the most reliable and cost-effective investment vehicle they have depended on, some for nearly forty years, without a problem. Should such disruption occur, most local government participants would likely look to their local banks for investing the cash. However, acceptance of governmental deposits is costly and burdensome to banks due to the high cost of collateralizing public bank deposits, a common requirement among most states to safeguard public funds. Banks without an existing relationship with a local government may not have an appetite for additional deposits nor offer an attractive interest rate.

As stated above, public fund bank deposits are typically required by state statutes to be collateralized by marketable securities specified as eligible for pledging. For instance, in the State of Georgia, statutes require most state and local government deposits in banks to be secured by marketable securities valued not less than 110% of the deposits after the deduction of the amount of deposit insurance. If participants in Georgia's $9.3 billion LGIP were to seek local banks to accept their current LGIP deposits, banks could only accept those funds if they pledged over $10 billion in eligible securities as collateral. Many local governments do not have the expertise or analytical tools to assess and monitor the financial strength of counterparties or determine the value and liquidity of pledged securities.

Also, local governments may not realize that some bank products carry unacceptable liquidity constraints imposed per the "Reserve Requirements of Depository Institutions (Regulation D)" which could prohibit government entities from having immediate access to their funds. Unlike private participants, governmental entities typically do not have the capability or authorization to borrow funds to cover temporary shortfalls and therefore liquidity is paramount to their investment needs. As stated above, any liquidity constraints imposed by banks could result in payment defaults by municipalities.

Any disruption of LGIPs would force participants into direct investments that may not be suitable for their risk tolerance and would reduce their portfolios' diversification compared to investing in an LGIP. By pooling funds, participating governments benefit from economies of scale, full-time portfolio management, diversification and liquidity. LGIPs have investment staff, systems to evaluate securities, custodians for safekeeping assets, and the means to sustain these systems and services. Most LGIPs allow for daily or next day liquidity for participants. Also, LGIPs are typically low cost providers for budget-strapped governments. For instance, the costs to States to administer LGIPs is typically well below the management fees charged by most MMFs.

For the most part, LGIPs are typically buy and hold portfolios. Therefore, many securities that fall in the 2a-7 space are not actively traded. A lack of active trading means there is no true market value at the end of each day for these securities.

"Mark-to-Market" is a misnomer in the context of both LGIPs and MMFs. To calculate the daily or "shadow" NAV of a money market fund, most pricing services use a matrix to determine the value of these securities. Current market prices on a small subset of money market instruments that trade are extrapolated by the model to estimate the current value of most LGIP assets based on similarities and differences in maturity, credit risk and other historical pricing relationships. A set of amortized cost-like assumptions is factored into the model to extrapolate among the values of instruments that have different maturity dates. Model pricing is not a true market price, is not more accurate in establishing market values, and it is not devoid of amortized cost-like assumptions. The difference between this "mark-to-model" pricing of a portfolio and amortized cost pricing of the same portfolio is very small, and is not material in the context of the value of the shares, particularly where rounded to the nearest cent. It is noted in the SEC proposal "that the vast majority of money market fund portfolio securities are not valued based on market prices obtained through secondary market trading because the secondary markets for most portfolio securities such as commercial paper, repos, and certificates of deposit are not actively traded."[1] Thus the calculated NAV would prove to be a very costly and inaccurate assessment of the value of an LGIP. State LGIPs cannot afford such changes and the assessments would not benefit our participants. LGIP participants would be subjected to confusion, high costs, operational inefficiencies and heightened risk of errors.

