Association for Financial Professionals®

May 25, 2012

Mr. Masamichi Kono
Chairman, Technical Committee
International Organization of Securities Commissions (IOSCO)
C/ Oquendo 12
28006 Madrid
SPAIN
Submitted via Email to: **MoneyMarket@iosco.org**

Dear Mr. Kono:

The Association for Financial Professionals (AFP) welcomes the opportunity to provide you and the members of the Technical Committee with our thoughts on the money market fund systemic risk analysis and reform options consultation report that your committee released in April 2012. Our group of corporate treasurers and financial professionals fully supports amending the current rules governing money market funds (MMFs) in a manner that encourages clear and concise transparency that not only protects investors, but provides them with the necessary information needed to make the most sound and practical investment decisions for their organizations. However, AFP members have concerns regarding several options that have been presented throughout the course of the debate and we appreciate the opportunity to offer our thoughts to you.

AFP's membership includes more than 16,000 financial professionals employed by over 5,000 corporations and other organizations. We represent a broad spectrum of financial disciplines at organizations that are generally drawn from the Fortune 1,000 and middle-market companies in a wide variety of industries, including manufacturing, retail, energy, financial services, universities/colleges and technology. Many AFP members manage their organization's investment portfolios and have an active interest and a sizable stake in the manner in which MMFs operate. The options discussed in the consultation report address areas that are of critical importance to financial professionals. These professionals are responsible for directing the investment of corporate cash and pension assets for their organizations and are charged with considering action on all available investment alternatives to protect principal, ensure liquidity and prudently maximize returns. In addition, they must also make critical business decisions—including those concerning corporate borrowing and business investment—based on observations and assumptions about business conditions that affect their organization and how those business conditions will change in the short and intermediate term.

AFP recognizes that concerns about the liquidity of MMFs played a role in exacerbating the financial crisis that began in September 2008. As a result, we have been and remain largely supportive of rules already enacted by the U.S. Securities and Exchange Commission (SEC) to improve the liquidity and transparency of MMFs. The impact of many of these rules, including the monthly reporting of each fund's shadow NAV, has not yet been fully felt in the market. We believe that these rules instituted significant changes that will, on their own, substantially reduce the liquidity concerns and systemic risks posed by MMFs.

We oppose the proposal to eliminate the stable NAV in favor of a floating NAV, as we believe it would greatly reduce investors' interest in utilizing MMFs as a cash management and investment tool, whether applied to all investors or just institutional investors. For purchasers of MMFs, the return *of* principal is a much greater driver of the investment decision than return *on* principal. For a large number of institutional investors, the potential of principal loss would preclude investing in floating NAV MMFs.

American businesses make their investment decisions based on many factors unique to their organizations. In many instances, MMFs are the investment option that most closely matches the risk/return profile sought for surplus operating cash, as specified by an organization's own written investment policy. Changing to a floating NAV would significantly change the risk/return profile of MMFs.

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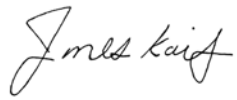
Moving to a floating NAV would have implications on the balance sheets of organizations, according to many financial professionals. MMFs are currently treated as cash equivalents for accounting purposes because they are readily convertible to a known amount of cash. If MMF's are converted to require a floating NAV, corporations will no longer be permitted to treat their investments as cash equivalents when reporting their MMF balances

Due to these changes to the risk/return profile of MMFs, and the accounting treatment of these instruments, many corporate investors will either be precluded from investing in MMFs, or will be required to modify their investment policies to allow for the flexibility to invest in instruments that fluctuate in value. Expanding permissible investments to allow for principal fluctuation may result in increased risk in corporate investment portfolios, as financial professionals could potentially be authorized to pursue other highly liquid, but riskier short-term investments, such as enhanced cash funds and short-term bond funds. More likely, organizations will choose to abandon MMFs as viable investment options.

The move to a floating NAV would also create significant disruptions in the corporate funding market. Many organizations issue commercial paper to meet their short-term financing needs, such as funding payroll, replenishing inventories, and financing expansion. Since the mid-1980s, MMFs have been major, reliable buyers of those securities and today purchase more than one-third of the commercial paper issued by American businesses. Should regulators eliminate the stable NAV on MMFs, some corporate investors will be forced to walk away due to mandatory investment guidelines that require a stable per-share value. The resulting reduction in MMF balances would reduce the capital available to purchase commercial paper, making short-term financing for these businesses less efficient and more costly. If commercial paper issuers, which are generally the largest and highest quality corporate issuers, must pursue other forms of debt financing, it is possible that smaller and lower-quality issuers may be crowded out of the debt markets entirely.

We appreciate the opportunity to provide our thoughts on this topic. If you have any questions about our comments, please contact AFP's Jeff Glenzer, Managing Director, at 301.961.8872 or jglenzer@AFPonline.org.

Sincerely,



James A. Kaitz
President and CEO
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