

**Government Finance Officers Association  
National Association of State Auditors, Comptrollers and Treasurers  
National Association of State Treasurers  
American Public Power Association  
Council of Infrastructure Financing Authorities  
International City/County Management Association  
International Municipal Lawyers Association  
National Association of Counties  
National Association of Health and Educational Facilities Finance Authorities  
National Association of Local Housing Finance Agencies  
National Council of State Housing Agencies  
National League of Cities  
U.S. Conference of Mayors**

February 13, 2013

Amias Gerety  
Deputy Assistant Secretary  
Financial Stability Oversight Council  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

**DOC ID: FSOC-2012-0003-0058**

Dear Assistant Secretary Gerety:

Thank you for the opportunity to comment on the Financial Stability Oversight Council's Proposed Recommendations regarding Money Market Mutual Fund Reforms. The organizations listed above representing state and local governments and authorities have serious concerns related to the proposed changes to the structure of money market mutual funds (MMMFs), due to our roles as investors in these products and as issuers of municipal securities that are purchased by these funds. While we have supported and continue to support initiatives that both strengthen money market funds and ensure that investors are investing in high-quality securities, we would like to voice our concerns about some of the Council's suggestions to alter the structure of these funds, especially the proposal to require money market funds to use a floating net asset value (NAV) rather than the current stable net asset value. When similar proposals were circulated at the SEC, we opposed them and our concerns remain.

It is also important to note that states invest in MMMFs for a variety of reasons both for themselves as an investment tool (as do local governments), and in their role managing local government investment pools (LGIPs). If the SEC rules are changed to adopt a daily floating NAV, states would have to alter their own statutes in order to comply, as many state statutes cite Rule 2a-7 as the model for their management of the LGIPs. Such a change would introduce a complex set of difficulties in terms of daily accounting that neither the states nor their investors (local governments) are readily equipped to handle.

The fixed NAV is a fundamental feature of money market mutual funds. As investors, many state and local governments look to MMMFs as part of their cash management practice. In the Government Finance Officers Association's Best Practice, "Use of Various Types of Mutual Funds by Public Cash Managers," governments are encouraged to look to money market funds for short-and medium-term investments, with appropriate cautions. One of the critical reasons for this recommendation is the fixed NAV feature found in these products. In fact, many governments have specific policies that mandate that they invest in products with stable values. These requirements and the popularity of MMMFs as a cash management tool reflect the fact that these funds are highly regulated, have minimal risk, and are easily booked by the investor. State and local governments currently have \$127 billion invested in these funds according to the Federal Reserve Bank.

Additionally, changing the fundamental feature of MMMFs from a fixed NAV to a floating NAV would dampen investor demand for municipal securities and therefore could deprive state and local governments and other borrowers of much-needed capital. Consider that MMMFs are the largest investor in short-term municipal bonds, holding 73% of all outstanding short-term bonds equaling nearly \$271 billion.<sup>1</sup> Creating a marketplace where the NAV changes from fixed to floating would make MMMFs far less attractive to investors, thereby limiting the ability of money market funds to purchase municipal securities. Losing this vital investing power could lead to higher debt issuance costs for many state and local governments across the country.

In 2010, the SEC reinforced the regulations covering money market mutual funds. We believe that further regulations involving the adoption of a floating NAV would cause many of our members to divest a significant percentage of their investments in MMMFs. Our members would then have to look at competing products that, in turn, could be more susceptible to market conditions, more difficult to account for and manage, more likely to pose greater market risks, and would be more expensive, increasing the costs and fees associated with investing. Furthermore, our members have found that commercial banks do not want to take large investments from state and local governments, because the cost of collateralization over the FDIC limit is too high.

To avoid these negative consequences, we believe that any further money market fund reforms must not involve eliminating this fundamental feature.

The FSOC proposals also ask whether any of the suggested further reforms, if ultimately deemed necessary, should exempt particular types of MMMFs, including those funds investing in state and local government securities.<sup>2</sup> While an exemption may help investors in tax-exempt municipal MMMFs, and therefore lessen the chance that these funds would shy away from purchasing municipal securities, this approach would not assist state and local governments that use MMMFs (including prime MMMFs<sup>3</sup>) for cash management and investment purposes. If the MMMFs that are available for state and local governments to purchase are to be saddled with a floating NAV feature, state and local governments would still be likely to refrain from purchasing these funds, and would have to turn to less safe, less liquid, and less desirable financing options.

If you have any questions about our comments, please contact Dustin McDonald, Director of the Government Finance Officers Association's Federal Liaison Center at 202-393-0208.

Thank you for considering our concerns.

Sincerely,

American Public Power Association, John Godfrey  
Council of Infrastructure Financing Authorities, Rick Farrell  
Government Finance Officers Association, Dustin McDonald  
International City/County Management Association, Beth Kellar  
International Municipal Lawyers Association, Chuck Thompson  
National Association of Counties, Mike Belarmino  
National Association of Health and Educational Facilities Finance Authorities, Chuck Samuels  
National Association of Local Housing Finance Agencies, John Murphy  
National Association of State Auditors, Comptrollers and Treasurers, Cornelia Chebinou  
National Association of State Treasurers, Peter Barrett  
National Council of State Housing Agencies, Garth Rieman  
National League of Cities, Lars Etzkorn  
U.S. Conference of Mayors, Larry Jones

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<sup>1</sup> Investment Company Institute and Bloomberg.

<sup>2</sup> The Proposals discuss three alternative reforms: floating NAV (Alternative One); a "minimum balance at risk" paired with a small capital buffer (Alternative Two); and larger capital buffers, perhaps paired with other risk-limiting regulations (Alternative Three).

<sup>3</sup> Prime MMMFs are taxable MMMFs that may invest in commercial paper and certificates of deposit issued by financial and non-financial businesses, as well as Treasury and government-agency securities.