Other LGIPs that are not "2a-7 like" pools are permitted to use amortized cost to value short-term money market portfolio assets (i.e. those assets with 90 or fewer remaining days to maturity) as well as certain longer-term "non-participating" money market instruments (i.e. non-marketable debt instruments that do not take market changes into account in redemption features). Changes to Rule 2a-7 will not change this. Moreover, as the SEC notes, amortized cost

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[1] 78 FR 36837 (June 19, 2013).

is not required to maintain a stable net asset value of $1/share for an LGIP when prices are rounded to the nearest penny per share. GASB guidance does not require an LGIP to be a "2a-7 like" pool in order to round shares to the nearest penny or to attempt to maintain a price of $1 per share. However, use of amortized cost to value portfolio assets is far more efficient than using "mark-to-model" pricing and is shown to be as reliable. A movement away from amortized cost accounting by LGIPs, to the extent indirectly triggered by changes to Rule 2a-7, would impose administrative and staffing burdens, significant expenses, slow settlement times, and increases in settlement risks for LGIPs. Particularly given the low interest rate environment, LGIPs would be unable to obtain funding from pool earnings to cover such expenses and the possibility of obtaining state appropriations in most cases is unlikely given tight state budgets and timing for consideration of budget matters. States may also face statutory prohibitions to assessing charges against existing participants for modifications that will affect future participants only, a group not necessarily composed of the same entities especially if a number of current participants leave the pool if the proposed changes were implemented.

It remains to be seen whether amendments to Rule 2a-7, prohibiting the use of amortized cost to value assets with remaining maturity of more than 60 days, as well as effectively banning penny rounding, would be applied to a "2a-7 like" LGIP. This could be interpreted as a condition for an LGIP using amortized cost to value portfolio assets of up to a year in remaining maturity and rounding shares to the nearest cent. Requiring "2a-7 like" LGIPs to use an accounting method other than amortized cost for assets with a remaining term over 60 days and not seek to maintain a stable NAV, as conditions to using amortized cost or penny rounding, would appear to be logically inconsistent. Therefore, such conditions would not seem to be elements of Rule 2a-7 that "2a-7 like" LGIPs would be required to follow.

The SEC's two proposed alternatives, floating NAV and/or liquidity fees or gating, for amending rules that govern MMFs could pose significant risks to participants in LGIPs to the detriment of the financial condition of those municipal entities. As stated in the SEC's current money market fund reform proposal, "We understand that investors use money market funds for cash management, and that lack of access to their money market fund investment for a long period of time can impose substantial costs and hardships."[2] If an LGIP were to be gated, participants would have to wait for their money scheduled to be withdrawn to meet payroll, vendor payments and debt repayments. We acknowledge that over a 40-year period there have been a few LGIPS, two that we are aware of, that utilized gating in a crisis while the sponsor assessed its options. However, this is not a viable strategy that LGIPs should adopt as a means of operation. The problem with liquidity fees and gating alternatives for LGIPs would be that many participants could not afford to lose their liquidity or accept loss of principal. Public fund investments in LGIPs are typically earmarked for operational liquidity. Most LGIP participants do not have liquidity lines or other authorized methods to borrow funds should their operating funds become unavailable due to an LGIP being gated.

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[2] 78 FR 36888 (June 19, 2013).

With some LGIPs dating back to the 1970s, modifications to their structure would be highly problematic, expensive, time consuming and uncertain in terms of accomplishing well-intentioned, but unnecessary, modifications. Each state's enabling legislation differs, but many, if not most, require the state as its' sponsor to invest with the first priority being safety of participants' capital. Managing LGIPs to maintain a stable net asset value clearly satisfies that criterion, but converting to a floating NAV or imposing liquidity fees as a charge against participants' account balances would be in violation of some states' statutes and prudent investment policies. Governmental entities cannot tolerate a loss of principal on operating funds, trust funds, or bond proceeds because they have no method of replenishing such losses. State Treasurers and legislators would be hard pressed to approve legislation that would potentially harm their own local governments and state entities with deposits in their LGIPs.

