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Via e-mail: moneymarket@iosco.org

Mohamed Ben Salem
International Organization of Securities Commissions
Calle Oquendo 12
28006, Madrid
Spain

**Public Comment on Money Market Fund Systemic Risk Analysis and Reform Options**

Dear Mr. Salem:

State Street Corporation ("State Street") welcomes the opportunity to comment on the International Organization of Securities Commissions ("IOSCO") Consultation on Money Market Fund ("MMF") Systemic Risk Analysis and Reform Options. Headquartered in Boston, Massachusetts, State Street specializes in providing institutional investors with investment servicing, investment management and investment research and trading. With $23.21 trillion in assets under custody and administration and $1.99 trillion in assets under management, State Street operates in 29 countries and in more than 100 geographic markets.[1] We are a major provider of asset management and investor services to MMFs and other similar collective investment funds globally.

State Street understands the concerns that have prompted IOSCO, at the request of the Financial Stability Board, to review MMFs and their potential vulnerability to systemic risk. This includes their perceived susceptibility to investor runs, their key role in the short-term funding markets and questions relative to sponsor support. We also recognize the value of a uniform and globally

[1] As of March 31, 2012.

consistent regulatory approach, with common standards applicable throughout the MMF industry.

Still, we believe that any reassessment of the regulatory framework governing MMFs must proceed with great caution and should reflect a clear understanding of the success of MMFs over the course of their 40-year history. In addition, policy measures must endeavor to improve rather than undermine the fundamental structure of the industry. This includes continued opportunity for broad investor access. While we support movement towards uniform liquidity and other standards for MMFs, and believe certain policy options should be further evaluated, we strongly oppose several of the measures put forth by IOSCO, notably the mandatory imposition of a floating net asset value ("NAV"), the introduction of capital buffers or other bank-like regulations, and the introduction of general redemption gates or minimum investment requirements.

MMFs are highly prized by a wide variety of investors, both retail and institutional, in numerous national jurisdictions. MMFs have gained widespread acceptance because of their ease of use, compelling investment benefits and conservative risk profile. MMFs provide investors with cost-effective access to investment expertise, including credit risk analysis, and enable efficient diversification away from the banking system and across individual issuers. In addition, MMFs have emerged as a simple, stable and important source of short-term funding for a broad range of issuers. This includes financial, corporate, municipal and other government entities. As an example, MMFs are important investors in variable rate demand notes, the primary source of variable rate financing available to U.S. municipal issuers. As such, MMFs play an important role in support of economic activity.

MMFs are subject in their respective national jurisdictions to an extensive, well-defined and rigorous set of regulatory standards. In the U.S., the primary vehicle for the regulation of MMFs is Rule 2a-7 of the Investment Company Act of 1940. In Europe, most MMFs are governed by the UCITS regime, as well as guidelines introduced by the European Securities and Markets Authority and its predecessor.[2] In addition, most European MMFs adhere to a Code of Practice sponsored by the Institutional Money Market Fund Association ("IMMFA"). These various regimes incorporate robust liquidity, maturity, credit and issuer diversification requirements designed to promote market stability and investor protection. MMFs are subject to extensive disclosure and reporting requirements. MMF prospectuses provide detailed information to investors on their structure, investment purpose, strategy and potential risks. They also make it clear that MMFs are not bank deposits and therefore do not benefit from any government guarantee. With very few exceptions, MMFs have therefore operated and performed in accordance with regulatory expectations.

In response to the financial crisis, the U.S. Securities and Exchange Commission ("SEC") introduced in March 2010 various amendments to Rule 2a-7. This included a requirement to maintain daily portfolio liquidity of 10%, weekly portfolio liquidity of 30%, and a cap on illiquid securities of 5%, thereby substantially reducing potential future dependence on secondary market liquidity. This also included a reduction in allowable term to maturity for assets held, tighter credit and issuer concentration restrictions (including in respect of second tier assets), and

[2] The Committee of European Securities Regulators.

revised disclosure and reporting requirements. New procedures were also introduced to improve the understanding of the MMFs' investor profile, strengthen stress testing practices, and facilitate redemptions in the event of financial market distress. In our view, these measures have significantly reduced the potential risks that MMFs present to the U.S. financial system, as well as the need for further, potentially disruptive policy measures.

