Government Finance Officers Association
International City/County Management Association
National Association of State Auditors, Comptrollers and Treasurers
National Association of State Treasurers
National Association of Counties
U.S. Conference of Mayors
National League of Cities
American Public Power Association
Council of Infrastructure Financing Authorities
National Association of Health and Educational Facilities Finance Authorities
Airports Council International – North America
Large Public Power Council

September 17, 2013

Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: File Number S7-03-13

Dear Secretary Murphy,

The organizations listed above are pleased to comment on the SEC's Proposed Changes to Rule 2a-7, S7-03-13. We support the SEC's initiative to strengthen money market mutual funds (MMMFs) and ensure that investors are investing in safe and high-quality securities. However, as investors in MMMFs and issuers of municipal bonds purchased by MMMFs, we oppose changes to these products that would eliminate our ability to purchase these securities or dissuade investors from purchasing them.

State and local governments and other issuers are very concerned with the questions posed in the proposed rule release as to whether the SEC should adopt a rule that would change the fixed net asset value (NAV) – the hallmark of MMMFs – to a floating net asset value (NAV). We believe that such a move would be harmful to state and local governments and the entire MMMF market. The fixed NAV is the trademark of MMMFs and changing its structure likely would eliminate the market for these products, leading to fewer investors of municipal bonds, and forcing state and local governments to divest their MMMF holdings.

MMMFs are the largest investor in short-term municipal bonds, holding 72 percent of all outstanding short term bonds totaling over $500 billion[1]. State and local governments and other issuers rely on the sale of these bonds to build and maintain schools to support an educated

[1] Per Investment Company Institute data as of April 2013.

workforce, and to build our roads, public transportation systems and airports, all of which are essential for supporting commerce. They also help to address the country's water infrastructure, public utilities, health care and affordable housing needs, as well as provide public safety infrastructure that ensures local and national security. Changing the NAV from fixed to floating, would make MMMFs far less attractive to investors, thereby limiting the availability for MMMFs to purchase municipal securities. Losing this vital investing power would lead to higher debt issuance costs for many state and local governments across the country, which could force the delay or cancellation of much-needed infrastructure projects that would have otherwise helped drive and support national economic output.

As investors, many state and local governments look to MMMFs as part of their cash management practice. In the GFOA Best Practice "Use of Various Types of Mutual Funds by Public Cash Managers," governments are encouraged to look to MMMFs for short-term investments, with appropriate cautions. One of the critical reasons for this recommendation is the fixed NAV found in these products. In fact, many governments have specific policies and laws for the investment of public funds that mandate MMMFs are to be used for their short and mid-term investments due to the fixed NAV.

MMMFs are a popular cash management tool because they are highly regulated, have minimal risk, and are easily booked. The SEC's proposal to require these funds to determine a daily NAV that could "float" would remove the flexibility of these products and make them increasingly difficult to manage. Further, floating the NAV would confront state and local governments with new and costly cash management and accounting system needs, as state and local cash management systems are not equipped to handle such a change. While no official estimate has been generated to illustrate these cost increases, a recent report by Treasury Strategies Inc. estimates that the total up-front costs for U.S. MMMF institutional investors to modify operations in order to comply with a floating NAV will be between $1.8 and $2 billion. We expect that moving to a floating NAV would also carry similarly significant costs for state and local governments.

If the SEC were to adopt a floating NAV for MMMFs, the organizations listed above expect that many, if not all, of their members would divest a significant percentage of their MMMFs and would have to look at competing products that in turn could be a riskier investment for public funds, more susceptible to market conditions, more difficult to account for and manage, and would have a lower rate of return.

Further, with regard to the SEC's proposal to define retail money market funds as those which limit investor redemptions to no more than $1 million per business day (and are therefore exempt from the float NAV), it is important to note that some state and local governments have money market fund cash flows that are greater than $1 million per business day, and some governments may need to redeem more than $1 million of their investments per day. If the money market funds that these governments are invested in will no longer be permitted to use a stable NAV, this will only add to pressures on issuers to discontinue investing in MMMFs. As a result governments will be forced out of these funds and required to look to other investment vehicles that have historically paid lower yields or to other less secure products with equal or greater liquidity.

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 statues 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, and would require costly modifications to existing accounting systems, in addition to likely new layers of GASB compliance standards.

Therefore, with regard to the SEC's proposal to require tax-exempt and institutional funds to float their NAVs, we recommend that the SEC be cognizant of the negative effect such action could have on state and local governments and maintain the fixed NAV on institutional and tax-exempt MMMFs.

Thank you for the opportunity to comment on the proposed rule changes to SEC Rule 2a-7.

Sincerely,

Government Finance Officers Association, Dustin McDonald
International City/County Management Association, Beth Kellar
National Association of State Auditors, Comptrollers and Treasurers, Cornelia Chebinou
National Association of State Treasurers, Peter Barrett
National Association of Counties, Mike Belarmino
U.S. Conference of Mayors, Larry Jones
National League of Cities, Carolyn Coleman
American Public Power Association, John Godfrey
Council of Infrastructure Financing Authorities, Rick Farrell
National Association of Health and Educational Facilities Finance Authorities, Chuck Samuels
Airports Council International – North America, Annie Russo
Large Public Power Council, Noreen Roche-Carter