Enabling legislation for numerous state and local entities allows such governmental bodies to invest in their respective state LGIP due to it maintaining a stable net asset value that protects principal and allows participants to withdraw funds as needed. Thousands of municipal bond indentures permit proceeds to be invested in the respective state LGIPs for the same reasons. In the proposal, the SEC notes that "Our floating NAV proposal, if adopted, may have implications for LGIPs. In order to continue to manage LGIPs, state statutes and policies may need to be amended to permit the operation of investment pools that adhere to rule 2a-7 as we propose to amend it. Because we are unable to predict how various state legislatures and other market participants will react . . . we do not have the information necessary to provide a reasonable estimate of the impact on LGIPs or the potential effects on efficiency, competition, and capital formation. We note, however, that it is possible that states could amend their statutes or policies to permit the operation of LGIPs that comply with rule 2a-7 as we propose to amend it." Although the SEC may be correct in stating that such statute and policy changes might be possible, in many states such actions would be impractical. It would not be feasible for some states to embark upon a course that would require legislative and even bondholder approvals in order to modify LGIPs to comply with MMF regulatory changes which, if adopted, could actually increase risk for LGIP participants and bondholders. To amend a state's investment statutes is time-consuming and uncertain, especially if the objective is to restructure LGIPs that have been proven safe and effective. Most state legislatures meet for a few months annually, but some state legislatures meet bi-annually. Even more problematic is the burden such changes would impose on municipal bond issuers with trust indentures that authorize investments in LGIPs in order to protect principal and provide ready access to funds.

The proposed SEC rule changes classify MMFs as either retail or institutional and provide an exemption for retail funds. Unlike private MMFs, LGIPs are not classified as either retail or institutional funds since eligible participants are defined by enabling legislation and range in size of account balances and transactions as well as financial sophistication. LGIPs are established and designed to serve a variety of unique investors – state and local entities of a wide range of sizes and needs – that often have no other permitted investment options that meet their investment needs. Most LGIPs experience cyclical asset flows based on tax payments and receipts, bond proceeds, and salary and benefit payments, to name a few. State Treasurers, as sponsors of LGIPs, must assure participants that portfolios are managed so that sufficient monies are available to fund participants' withdrawal needs and their principal has not diminished. A very large number of LGIP participants carry small balances (less than $1 million) and have minimal activity in their accounts. However, LGIPs also serve state and local governments that have sizeable accounts. Often participants use the LGIPs as a source of operating liquidity (some as an alternative to a bank DDA account) or for investing proceeds used for debt repayment. Some LGIP participants routinely withdraw more than $1 million per day for operating expenses or to make bond payments. For many LGIPs, a small number of shareholders make up a substantial percentage of the fund and thus have withdrawals that are in excess of $1 million. For example, in the State of Georgia, the Department of Revenue has partnered with the Office of the State Treasurer to set up LGIP accounts for those municipalities choosing to have their sales tax collections electronically transferred from the Department of Revenue to the LGIP. For the large metro counties in Georgia, these monthly deposits are over $10 million per month. Eventually these funds are used for operating purposes and the draws for these large metro counties are well in excess of $1 million per day. These counties are legally entitled to withdraw their sales tax collections as needed without charge or delay.

Although most LGIP participants do not meet the definition of a retail type shareholder based on the size of their withdrawals, their withdrawal history reveals that their behavior more closely models a retail type investor than an institutional type investor. As noted on page 73 of the SEC proposal, "Institutional shareholders tend to respond more quickly than retail shareholders to potential market stresses because generally they have greater capital at risk and may be better informed about the fund through sophisticated tools to monitor and analyze the portfolio holdings of the funds in which they invest."[3] However, LGIP participants, like retail investors, tend to be more patient. An appropriate assessment of the participants who typically use LGIPs was given by Kathryn L. Hewitt of the Government Finance Officers Association, as cited in footnote 72 of the proposal: "Most of us don't have the time, the energy, or the resources at our fingertips to analyze the credit quality of every security ourselves. So we're in essence, by going into a pooled fund, hiring that expertise for us…it gives us diversification, it gives us immediate cash management needs where we can move money into and out of it, and it satisfies much of our operating cash investment opportunities." The profile of many LGIP participants more closely models the mindset of retail investors in MMFs, meaning that LGIPs do not typically experience heavy redemptions based on participants' fear of credit issues, illiquid securities, or safer opportunities outside the LGIP. Furthermore, the stability of LGIPs is evidenced by their not being viewed as systemically important and therefore were not offered the same government guarantee as were MMFs in September 2008.

