Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090
United States
www.sec.gov

Chris Barnard

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- 17 CFR Parts 270 and 274
- Release No. IC-31184; File No. S7-07-11
- Removal of Certain References to Credit Ratings and Amendment to the Issuer Diversification Requirement in the Money Market Fund Rule

Dear Sir.

Thank you for giving us the opportunity to comment on your Proposed rule: Removal of Certain References to Credit Ratings and Amendment to the Issuer Diversification Requirement in the Money Market Fund Rule.

You are re-proposing certain amendments, initially proposed in March 2011, related to the removal of credit rating references in rule 2a-7, the principal rule that governs money market funds, and Form N-MFP, the form that money market funds use to report information to the SEC each month about their portfolio holdings, under the Investment Company Act of 1940 (Investment Company Act). The re-proposed amendments would implement provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). You are issuing this re-proposal in consideration of comments received on your March 2011 proposal. In addition, you are proposing to amend rule 2a-7's issuer diversification provisions to eliminate an exclusion from these provisions that is currently available for securities subject to a guarantee issued by a non-controlled person.

Rule 2a-7: Eligible securities

Proposed § 270.2a-7(a)(11)(i) defines an eligible security as a security with a remaining maturity of 397 calendar days or less and "that the fund's board of directors determines presents minimal credit risks, which determination must include a finding that the security's issuer has an exceptionally strong capacity to meet its short-term financial obligations". The commentary notes that an assessment of the strength of any issuer's or guarantor's ability to satisfy their obligations generally should include an analysis of the issuer or guarantor's: financial condition; liquidity; ability to react to future events; and the strength of the issuer or guarantor's industry within the economy and relative to economic trends as well as the issuer or guarantor's competitive position within its industry. I strongly support this principles-based approach, which promotes a flexible assessment methodology for money market fund (MMF) boards and allows assessment methodologies and tolerances to vary in time with changing markets and economics. I support that this approach should also include some more objective factors, for example considering quantitative items like credit spreads, default statistics, and prices, yields and volumes.

Monitoring minimal credit risks

Under re-proposed rule 2a-7(g)(3) you require that each MMF adopt written procedures that require the fund adviser to provide ongoing review of the credit quality of each portfolio security (including any guarantee or demand feature on which the fund relies to determine portfolio quality, maturity, or liquidity) to determine that the security continues to present minimal credit risks. I support this re-proposal. It formalises existing market practice (and good practices) and will ensure that MMFs are well-positioned to anticipate potential credit events that could impact portfolio security prices.

Stress testing

Proposed § 270.2a-7(g)(8)(i)(B) proposes new wording that would require MMFs to stress test "an event indicating or evidencing credit deterioration". In such stress testing it is very important that MMFs consider not just sensitivities to changing individual assumptions, but also the dependencies assumed between stress testing assumptions, and relevant combinations of events. I support this approach.

Yours faithfully

C.R.B.

Chris Barnard