July 18, 2012

The Honorable Mary Schapiro
Chairman
US Securities & Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

RE: Moody's Investors Service report, "Weekly Credit Outlook: US Money Market Funds," published on July 2, 2012

Dear Chairman Schapiro,

We are pleased to submit for your review the enclosed letter to Moody's Investors Service. The letter is our rebuttal to the Moody's report, "Weekly Credit Outlook: US Money Market Funds," which was published on July 2, 2012.

Our letter presents a fact-based and logical challenge to Moody's conclusions regarding the impact of additional regulations to Money Market Funds that are currently under consideration by the US Securities and Exchange Commission. Those regulations include:

- Capital Buffer,
- Floating NAV, and
- Redemption Restrictions.

The gravity of these potential regulations and magnitude of their impact underlines the importance of presenting the facts accurately, in the proper context and without spin. We are compelled to distribute the enclosed letter to you as it is of material importance during your deliberations on additional Money Market Fund regulations.

Sincerely,

Anthony J. Carfang, Partner

Cathryn R. Gregg, Partner

Jacob Nygren, Manager

Enclosures

CC: The Honorable Luis A. Aguilar
The Honorable Daniel Gallagher
The Honorable Troy Paredes
The Honorable Elisse Walter

Treasury Strategies, Inc.
309 W. Washington Street
13th Floor
Chicago, Illinois 60606
t 312.443.0840
f 312.443.0847

61 Broadway
Suite 905
New York, New York 10006
t 212.292.0856
f 212.292.0863

1 Northumberland Avenue
Trafalgar Square
London
WC2 N5BW
Great Britain
t +44 207 872 5551
f +44 207 872 5611

www.TreasuryStrategies.com

July 13, 2012

By Electronic Mail

Henry Shilling
Moody's Investors Service
7 World Trade Center
250 Greenwich Street
New York, NY 10007
USA

Re: Moody's Weekly Credit Outlook July 2, 2012: US Money Market Funds

Dear Mr. Shilling,

In response to your comments regarding US Money Market Funds, which appeared in Moody's Weekly Credit Outlook dated July 2, 2012, Treasury Strategies, Inc. (TSI) would like to contribute the following information for your consideration.

Treasury Strategies is the leading Treasury consulting firm working with both corporations and financial institutions in the areas of treasury, liquidity, and payments.

As we have reflected upon your comments regarding the SEC's money market fund (MMF) proposals, we believe it is necessary to consider the secondary effects of these proposals when discussing the credit impacts to investors and fund sponsors. **We believe the impacts are negative to both fund investors and fund sponsors**.

Some specific points for consideration include:

- Imposing a capital buffer will have far more negative consequences to investors and fund sponsors: 1) by attracting more risk averse investors who are more likely to run at the first sign of trouble, and 2) in terms of pushing managers to take on more portfolio risk to compensate for the cost of the additional capital.
- Many more investors would leave MMFs under a floating NAV. This exit would greatly reduce the size of a fund and destroy the economies of scale that are crucial to the business.
- The report's view of sponsor support can be very misleading to readers. The study and the SEC Chairman's remarks both toss around numbers with neither substantiation nor context. Because the report does not name these "problem" funds, a dispassionate and objective third-party analysis is impossible.

Treasury Strategies, Inc.
309 W. Washington Street
13th Floor
Chicago, Illinois 60606
t 312.443.0840
f 312.443.0847
61 Broadway
Suite 905
New York, New York 10006
t 212.292.0856
f 212.292.0863
1 Northumberland Avenue
Trafalgar Square
London
WC2 N5BW
Great Britain
t +44 207 872 5551
f +44 207 872 5611
www.TreasuryStrategies.com

The Capital Buffer

While your analysis did accurately identify that the imposition of a capital buffer would diminish the economic viability of MMFs, it stopped short of identifying other negative impacts to both fund sponsors and investors.

- Reduced transparency for investors may incite a run earlier than previously seen
- Confusion leading to more risk averse and panic-prone investors
- Increased moral hazard for fund companies and investors
- Asset managers and banks would be forced to exit the business
- Increased volatility
- Decreased yields and increased costs for investors

For additional detail on the above issues, please see the attached document, "Proposed Capital Requirement for Money Market Funds: A Disaster on All Fronts" which was published by Treasury Strategies in February 2012.

