Congress of the United States
Washington, DC 20515

October 28, 2013

The Honorable Mary Jo White
Chairman
Securities and Exchange Commission
100 F Street NE Washington, DC 20549-1090

Dear Chairman White:

We are writing to express our concern about the Securities and Exchange Commission's (SEC's) proposed changes to the regulation of money market mutual funds (MMFs) and the negative impact these changes may have on state and local governments. As former state and local government officials, we are well aware of the important role MMFs play in funding critical infrastructure and community projects throughout the country. Last year, many of us wrote to SEC Chairman Mary Schapiro asking the SEC to consider the impact of further MMF regulation on municipal financing. We were disappointed to see that the SEC's proposal would make harmful structural changes to municipal MMFs, and we urge you to consider exempting municipal funds from new regulations that would adversely affect state and local governments and taxpayers alike.

Municipal MMFs play a critical role in providing state and local governments with affordable short-term funding to finance important local projects, such as highways, hospitals, colleges and water treatment facilities. In fact, municipal MMFs provide more than two-thirds of the short-term funding for such projects, making them the largest purchaser of short-term municipal debt. The SEC's proposed regulations will shrink this source of funding, leading to significantly higher borrowing costs and complications for states and municipalities.

The SEC already implemented extensive reforms in 2010, which substantially improved the resiliency, safety and transparency of all MMFs. Yet on June 5, the SEC proposed additional regulations that would fundamentally alter the structure of certain funds by requiring them to abandon their stable $1 net asset value (NAV) and move to a floating NAV. Alternatively, the proposal would impose redemption restrictions on investors in a MMF under specified events indicating the fund is under stress. All Treasury and U.S. government funds would be exempt from the proposed changes. In addition, "retail" funds would be exempt from the floating NAV requirement, but the proposed definition of retail would not include municipal funds. The exclusion of retail and U.S. government funds from the floating NAV proposal seeks to exempt funds that were not involved in the 2008 crisis. Municipal MMFs were similarly not involved in the crisis and should be exempted as well.

Surveys have shown that the SEC's proposed changes would reduce demand for municipal MMFs by reducing the two characteristics that investors in these funds value most --

stability and liquidity. A reduction in demand for municipal MMFs would translate into less demand for municipal debt, thereby increasing borrowing costs for states and municipalities.

The proposed changes would further harm state and local governments by eliminating an efficient, liquid and highly-regulated investment option for managing short-term investment needs. Many states and municipalities have laws or investment policies that require them to invest in stable value products. As a result, they may no longer be able to use MMFs as a cash management tool if a floating NAV is required.

We believe that municipal MMFs are similar to Treasury and government funds and should likewise be exempt from further regulations. Importantly, municipal MMFs are not vulnerable to heavy investor redemptions during times of financial stress. In fact, municipal MMFs remained remarkably stable during the financial crisis of 2008 with only modest outflows. Moreover – with only $270 billion of assets – municipal MMFs are a small fraction of the MMF industry and in no way pose a systemic risk to the financial system. Municipal MMFs are extremely liquid investments, typically holding more than twice the SEC-required level of weekly liquid assets. Finally, the holdings of municipal MMFs have very high credit quality requirements as a result of existing regulations that restrict the type of debt they can hold.

The SEC proposal would make it much more difficult and expensive for states, towns and cities to raise capital, manage existing and future debts, and invest short-term reserves effectively and efficiently. Given the enormous economic benefits of municipal MMFs, we believe the cost of new regulations on municipal MMFs would far outweigh any perceived benefit. We see no evidence to suggest that additional regulation is necessary. Municipal MMFs have demonstrated significant stability in times of market volatility and stress and pose no systemic risk. Municipal MMFs closely resemble other government MMFs and should likewise be exempt from further regulations that would fundamentally alter their proven structure and diminish their effectiveness.

Thank you for your consideration of this important matter.

Sincerely,

Tom Reed
Member of Congress

Richard E. Neal
Member of Congress

Susan W. Brooks
Member of Congress

John Barrow
Member of Congress

Adam Kinzinger
Member of Congress

Kenny Marchant
Member of Congress

Howard P. "Buck" McKeon
Member of Congress

Bill Posey
Member of Congress

James B. Renacci
Member of Congress

Phil Roe
Member of Congress

Todd Rokita
Member of Congress

Aaron Schock
Member of Congress

David Schweikert
Member of Congress

John B. Larson
Member of Congress

Carolyn B. Maloney
Member of Congress

Michelle Lujan Grisham
Member of Congress

James P. Moran
Member of Congress

Bill Pascrell, Jr.
Member of Congress

Gary C. Peters
Member of Congress

Scott H. Peters
Member of Congress

Juan Vargas
Member of Congress