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July 10, 2009

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C.F.T.C.
OFFICE OF THE SECRETARIAT

COMMENT

Mr. David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Received CFTC
Records Section
7/14/09

Re: Advance Notice of Proposed Rulemaking for Regulations 1.25 and 30.7 (the Eligibility of Money Market Funds)

Dear Mr. Stawick:

We submit these comments on behalf of Federated Investors, Inc. ("Federated") regarding the Commodity Futures Trading Commission's ("CFTC") advance notice of proposed rulemaking and request for public comment concerning the scope and character of permitted investments for customer segregated funds (the "Advance Notice").[1] The CFTC is considering significantly revising the scope and character of permitted investments for customer segregated funds and Regulation 30.7 funds. Specifically, the CFTC has requested comment regarding which instruments should continue to be "permitted investments" for customer segregated funds under Regulation 1.25. Under Regulation 1.25 money market funds are permitted investments for customer money.

Federated is a major sponsor of money market funds regulated under Rule 2a-7 of the Investment Company Act of 1940, and therefore we focus our comments on the important role money market funds have performed as permitted investments under CFTC regulations and their role in protecting customer segregated funds.

Federated Investors, Inc.

Federated is a Pittsburgh-based financial services holding company and the sponsor of money market funds having aggregate assets in excess of $350 billion. Federated's money market funds are designed for use by regulated entities where a statute, rule or instrument limits an investment to high-quality, liquid short-term investments. Federated money market funds meet the requirements of CFTC Regulation 1.25 and are used by Futures Commission Merchants ("FCMs") as investments on behalf of their customers. We estimate that at any given time FCMs invest approximately three

[1] See CFTC, Investment of Customer Funds and Funds Held in an Account for Foreign Futures and Foreign Options Transactions, Advance Notice of Proposed Rulemaking, 74 Fed. Reg. 23962 (May, 22, 2009).

billion dollars into Federated money market funds, which successfully serve the needs of FCMs in meeting their customer segregated fund requirement under CFTC Regulations.

For the reasons set forth below, money market funds as described in Regulation 1.25(c) continue to merit inclusion as permitted investments and should not be, and do not need to be, the subject of any CFTC proposal to amend Regulation 1.25. FCMs have found money market funds to be superior to many of the other alternative permitted investments under Regulation 1.25 in that they involve significantly less concentration, credit and operational risk, i.e., obviating the need to assemble a portfolio of individual securities, while at the same time benefiting from the diversification requirements of SEC Rule 2a-7 discussed below. As short-term investment vehicles, they contribute liquidity and safety to their users. In addition, money market funds are being further strengthened by the SEC with the strong endorsement of the U.S. Treasury.

I. Money market funds merit continued inclusion as "permitted investments" because they are subject to a comprehensive regulatory scheme under the Investment Company Act of 1940, SEC Rule 2a-7 and CFTC Regulation 1.25, which collectively provides liquidity and safety to customer money.

Money market funds holding customer money under Regulation 1.25 are subject to all four of the major federal securities laws administered by the Securities and Exchange Commission, including the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Advisers Act of 1940 and, most importantly, the Investment Company Act of 1940. Beyond the broad general protections of the Investment Company Act, money market funds must meet the exacting requirements of Rule 2a-7. Moreover, the requirements of CFTC Regulation 1.25 provide further protections to customer money committed to money market funds.

This multi-layered, comprehensive regulatory framework has been an overall success in permitting FCMs to use money market funds to meet their regulatory requirements concerning customer money.

A. Overview of regulatory regime money market funds are subject to under the Investment Company Act of 1940.

Investment companies are one of America's primary savings and investment vehicles. The Investment Company Act of 1940, the principal statute that regulates investment companies, specifically addresses virtually every aspect of investment companies' operations. The Investment Company Act places substantive requirements or restrictions on a fund's governance and structure; its issuance of debt and senior securities; its investments, sales and redemptions of its shares; and its dealings with service providers and other affiliates.[2] The following summarizes some of the important

[2] See Paul Roye, Director, Division of Investment Management, Speech by SEC Staff: The Genius of the Investment Company Act – A Framework for Adaptation to Change, June 15, 2005.