Likewise, most LGIPs do not and cannot fit in the "government only" category. An LGIP that traditionally has provided competitive rates to participants would risk tempting participants to withdraw funds looking for higher yielding, riskier options if the LGIP moved to convert to government only MMF in order to continue to use amortized cost. Both the lower yields and reduced deposits would produce financial hardships on LGIP sponsors who already operate at very slim margins. However, an election by a "2a-7 like" LGIP to use the government only

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[3] 78 FR 36856 (June 19, 2013).

exemption in the proposed rule changes would be problematic for another reason. Although government only MMFs seek to preserve principal and maintain liquidity, an LGIP designed to be a "2a-7 like" government only fund could experience problems in extremely low or negative interest rate environments. Government only funds are required to keep 30% weekly liquidity and may be forced to accept negative interest rates that would in effect erode principal. Purchasing securities carrying a negative yield, as short term U.S. Treasuries did on September 28, 2012, would violate state statutes and investment policies that treasurers first consider the probable safety of capital when buying any security. As stated above, most LGIPs must invest funds considering first the probable safety of capital and then the probable income to be derived. In a negative interest rate environment, particularly triggered by a flight to quality into securities backed by the full faith and credit of the U.S. government, LGIPs attempting to operate as 'government only' type pools would have no alternative but to purchase overnight repos backed by U.S. governments or short term U.S. Treasuries at negative yields. Even at zero or slightly positive rates, the overall yield on a government only pool would likely be too low to cover operating expenses and result in a loss of principal if the sponsor could not subsidize operations. Clearly, LGIPs seeking to protect accountholders by maintaining a stable NAV in times of market stress should not be constrained by rules requiring it to either violate investment statutes and policies designed to preserve principal or lose its ability to use the amortized cost method for valuing the pool.

GASB Statements 31 and 59 do not contemplate Rule 2a-7 providing options for sponsors to select from depending on the make-up of their participants, size of participants' withdrawals, history of withdrawals during times of financial stress or other factors. We hope GASB would provide clarification as to how external pools can continue utilizing amortized cost if Rule 2a-7 no longer prescribes a viable methodology for operating a stable net asset value pool which, as emphasized, is the primary objective of most LGIPs.

NAST agrees with the SEC's statements that changes to Rule 2a-7 do not directly or immediately apply to LGIPs. However, the SEC's proposals could affect LGIPs indirectly, depending on future actions of GASB and on individual states in establishing the operating and accounting standards for LGIPs. Changes to Rule 2a-7, whether moving to a floating NAV, which prohibits the of use of amortized cost accounting in valuing portfolio assets, or imposing gating and liquidity fees, would require considerable time and expense for state and local governments. This would depend on the terms of each LGIP's requirements and whether sponsors opt to mirror the changes implemented by an amended Rule 2a-7. The process for each LGIP's sponsor to analyze the need and suitability of possible statutory or policy changes and, if necessary, drafting, lobbying, adopting, disclosing and implementing those changes, would burden government sponsors with significant costs in an environment without any revenue sources of funding such changes. There is also a great deal of uncertainty that such changes would be approved by the respective governmental bodies.

To the extent that LGIPs were indirectly forced into a floating NAV, or required to abandon use of amortized cost accounting, the usefulness of LGIPs to numerous state and local government entities would be greatly diminished. This would result in disruption as public sector investors sought to redirect investments with few viable alternatives, especially for small to mid-size entities with limited bank or other counterparty willingness to accept collateralized interest-bearing deposits. State and local governments would face complex decisions in determining viable options for investing funds that have, historically, been deposited into stable value LGIPs. Legality, affordability, and suitability among other factors would substantially limit investment options for public sector investors.

Should the SEC adopt its proposed changes to Rule 2a-7 with an effective two-year phase-in period for MMFs, LGIPs would be at a distinct disadvantage that may prohibit continuation of any LGIP opting to be "2a-7 like". Since GASB regulations do not consider multiple options and exemptions for LGIPs to choose among in order to continue using amortized cost accounting, any consideration by GASB to amend its Statements 31 and 59 would take time to consider, possibly as long as two years. State treasurers could not even consider policy or statutory changes until GASB determined whether to amend its current regulations. In addition, state legislatures require significant time to research, debate, and promulgate legislative changes. Bond issuers also would require much time to explore whether indentures could be changed to protect bondholders if the prescribed investment in LGIPs would no longer be stable NAV. Alarmingly, LGIPs would have to continue to operate under great uncertainty while private MMFs adjust to new rule changes. This inequity would be extremely detrimental to LGIPs, sponsoring states, and all participants.

