charles SCHWAB

JEFFREY T. BROWN Senior Vice President
Office of Legislative and Regulatory Affairs
555 12th Street, NW Suite 740N
Washington, DC 20004
tel: 202.662.4902 fax: 202.638.2720

September 5, 2008

Via Electronic Mail

Ms. Florence E. Harmon
Acting Secretary
U.S. Securities and Exchange Commission
100 F. Street, NE
Washington, DC 20549

Re: **References to Ratings of Nationally Recognized Statistical Rating Organizations, Release No. 34-58070, File No. S7-17-08; Security Ratings, Release No. 33-8940, File No. S7-18-08; References to Ratings of Nationally Recognized Statistical Rating Organizations, Release No. IC-28337, File No. S7-19-08**

Dear Ms. Harmon:

Charles Schwab & Co., Inc., and its affiliates ("Schwab") appreciate the opportunity to comment on the Securities and Exchange Commission's ("Commission" or "SEC") recent proposals related to securities ratings issued by Nationally Recognized Statistical Rating Organizations ("NRSROs"). Through its affiliates, Schwab engages in a range of financial activities, including retail brokerage, mutual funds, services to investment advisers, banking and retirement plan services. At various times, all of these businesses, and the investors they serve, look to NRSRO credit ratings as indicators of issuer credit quality. Because of the important role played by NRSRO ratings in broker-dealer and adviser processes, we oppose the proposed rule changes that remove NRSRO ratings from Commission rules.

In light of recent turmoil in the credit markets, however, Schwab is concerned with the integrity of the credit rating process as well as the role played by NRSROs in formulating credit ratings. Rightly, we believe, the SEC acted to address such concerns by proposing rule changes that attempt to reduce conflicts of interest in the credit rating process, foster increased competition among rating agencies and enhance the transparency of the credit rating process.[1] We are

[1] *See* Proposed Rules for Nationally Recognized Statistical Rating Organizations, Securities Exchange Act Release No. 57967 (June 16, 2008), 73 FR 36212 (June 25, 2008) ("NRSRO Release").

particularly concerned with the issuer/underwriter-pay conflict and believe that resolving this conflict for all rated securities would go a long way towards restoring integrity to the ratings process. Consequently, we urge the Commission to expand its new disclosure regime to all securities, including municipal securities. Moreover, we believe that the Commission should require additional disclosures of the compensation arrangements for ratings of all securities, including who paid for particular ratings.

Whether these proposed rules go far enough, time will tell. We urge the Commission to act swiftly to implement these proposals as we suggest. While we are not certain that an enhanced disclosure regime, even when coupled with restrictions on conflicts of interests, will resolve the problems that plagued credit rating agencies, we have always believed that transparency improves any market place.

We are certain, however, that the Commission's proposed amendments to remove NRSRO ratings from its rules are premature and potentially destabilizing.[2] In proposing to remove NRSRO references from its rules, the SEC asserts that use of the NRSRO designation may have "placed an 'official seal of approval' on the ratings that could adversely affect the quality of due diligence and investment analysis. The Commission believes that today's proposals could reduce undue reliance on credit ratings . . . ."[3] The Commission then adds: ". . . by referencing ratings in the Commission's rules, market participants operating pursuant to these rules may be vulnerable to failures in the ratings process."[4] In other words, a flawed ratings process performed by NRSROs has infected the beneficial use of credit ratings referenced in Commission rules.

We believe that that the answer is obvious: fix the process but maintain the proper use of ratings, subject to appropriate conditions and additional internal determinations of credit quality that, if not in place today, may be added without difficulty. The Commission has proposed rules that may provide such a fix. Increased disclosure of factors supporting ratings will allow market participants to make more informed judgments regarding the quality of ratings. Enhanced competition among rating agencies may foster better business practices and reduced conflicts of interest. However, these changes need time to be sown and then to bear fruit. Further changes, particularly to rules such as Securities Exchange Act rule 15c3-1[5] and Investment Company Act rule 2a-7[6] that have been largely effective for many years, should be held in abeyance until the Commission has a chance to determine the impact of its ratings process proposals.