attributes of the Investment Company Act's comprehensive regulatory program and puts into context their importance in connection with money market funds.[3]

Oversight, Accountability and Controls – A fund's operations are subject to both internal and external oversight. Internal oversight includes independent boards of directors and written compliance programs overseen by chief compliance officers (CCOs), both at the fund and adviser levels. External oversight includes the SEC, the Financial Industry Regulatory Association (FINRA), and external service providers, such as certified public accounting firms and custodians. At least 40 percent of directors on a fund's board are required under the Investment Company Act to be independent from fund management, and most investment companies (including all of Federated's money market funds) have boards comprised of at least 75% independent directors so as to qualify for safe harbors under the Investment Company Act.[4] Fund directors provide an independent check on the management of funds and in recent years the board's oversight has increased to include the annual review for adequacy and effectiveness of fund and adviser written compliance programs to prevent, detect, and correct violations of the federal securities laws. This internal oversight is supplemented by examinations by and reports to the SEC and self-regulatory organizations. Thus, the functionality and behavior of the money market fund, including its financial condition, is subject to multiple layers of oversight and control.

Prospectus and Other Disclosure – All important aspects of funds are required to be disclosed to investors and the market place. Funds are required to maintain a current prospectus, which discloses material information about the fund and its operations, investment objectives, investment strategies, risks, fees and expenses, and performance. In addition, detailed disclosure is provided through the fund's statement of additional information (SAI). These documents are updated at least once each year. Funds also provide shareholders with unaudited semi-annual and audited annual reports. These reports contain updated financial statements, a list of the fund's portfolio securities, and other current information. These disclosures mean that the investor in a money market fund is in a position to have more information to make investment decisions than is available for other types of investments.

Custody of Fund Assets – Funds are required to maintain strict custody of fund assets with a regulated bank or broker-dealer, separate from the assets of the adviser. The strict rules on the custody of fund assets serve to protect fund investors from the types of fraud-based losses that from time to time occur in less regulated investment products.

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[3] The Report of the Money Market Working Group submitted to the Board of Governors of the Investment Company Institute, March 17, 2009 (the "ICI Report"), discusses six core objectives of the Investment Company Act.

[4] Section 15(f)(1) permits an investment adviser to receive compensation for the sale of its advisory business if its funds maintain a 75% independent board of directors for at least three years after the transactions. Most advisers require their investment companies to continuously maintain a 75% independent board so they always comply with this provision.

Prohibitions on Affiliated Transactions – The Investment Company Act contains a number of prohibitions on transactions between a fund and fund insiders or affiliated organizations. These prohibitions restrain over-reaching and self-dealing by investment company insiders with respect to, among other things, the purchase and sale of portfolio securities and other investments. The underlying portfolio assets of the money market fund may not be abused by the fund or its adviser.

Capital Structure – The Investment Company Act imposes various requirements on a fund's capital structure, including prohibiting the issuance of any "senior securities" and limiting the amount of any borrowings. These capital requirements limit the amount of leverage a fund may employ and simplifies the fund's capital structure. During the 2008 financial crisis and today, over-leveraging has been a serious financial problem. This is not the case with money market funds, nor can it occur with money market funds.

Liquidity of Fund Shares – Fund shares are highly liquid investments as investors may redeem fund shares each business day. Rule 2a-7, further discussed below, permits money market funds to determine their NAV using valuation methods that facilitate the maintenance of a stable value price of $1.00. These valuation methods contain strict risk-limiting provisions designed to minimize the deviation between a money market fund's stated share price and the actual value of its portfolio. A redeeming shareholder must be paid promptly. The Investment Company Act prohibits funds from suspending redemptions of their shares (subject to certain extremely limited exceptions) or delaying payments of redemption proceeds for more than seven days. To facilitate compliance with these prohibitions, money market funds are subject to a 10 percent illiquid investment limit. These requirements seek to ensure the important liquidity features of money market funds.

