Testimony of

Scott C. Goebel

Senior Vice President and General Counsel

Fidelity Management & Research Company

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Chairman Garrett, Ranking Member Waters and Members of the Subcommittee, thank you for the opportunity to testify today on the topic of oversight of the mutual fund industry. My name is Scott Goebel and I am Senior Vice President and General Counsel of Fidelity Management & Research Company. In this role, I am responsible for legal matters pertaining to Fidelity's investment advisory businesses, including the Fidelity mutual funds.

Fidelity Management & Research Company and its affiliated companies are more commonly known as Fidelity Investments. Founded in 1946, Fidelity Investments is one of the world's largest providers of financial services, with assets under administration of $3.7 trillion, including managed assets of more than $1.6 trillion, as of May 31, 2011. The firm is a leading provider of investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and many other financial products and services to more than 20 million individuals and institutions, as well as through 5,000 financial intermediary firms.

Fidelity Investments is a market leader in asset management, offering over 400 mutual funds across a wide range of disciplines, including equity, investment grade bond, high income bond , asset allocation, and money market funds. In addition, Fidelity Investments offers comprehensive investment management solutions for institutional investors, such as defined benefit and defined contribution plans, insurance accounts, endowments and foundations. Fidelity is also a leading provider of asset allocation solutions for retail and institutional clients.

Overview of Existing Regulatory Oversight

Mutual funds are the preferred vehicle for saving and investing for millions of American investors. Each fund is organized under state law as a separate legal entity such as a corporation or a business trust. The fund offers for sale shares that are priced daily based on the market value of the fund's investments. By investing in a fund that pools their assets, individual investors are able, at a low cost and for a small low minimum investment, to obtain a professionally managed, liquid, diversified portfolio of securities, with the added safeguards of a robust regulatory regime and independent oversight.

Each fund is overseen by a board of directors or trustees, the majority of whom are independent from the fund's investment adviser. The fund's board has a fiduciary duty to act in the best interests of the fund's shareholders and is responsible for, among other matters, reviewing and approving the investment advisory agreement that the fund enters into with the fund's investment adviser. This agreement covers many of the critical services needed to operate a mutual fund, including portfolio management, research, trading and compliance services. Most investment advisers provide these services to a complex of mutual funds. For example, each of the over 400 Fidelity mutual funds has entered into a separate agreement with Fidelity for investment advisory services.

While the investment adviser is responsible for day-to-day management of the fund, each fund is legally separate and distinct from the investment adviser. Each fund is also legally separate and distinct from any other funds that may obtain services from the same investment adviser. The assets of each fund (i.e., the securities in which the fund invests) are owned by the fund and, thus, by its shareholders, and not by the fund's adviser. The adviser receives fees for its services, which are governed by the terms of the investment advisory agreement, but otherwise has no interest in the assets of the fund. Like the fund's board, the adviser has a fiduciary duty to act in the best interests of the fund when providing these services.

This structure is derived from the robust body of laws and regulations that cover mutual funds and their investment advisers. The regulatory scheme is principally embodied in two statutes: the Investment Company Act of 1940, which governs the operations of mutual funds, and the Investment Advisers Act of 1940, which regulates the operations of investment advisers. In each case, the Securities and Exchange Commission has supplemented the relevant statutes with a robust set of rules.

Under this regulatory regime, a fund and its investment adviser must abide by a number of requirements that are intended to serve the interests of the fund's shareholders. These include, but are not limited to, comprehensive disclosure obligations, transparency with respect to the fund's investments, limits on the types of investments that may be made, limits on borrowing and leverage, restrictions on entering into certain transactions with affiliates, including a fund's investment adviser, and rules governing the safekeeping of the fund's assets.

Value to Shareholders

The value of this regulatory structure is evident in the popularity, stability and longevity of mutual funds. Since 1940, the mutual fund industry has experienced tremendous growth. As of April 30, 2011, more than 7,500 funds held over $12.4 trillion in assets offered by a number of different financial services companies.[1] The number of available funds highlights the intense competition and low barriers to entry that have been hallmarks of the mutual fund industry, forces that continue to drive mutual fund sponsors to innovate and improve product offerings.

