Money Market Reform Video
Retail/Institutional Combo

Hello, I'm Nancy Prior, president of Money Markets at Fidelity.

I oversee a team of some of the industry's most experienced portfolio managers, traders, and research analysts, who manage more than $430 billion dollars on behalf of shareholders in Fidelity's money market mutual funds, as of August 31st, 2013.

Today, I'd like to share with you Fidelity's perspective on the Securities and Exchange Commission's proposal to make changes to the regulations that govern Money Market Funds.

It's important to remember that this is just a proposal.

We are only part way through a long regulatory process.

Today, there is absolutely no change to money market mutual funds, nor will there be any change for many months -- if not years.

Since the SEC proposal is nearly 700 pages long, I will not try to discuss all of its provisions. Instead, I will focus my remarks today on the two reform proposals that, if adopted, either alone or in combination, would most significantly affect money market funds.

Under the first proposal, institutional "prime" money market mutual funds which are also sometimes called General Purpose funds -- those that invest in the broadest range of securities, including corporate debt -- and institutional municipal money market mutual funds would be required to transact at a floating share price, or net asset value, instead of at the one dollar share price that applies to such funds today.

The SEC's proposal would force daily share prices of these money market mutual funds to fluctuate or "float", exaggerating the very slight changes in the market-based value of their portfolio securities.

This floating share price would not apply to Treasury and government money market mutual funds, nor would it apply to retail prime and municipal money market mutual funds.

These funds would be allowed to maintain a stable one dollar share price.

Importantly, the SEC proposal defines a retail money market mutual fund as one that limits each shareholder's redemptions to no more than $1 million dollars per business day.

So, to recap, under the SECs first proposal, institutional prime and municipal money market funds would be subject to the floating share price; retail funds and all Treasury and government money market funds would not.

Under the SEC's second proposal, all money market mutual funds would continue to transact at a stable one dollar share price, as they do today, but funds would impose liquidity fees and redemption gates in times of stress.

If, during a period of extreme market stress, a money market mutual fund's level of “weekly liquid assets” were to fall below 15 percent of its total assets - that's half the amount required to be held under SEC rules - the fund would impose a **2 percent liquidity fee** on all redemptions, unless the Board determined to impose a lower or no fee.

In addition, the fund's board of directors also would be able to temporarily suspend redemptions, imposing a so-called redemption “gate”.

Money market mutual funds would be required to disclose promptly and publicly that the weekly liquidity threshold dropped below 15%, and any imposition or removal of any liquidity fee or gate.

Treasury and government money market mutual funds would be exempt from the fees and gates requirement.

The SEC has also indicated that the two proposals could be combined.

Fidelity thoroughly and thoughtfully reviewed the proposal and in mid-September 2013, we submitted a comment letter to the SEC with our perspective and response.

We support the SEC's efforts in drafting a thoughtful proposal, which recognizes that not all types of money market funds are the same.

We appreciate the SEC's attempt to craft narrowly tailored reforms targeted at the limited set of money market funds shown to be susceptible to large, sudden outflows.

Appropriately, the SEC has excluded both Treasury and government money market funds from the proposed fundamental structural changes, recognizing that there is no evidence to support such reform.

However, the SEC missed the mark with respect to municipal money market funds which are also known as tax-exempt money market funds.

We firmly believe that municipal money market funds should be excluded from both the floating NAV and the fees and gates proposals.

Municipal money market funds are not susceptible to destabilizing runs, do not pose systemic risk, and have a resilient portfolio construction.

In addition, these funds serve as a critical source of funding to state and local governments, as well as non-profit organizations.

We support the SEC's attempt to preserve the stable NAV for retail money market fund shareholders, who, historically, have behaved differently in a crisis than institutional investors, being much less likely to make large redemptions quickly in response to the first sign of market stress.

However, the SEC's proposed retail definition, which would limit a shareholder's daily redemptions to
$1 million, does not achieve the Commission's policy goal.

We believe strongly that the SEC's proposed definition of a retail money market fund does not work.

It will create new operational expenses and complexities for funds and their shareholders and will unnecessarily limit shareholders' access to their funds.

We propose a definition that accurately identifies individuals, which is based on Social Security number account registration.

Specifically, we propose that a money market fund would qualify as a retail fund only if all registered owners or beneficial owners of the fund provide Social Security numbers.

Since only individuals have Social Security numbers, this would ensure that the fund was held by individuals.

This definition is simple, easy to understand, easy to implement and treats all shareholders and transactions in a single fund identically.

Fidelity believes that the floating share price proposal is not an effective means to achieve the SEC's stated goal of stemming rapid and significant redemptions from money market funds.

This proposal would eliminate a fundamental feature of these funds that investors have come to rely upon - the stable share price.

In addition, this proposal involves significant costs and burdens, including new, complex tax and accounting implications for shareholders.

It's worth noting that while our money market funds today continue to transact at One dollar, since January 2013, we have also disclosed on our websites the funds' daily market value share prices, calculated out to the nearest one-hundredth of a penny!

Fidelity believes that the SEC's liquidity fees and redemption gates proposal is a more effective means to achieve the Commission's goals than the floating share price proposal.

We recommend that the SEC adopt a fees and gates approach only for institutional prime money market funds, and we urge the SEC to reduce the proposed redemption fee rate from 2% to 1%.

Fidelity does not support a combination of, or choice between, the liquidity fees and redemption gates proposal and the floating NAV proposal.

A combined structure would impose excessive costs and burdens on the money market fund industry, shareholders, and the financial markets generally, and result in an extremely complex and confusing product.

Fidelity also recommends that the SEC extend the compliance period for any structural reforms to three years following the effective date of a final rule.

This will allow money market funds and intermediaries sufficient time to implement any structural reform.

Fidelity also offers recommendations in its letter regarding the SEC's other proposed changes to funds' portfolio diversification, stress testing, and disclosure.

I won't take time to explain these additional proposals and Fidelity's response to them today, but if you would like further details, our full comment letter is available on the SEC website at www.sec.gov.

I'd like to close by reminding you that Fidelity's money market mutual funds only invest in securities that represent minimal credit risk, and investors in our money market funds have full access to their investments anytime they wish.

Most important, we remain vigilant in keeping our money market mutual funds safe, and in protecting the one dollar net asset value of the funds, which has always been our #1 objective in managing money market mutual funds.

Fidelity ultimately shares the same goal as regulators and policymakers: to ensure the strength and stability of money market mutual funds and our financial system, while preserving the benefits that these funds provide investors, issuers and our economy.

We will continue to advocate on behalf of all of our money market mutual fund shareholders and work with the SEC as these important regulatory discussions continue.

Once again, I want to emphasize that investors in money market mutual funds can be assured that we will continue to manage these funds as we always have - with the goal of providing security and safety for all of our money market fund shareholders' investments.

We take that commitment very seriously.

Thank you for the trust you've placed in us.

And thank you for your time today.

END

(First disclosure read aloud and also included on disclosure slide)

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Past performance is no guarantee of future results.

Current and future portfolio holdings are subject to risk.

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Views expressed are as of September 2013, and may change based on market and other conditions.

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