Given the broad appeal, inherent stability and fundamental importance of MMFs to their many constituents, we believe that regulators should proceed with great caution when considering additional policy recommendations. Furthermore, we believe that regulators should focus on policy options that enhance the value of MMFs to investors, and which avoid changes that would undermine the industry's fundamental structure. As an example, State Street strongly opposes the introduction of a mandatory floating NAV requirement since this would challenge the defining characteristics of MMFs and undermine their ability to meet well-developed investor expectations relative to price stability and ease of use. In addition, this may have the perverse effect of driving investors towards less-regulated and less transparent investment products, thereby increasing, rather than decreasing, systemic risk.

Similarly, State Street also oppose any prohibition on the use of amortized cost accounting by MMFs, the imposition of capital or other similar bank-like buffers (*e.g*. the forced issuance of subordinated shares or the requirement for investors to purchase certain amounts of capital securities), the conversion of all MMFs into special purpose banks, and the imposition of general redemption gates or minimum balance requirements. Again, this stems from the firmly held view that regulatory measures should endeavor to reinforce, rather than alter, the core structure of the MMF industry, and should seek to maintain, if not encourage, broad investor access.

Notwithstanding these policy concerns, we believe that some of the recommendations noted by IOSCO could help improve market stability without undermining the core characteristics of MMFs, and may therefore usefully form the basis for the development of a globally-consistent regulatory approach. As an example, we strongly support the introduction of uniform liquidity, maturity, credit, issuer concentration and investor disclosure requirements for MMFs, in a manner consistent with SEC Rule 2a-7 and the IMMFA Code of Practice. In addition, some policy options, such as enabling MMF sponsors to introduce temporary redemption restrictions and 'in kind' redemptions in certain clearly defined circumstances, require further study but are not necessarily incompatible with core industry characteristics.

While we generally support efforts to reduce industry reliance on credit ratings, we believe that their wholesale elimination from MMF regulation may actually increase, rather than reduce, systemic risk. Credit ratings are a widely accessible and useful filter for the initial assessment of creditworthiness. While MMF managers should, as required by SEC Rule 2a-7 and the IMMFA Code of Practice, conduct their own additional assessment of pertinent risks, the use of credit ratings helps ensure the existence of a valuable minimum industry-wide benchmark. Indeed, in the absence of a uniform minimum standard, more aggressive MMF managers may be encouraged to take on additional risk in the pursuit of higher returns. We therefore oppose the full elimination of credit ratings from MMF regulation, but support the introduction of a uniform requirement for MMF managers to conduct an independent assessment of creditworthiness as a supplement to the minimum credit rating-based floor.

Thank you once again for the opportunity to comment on the important policy matters raised within this Consultation. To summarize, State Street believes that MMFs have and continue to provide enormous benefits to a broad range of investors and issuers, as well as national economies generally. Any changes to the prevailing regulatory framework must therefore be carefully considered and should be designed to improve, rather than to undermine, the core structure of the MMF industry. We therefore strongly oppose certain of the policy options referenced in the IOSCO Consultation, notably the introduction of a floating NAV requirement, the imposition of various capital buffers or other bank-like regulation, and general redemption gates or minimum investment requirements, since these would fundamentally alter the characteristics of MMFs and their appeal to investors.

We do, however, support the imposition of globally-consistent requirements relative to liquidity, credit, maturity and issuer concentration risk, in a manner consistent with SEC Rule 2a-7 and the IMMFA Code of Practice. We also agree that there is potential value in further exploring certain mechanisms designed to mitigate short-term dislocation, such as the ability of fund sponsors to limit or provide 'in kind' redemptions in certain well-defined circumstances. Finally, we support the introduction of a uniform requirement for MMF managers to conduct substantive independent research of creditworthiness as a supplement to the use of credit ratings as a minimum standard.

Please feel free to contact me should you wish to discuss our submission in greater detail.

Sincerely,

Stefan M. Gavell