B. Money market funds are subject to the protections afforded by SEC Rule 2a-7.

As a second layer of protection, the SEC established a specific regulatory program for money market funds under Rule 2a-7 of the Investment Company Act, to further enhance the usefulness and safety of money market funds. Rule 2a-7, adopted in 1983, has been an unqualified success, and has been revised and strengthened periodically in light of money market funds' response to economic conditions.[5]

An initial objective of every money market fund is to attempt to maintain a stable value per share. Rule 2a-7(c)(7)(i) requires "the money market fund's board of directors, as a particular responsibility within the overall duty of care owed to its shareholders, [to] establish written procedures reasonably designed, taking into account current market conditions and the money market fund's investment objectives, to stabilize the money market fund's net asset value per share, ..., at a single value." Rule 2a-7(c)(7)(ii) requires the board of directors to track the deviation between the fund's stable net asset value and

[5] See Release No. IC-13380 (July 11, 1983), 48 Fed. Reg. 32555 (July 18, 1983); Release No. IC-21837 (Mar. 21, 1996), 61 Fed. Reg. 13956 (Mar. 28, 1996).

its actual market net asset value, and to take appropriate action, if any, if the deviation exceeds 0.50%.

In order to achieve this objective, a money market fund's exposure to credit risk (the risk that the fund will not receive timely payment on an investment) and market risk (the risk of significant changes in value due to changes in prevailing interest rates) must be limited. Rule 2a-7 sets forth provisions specifically designed to reduce such risks by limiting the composition of a money market fund's portfolio.

Portfolio Maturity – Rule 2a-7 requires that money market funds hold portfolio securities with relatively short maturities. Rule 2a-7(c)(2) provides that a money market fund must not acquire any instrument with a remaining maturity of greater than 397 calendar days and may not maintain a dollar-weighted average portfolio maturity of more than 90 days. By constraining the average weighted portfolio maturity to 90 days or less, Rule 2a-7 assures that even an instantaneous 2% change in interest rates will not cause the fund's market net asset value to deviate by 0.50%. Moreover, most money market funds operate well within the 90 day limit, providing even greater protection against sudden interest rate changes. Further, the overall 397-day maturity limit and rating requirements prevent funds from taking undue credit risks, forcing money market funds out of companies with deteriorating credit well before insolvency.

Portfolio Quality – Rule 2a-7 requires money market funds to invest in high quality portfolio securities. Money market funds may purchase only securities that are highly rated and that pose "minimal credit risks" to the fund. Rule 2a-7(c)(3) requires that a money market fund have at least 95% of its portfolio investments qualifying for the top rating ("first tier") and the remainder may be in the second highest rating category ("second tier"). In addition, fund boards are required to make an independent assessment of the securities based on factors affecting the credit quality of the issuer. In other words, Rule 2a-7 has always prohibited money market funds from simply relying on ratings to protect against credit risks.

Portfolio Diversification – Rule 2a-7 provides that a money market fund "shall not have invested more than five percent of its total assets in securities issued" by the same entity, except for government securities. Historically, money market funds have only been affected by sudden, unexpected credit developments. The diversification requirements limit the impact of these credit events to, at most, 5% of the portfolio. As with the average weighted maturity limit, most funds operate well within the diversification requirements, rarely investing close to the 5% limit except through fully collateralized repurchase agreements.

These requirements effectively limit credit and market risk and enhance liquidity, providing a strong investor protection foundation for the continued use of money market funds under Regulation 1.25 for customer money. Coupled with the comprehensive protections of the Investment Company Act, Rule 2a-7 has contributed to the success of money market funds. Since the SEC adopted Rule 2a-7 in 1983, money market fund assets have grown from $180 billion to $3.9 trillion as of January 2009. The public's faith in money market funds is also evident. As a result of overall market volatility, retail and institutional investors have kept a greater proportion of their short-term investments in safe and liquid vehicles, including money market funds. Indeed, investors have added over $1.2 trillion to money market funds from the end of June 2007 to January 2009.

We believe that under this comprehensive regulatory regime, money market funds continue to merit inclusion as permitted investments and should not be (and do not need to be) the subject of any CFTC proposal to amend Regulation 1.25.

C. The SEC has just proposed amendments to Rule 2a-7 designed to further enhance the safety and liquidity of money market funds.

