



September 16, 2013

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

File Reference No. S7-03-13, SEC’s proposed rule *Money Market Fund Reform; Amendments to Form PF*

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants appreciates the opportunity to comment on the Securities and Exchange Commission (Commission or SEC)’s proposed rule *Money Market Fund Reform; Amendments to Form PF* (the proposing release).

We appreciate the Commission’s time and efforts on the proposed Money Market Fund (MMF) Reform rule. We have limited our observations and recommendations below to certain financial reporting matters affecting money market funds.

Classification of MMF shares with floating NAV as “cash equivalents”:

On page 121 of the proposing release, the Commission provides its view that a floating net asset value per share (NAV) money market fund would continue to qualify, under normal market conditions, as a cash equivalent under accounting principles generally accepted in the United States of America (U.S. GAAP) and provides its reasoning. On page 246, the Commission provides its view that a fund that combines liquidity fees and gates with a floating NAV would similarly not be precluded from classification as a cash

equivalent under U.S. GAAP. We agree with the Commission that U.S. GAAP would not preclude a money market fund with a floating NAV or the ability to impose liquidity fees and gates from being classified as a cash equivalent. Naturally, the classification of any financial instrument as a cash equivalent requires the judgment of the preparer of the financial statements based on a variety of facts and circumstances present as of the date of the financial statements, and such preparer would be obligated to consider such when an entity holds an interest in a money market fund with the characteristics described on pages 121 and 246.

We respectfully note that ultimate conclusions reached by the Commission about the classification of a money market fund for financial reporting would affect all "institutional" investors, impacting not only SEC registrants, but non-public entities as well, including certain entities that follow standards established by an accounting standards board other than the FASB¹. For purposes of clarity and broad understandability, we recommend that the SEC request the FASB codify the SEC's views on the classification of a money market fund as a cash equivalent, (as articulated in the SEC's final release) and consider other accounting standard setters that should document the relevant views in that accounting framework.

Financial statements of advisers as sponsors/guarantors

At various points in the proposing release², the Commission refers to guarantees provided by advisers or other affiliated sponsors of a fund, and later asks whether the financial statements of a sponsor which has not explicitly provided a guarantee to a money market fund should nonetheless be required to be included as part of a money market fund's Form N-1A filing so that an investor can assess the adviser's ability to provide a guarantee in the event the fund undergoes financial stress.

¹ For example, the Governmental Accounting Standards Board (GASB) has already indicated publicly its interest on the effect of this project on other related GASB standards.

² Pages 138, 320.

The Commission has current requirements for inclusion of financial statements of guarantors in Rule 3-10 of Regulation S-X and also for the inclusion of financial information related to a third party providing a credit enhancement within its Financial Reporting Manual (Section 2710). If the Commission determines to require a sponsor to include its financial statements within a Form N-1A filing, it should consider incorporating elements of Rule 3-10 and/or Section 2710 into the instructions of Form N-1A so that one uniform standard for inclusion of such financial statements exists.

As a conceptual matter, the Commission on page 138 proposes that an explicit statement appear in the prospectus (unless an actual guarantee has been provided) that the sponsor has *no* legal obligation to support the fund and that the investor should *not* expect the sponsor to provide support. Inclusion of the sponsor financial statements without an actual guarantee, however, implies that an investor *should* place weight on the *potential* that a sponsor would provide support, diluting if not nullifying the impact of this message. We also believe that, if this were adopted for all money market fund sponsors, significant implementation issues would arise, including the following:

- Some fund advisers are private companies and do not prepare financial statements consistent with Regulation S-X. Rule 3-10 requires that a preparer must apply Regulation S-X to the guarantor's financial statements. We expect that this may cause additional expense to fund sponsors for both financial statement preparation and related audits. Further, if the fund's year-end and prospectus filing date differs significantly from the sponsor's, questions may arise as to whether additional unaudited interim sponsor financial statements would be required.
- Even for advisers/sponsors whose ultimate parents are public companies, questions would arise as to precisely which financial statements would be required to be included; the sponsor's, the ultimate parent's, or both. This conclusion would revolve around individual facts and circumstances, but they would be difficult, if not impossible, to resolve, since no documented guarantee would exist to provide guidance. To take one example, a sponsor of a money market fund may be a lightly-capitalized subsidiary of a much more substantial

financial institution. In such a situation, multiple assumptions might be required - i.e., not only that the sponsor would stand behind the fund, but that the parent would stand behind the sponsor. We are not sure that even additional rule-making beyond existing Rule 3-10 could cover all the potential situations that might arise.

- We also believe that additional complexities would arise in the process of obtaining auditor consents to the inclusion of sponsor financial statements. In some instances, the auditor of the sponsor is not the same as the auditor of the sponsored money market fund, resulting in the additional expense of duplicate auditor reviews of the filing.

