MASSACHUSETTS
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ASSOCIATION

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October 26, 2015

The Honorable Elizabeth Warren
United States Senator
317 Hart Senate Office Building
Washington, DC 20510

RE: S.1802- The Consumer Financial Choice and Capital Markets Protection Act of 2015

Dear Senator Warren:

On behalf of the cities and towns of Massachusetts, the Massachusetts Municipal Association is writing to you regarding S. 1802, The Consumer Financial Choice and Capital Markets Protection Act of 2015. The MMA supports this bipartisan legislation because the measure would protect the reliability and stability of money market funds (MMFs), which are an important investment vehicle for local governments. We respectfully urge the Senate to take swift action to pass this bill.

In July 2015, the Securities and Exchange Commission (SEC) passed regulations to require prime MMFs (including those that invest in municipal bonds or sell to institutional investors) to switch from a fixed net asset value (NAV) of $1.00 to a floating NAV that represents the actual value of the fund's investments. This change was one of many made in response to the market crash of 2008. While other parts of the regulations, including fees and steps to prevent a possible run on MMFs, may be helpful in the long term, the floating NAV change is an unwelcome and negative development for cities and towns.

There are two major reasons why the SEC's new floating NAV requirement would harm municipal governments. First, MMFs are used as a common and important short-term cash management tool for cities and towns. However, the increased volatility caused by a floating NAV system would force communities to discontinue their use of MMFs, undermining their need for security and liquidity as they manage their ongoing cash management needs. Second, MMFs are the largest purchaser of high-quality tax-exempt municipal bonds, and this demand translates into lower interest payments for issuers, including cities and towns. Yet the new floating NAV requirement has led many investment funds to announce their intention to withdraw or limit their activity in the prime MMF marketplace. This will reduce overall demand for municipal bonds, and increase the borrowing costs for cities, towns and local taxpayers. The result would be less money for essential municipal projects, including new schools, environmental infrastructure projects, public utilities, roads and bridges, and other critical public investments.

The MMA, along with municipal membership associations across the nation, weighed in with significant concerns during the SEC's regulation process in September 2013, yet the agency promulgated the floating NAV rule this past summer in spite of grave concerns from a broad range of public sector stakeholders. The new regulations are set to go into effect in October 2016, which is why we are now requesting legislation to reverse the floating NAV rule.

S. 1802 is a bipartisan bill that would preserve the $1.00 per share value that is at the core of why so many local governments utilize MMFs as a safe, reliable and liquid investment vehicle. Further, the preservation of a fixed NAV would ensure that the market for tax-exempt municipal bonds will remain strong. The bill would not affect other important safety measures set forth by the SEC to protect against future market crashes.

Thank you for the opportunity to bring our concerns to your attention, and for your continued work in Washington on behalf of the cities and towns of the Commonwealth. We look forward to working with you on this very important matter, and are happy to provide any additional information that would be of assistance during your deliberations on S. 1802. If you have any questions, please do not hesitate to have your office contact MMA Legislative Director John Robertson or MMA Senior Legislative Analyst Katie McCue at 617-426-7272 or by email at jrobertson@mma.org and kmccue@mma.org at any time.

Again, thank you very much for your leadership.

Sincerely,

Geoffrey C. Beckwith
Executive Director & CEO