

31 December 2009

J. P. Morgan Asset Management response to CESR consultation paper 09-850 “**A common definition of European money market funds**”

J.P. Morgan Asset Management¹ appreciates the opportunity to respond to the Committee of European Securities Regulators' (CESR) recent consultation paper to bring greater clarity the definition of money market funds in Europe. J.P. Morgan Asset Management is the largest institutional money market fund manager in the world with fund assets under management of \$527 billion². Internationally, J.P. Morgan provides investment management services for 7 IMMFA style (stable value) money market funds with assets totalling \$194 billion² including the JPMorgan US Dollar Liquidity fund, the industry's largest money market fund outside of the United States, as well as Europe's largest mutual fund, with assets of \$98.3 billion².

We welcome CESR's efforts to enhance investor protection by establishing a common definition of European money market funds, and strongly support CESR's goals. Whilst we support many of CESR's proposals, we have serious concerns about certain of them. We believe it is critical to strengthen the European money market industry with greater clarity around definitions and at the same time ensure global consistency so that world wide regulators and central banks have a common understanding of what has become a truly global industry. This clarity and common understanding will ensure that money market funds remain a stable and viable part of a healthy global financial system.

General remarks on the two-tiered approach for a European definition

JPMorgan feels strongly that money market funds should pertain to the most conservative definition and as such would not support a two-tiered approach that allows for 'longer term' money market funds. We would argue that the long term nature of such products would be more safely and appropriately classified as short term bond funds or should use some other naming convention that does not include the words money market, liquidity or cash. As such, we will limit our comments to questions 1-12 in the proposal as they relate to 'short term money market funds'.

Money market funds should only encompass funds that have short duration, daily liquidity, stable NAV and invest in high quality money market instruments. We will go into further detail on each of these points throughout the document. In short, as described in the document, longer term money market funds would be permitted to take credit and interest rate risk that could result in investors losing principal in what was believed to be a safe investment. Incidentally, no investors in the IMMFA style money market funds in Europe lost money during the turbulent market events of the past 2+ years (or in the history of IMMFA funds). We feel this prudent and conservative approach is the only appropriate definition for money market funds in Europe and will lead to greater investor protection.

¹ J.P. Morgan Asset Management is a marketing name for the investment management subsidiaries of JPMorgan Chase & Co. and its affiliates worldwide. ² Source- iMoneyNet Onshore/iMoneyNet Offshore. All assets levels are as of November 30, 2009 and are in U.S. Dollars. Historical FX rates applied.

In addition, the conservative approach that we advocate will be inline with the largest stable value money market fund industry that exists in the US under rule 2A7 of the Investment Companies Act of 1940. This industry is approximately \$3.3trillion in size and combined with the IMMFA member funds, provides up to nearly \$4trillion in short term financing globally to governments, banks, insurance companies, broker dealers, and highly rated corporates who issue short term debt in the commercial paper markets.

A more unified approach and a common definition will provide central banks and global regulators with a greater understanding of how markets are operating at times of stress. In addition, a global consistency will be beneficial for the issuance market that has become increasingly fungible as issuers can tap into the US market or the European or Asian markets, depending on investor risk appetite. Increased global consistency will ensure that Europe remains a competitive and viable market for issuers of commercial paper and other money market instruments.

Questions:

1. Do you agree that such clarification is desirable?

We would like to see greater clarification in Europe and would desire a single definition that is closer in nature to the 'short term' money market funds. We do not think that the proposed 'longer term' money market funds should actually be allowed to operate as money market funds and belong in the short term fixed income universe as opposed to the 'cash' asset class.

2. Do you agree with the proposal to have a common definition of European money market funds? If not, please explain why.

We welcome a common definition in Europe as this will reduce both investor confusion as well as bring a more conservative approach to investors who select a money market fund as a safe home for cash investments and who expect preservation of capital.

We strongly agree with the proposal in paragraph 15 that puts forth "only those funds which operate with the sole objective of preservation of capital, combined with daily liquidity, should be capable of calling themselves a money market fund". We support this conservative approach and would support that these funds should be permitted to use amortised cost accounting, provided that checks are in place to ensure that the amortised cost does not materially differ from the MTM price of the portfolio. We would suggest the 50bps variance that is allowed under rule 2A-7 in the US industry.

We also see the obvious benefits for global issuers of commercial paper and other short term money market instruments to have one global standard that embraces the same risk aversion and capital preservation requirement that can be applied to a global industry that is critical to the functioning of global credit markets. Issuers are increasingly more global and having a European industry that has 2 very different risk parameters may create either confusion and cause issuers to issue elsewhere or could inadvertently create arbitrage opportunities for issuers.

3. Do you agree with the proposal to apply the definition to harmonised (UCITS) and non-harmonised European money market funds?

We do not agree with the proposal to apply the definition of money market funds to both UCITS and non-UCITS money market funds. We feel that the definition should apply to UCITS funds only.

JPMorgan Asset Management (UK) Limited
Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ
Tel: +44 (0)20 7742 6059 • Fax: +44 (0)20 7742 3773

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4. Do you agree with the proposed two-tier approach?

We do not agree with a two-tier approach. As previously stated, we would support one European definition of money market funds and this definition should mirror the IMMFA or 2A-7 style stable value funds that exist in the US and Europe.

