State of Connecticut

DENISE L. NAPPIER
TREASURER

Hartford

September 17, 2013

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

Dear Secretary Murphy,

As Treasurer of the State of Connecticut, I serve as principal fiduciary of the State's $26.5 billion Connecticut Retirement Plans and Trust Funds, and am responsible for the issuance of the State's debt and management of its $19 billion debt portfolio. In addition, I have responsibility for managing approximately $5 billion in short-term investment funds which are used for the operating needs of the state, 65 state agencies and authorities, and 268 municipalities and other local entities. As an elected constitutional officer and Treasurer of the State of Connecticut, I submit this letter to assist you in your consideration of money market fund reforms.

While my specific suggestions and concerns are expressed in the body of this letter, my overall goal is to ensure that money market funds remain a strong and viable option for public and private entities. The ability of governments and corporations to have access to a variety of vehicles such as money market funds in which they may place their operating cash is critical to our country's economy. Moreover, as an investor in corporate securities for the state's pension funds, I am concerned about any measure that would inhibit the ability of corporations to have access to purchasers of corporate debt, thereby potentially undermining their operations and possibly hindering the growth to shareholder value.

By way of background, from 1999 through the present, the Office of the Treasurer's Short-Term Investment Fund ("STIF") has posted above-average returns and earned an additional $184 million in interest for Connecticut governments and agencies and their taxpayers. The investment objectives of STIF are to provide the greatest income while first ensuring the preservation and safety of principal and, secondly, providing immediate liquidity to meet daily cash flow requirements. STIF has produced above-average returns while being managed prudently by investing in conservative, safe and highly rated non-government and government securities while operating within Rule 2a7-like maturity and diversity guidelines. In addition, STIF maintains a reserve of approximately one percent of fund assets to protect against losses. This reserve presently stands at $50 million as of June 30, 2013. The Connecticut Treasury's reserve was instituted over 30 years ago as a precaution against portfolio losses, and has allowed the absorption of security value fluctuations without affecting STIF's $1 per share NAV or the loss of principal to any STIF investor.

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Develop a Modest Reserve Requirement

With respect to the Security and Exchange Commission's (SEC) proposed regulations, I would first encourage the use of reasonable reserves in money market funds. Reserves have the benefit of being accumulated slowly in a way that does not impact investors, and ensures that money market funds can remain an attractive method of investing funds on a short-term, safe basis. Building reserves provides a good measure of security for investors and increases the liquidity of money market funds. This measure would allow for the maintenance of a stable NAV while protecting investors from fluctuations in the value of a fund's portfolio. Moreover, reserves would allow a liquidity cushion to provide immediate support when adverse market conditions arise. I encourage you to allow money market funds to operate as they currently do and gradually build a reserve to preserve the ongoing viability of these funds.

Reject the Floating NAV Concept

The SEC has proposed two alternative methods to provide greater security to institutional money market fund investors. The first is to require a floating net asset value (NAV). I would discourage this approach. Individuals and institutions view money market funds as the equivalent of having access to cash. The money placed in these accounts is expected to be available without limitation and to earn a slight rate of interest. Any material change to that basic assumption may cause a disruption in the market for these liquidity products. Investors could be driven to other options and prime money market funds may disappear, leaving fewer options for corporations and investors. Therefore, I strongly urge you to not go forward with the floating NAV concept.

Reject Liquidity Fees and Gates

The SEC's second alternative would require non-government, prime money market funds to impose a 2% liquidity fee on future redemptions when weekly liquid assets fall below 15%. While I applaud the SEC's goal to protect investors, I respectfully urge the SEC to not move forward with this proposal. Imposing a liquidity fee under any circumstance changes the nature of a money market fund and may disrupt the market for these investment vehicles. Liquidity fees are commonly associated with certificates of deposit, but not checking and savings accounts. To the extent that investors cannot be assured of access to their funds, they may invest in other options which may not have the inherent safety of a money market fund or may be inadvertently subjected to other risks. My concern lies with the safety of investors -- I do not believe that restricting access to funds or imposing additional costs is the best way to ensure this safety.

Greater Transparency

I support the provisions in the proposed regulations that are aimed at providing greater transparency and additional stress testing. The SEC could go further by requiring that money market funds secure a rating by an external entity as an added measure of investment quality and safety.

Explicit Exemption for Government Funds

In addition, I suggest an explicit exemption for government investment pools from any proposed changes. Governments, like other institutional investors, need flexibility to manage their liquidity needs in order to meet critical public safety and welfare concerns. In addition, they are explicitly governed by state statutes.

I recognize that this is a highly important issue for the SEC; however, I cannot support either of the two main alternatives because they could be to the detriment of investors and operators of short-term investment funds. Alternatively, a modest reserve requirement built gradually over time, coupled with a rating by an external entity, would both suit the need to protect money market funds and protect investors.

The SEC could go further by requiring that money market funds secure a rating by an external entity as an added measure of investment quality and safety.

Thank you for the opportunity to offer comments on these important issues. Please feel free to call on me should you have any questions or if you would like to explore any issue further.

Sincerely,

Denise L. Nappier

Denise L. Nappier
State Treasurer