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THE DREYFUS CORPORATION

July 17, 2009

Mr. David Stawick, Secretary
Commodity Futures Trading Commission
Three Lafayette Center
1151 21st Street
Washington, DC 20541

COMMENT

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

RE: Comments Regarding the Commodity Futures Trading Commission's
Advance Notice of Proposed Rulemaking for Regulations 1.25 and 30.7

Mr. Stawick:

This letter is submitted by The Dreyfus Corporation ("Dreyfus"), a registered investment adviser with over \$450 billion in assets under management, including over \$290 billion in money market mutual fund assets under management. Dreyfus is registered with the U.S. Securities and Exchange Commission ("SEC") as an investment adviser under the Investment Advisers Act of 1940. Dreyfus is the adviser to 193 mutual fund portfolios, including 50 money market mutual fund portfolios. Dreyfus is a subsidiary of The Bank of New York Mellon Corporation, a global financial services provider with over \$880 billion in assets under management and just under \$20 trillion under administration and custody.

In connection with the Commodity Futures Trading Commission's (the "Commission") review of permitted investments for customer segregated funds ("Client Assets"), Dreyfus appreciates this opportunity to discuss with the Commission its view that money market mutual funds ("Money Funds") should continue to be listed as permitted investments for derivatives clearing organizations' and futures commission merchants' Client Assets under Regulation 1.25.

The Commission announced in its May 22, 2009 Release (No. 5660-09) that it is considering revising the scope of permitted investments for Client Assets and requested public comment in advance of publishing formal rule proposals. Dreyfus respects the Commission's core principle for safeguarding Client Assets and, to that end, how the rule requires permitted investments to have capital preservation and the maintenance of liquidity as their core characteristics. Dreyfus also respects the Commission's mindfulness of the credit, liquidity, and market risks that Client Assets can be exposed to in any type of investment, including Money Funds. Notwithstanding, Dreyfus believes that Money Funds have met, and will continue to meet, the Commission's core principle for safeguarding Client Assets and that Money Funds should continue to be listed as permitted investments under Regulation 1.25.

The fallout from the credit and liquidity crisis initiated in 2007 with sub-prime mortgages and which peaked during the week of September 15, 2008 with the failure of Lehman Brothers permeated the entire financial services industry. During this period, no entity was spared from the seizure of the credits markets. The crisis spread among commercial and investment banks, and unregistered investment pools, and while one Money Fund did "break the buck" and a few others required capital support after Lehman's failure, during this entire period numerous banks, brokerages, and investment pools failed, the FDIC raised bank deposit account insurance protection amounts, and Treasury yields fell to zero and even into negative territory for a time. The collateral damage was comprehensive but, importantly, not due to any actions taken by Money Funds.


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While Money Funds were not immune to the effects of the crisis, the unique ability of Money Funds (that is, their ability to offer ready liquidity and high current yields at a stable share price) to service the cash management needs of retail and institutional investors, including those who hold and invest Client Assets, should not be summarily dismissed. Money Funds emerged from this crisis to continue to serve the various needs of confident investors, as they have over the past 30-plus years. In fact, witness that the Money Fund industry currently represents approximately \$3.66 trillion in assets (among 750 registered money market funds), which is \$200 billion more than was invested in Money Funds on September 15th.

The concern over Money Funds being able to weather the economic stresses that were experienced in 2008 were genuine, though, and rightfully prompted the SEC on June 24, 2009 to propose a series of money market fund reforms that seek generally to improve the credit and liquidity risk characteristics of Money Funds. The SEC stated that its proposed amendments to Rule 2a-7 under the Investment Company Act of 1940 (the rule that governs Money Funds) are designed to ***“significantly strengthen the regulatory framework for money market funds to increase their resilience to economic stresses and reduce the risks of runs on the funds.”*** The proposals seek to tighten liquidity requirements, shorten portfolio maturity limits, increase credit quality requirements, require stress testing of portfolios, require funds to establish “know your investor” procedures to anticipate redemptions that may pose risks, enhance disclosure of portfolio holdings, establish new and enhanced SEC reporting requirements, increase fund board oversight responsibilities, and address issues that arise when Money Funds experience “market challenges.”

The period for public comment on these proposals closes on September 8, 2009. If adopted, these amendments will greatly improve the credit and liquidity risk profile of Money Funds. While the mutual fund industry can be expected to comment on certain specifics of the SEC’s rule proposals, the industry generally supports the SEC’s goals for improving the credit quality, liquidity, and maturity for holdings of Money Funds to make them more resilient under adverse market conditions, while preserving the framework for Money Funds as a stable price product operated within the confines of Rule 2a-7. Given these rule proposals, Dreyfus believes that, at minimum, the Commission should not consider eliminating Money Funds from the list of permitted investments under Regulation 1.25 until the SEC’s money market fund reform initiatives are implemented and the Commission reviewed the enhanced risk-limiting conditions imposed under an amended Rule 2a-7.

In summary, Dreyfus believes Money Funds should continue to be listed as Regulation 1.25 permitted investments, and should not be eliminated from this list solely because of the stresses of the 2008 liquidity crisis. By 2010, it can be expected that the risk-limiting provisions of Rule 2a-7 will be enhanced and expanded and Money Funds that are structured within the confines of Rule 2a-7 will demonstrate a higher likelihood of weathering such stresses. Money Funds have a proven history of providing ready liquidity, principal stability, and high current yields, and are a leading investment of choice for the cash management needs of retail and institutional investors. We emphasize that the ability of Money Funds to generate high current yields for shareholders should not be discounted when considering the appropriate risk/reward profile for Client Assets.

Dreyfus thanks the Commission in advance for reviewing and considering its comments, and would appreciate the opportunity to discuss these issues further at the Commission’s convenience. For more information, I can be reached at hammalian.j@dreyfus.com and at (212) 922-6794.

Very truly yours,

John B. Hammalian

John B. Hammalian
Managing Counsel