Mutual funds are owned by a wide spectrum of investors, including individuals of all ages, defined contribution and defined benefit retirement plans, corporations and government entities. The substantial benefits offered by mutual funds to each of these investors include:

- A convenient, low-cost tool for investment diversification;
- Access to the services of experienced investment professionals who draw upon significant bodies of research;
- Access to various types of funds designed to fit investors' different investment needs with low investment minimums;
- Comprehensive disclosure of fund investments, policies, risks and strategies; and

[1] *See* Investment Company Institute Trends in Mutual Funds Investing - April 2011, available at http://ici.org/research/stats/trends/trends_04_11.

- The security and comfort of a robust regulatory regime.

The strength of this regulatory regime was evident during the recent financial crisis as mutual funds on the whole weathered the crisis well. Despite suffering through the worst economic crisis since the Great Depression, the mutual fund industry continued to provide investors with a full suite of investment products and services. Investors who sought to liquidate their investments or to shift between different funds generally were able to do so without issue.

It is true that many funds experienced significant declines in value, as did the funds' underlying investments. However, other than in one notable instance involving a money market fund discussed below, this did not endanger the existence of the funds themselves. Mutual fund prospectuses must disclose to investors that their investments involve an element of risk and that it is possible to lose money by investing in a fund. Other than limited one-time support for money market funds, the federal government had no need to draw on taxpayer funds to support the mutual fund industry.

Money Market Mutual Funds

Money market mutual funds are a specialized type of mutual fund that provides investors a convenient means to invest their short-term cash. Money market funds invest in short-term debt obligations such as U.S. Treasury bills and certificates of deposit. Under the SEC's Investment Company Act Rule 2a-7, money market funds may value their shares (i.e., the fund's net asset value per share or "NAV") at amortized cost (typically $1.00 per share) provided a number of conditions are met. These conditions include requirements with respect to the maturity, quality, liquidity and diversity of a fund's assets. The stable $1.00 NAV offers investors investment stability with low risk while also allowing money market funds to provide liquidity and a market rate of return to shareholders. That said, as with all mutual funds, a money market fund's value is not guaranteed by the government and each fund discloses prominently that shareholders may lose value by investing in the fund.

In addition to offering substantial benefits to shareholders, money market funds provide critical low-cost, short-term, stable funding for the federal government, corporations, and financial institutions, as well as state and local governments and non-profits, including universities and hospitals. As shown in Attachment 1, money market funds are significant buyers across a wide spectrum of short-term securities. In particular, more than $320 billion of short-term municipal securities are purchased by money market funds.[2] Money market funds also provide an important source of low-cost funding to businesses, by purchasing short-term debt securities issued by companies.

Unlike other types of mutual funds, money market funds came under pressure during the crisis as short-term credit markets became stressed and the creditworthiness of many trading counterparties was uncertain. In light of this strain, the federal government instituted, through the U.S. Treasury Department, its fee-based Temporary Guarantee Program for Money Market Funds. This program was instituted after concerns with the health of money markets arose in the wake of the collapse of the Reserve Primary Fund, which dipped below the stable $1.00 per share price that money market funds strive to maintain. This was only the second instance in the 40-year history of money market funds in which a fund "broke the buck." Ultimately the shareholders of the Reserve

[2] BOARD OF GOVERNORS OF THE FEDERAL RESERVE, FLOW OF FUNDS ACCOUNTS OF THE UNITED STATES: FLOWS AND OUTSTANDINGS, FIRST QUARTER 2011 79 (2011), *available at* http://www.federalreserve.gov/releases/z1/Current/z1.pdf.

