INVESTMENT COMPANY INSTITUTE

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By Electronic Delivery

September 8, 2016

Michael Novey
Associate Tax Legislative Counsel
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Helen Hubbard
Associate Chief Counsel (Financial Institutions and Products)
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20225

RE: Money Market Fund Reform – Treatment of Liquidity Fees

Dear Mr. Novey and Ms. Hubbard:

The Investment Company Institute[1] thanks the Internal Revenue Service (the "IRS") and the Department of the Treasury for the recently finalized regulations on the method of accounting for gains and losses on shares in money market funds, which respond to a number of the Institute's concerns. We also applaud the government for releasing the final regulations and other money market fund-related guidance in such a timely fashion. As the Preamble notes, however, the final regulations do not address certain tax issues previously raised by the Institute with respect to the tax treatment of liquidity fees. [2]

Specifically, the Institute has requested that the IRS and Treasury Department issue formal guidance setting forth the proper treatment of liquidity fees when received by a fund. We also have asked the government to issue guidance providing that, if a fund receives liquidity fees and subsequently chooses to distribute those fees to shareholders, the fund will be deemed to have sufficient earnings and profits to support the distribution.

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[1] The Investment Company Institute (ICI) is a leading global association of regulated funds, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's U.S. fund members manage total assets of $18.4 trillion and serve more than 90 million U.S. shareholders.

[2] *See* Institute Letter to Lisa Zarlenga and Michael Novey regarding SEC Proposals for Money Market Reform – Liquidity Fee Tax Issues, dated September 12, 2013; *see also* Institute Letter to Hon. Mark Mazur and Hon. William Wilkins regarding Proposed Regulations and Revenue Procedure on Floating NAV Money Market Funds, dated October 23, 2014.

These issues remain of great importance to the money market fund industry. Although we hope that such guidance ultimately will not be needed, it is possible that a fund may need to impose liquidity fees at some point in the future. In that event, it is important that the fund and its board of directors understand the tax implications of imposing such a fee. Similarly, a fund should know in advance the tax consequences of distributing to its shareholders any liquidity fees collected. Waiting until these events occur to issue guidance would create significant uncertainties for both funds and their shareholders.

We thus urge the IRS and the Treasury Department to address these questions. This guidance clearly is not needed before the October 2016 compliance deadline for the Securities and Exchange Commission's new money market fund rules. We hope, however, that the government will issue guidance promptly.

We greatly appreciate your continued consideration of these issues. If you have any additional questions or would like to discuss them further, please do not hesitate to contact me.

Sincerely,

/s/ *Karen Lau Gibian*

Karen Lau Gibian
Associate General Counsel – Tax Law

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Internal Revenue Service

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Internal Revenue Service