It is also disconcerting that, at a time that the SEC has proposed to put restrictions on MMFs to eliminate their using amortized cost accounting, federal banking agencies recently amended rules governing the accounting treatment of bank short-term investment funds ("STIFs"), which are a form of pooled investments used by bank trust departments as a MMF alternative to invest cash balances of state and local governments, trust accounts and pension plans.[4] The bank STIF rules were amended to include several aspects of SEC MMF rules, but continue to allow the use of amortized cost accounting to value portfolio assets, penny rounding to establish unit prices, and allow STIFs to seek to maintain a stable NAV of $1/unit. As with Bank STIFs, there appears to be no overriding accounting, policy or legal reason to apply all aspects of the SEC's MMF rules to the accounting treatment of LGIPs.

## **II.** Burden on States as Purchasers of Money Market Funds

In addition to providing a response from NAST that addresses concerns associated with the effect on LGIPs, we believe it is useful to include insight and other valuable comments regarding states that invest in MMFs.

Many NAST members use MMFs extensively. As investors, states use MMFs as an efficient tool for managing large volumes of short-term liquid assets. MMFs that seek to maintain a stable value per share are permitted investments for many of our members, which rely on these funds to obtain ready liquidity, preservation of capital, and to provide diversification.

[4] 12 C.F.R. 9.18(b) (4) (iii); 77 Fed. Reg. 61237 (Oct. 9, 2012).

Variable NAV MMFs generally are not permitted investments for our members for cash positions. Few other permitted investment options provide the same features of safety, return, liquidity, and stable market history as MMFs that seek to maintain a stable NAV.

NAST is concerned that major changes to the regulation and structure of MMFs could make them less useful or otherwise unsuitable to our members as a cash management tool.

**III.** Higher Funding Costs to Issuers of Short-term Municipal Securities

In addition to providing a response from NAST that addresses concerns associated with the effect on LGIPs, as well as comments pertaining to states that invest in MMFs, we believe it is useful to include additional insight regarding states as issuers of short-term municipal securities purchased by MMFs.

As borrowers, states benefit from MMFs, particularly municipal funds, as purchasers of short-term debt issues.

Although bank loans and purchases of notes by banks and other institutional investors are usually an option, MMFs offer a reliable low-cost option for municipal borrowers. As a result, changes to MMF structure and regulation could impose significant costs and burdens on state and local governments and indirectly on our citizens.

NAST is also concerned that a floating NAV, if applied to municipal MMFs, could lead to an exodus of investors from those funds. This would reduce the availability of short-term municipal financing and drive up the cost of financing short-term borrowing needs. Access to short-term financing allows some state and local governments to bridge the timing gaps between tax revenues and budgeted expenditures. The SEC implies in its release that all investors in municipal MMFs are retail investors, and thus these funds could readily avail themselves of the "retail" exemption from the floating NAV requirement. We understand, however, that a significant portion of the balances in municipal MMFs is made up of institutional investors. Moreover, the "look through" provision in alternative one, which would look to the ultimate beneficial owners of omnibus accounts to set the daily $1 million redemption limit for a retail fund, appears to have many operational and legal complexities that may make it far less suitable than the SEC suggests. These two factors could result in many investors leaving municipal MMFs and other MMFs not qualifying for the "retail" exemption from the variable NAV requirement contained in alternative one. Either outcome would lead to a decline in MMF assets, to the significant detriment to our members and their citizens. Given that municipal MMFs have been very stable through many market cycles and did not experience large redemptions during the 2008 financial crisis, imposing a floating NAV upon them as a means to address investor "runs" seems entirely unnecessary. Accordingly, NAST believes strongly that municipal MMFs should be similarly exempted from the Floating NAV and the Fees/Gates alternatives as is proposed for Government MMFs.