Primary Fund received 99 cents on the dollar. No other money market mutual fund experienced principal losses, and no funds drew upon the Temporary Guarantee Program, which resulted in $1.2 billion in revenue for the federal government. However, the government's intervention in the money markets to bolster confidence may have introduced an element of moral hazard. Fidelity believes that any remaining moral hazard concerns can be adequately addressed by reaffirming to investors that the government will not again support money market mutual funds, perhaps in conjunction with adoption of the NAV buffer concept discussed below.

Money Market Fund Reform

Recent Amendments to Rule 2a-7

In response to the liquidity pressures that money market funds faced during the financial crisis, the SEC amended Rule 2a-7 in 2010. The amendments to this rule, in combination with other significant changes to the regulatory structure of U.S. capital markets, have dramatically increased the ability of money market funds to absorb large, unexpected redemptions. Specifically, the changes to 2a-7 targeted:

- *Liquidity* – New one-day and seven-day liquidity requirements have resulted in money market funds holding $812 billion in liquidity, which dwarfs the $50 billion made available under the Treasury Guarantee Program.
- *Maturity* – Decreasing the Portfolio Weighted Average Maturity (WAM) from 90 days to 60 days, introducing a new weighted average life test of

120 days, and placing limits on the amount and maturity of investments has decreased interest rate and credit risk in money market funds.

- *Risk* – Money market fund boards have significantly more information about potential risk as a result of new stress test requirements.
- *Transparency* – Monthly holdings information is now available on the web. More detailed portfolio and security data is also provided to the SEC and is available publicly on a delayed basis.
- *Ability to Suspend Redemption* – Money market fund boards now have the ability to suspend redemptions in a fund to help ensure an orderly sale of assets once the board has made an irrevocable decision to liquidate the fund.

Oversight of money market fund investments has also improved since the crisis. New Basel III rules increase the capital requirements and liquidity thresholds as well as reduce leverage for banks, which issue instruments that are widely held by money market funds. Significant work is also underway to reduce potential risk in the tri-party repo (or repurchase agreement) market. A Task Force on Tri-Party Repo Infrastructure Reform has produced a number of recommendations meant to increase tri-party repo market transparency and help repo buyers, including money market funds, better prepare for the possibility of a repo counterparty default.

In October 2010, the President's Working Group on Financial Markets published a report regarding Money Market Fund Reform Options ("PWG Report"). We strongly agree with the observation in the report that the changes to Rule 2a-7 have directly addressed liquidity risks associated with maturity transformation and elements of money market fund portfolios' exposures to credit and interest rate risks. Nevertheless, we also recognize that questions about money market funds remain, and that some financial regulators believe that additional reforms to money market funds are needed. It is critical, however, that any next phase of money market fund reform that may emerge not undermine the viability of the product, exacerbating rather than mitigating systemic risk by making banks bigger and driving assets to other products that are less stable and less well regulated than money market funds.

Floating NAV

One option the President's Working Group considered is having money market funds abandon the stable $1.00 share price and instead offer their shares at a floating NAV each day. While some believe that shareholders might be less inclined to redeem shares during market turmoil under a floating NAV model, recent history shows just the opposite. During the financial crisis, ultra-short-term funds with floating share prices experienced significant outflows and lost a significant portion of their assets, just as money market funds did.

If a floating share price were adopted, many investors have told Fidelity that they would shift their money market investments to federally-insured bank products, among others, narrowing the landscape of choices for investors, increasing risks to our economy and taxpayers, and increasing systemic risk by concentrating short-term assets in the banking system. The banking system is significantly larger today than it was prior to the start of the financial crisis in 2007 with more than $8 trillion in deposits as of March 31, 2011,[3] compared to $2.7 trillion in money market fund assets as of June 15, 2011.[4] We believe that pressure on the Federal Deposit Insurance Corporation, which is still dealing with bank collapses stemming from the events of 2008, would increase significantly if a floating share price were adopted. This would raise serious questions about whether there is sufficient capital in the banking system to avoid a government bailout in a market environment similar to 2008. Such an expansion of the federal safety net is unwarranted.

