

**American Public Power Association
Council of Development Finance Agencies
Council of Infrastructure Financing Authorities
Government Finance Officers Association
International City/County Management Association
International Municipal Lawyers Association
National Association of Counties
National Association of Local Housing Financing Agencies
National Association of State Auditors, Comptrollers and Treasurers
National Association of State Treasurers
National League of Cities
U.S. Conference of Mayors**

June 23, 2011

The Honorable Scott Garrett
Chairman, Subcommittee on Capital Markets and Government Sponsored Enterprises
Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member, Subcommittee on Capital Markets and Government Sponsored Enterprises
Committee on Financial Services
U.S. House of Representatives
2344 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Garrett and Ranking Member Waters:

We are pleased that the Capital Markets and Government Sponsored Enterprises Subcommittee is holding this hearing to look at the mutual funds market. We are particularly interested in money market mutual funds (MMMFs), due to our role as investors in these products, as well as issuers of municipal securities which are purchased by these funds. The state and local government groups listed above support initiatives that both strengthen money market funds and that ensure investors are investing in high-quality securities. However, we would like to voice our concerns about suggested changes to the structure of these funds, especially any changes from a stable to a floating net asset value (NAV).

Changing MMMFs from a fixed NAV to a floating NAV would dampen investor demand for the securities we offer and deprive state and local governments of much-needed capital. The fixed NAV is the fundamental feature of money market funds. Consider that MMMFs are the largest investor in short-term municipal bonds, holding 56% of all outstanding short-term bonds equaling nearly \$352 billion.¹ Creating a marketplace where the NAV changes from fixed to floating would make MMMFs far less attractive to investors, thereby limiting the ability of money market funds to purchase municipal securities. Losing this vital investing power could lead to higher debt issuance costs for many state and local governments across the country.

Additionally, as investors, many state and local governments look to MMMFs as part of their cash management practice. In the Government Finance Officer Association Best Practice, “Use of Various Types of Mutual Funds by Public Cash Managers,” governments are encouraged to look to money market funds for short-term investments, with appropriate cautions. One of the critical reasons for this recommendation is the fixed NAV found in these products. In fact, many governments have specific policies that mandate stable values, and money market funds are to be used for their short-term investments due to the fixed NAV. Furthermore, MMMFs are a popular cash management tool because they are highly regulated, have minimal risk, and are easily booked.

If the Securities and Exchange Commission were to adopt a floating NAV, the organizations listed above expect that many, if not all, of their members would divest a significant percentage of their investments in MMMFs and would have to look at competing products that, in turn, could be more susceptible to market conditions, more difficult to account for and manage, more likely to pose greater market risks, and more expensive, increasing the costs and fees associated with investing.

To avoid these negative consequences, we believe that any money market fund reforms must refrain from eliminating this fundamental feature.

Thank you for considering our concerns and for holding this hearing on mutual funds.

Sincerely,

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ⁱ Investment Company Institute, letter to SEC, January 10, 2011, page 16.