If Europe does end up with a two-tier approach with the 'short term funds' having less risk and the 'long term funds' having more risk there is a greater risk of contagion should the 'long term funds' experience a loss of principal for their investors. We saw this in the summer of 2007 when some European 'enhanced cash' or 'money market funds' closed their doors to redemptions and loss principal value for their investors. The headline event was that 'money market funds' lost money or halted redemptions and there was no distinction made as to the type of money market fund. We should avoid confusion, ambiguity and the potential for contagion across types of money market funds by limiting the classification to the most conservative style that exists in the European market today i.e. the IMMFA funds that are based on the US style money market funds.

We fully agree that funds that fit the 'long term' or 'regular' criteria by CESR and IMMFA/EFAMA respectively do have an important place in the fixed income asset class and should certainly exist for all investors. However, there are risks with allowing these funds to be called 'money market funds' (or use the words cash or liquidity in their titles).

5. Do you have any alternative suggestions?

Please see the answer to number 4 above.

6. Do you consider that the proposed transitional period for existing money market funds is sufficient to enable funds to comply with the definition?

Twelve months should be sufficient time to address any prospectus, operational or investment changes that would be required for funds to adapt to the new criteria. If the transition time is too long the definition change will lose its impact and investors run the risk of prolonged confusion and a delay to having the appropriate protection, as desired by CESR.

Appendix 1.

Short term money market funds

7. Do you agree with the proposed criteria for the definition of short-term money market funds?

We think that the proposed criteria for short-term money market funds should match the criteria for IMMFA funds or 2A-7 funds in the US. Specifically, these should be stable NAV funds only with a 60 day WAM and a 120 day WAL. Settlement should be same day (T+0) for distributing shares and T+1 for accumulating share classes (two different types of shares that are both available on stable NAV funds). The funds should be permitted to use amortised cost valuation with the appropriate MTM checks (as described earlier in the answer to question 2).

For Option 1A vs 1B, we would support Option 1A. We also support the proposal that the manager must not rely solely on the credit rating of an instrument and should have the appropriate and adequate resources in place to determine the risks associated with investing in securities such as asset backed commercial paper and other more sophisticated instruments.

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8. Do you have alternative suggestions?
9. Do you think that the proposed criteria adequately capture the risks attached to such funds, in particular currency, interest rate, credit and liquidity risk?

In particular:

- Do you consider that Option 3A (120 days) or Option 3B (3 months) is more appropriate for the WAL limit? Should it be lower or higher? We support option 3A with a WAL of 120 days and have done extensive stress testing on our portfolios and guidelines to demonstrate the risk reduction that is achieved at a maximum WAL of 120 days. We would be happy to share this with the Committee if desired.
 - Subject to your views on question 10 below, would you recommend taking structured financial instruments into account in the WAL calculation through their expected average life, or through their legal final maturity? We feel that it's appropriate to take structured financial instruments to their expected average life.
 - Do you consider that the WAM limit of 60 days is appropriate? Should it be lower or higher?
 - 60 days is appropriate. The IMMFA funds have been bound by a 60 day WAM and provide a strong track record of principal stability since these funds have existed.
 - In relations to investments in securities, do you agree with Option 2A (allowing investment of up to 10 per cent of assets in floating rate securities with a legal maturity or residual maturity of between 397 days and 2 years, provided that the time remaining until the next interest rate reset date is less than 397 days) or Option 2B (limiting investment in securities to those with a legal maturity or residual maturity of less than 397 days)? We would support Option 2A although we would add that government issued AAA securities should have a legal maturity or residual maturity of up to 2 years.
10. In relation to the proposed requirements regarding structured financial instruments, do you prefer Option 4A or Option 4B above?

Option 4A should be adopted. It is appropriate for FRN's and ABCP to be included as investments for short term money market funds provided that the manager has the resources needed to analyse the risks and credit worthiness of these instruments. Managers should not rely solely on the rating from an NRSRO, rather, they need to invest in the resources to perform in-house fundamental credit analysis on these complex securities.

11. In relations to currency exposure, do you think that short-term money market funds should limit the extent to which they invest in or are exposed to securities not denominated in their base currency?

We feel that it is inappropriate for money market funds to take any currency risk and as such should only be permitted to invest in securities that are denominated in their base currency.

We do not feel that it is appropriate for money market funds to buy non base currency denominated instruments and use derivatives to hedge out currency exposure. Money market funds should not use derivatives in any form even for managing currency risk. Currency is the most volatile asset class – why take any risk (even if it can be hedged) when you don't have to?

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We also feel that it is not appropriate for money market funds to use derivatives to hedge out interest rate risk or basis risk. Techniques such as these should be eliminated by the WAL restrictions as funds that invest in longer dated instruments or longer dated FRN's should have much higher WAL measurements than funds that do not employ these techniques.

12. In relations to the proposed requirements on ratings of instruments, do you prefer Option 1A or Option 1B above? In this context, do you believe that a money market instrument should be considered of high quality if the issuer of the instrument has been awarded the highest possible credit rating, even if the instrument itself has not been rated? We prefer Option 1A provided that managers have internal teams that can perform the fundamental credit analysis and provide an internal rating.

Again, J.P. Morgan appreciates the opportunity to comment on CESR's consultation and we would be pleased to provide any further information or respond to any questions that the Committee may have.

Very truly yours,

Kathleen Hughes
Managing Director
Head of Global Liquidity, EMEA

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