On June 30, 2009, the SEC released for comment proposed comprehensive money market reforms to further tighten the risk-limiting conditions of Rule 2a-7 and other potential changes in the regulation of money market funds.[6] The reforms include the following proposed changes to Rule 2a-7:

- Money market funds investments would be limited to the highest short-term rating category or unrated securities of equivalent quality.
- The weighted average maturity of a money market fund's portfolio would be reduced from 90 to 60 days. The portfolios of money market funds would also be subject to a 120 day limit with the weighted average maturity determined without regard to any scheduled interest rate adjustments.
- Money market funds could not acquire any illiquid securities.
- Money market funds would have to maintain 5% to 10% of their portfolio in cash, direct U.S. government obligations and instruments with overnight maturities, and 15% to 30% of their portfolio in instruments with maturities of five business days or less.
- Boards of directors would have to adopt procedures for periodic stress testing of money market funds, the results of which would be reported to the directors.
- Money market funds would have to disclose their investment portfolios on a monthly basis.

These reforms would increase the safety of money market funds by further constraining the maturity and credit quality of their portfolios. They would also safeguard the liquidity of money market funds by requiring investment of a substantial portion of the portfolio in the most liquid or shortest-term securities. In addition, the reforms would increase oversight through stress testing and more frequent disclosures. Given the SEC's reform efforts, it would be reasonable for the CFTC to anticipate that the safety and liquidity of money market funds will increase in the near future, making them even more appropriate investments for customer segregated funds.

[6] Investment Company Act Release No. IC-28807.

D. CFTC Regulation 1.25 places additional requirements on FCM's use of money market funds which are designed to limit risk and protect customer funds.

Beyond the comprehensive regulatory regime of the Investment Company Act and the SEC's enforcement of Rule 2a-7 thereunder, the CFTC's risk-limiting standards provide an additional layer of customer protection.

The CFTC first allowed FCMs to use money market funds for purposes of "permitted investments" for customer segregated funds in 2000.[7] In its release, the CFTC stated that it was allowing FCMs to invest customer funds in money market funds based upon, in part, its conclusion that "an expanded list of permitted investments could enhance the yield available to FCMs, clearing organizations and their customers without compromising the safety of customer funds."[8] At that time, the CFTC also noted that the expansion of Rule 1.25 and the safeguards therein, would become a part of the broad set of protections built into the system intended to guard against financial risk at FCMs.

After several years of favorable experience, the CFTC amended its rule and allowed FCMs to use any money market fund.[9] In consideration of, among other things, (1) the risk-limiting standards imposed by Regulation 1.25(c) (to be discussed below), (2) the existence of extensive investor protections of SEC Rule 2a-7 that imposes strict portfolio quality, diversification, and maturity standards, which greatly limit the possibility of significant deviation between the share price of a fund and its per share net asset value, and (3) the board oversight imposed on money market funds regarding credit quality requirements and investment procedures, the CFTC eliminated the requirement that money market funds be rated by an NRSRO.[10]

As stated in Regulation 1.25(c), for a money market fund to be a "permitted investment," the fund must be an investment company that is registered under the Investment Company Act of 1940 with the Securities and Exchange Commission and that holds itself out to investors as a money market fund, in accordance with Rule 2a-7. In addition, the fund must be sponsored by a federally-regulated financial institution, a bank as defined in section 3(a)(6) of the Securities Exchange Act of 1934, an investment adviser registered under the Investment Advisers Act of 1940, or a domestic branch of a foreign bank insured by the Federal Deposit Insurance Corporation.

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[7] The rule initially limited FCMs to using money market funds that received the highest rating from a nationally recognized statistical rating agency, if rated.

[8] 65 Fed. Reg. 39008, 39014 (June 22, 2000) (rule proposal); 65 Fed. Reg. 77993 (Dec. 13, 2000) (rule adoption).

[9] See 68 Fed. Reg. 38654 (June 30, 2003); 70 Fed. Reg. 28190, 28194-95 (May 17, 2005).

[10] See 70 Fed. Reg. 28190, 28195 (May 17, 2005).

Further, among other things, the net asset value of the fund must be computed by 9 a.m. of the business day following each business day and made available to the FCM or derivatives clearing organization by that time. Importantly, with noted exceptions, the fund must be legally obligated to redeem an interest and to make payment in satisfaction thereof by the business day following a redemption request, and the FCM or derivatives clearing organization must retain documentation demonstrating compliance with this requirement.