A shift to banks could also significantly change the makeup, cost, transparency, and availability of stable, liquid, reasonably-priced investments relied on by millions of individuals, institutions, and governments for short-term funding and cash. Banks typically prefer to own longer-dated assets and may not want to purchase a significant amount of short-term securities. This change would be exacerbated by new banking regulations that are forcing banks to extend their liabilities into longer term markets. Banks would likely charge more than money market funds do. In addition, unlike banks, money market funds are required to disclose periodically the investments they make, which provides mutual fund shareholders with much greater insight into and control over their mutual fund investments than bank deposits. Shifting assets away from money market funds to banks would reduce transparency for investors. Short-term financing for corporations, financial institutions and governments will therefore be more expensive and less available if money market funds are forced to float the NAV.

Higher borrowing costs would ultimately be passed through to U.S. taxpayers and consumers, leading to negative impacts across the U.S. and global economies.

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[3] *See* Federal Deposit Insurance Corporation Quarterly Banking Profile Balance Sheet, available at http://www2.fdic.gov/qbp/index.asp.
[4] *See* Investment Company Institute Money Market Mutual Fund Assets, dated June 16, 2011, available at http://ici.org/research/stats/mmf/mm_06_16_11.

Companies would be required to pay more, which could lead to other cost cutting and job reductions, hindering economic growth. Likely increases in tax, accounting, and record-keeping requirements due to a floating NAV would also result in higher investor costs. In addition, some municipalities and insurance companies would no longer be able to invest in money market funds because their state laws and regulations limit their ability to invest in funds that do not maintain a stable NAV.

NAV Buffer

Fidelity believes that there is another alternative that would preserve many of the benefits and attractive features of money market funds while also addressing the liquidity and credit concerns that federal financial regulators have raised. Fidelity has worked with others in the industry to develop the concept of a NAV buffer, whereby each money market fund would be required to retain a portion of the fund's income in order to build a buffer within the fund to absorb potential realized or unrealized future losses. When combined with the recent amendments to Rule 2a-7, which better position money market funds to withstand heavy redemptions, this mandatory buffer (which would grow over time) would strengthen the ability of money market funds to maintain the stable $1.00 NAV. The transparency and protection afforded by the NAV buffer also would increase investor confidence and reduce the likelihood of runs – or large unexpected redemptions - by investors on money market funds in the event of market volatility. Furthermore, the

NAV buffer idea addresses all five features of money market mutual funds that the PWG Report argues create an "incentive to redeem shares before other shareholders."[5]

The NAV buffer would apply to all money market funds and would be funded over time by withholding a small portion of the income paid to shareholders. This buffer would be an asset of each money market fund and therefore would belong to the fund's shareholders, not the investment adviser. Each fund would disclose to its shareholders exactly how much income was held back to fund the buffer and what impact the holdback had on the net yield of the fund. The buffer would grow over a period of years to minimize disruption to short-term markets that could result if money market mutual funds were required to fund the buffer all at once. Current and prospective fund shareholders would be able to evaluate the yield impact over time and decide whether to invest in a particular money market fund, or some other investment option.

Money market funds would have the ability to sell securities at a loss in times of market stress in order to meet redemptions. Attachment 2 illustrates how a fully-funded NAV buffer creates significant resiliency for money market funds by showing the large percentage of a fund that is able to be liquidated over a short period of time before even approaching a market NAV of $0.9950, the which point at which a fund is considered to have "broken the buck." Moreover, trades in money market securities transacted at market prices should have the effect of allowing turbulent markets to reset more quickly in times of stress. The NAV buffer would also allow money market funds to withstand price volatility of securities held in the portfolios caused by credit concerns in the market.

[5] Report of President's Working Group on Financial Markets, Money Market Fund Reform Options, October 2010, at 9, available at http://www.treasury.gov/press-center/press-releases/Documents/10.21%20PWG%20Report%20Final.pdf.

Because money market funds would operate at a net asset value higher than today, funds would be able to tolerate greater realized and unrealized losses due to credit issues.

