May 28, 2012

Via Electronic Mail (moneymarket@iosco.org)

Mr. Masamichi Kono
International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
28006 Madrid
Spain

Dear Mr. Kono:

Re: Money Market Fund Systemic Risk Analysis and Reform Options

The International Investment Funds Association (the "IIFA") welcomes the opportunity to comment on the consultation report on Money Market Fund Systemic Risk Analysis and Reform Options (the "Report") issued by the Technical Committee of the International Organization of Securities Commissions ("IOSCO"). The IIFA is comprised of 41 national and regional associations representing investment funds from around the world.[1] Recognizing the importance of the role of investment funds and of their responsibilities to investors, the mission of the IIFA is to promote the protection of investment fund investors, to facilitate the growth of the investment funds industry internationally, to act as a medium for the advancement of understanding of the investment fund business around the world, and to encourage adherence to high ethical standards by all participants in the industry.

The IIFA would like to share the following views and concerns on the Report.

[1] As of the end of the fourth quarter 2011, these associations together represented assets under management of close to € 18.4 trillion or US $23.8 trillion.

Investment Funds are Substantively Different from the Banking Industry and Should be Regulated Accordingly

It is critical for IOSCO and the Financial Stability Board ("FSB"), in any consideration of potential policy options for money market funds, to fully consider the substantial differences between investment funds and the banking industry, and recognize the unique roles they play in the global financial system.

Investment funds are vehicles that provide collective investment and ownership of assets through the issuance of equity shares, and such shares represent a pro rata interest in that fund. Importantly, authorized publicly-available investment funds in major jurisdictions are subject to national and/or regional regulations that impose strict requirements on the management of the fund.

Investment funds invest in portfolio securities, providing a convenient conduit for investors to economically seek the market exposure that they would obtain through direct investment in the underlying assets. In contrast, banks transform private short-term securities or claims into private credit. The managers of investment funds typically operate on the basis of an agency relationship, and not trading of the manager's own assets.

Because investment funds differ significantly in their business and operation models, we believe it is imperative that bank-like regulation not be imposed upon investment funds.

Money Market Funds Serve a Critical Function in the Short-Term Debt Markets

The Report acknowledges that money market funds are important not only to investors, but also to a large number of businesses and national and local governments that finance current operations through the issuance of short-term debt. The critical function that money market funds serve in the short-term debt markets, however, cannot be overstated. As a simple investment product, money market funds offer a valuable intermediation service between lenders and borrowers in the short-term debt markets. They provide borrowers with access to short-dated securities in aggregated amounts, allowing them to efficiently manage their cash needs. At the same time, they offer investors access to credit expertise, diversification, liquidity management and secure and efficient operational processes that would be prohibitively expensive to the majority of cash investors outside of pooled investment vehicles.

The activities of money market funds are overwhelmingly conducted within a highly regulated and transparent environment. The exponential growth of the money market fund industry evidences the value that both retail and institutional investors place upon the ability to utilize money market funds to manage their cash assets.

No "One Size Fits All" Approach

In its concluding question, IOSCO wisely questions whether the differences between jurisdictions require different policy approaches, or whether a global solution would be preferable. The IIFA respects the work of IOSCO on collective investment schemes. We believe that the differences in the national regulations applicable to money market funds and the local market conditions – including the types of investors, tax treatment, banking and securities laws – are so significant and fundamental as to make the crafting of detailed world-wide regulatory approaches inappropriate.

The implementation on a national level of a regulatory approach promoted by IOSCO that does not take into account the unique characteristics of a particular jurisdiction's money market fund industry could create unintended adverse consequences, rather than help mitigate risks. As a consequence, it is logical for each regulator to be able to define which rules funds must follow to benefit from a "money market fund" label in its own national/regional market (e.g. SEC Rule 2a-7 in the U.S., CESR/ESMA money market fund rules in the EU, etc.)

Many of the policy options under consideration by IOSCO would represent fundamental structural changes to the money market fund industry. While the benefits that the proposed policy options would bring are unclear, we believe that a fundamental change to the regulation of money market funds would create substantial uncertainty and potentially systemic risk. We therefore urge IOSCO and other regulatory authorities to exercise extreme caution as they proceed in the consideration of money market fund reforms.

No Capital Buffers and Mandatory Floating NAV

Among the policy options in the Report are requiring funds to establish a capital buffer and imposing a mandatory move from constant net asset value ("CNAV") to variable net asset value ("VNAV"). We disagree with these proposals.

Money market funds are investment products, whose risks and reward are borne by their investors. Requiring money market fund managers to back-stop losses, and to provide for those losses through a capital requirement, would fundamentally undermine the economic viability of money market funds, and would convert them from an investment product into a *de facto* banking product.

We also do not support a global ban of CNAVs (which would amount to prohibiting the use of amortized cost valuation for any securities held by a money market fund). We believe that there is appropriate space in the global money market fund industry for both constant NAV and variable NAV funds, provided of course that each category is subject to an appropriate regulation. Indeed, some regulators have already imposed reforms to strengthen the resilience of money market funds, such as the SEC's 2010 rule

amendments and the CESR guidelines on a common definition of European money market funds.

We refer IOSCO to the comment letters of the various national and regional associations that are members of the IIFA for more detail on the concerns raised by the policy options described in the Report, including capital buffers and mandatory VNAV.[2]

Given the very short consultation period on the Report we request that IOSCO consider providing a comment/consultation period on its final recommendations, before they are submitted to the FSB. If this is not possible, we request that IOSCO provide assurances that any recommendations it proposes to make to the FSB be public so that the public and the industry can make comments to the FSB. Further, the work of the FSB should also be subject to public consultation.

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We appreciate the opportunity to express our views. Please contact me at epenido@opportunity.com.br if you have any questions about our comments.

Very truly yours,

Eduardo Penido
Chairman, Board of Directors

c.c. Mr. Mark Carney, Chair
Financial Stability Board

Mr. Patrice Bergé-Vincent
Autorité des Marchés Financiers
c/o Mr. Mohamed Ben Salem, IOSCO

[2] See for example, Joint Letter from European Fund and Management Association, Institutional Money Market Funds Association, and Investment Company Institute to Patrice Bergé-Vincent, dated February 16, 2012, available at http://www.ici.org/pdf/25936.pdf