E. Additional level of safety and liquidity provided by money market funds over direct investments by FCMs in "permitted investments."

FCMs derive an additional level of safety and liquidity when investing customer funds in a money market fund which has as its portfolio "permitted investments" (e.g., governments, commercial paper, corporate notes, etc.) instead of investing directly in the CFTC "permitted investments." The investment in money market funds conveys to the FCM not only the indirect benefits derived from the fund's portfolio of "permitted investments" but also the additional benefit of diversification and liquidity at a stable price.

The limitations found in Rule 2a-7 and CFTC's Regulation 1.25, coupled with oversight by a board comprised primarily of independent directors, serve to enhance, and in no way impair, the safety of money market funds as compared to direct investments in the underlying portfolio securities. Individual FCMs would find it difficult and expensive to replicate a money market fund's portfolio directly themselves, or to perform the independent credit analysis that Rule 2a-7 requires of money market fund advisers. Money market funds can also trade the securities more efficiently and with better execution, because they deal in these securities on a daily basis. As noted above, the Investment Company Act prohibits money market funds from issuing any securities senior to their common shares, which eliminates the risk of competing claims for the portfolio securities, and the 10% limitation on illiquid securities assures that funds have adequate resources to meet redemptions in normal market conditions. Extreme market conditions, such as aftermath of the Lehman Brothers bankruptcy, affect all market participants, so FCMs are likely to find it more difficult to liquidate direct holdings than a money market fund would be to find it difficult to liquidate portfolio securities.

II. Money market funds merit continued inclusion as "permitted investments" because the financial industry's use of money market funds confirms their safety and usefulness.

A. The asset growth and use of money market funds.

Unsurprisingly, under the broad protections of the Investment Company Act of 1940, institutional investors began to use money market funds during the 1970s. Their confidence in money market funds grew after the SEC adopted Rule 2a-7 in 1983. Since Rule 2a-7 was adopted approximately $325 trillion has successfully moved through money market funds. In the last ten years, money market funds' assets under management have increased significantly. In 1998, $1.4 trillion was invested in money market funds and by the end of 2008, approximately $3.8 trillion was invested in money market funds.[11] Federal and state regulators have also helped expand the use of money market funds. For example money market funds have been approved as investments for national banks by the Office of the Comptroller of the Currency; for state-chartered banks by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation; for federal credit unions by the National Credit Union Administration; and for state and municipal entities.[12] Further, in addition to having been approved by the CFTC as an investment vehicle for customer funds held in custody by FCMs, money market funds have been approved for margin collateral by the Clearing Corporation, the New York Mercantile Exchange, the Chicago Mercantile Exchange, and the Options Clearing Corporation.

Moreover, institutional investors are attracted to money market funds as they are deemed to be cash equivalents for financial reporting purposes and have a simple, clear-cut accounting treatment allowing companies to not have to track realized or unrealized capital gains and losses. Thus, money market funds avoid the detailed recordkeeping required when there are any changes in the balances of these investments.

Due to the regulatory regime and useful benefits of money market funds, institutional investors increasingly have made use of them for cash investment. As of January 2008, an estimated 80 percent of U.S. companies used money market funds to help them manage their cash balances.[13]

B. Money market funds compared to other investment options.

Federated agrees with the CFTC's declaration in its Advance Notice that FCMs have managed well their customer segregated funds. Money market funds are creditworthy instruments and highly regulated with full disclosure and reporting of their operations and risks. As a practical matter, these disclosures and reporting requirements provide FCMs and other users with a clear mechanism to evaluate their appropriate use of money market funds in terms of credit, liquidity and other factors in contrast with the investment products with which money market funds compete.

To further demonstrate the creditworthiness of money market funds, we submit the charts below which compare asset categories held by a money market fund (i.e., the Federated Prime Obligations Fund), which would meet the requirements of Regulation 1.25 with those held by U.S. commercial banks, the unsecured obligations of which

[11] See Statements by Chairman Shapiro and Commissioners Walter and Aguilar, Money Market Fund Reform, Securities and Exchange Commission Open Meeting, June 24, 2009.