Another key feature of the NAV buffer is that a fund's market value per share would typically increase as shareholders redeem. This would greatly reduce any incentive for shareholders to run on the fund. With a NAV buffer in place, each fund would typically operate at a per share market value of greater than $1.00, but all purchases and redemptions of shares would take place at $1.00. Thus, as shareholders redeem at $1.00, the per-share market value for the remaining shareholders would increase because the buffer amount above $1.00 is shared across a smaller shareholder base. This increase in market value would greatly reduce the incentive to redeem shares of a money market fund, as the likelihood of not receiving $1.00 per share is significantly reduced – and each shareholder that exits the fund actually would improve the position of the shareholders who remain in the fund.

Finally, the NAV buffer has the advantage of simple implementation. The SEC could mandate a NAV buffer with some minor changes to Rule 2a-7. No other legislative or regulatory actions would be required -- though, we remain open to discussion of any implementation challenges or questions that may arise. The buffer would be an asset of the fund, subject to board oversight. The investment adviser would invest the buffer as directed by the board just like every other asset of the fund.

Systemic Designation

Fidelity has also been asked to address the potential designation of one or more mutual fund complexes as systemically important financial institutions ("SIFIs") by the

Financial Stability Oversight Council ("Council"). I would like to start by noting that we interpret the statute to require that any designation decision be entity specific. Fidelity does not believe, therefore, that a mutual fund complex could be designated as a whole, but it would be possible for the Council to designate the entities comprising a complex individually.

As to whether designation of such entities would be appropriate, Fidelity believes that these entities are highly unlikely to present systemic risk and that designation is equally unlikely to be an appropriate tool for mitigating any risk that they may present in light of many factors, including:

- The high substantive threshold and procedural hurdles established by Congress for designating nonbanks,
- The low risk profile of the mutual fund industry and its constituent entities generally,
- The strength, scope and flexibility of the existing regulatory regime, and
- The legal structures and business models employed by mutual funds and their advisers.

Fidelity welcomes the opportunity to address this issue as well as the Council's ongoing efforts to elucidate the process for identifying SIFIs. We believe that these endeavors have the potential to provide clarity to (i) financial institutions that are concerned about the possibility that their designation or the designation of other companies could affect their business plans or business models, (ii) those institutions' customers and investors, and (iii) the market as a whole. In general, greater clarity regarding implementation and attendant effects of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("DFA") should help the economy to the extent that it reduces the uncertainty that has dampened investment and economic activity. With respect to the Council's designation authority, however, the benefits of clarity are far outweighed by the importance of using the authority effectively and efficiently while encouraging diversity in the financial services sector and seeking to minimize the unintended and inappropriate consequences.

To that end, Fidelity believes that designation of an entity as a SIFI can only be effective and cost efficient in mitigating a likely threat to the financial stability of the United States if the Council first specifically identifies that threat, the interconnections, types of activities and business models that could give rise to such threat, and the supervision and prudential standards that can most effectively and efficiently mitigate it. Accordingly, when considering whether to exercise its authority to designate an institution a SIFI, Fidelity believes that the Council should:

- Clearly identify the threat that the institution could pose to the financial stability of the United States;
- Consider all of the tools available to the Council and individual financial regulators that could be used to mitigate the threat;
- Identify other entities and business models that create risks that have historically warranted consolidated prudential supervision (e.g., banks) and consider whether the institution in question presents (or is likely to present) similar risks that would most effectively and efficiently be mitigated by that supervisory model;

- Articulate the supervisory approach, including the specific prudential standards and supervisory tools that would be applied to the company, if designated; and

- Consider the cost of designation.

Such a comprehensive approach to potential systemic risks would both help to ensure that risks are addressed by the most effective and efficient of the existing regulatory mechanisms and those mechanisms newly provided by the DFA and, by doing so, best position the financial system and the United States for future economic growth.

Fidelity has addressed each of these points in greater detail in its comment letter responding to the Council's advanced notice of proposed rulemaking regarding authority to require supervision and regulation of certain nonbank financial companies, dated November 5, 2010.

