February 15, 2013

The Hon. Neal S. Wolin, Acting Chairman
Financial Stability Oversight Council
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Acting Chairman Wolin:

The Committee on Capital Markets Regulation (the "**Committee**")[1] appreciates the opportunity to comment on the Financial Stability Oversight Council's ("**FSOC**") recent Section 120 recommendation to the Securities and Exchange Commission ("**SEC**") regarding money market mutual fund ("**MMMF**") reform.[2] The Committee's comments will focus on the FSOC's recommendation that the SEC require MMMFs to adopt a floating net asset value ("**NAV**").

Since 2005, the Committee has been dedicated to improving the regulation of U.S. capital markets. Our research has provided an independent and empirical foundation for public policy. In May 2009, the Committee released a comprehensive report entitled *The Global Financial Crisis: A Plan for Regulatory Reform*, containing fifty-seven concrete recommendations for making the U.S. financial regulatory structure more integrated, effective, and protective of investors in the wake of the 2008 financial crisis.[3] Since then, the Committee has continued to make recommendations for regulatory reform of major areas of the U.S. financial system.

The sole point of this letter is to say that the Committee does not believe the FSOC proposal for a floating NAV, would reduce the systemic risk of contagion, a run by uninsured short-term creditors that spreads across financial intermediaries that rely on such funding. Even if MMMF investors knew the true value of an MMMF's assets during a crisis, they would still fear further declines and would run in order to avoid further losses. Thus, even if MMMFs were to have floating NAVs, there would still be a "first mover advantage" during a crisis.[4] Professor Jeffrey Gordon's study of European MMMFs, which are available with both fixed and floating NAVs, provides empirical

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1 One of the members of the Committee does not agree with the position taken in this letter.

2 Financial Stability Oversight Council, Proposed Recommendation Regarding Money Market Mutual Fund Reform (November 2012).

3 Comm. on Capital Mkts. Reg., The Global Financial Crisis: A Plan For Regulatory Reform (May 2009), http://www.capmktsreg.org/research.html.

4 Squam Lake Working Group comment letter to FSOC RE: FSOC Proposed Recommendations Regarding MMF Reform, January 17, 2013.

support for the Committee's position. Gordon found that, during the crisis, investors in floating NAV MMMFs were just as likely to run as investors in stable NAV MMMFs.[5]

It is indeed possible that the FSOC floating NAV recommendation would *increase* the likelihood that MMMF investors would run during a crisis. According to Professors Samuel Hanson, David Scharfstein, and Adi Sunderam, a floating NAV requiring MMMFs to mark their assets to market would exacerbate the possibility of fire-sale market spirals, further amplifying contagion.[6]

The Committee is currently studying possible approaches to reducing the risk of contagion and will at a later date offer its concrete recommendations in this regard. The Committee does not believe, however, that the FSOC's floating NAV recommendation would reduce the risk of a run by MMMF investors. Indeed, in certain respects, a switch to floating NAV may make runs more likely. In short, a floating NAV is a false palliative for contagion.

Thank you for considering our position. Please do not hesitate to contact us at (617) 495-5221 if we may be of any further assistance.

Respectfully submitted,

Robert Glenn Hubbard

R. Glenn Hubbard
CO-CHAIR

John L. Thornton
CO-CHAIR

Hal S. Scott
DIRECTOR

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[5] Gordon, Jeffrey, Gandia, Christopher, "Money Market Fund Run Risk, Will Floating Net Asset Value Fix the Problem?" Columbia Law and Economics Working Paper No. 426, September 23, 2012.

[6] Hanson, Samuel, Scharfstein, David, Sunderam, Adi, "An Evaluation of Money Market Fund Reform Proposals," December 20, 2012, at 22.