[12] See Appendix D of the Report of the ICI Report for a review of state regulation specifying that money market funds and other stable NAV investments are permissible investments.

[13] See Statements by Chairman Shapiro and Commissioner Aguilar, Money Market Fund Reform, Securities and Exchange Commission Open Meeting, June 24, 2009.

would also qualify under Regulation 1.25. As shown, the Federated Prime Obligations Fund has 100% of its assets in low-risk, high-credit quality securities. Conversely, U.S. commercial banks hold only 13% of their assets in Treasury and Agency securities. They hold their remaining assets in other securities, real estate, commercial and consumer loans.

Assets Federated Prime Obligations Fund	
Highly Rated Assets:	
Treasury/Agency/Repo	9%
A-1+ Securities	72%
A-1 Securities	19%
Subtotal Highly Rated Assets:	**100%**
Non-Prime Assets:	**0%**
Total	**100%**

Source: Federated Prime Obligations Fund

Assets U.S. Commercial Banks	
Highly Rated Assets:	
Treasury and Agency securities	13%
Other Securities	11%
Interbank Loans	3%
Cash	3%
Subtotal Highly Rated Assets:	**30%**
Real Estate Loans	33%
Commercial/Industrial Loans	12%
Other Loans and Leases	9%
Consumer Loans	8%
Other Assets	8%
Non-Prime Assets:	**70%**
Total	**100%**

Sources: U.S. Federal Reserve Bulletin;
Treasury Strategies, Inc.

The underlying strong asset base of the Federated Prime Obligations Fund and money market funds in general, as compared with the asset base of U.S. Commercial banks, is a reflection of the comparative financial strength of money market funds.

In addition, as noted above, money market funds contribute operational efficiency and liquidity to institutional investors. Because of their size and structure, money market funds offer economies of scale to FCMs and other investors. Transaction costs are reduced to the benefit of investors. Further, money market funds offer enhanced liquidity to investors without withdrawal penalties or other dealer costs. Investors in money market funds may redeem their shares at $1.00 on any business day. Of importance, their stability of $1.00 minimizes tax, accounting and recordkeeping issues.

III. The Reserve Primary Fund was an isolated incident resulting from a unique set of circumstances and should not guide the CFTC's policies regarding the inclusion of money market funds as "permitted investments" under Regulation 1.25.

On September 16, 2008, the Reserve Primary Fund announced that it would no longer maintain a stable net asset value of $1 per share due to the bankruptcy of Lehman Brothers Holdings, Inc. ("Lehman Brothers"). Lehman Brothers had filed for bankruptcy on the morning of September 15, and the Primary Fund held $785 million of Lehman

Brothers obligations. Although the trustees of the Primary Fund initially valued the Lehman Brothers obligations at 80 cents on the dollar, they reduced the value to zero on the afternoon of September 16. This revaluation, coupled with large redemptions by the Primary Fund's shareholders, and the advisor's failure to provide any support to the fund, caused the net asset value ("NAV") to fall to approximately 97 cents per share and forced the Primary Fund to price its shares below a dollar.

Lehman Brothers' bankruptcy coincided with other market shaking events, such as the federal bailout of insurance giant AIG and the acquisition of Merrill Lynch by Bank of America. The ensuing market tumult included a broad sell off in equities, an increase in bank deposit insurance from $100,000 to $250,000, and a "flight to quality" with wholesale investment in short-term U.S. Treasury obligations. This period also witnessed major redemptions from non-government money market funds. According to the ICI, "Despite these difficulties, all money market funds other than the Primary Fund were able to maintain a stable $1.00 NAV, although a number of sponsors of money market funds did take actions to protect their shareholders."[14]

During this period of financial instability, the money market funds were able to absorb this unprecedented waive of redemptions, but by the end of the week it was clear that liquidity was in short supply and the resulting loss of capital was having severe economic consequences. The Treasury Department offered a limited guarantee of money market fund balances as of September 19, 2008 (the "Treasury Guarantee Program"). Almost all money market funds signed up for the Treasury Guarantee Program, and redemptions quickly returned to normal levels. Money market funds or their advisers paid an estimated $813 million in premiums, with no claims made under the program. By year-end, assets in prime money market funds had returned to the same level as the beginning of the 2008.[15] Notably, assets added to the money market funds after September 19, 2008 were not covered by the Treasury Guarantee Program, so the growth in assets clearly reflected a return of investor confidence in the funds.