Other Issues of Concern to Fidelity

This testimony has focused on the strength of the mutual fund industry, the dangers of instituting a floating NAV, the benefits of the Rule 2a-7 reforms already adopted since the crisis, the possibility that our proposed NAV buffer could address any remaining concerns about money market funds, and the limited utility and high costs of the designation authority with respect to the mutual fund industry. However, Fidelity devotes significant attention to many other issues that impact the mutual fund industry. Among those issues are the following: the potential repeal of Investment Company Act Rule 12b-1, the DFA derivatives regulatory regime and its potential impact on the mutual fund industry, the proposed amendments to CFTC rule 4.5, target date fund disclosure, fiduciary duty issues, and credit ratings. We have been monitoring regulatory changes associated with these and other issues and have actively participated in the comment process for many of the related rule proposals.

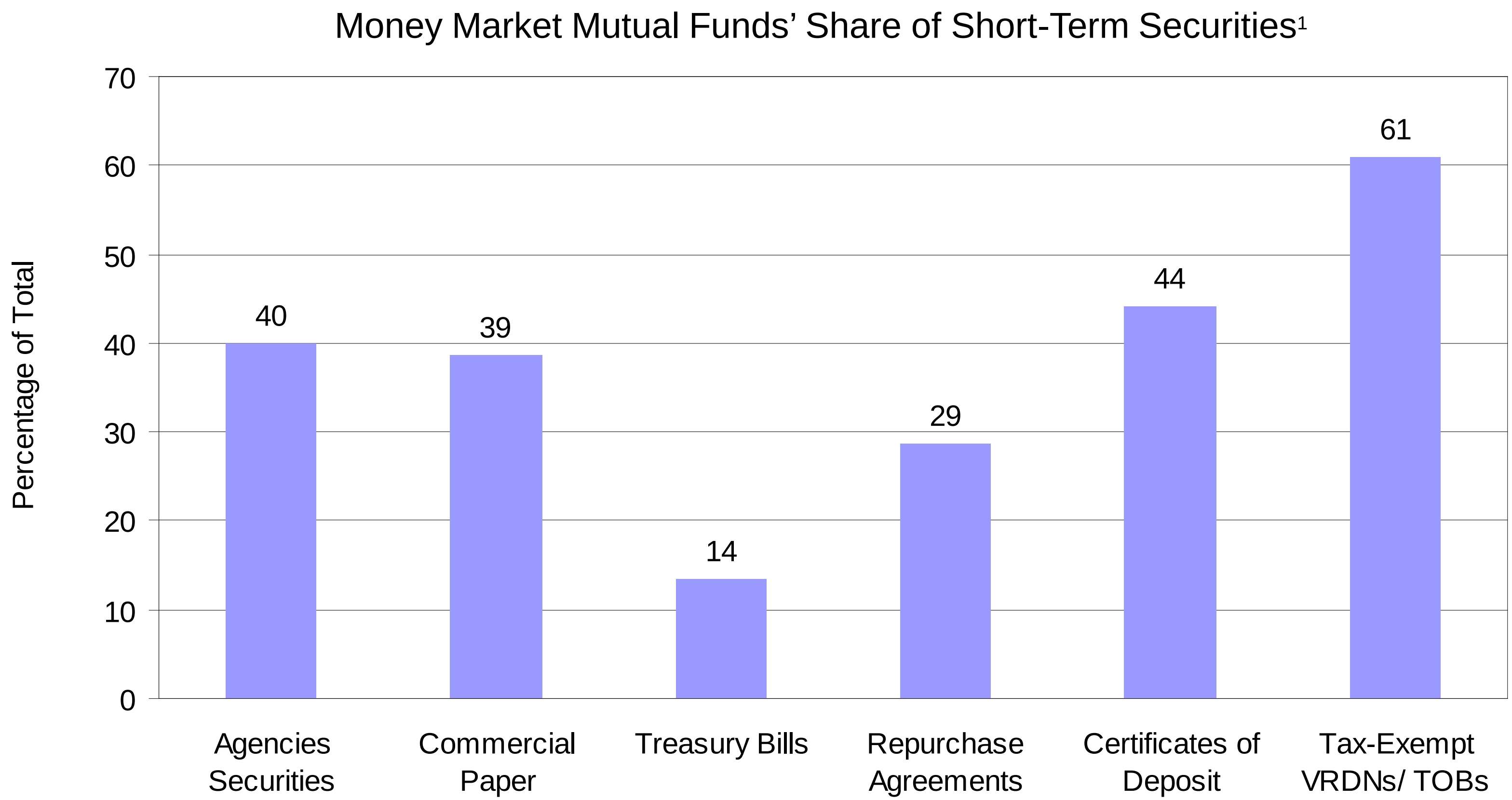
We note that the financial services industry is enduring a historic period of increased regulatory activity and uncertainty. Fidelity, as an entity already subject to robust regulatory oversight, is struggling with the interplay of rule proposals and potential conflicts among multiple regulators. We urge the regulators to be thoughtful in the sequence in which they issue rule proposals and to work with one another to harmonize their rulemakings. This collaborative approach will achieve far more efficient and effective rulemaking, and avoid irreconcilable regulatory conflicts in the final rulemaking efforts.