The Floating NAV

The assertion that a stable NAV makes MMFs susceptible to runs is a biased and flawed position. As a matter of fact, *any* financial instrument is susceptible to a run. Moving MMFs to a floating NAV would make them no less susceptible to a run. The equity markets experience runs just as surely as bank deposits.

Furthermore, investors have voted with their dollars for the value that they place on stable NAV MMFs, whose asset levels dwarf other floating NAV instruments. We agree that should MMFs move to a floating NAV, asset levels will certainly decrease dramatically. The evidence for this decrease is borne out by the failures of enhanced cash funds and overseas money funds that sought to mimic MMFs; but when these funds began to float their NAVs, investors left in droves.

Additionally, Treasury Strategies conducted a study to estimate the magnitude of investment assets that would exit MMFs under a floating NAV. Our study shows that under a floating NAV scenario, 79% of institutional investors would decrease or discontinue usage of MMFs, which would decrease invested assets by approximately 61%. These data are consistent with the findings from the Fidelity study that are referenced in your report. Fidelity found that 57% of institutional and 47% of retail investors would move all or some of their assets out of money market mutual funds. However, the Moody's report erroneously cited this study as claiming "shareholders might redeem $340B or 13% of assets from money market funds if the floating NAV option were to be adopted." This incorrect citation is not only highly misleading, but it also dangerously diminishes the likely impacts of this proposal.

For additional detail on the above issues, please see the attached document, "Money Market Fund Regulations: The Voice of the Treasurer" which was published by Treasury Strategies and sponsored by the Investment Company Institute in April 2012.

Sponsor Support

As noted by Sean Collins of the Investment Company Institute in his June 21, 2012 statement, “sponsor support does not mean a money market fund is in danger.” The floating NAV analysis within the Moody’s report falsely implies that in the absence of sponsor support, MMFs would have experienced far more runs. Beyond being incorrect, this implication is also misleading because, as Collins stated, “Sponsors may provide support for a number of reasons, including avoiding headline risk of a particular security or securities, to maintain a AAA credit rating for a money market fund, or to respond to investors’ concerns regarding their degree of comfort with particular securities.”

Ironically, some instances of sponsor support are likely derived from failures of the rating companies, like Moody’s, which failed to accurately assess the risks of underlying instruments. In fact, Moody’s is currently facing litigation for its alleged role in providing investment-grade ratings to structured investment vehicles (SIVs) issued by Cheyne Finance Plc. These very same SIVs would have been prohibited from being held by MMFs if the rating agencies had issued lower ratings on these securities. We suspect the bulk of parental support you cite for 2007 arises from this particular debacle.

Also, the bulk of sponsor support instances that are cited in the Moody’s report occurred before the year 2000. The timing of these cited occurrences overlooks the fact that today’s MMFs have been substantially strengthened through numerous regulatory changes since the beginning of your analysis in 1980. The most recent changes, which occurred in 2010, have already begun to demonstrate significant risk reduction despite some very challenging market conditions.

The analysis in the report also calls out that some fund sponsors would be more negatively affected than others under these proposals. Somewhat suspiciously, the report notes that sponsors rated by Moody’s (e.g., FMR LLC, JP Morgan Chase Bank, and Blackrock) will likely fare better than those that are not rated by Moody’s (e.g., Federated Investors and Vanguard). This point comes across as incredibly self-serving.

Lastly, the sponsor support chart in the report misleads readers in a number of ways. By neglecting to display years without support, and by combining the years 2007 and 2008, the chart erroneously leads readers to conclusions that they may not otherwise reach. We appreciate the fact that Moody’s has brought this information to light, but feel that it is presented in a way that fails to meet intellectually honest standards and can therefore be easily misconstrued by readers.

Conclusion

We appreciate the forward-looking analysis that you have published and agree with you that assets invested in MMFs would decrease under either proposal. However, we urge you to apply further consideration to what these proposals would mean to fund sponsors and investors should they be adopted. Based on the research and analysis conducted by Treasury Strategies, **we are strongly of the opinion that these proposals would have broadly reaching negative impacts for fund sponsors, investors, and the broader economy.**

Sincerely,

Anthony J. Carfang, Partner

Cathryn R. Gregg, Partner

Jacob Nygren, Manager

Attachments:

- TSI: "Proposed Capital Requirement for MMFs: A Disaster on All Fronts"
- TSI: "Money Fund Regulations: The Voice of the Treasurer"
- Fidelity: "The Investor's Perspective: How individual and institutional investors view money market mutual funds and current regulatory proposals designed to change money funds"