We observe that, notwithstanding the unprecedented redemption pressures to which money market funds were subject, only one of the approximately 800 money market funds[16] actually broke a dollar, and only two other funds placed constraints on redemptions. Of these later two, one was merged into another fund on September 24, at which time liquidity was fully restored to the shareholders. The other returned to normal operations after participating in the Treasury Guarantee Program. None of the shareholders in these funds lost any money. For the overwhelming majority of shareholders, money market funds proved a better source of liquidity than direct holdings in commercial paper, short-term corporate or municipal notes, certificates of deposit or other non-government obligations, none of which could have been sold without a substantial loss during the week of September 15, 2008.

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[14] ICI Report at 61 [footnote omitted].

[15] <u>See</u> 2009 Investment Company Fact Book at Table 38.

[16] <u>See</u> 2009 Investment Company Fact Book at Table 5.

As a result of the action taken during this stressful period the losses to investors were confined to one money market fund and as to that fund relatively little loss to the investors occurred. The U.S. government program of the Treasury Department, coupled with assistance from the Federal Reserve, which announced a series of broad initiatives designed to stabilize the market, were highly successful steps in maintaining confidence in money market funds. Since the demise of the Reserve Primary Fund, money market funds' overall value has increased by approximately 20 percent. Accordingly, the Reserve Primary Fund incident may be properly viewed as an isolated event and the result of a unique set of circumstances. We do not think that the extraordinary events of the week of September 15, 2008 should guide the CFTC's policies regarding the inclusion of money market funds as permitted investments under Regulation 1.25.

IV. Conclusion.

As the CFTC noted in its request for public comment concerning "permitted investments," FCMs have managed well their customer segregated funds under Regulation 1.25. Federated Investors, Inc., with an estimated three billion dollars of customer money pursuant to CFTC's Regulation 1.25 program, concurs with this assessment and submits that money market funds have made a substantial contribution to the success of the CFTC program for customer segregated funds under Regulation 1.25.

The foundation of the creditworthiness of money market funds is the exacting requirements of SEC Rule 2a-7, the comprehensive disclosures required to be made of their business, and the extensive oversight of their financial and operational conditions, both internally by their directors and externally by the SEC, self-regulatory organizations, accountants and custodians. The CFTC's Regulation 1.25 also reinforces the SEC's liquidity requirements of money market funds by requiring redemptions by the next business day.

Further, money market fund shares offer other operational advantages to FCMs. As compared with alternative investments, money market funds have significantly less concentration and operational risks. Many FCMs would find it difficult and costly to replicate a money market fund's portfolio directly or to promptly liquidate such instruments if the need arose. Money market funds offer yield advantages as well as the avoidance of transaction costs. We submit that these costs and operational considerations are important in assessing the adequacy of money market funds as "permitted investments" for customer segregation purposes.

Moreover, the CFTC's designation of money market funds as a "permitted investment" under Regulation 1.25 is not unique. Numerous federal and state regulatory programs have approved the use of money market funds as appropriate investments for cash. Indeed, clearing corporations and municipal entities use money market funds to meet their respective customer segregation requirements. This wide acceptance of money market funds for regulatory and financial purposes is attributable to their safety, liquidity and usefulness.

Finally, money market funds have a track record of strength, durability, and resilience to market conditions, with some 800 money market funds having weathered the financial storm of 2008 well. Importantly, only one fund has experienced customer losses, such losses being proportionately small. Further, money market funds provide unique liquidity to investors as contrasted with other short-term investment options.

For all of the reasons noted above, we submit that money market funds continue to merit inclusion as "permitted investments" and do not need to be the subject of any CFTC proposal to amend Regulation 1.25.

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If you have any questions, please call Lee A. Pickard or Peter McLeod at 202-223-4418. On behalf of Federated Investors, Inc., we appreciate your consideration of our comments.

Sincerely,

Lee A. Pickard

Lee A. Pickard

cc: Mr. Eugene F. Maloney, Executive Vice President,
Federated Investors, Inc.