Therefore, we believe the Commission should not require disclosure of sponsor financial statements when an explicit guarantee does not exist. If the Commission were to require the guarantor's financial statements to be publicly disclosed when an explicit guarantee exists, we believe such disclosure should be consistent with Regulation S-X Rule 3-10 and/or Section 2710.

Amendments to Form N-1A and SEC Financial Reporting Releases Section 404.05

We believe that the Commission should consider additional amendments to Form N-1A relating to money market funds. Suggestions for such amendments appear below.

Omission of Portfolios in MMF Financial Statements

Item 27(b)(1), Instruction 2 permits money market funds to omit investment portfolios from the financial statements delivered to shareholders under certain conditions. This provision has never been implemented by money market funds because ASC 946-210-50 requires, at a minimum, the presentation of a condensed schedule of investments in all investment company financial statements. FinREC does not expect this principle to change. For this reason, we believe that Form N-1A should be amended to eliminate this provision.

Decimal Place Presentation

Form N-1A

Instruction 1(b) to Item 13(a) *Financial Highlights Information* of Form N-1A requires funds to “List per share amounts at least to the nearest cent. If the offering price is expressed in tenths of a cent or more, then state the amounts in the table in tenths of a cent. Present the information using a consistent number of decimal places.”

Under the proposing release, a money market fund would be required to transact in its shares at the fourth decimal place in the case of a fund with a \$1.00 target share price (*i.e.*, \$1.0000) or an equivalent level of precision if a fund prices its shares at a different target level (*e.g.*, a fund with a \$10 target share price would price its shares at \$10.000). However, the guidance in Form N-1A would require the money market fund to express the amounts in the financial highlights table in tenths of a cent. We recommend the Commission amend the Instructions to Item 13(a) *Financial Highlights Information* of Form N-1A to state if the offering price of a money market fund is expressed in tenths of a cent or more, then state the amounts in the table using a consistent number of decimal places of at least one tenth of a cent.

SEC Financial Reporting Releases 404.05

Under the proposing release, a money market fund would only be able to use amortized cost valuation to the extent other non-money market mutual funds are able to do so—where the fund’s board of directors determines, in good faith, that the fair value of debt securities with remaining maturities of 60 days or less is their amortized cost, unless the particular circumstances warrant otherwise. This guidance referenced in the proposing release³ has been codified into Financial Reporting Releases 404.05, formerly ASR 219 (FRR 404.05). FRR 404.05 states that “...the Commission believes that any money market fund which reflects capital changes in its net asset value per share should calculate, and utilize for purposes of sales and redemptions, a current net asset value per share with an accuracy of one-tenth of one percent (equivalent to the nearest one cent on a net asset value of \$10.00). Any less precise calculation by such a fund might have the effect of masking the impact of changing

³ See Note 10 on page 8.

values of portfolio securities and therefore might not "reflect" the fund's calculations pertaining to its portfolio valuation as required by Rule 2a-4.” If the Commission adopts the floating NAV proposal, we recommend the Commission amend the guidance in FRR 404.05 for money market funds that would be required to round prices and to transact in its shares with an accuracy greater than one-tenth of one percent, such as the fourth decimal place (\$1.0000) in the case of a fund with a \$1.00 target share price.

Other financial reporting matters

We believe that the Commission should consider providing, either in the final release or through supplemental guidance, commentary regarding various financial reporting matters that may arise in the preparation of the financial statements and the notes thereto as a result of adopting such proposals. Such items include, but are not limited to, the following:

- Disclosure of change in valuation methodology in the year of adoption and the presentation and disclosure of its effect on the financial statements
- Presentation and disclosure issues for financial highlights (both in the annual and semi-annual reports and in Form N-1A) when prior periods are based on amortized cost, using two decimal places, and current periods are based either on floating NAVs to four decimal places (institutional funds) or penny-rounding to two decimal places (retail funds)
- Disclosures when gates have been imposed
- Presentation matters (including the ability, if any, to carry forward prior performance or financial highlights) if funds that have previously offered separate institutional and retail classes spin off one of those classes into a class of a new fund to conform to the provisions of the final release

Other

The proposing release indicates on page 380 that “active exchange-traded equity securities” and “U.S. government and agency securities” are examples of securities that have “quoted prices for identical securities in an active market.” Because these securities

may not necessarily have such quoted prices, we recommend that the Commission consider eliminating the examples.

Representatives of FinREC and the AICPA Money Market Fund Reform Comment Letter Task Force are available to discuss our recommendations and observations at your convenience.

Sincerely,

Richard Paul
Chairman, FinREC

Rajan Chari, Chair
Money Market Fund Reform
Comment Letter Task Force

cc:
Russell G. Golden, FASB Chairman