NAST is also concerned about the potential adverse impact upon our members' access to financing from MMFs that could result from the SEC's proposal to eliminate the "25% basket" that currently permits MMFs to exceed the 10% limit on securities subject to guarantees and demand features from a single provider. Over the past two decades there has been a substantial reduction in the number of banks and insurance companies that provide credit support to municipal obligations. Due to the limited number of credit support providers for municipal obligations, the SEC's proposed change may have a particularly adverse impact upon state and local government access to financing from MMFs. Given the small number of credit support providers, the SEC's proposed change could effectively cap the aggregate amount of municipal debt that can be held by any single MMF regardless of the underlying credit of the issuers.

NAST is concerned that major changes to the regulation and structure of MMFs could cause a significant shrinkage of the MMF market thereby reducing their funding as a source of short-term financing for municipal entities.

**CONCLUSION**

In conclusion, as evidenced in our comments above, NAST is concerned that the SEC would act to the detriment of state and local governments if it adopts either of the two proposed alternatives to Rule 2a-7 or a combination of the two. The most harm would be to the states that operate or otherwise have authorized LGIPs. Also, as investors, the value we derive from investing in MMFs with stable NAVs would reduce our efficiency and increase our costs. Third, MMF purchasers of our short-term debt would be unfairly treated in comparison with MMFs purchasing U.S. government obligations and their reduced appetite for municipal debt would drive up our cost of capital. As stated by the Investment Company Institute (ICI), "The SEC proposal favors financing the federal government over the funding needs of state and local governments. It is important to the taxpayer that all governmental financing achieve the lowest cost."[5]

NAST does not believe that further changes to the regulation of MMFs are needed. The SEC's 2010 amendments to Rule 2a-7 have worked as designed to significantly enhance MMF liquidity, credit quality, risk management, and transparency. Paul Schott Stevens, President and CEO of ICI, emphasizes "As members of the commission themselves noted, those 2012 proposals were drafted without a proper economic study on the impact of the 2010 reforms".[6] We do not believe additional changes are appropriate given the high costs for MMF sponsors to implement and administer especially since there is no evidence that the proposed changes would enhance the stability of MMFs or reduce systemic risks in the economy.

Furthermore, given that many state LGIPs operate as "2a-7 like" funds, the excessive costs and burdens to implement and maintain the proposed changes and modifications to proven cash management vehicles for municipal governments would put many LGIPs at risk of

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[5] ICI (8/27/13).*The Public Investor's Viewpoint [PowerPoint Slides].Retrieved From: Money Market Fund Regulation Webinar*

[6] Paul Schott Stevens, *"Top of the Ninth? The State of Play for Money Market Funds, June 19, 2013,* http://www.ici.org/pressroom/speeches/13_pss_crane_symposium,*(accessed 8/27/2013).*

participant withdrawals or ceasing operation due to insufficient funding especially in this low rate environment. It should be made clear by the SEC that any changes to reform MMFs are not intended to affect LGIPs. NAST believes the SEC should not implement any rule change that might be interpreted as attempting to coerce LGIPs to choose between compliance with Rule 2a-7 or prudently protecting their participants' capital and liquidity. Should Rule 2a-7 changes trigger unintended problems for state and local governments, the governments most strapped for funds and those in communities least served by large financial institutions will experience the greatest financial harm. The financial impact on state and local governments could well harm economic growth, market efficiency, jobs creation, competition, and credit worthiness of municipal governments across the U.S.

In summary, the SEC's proposed rule changes would be detrimental to competition, efficiency, and capital formation for our members as well as cities, counties, and other municipal entities. We do not believe additional changes to money fund regulation are needed at this time. If further changes are adopted, however, we urge the Commission to (a) include a comment that it is not the SEC's intent to promulgate changes to LGIPs, and (b) create an exemption for municipal money funds equivalent to that established for U.S. Government MMFs under the proposal. As State Treasurers concerned about the financial strength and integrity of states and all governmental units within our states, we appreciate this opportunity to offer our views on this matter.

Thank you for your consideration.

Sincerely,

Manju Ganeriwala

Manju S. Ganeriwala
President, National Association of State Treasurers
State Treasurer, Commonwealth of Virginia