Conclusion

In closing, I would like to reiterate that the mutual fund industry is fundamentally strong and well regulated, having weathered the financial crisis well; and it provides enormous benefits to investors and the U.S. economy as a whole. A principal reason for the success of this industry has been the strong and effective body of regulation first enacted by Congress and now overseen by the SEC.

Any assessment of or proposed improvements to the mutual fund regulatory regime should begin with an understanding of its strengths. These strengths, many of which I have discussed, have enabled the mutual fund industry to provide valuable services to mutual fund shareholders, to endure and flourish through financial crises, and to serve as stable, reliable participants in the capital markets by helping to encourage capital formation and job creation. In seeking to strengthen further the money market fund industry, therefore, it is imperative that financial regulators appreciate the value that money market funds have brought to investors as well as federal, state and local governments, corporations and banks. Additional reform of the money market fund industry must avoid changes that would undermine and potentially eliminate entirely, a product that has played a part in the success of the U.S. capital markets over the last 40 years. With respect to the rest of the mutual fund industry, a similar analysis is warranted in connection with any discussion of SIFI designation or the application of other new regulatory tools to the industry as a whole or to individual entities or firms within it. Accordingly, we thank you for the Subcommittee's focus on these issues and for the opportunity to testify today.

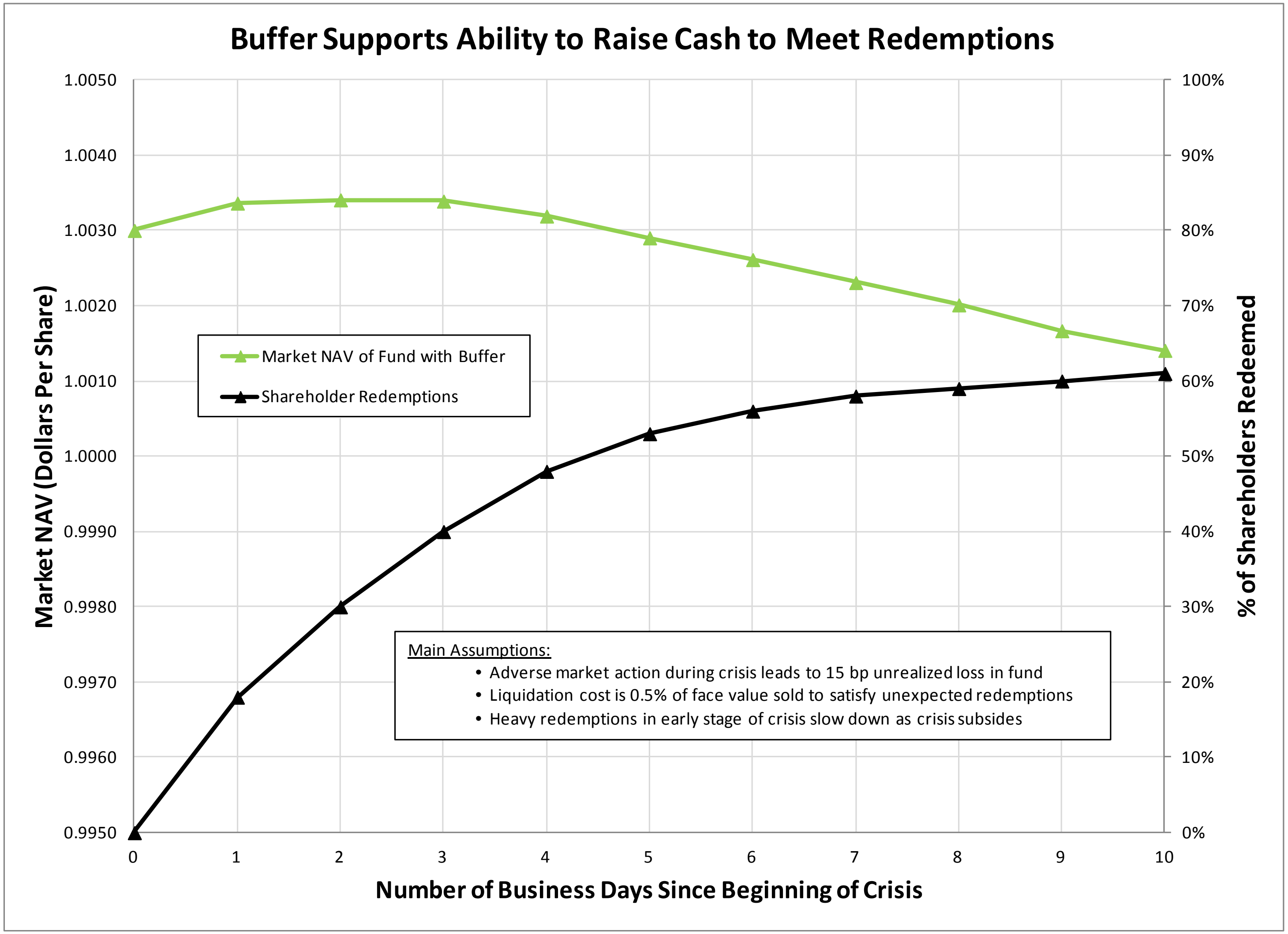
Attachment 1: Money Market Mutual Funds are Significant Buyers of Short-Term Securities



[1]Short-term securities include money market instruments as well as longer-term securities with a remaining maturity of 1-year or less.
As of 12/2010 Sources: Investment Company Institute, Federal Reserve Board, U.S. Treasury Department, Fannie Mae, Freddie Mac, Federal Housing Finance Agency, and Federal Reserve Bank of New York

Fidelity INVESTMENTS

Attachment 2: Buffer Supports Ability to Raise Cash to Meet Redemptions



United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	2. Organization or organizations you are representing:
Scott C. Goebel	Fidelity Management & Research Company

3. Business Address and telephone number:

[redacted]

4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?
☐ Yes ☑ No	☐ Yes ☑ No

6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.

I am not aware that Fidelity Management & Research Company or any other Fidelity Investments company has received a Federal grant or contract since October 1, 2008 related to our mutual fund business. However, for purposes of completeness, I wish to disclose that the Fidelity funds regularly purchase securities from the U.S. Treasury and various Federal agencies, and have from time to time served as investment vehicles for various Federal entities, including the FDIC, Fannie Mae, Freddie Mac and Federal Home Loan Banks. Additionally, Fidelity money market funds participated in the U.S. Treasury's Temporary Guarantee Program for Money Market Funds during the relevant period.

7. Signature:

Scott C Goebel 6/23/2011

Please attach a copy of this form to your written testimony.