[2] Securities Exchange Act Release No. 58070 (July 1, 2008), 73 FR 40088 (July 11, 2008) ("34 Act Proposal"); Release Nos. IC- 28327 and IA-2751, (July 1, 2008), 73 FR 40124 (July 11, 2008) ("Investment Company Act Proposal"); Release No. 33-8940 (July 1, 2008), 73 FR 40106 (July 11, 2008)("33 Act Proposal").
[3] Investment Company Act Proposal at 40125.
[4] Id.
[5] 17 CFR 240.15c3-1.
[6] 17 CFR 270.2a-7.

We agree with the Commission that due diligence and independent analysis are necessary components, along with credit ratings, of effective risk measurement. Market participants must evaluate all inputs and factors that bear upon the credit quality of issuers and determine on their own the risks associated with particular securities. Credit ratings under Commission rules, however, are a necessary part of that evaluation because they establish a third-party, objective, minimum floor of risk tolerance. The uniformity across all market participants imposed by including NRSRO ratings in the SEC rules protects investors by ensuring that their advisers or broker-dealers are required to meet specific standards with regard to their investment choices or capital positions. The inclusion of NRSRO ratings in SEC rules is not an endorsement or "stamp of approval" of the quality of the rating. Rather, NRSRO ratings are an objective factor that must be weighed along with each market participants' independent analysis of credit risk.

In light of this view, we are concerned that the Commission's proposed amendments to remove references to NRSRO ratings from rule 15c3-1 (the Net Capital Rule), rule 2a-7 under the Investment Company Act, and rule 206(3)-3T[7] under the Investment Advisers Act may be destabilizing and inject risk and uncertainty into the operations of broker-dealers, investment advisers and money market mutual funds. We urge the Commission to retain the references to NRSRO ratings as a minimum floor of credit quality. We also urge the Commission to refrain from taking any action regarding NRSRO references at least until such time as the rules governing the ratings process proposed earlier this summer have had an opportunity to have their desired effect.

Rule 15c3-1

The Net Capital Rule requires broker-dealers to maintain a minimum amount of liquid assets to safeguard their operations and client positions. The rule requires broker-dealers to deduct from their liquid assets certain percentages ("haircuts") of the market value of their proprietary securities positions in determining their net capital. These haircuts attempt to ensure that in times of market stress broker-dealers maintain a margin of safety in their proprietary positions should they have to liquidate to meet capital demands. In determining the appropriate haircut for specific classes of securities, the Net Capital Rule applies lower (smaller) haircuts to securities that are highly rated by NRSROs than it does to less highly rated securities.

Overall, Schwab believes that the Net Capital Rule has worked well, generally providing sufficient capital for the continuing operations of broker-dealers, even during times of acute market stress. Indeed, during the recent collapse of Bear Stearns the SEC repeatedly claimed that the firm always maintained sufficient capital. At that time, Chairman Cox stated: "Bear's broker-dealer capital and holding company capital 'exceeded supervisory standards' by as much as two-fold during the crisis."[8] The capital regime for Bear Stearns, however, had been changed in 2004 with the adoption of the Consolidated Supervised Entity ("CSE") amendments to the Net

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[7] 17 CFR 275.206(3)-3T.
[8] *See BEAR MAY HAVE LIVED, Cox: Firm had ample capital*, The New York Post (March 23, 2008).

Capital Rule. Rather than being subject to objective, ratings-based capital charges (as well as limits on indebtedness) required by rule 15c3-1, the CSE program permits the use of internal computer models to calculate securities and counterparty credit risk. While the SEC claims that capital problems were not the cause of Bear Stearns' demise, industry experts have argued recently that "inadequate net capital and the lack of constraints on the incurring of debt" contributed to the downfall.[9] If the amendments to the Net Capital Rule now proposed by the SEC also introduce subjectivity to capital calculations through the use of internal processes and proprietary computer models, the industry may be similarly faced with capital adequacy concerns, particularly in times of market stress. For this reason, we question why the SEC would propose changing the rule at this time and in a manner that could weaken the protections so long relied upon by the investing public.

The use of NRSRO ratings in the current Net Capital Rule establish a minimum floor of capital by mandating specific haircuts be applied to specific classes of debt securities. By relying on third-party, objective ratings to determine the haircuts that apply to debt securities, the rule enforces some standardization among broker-dealers. This standardization reduces subjectivity and promotes adequate capital levels by mandating the haircut requirements that attach to highly rated securities, which, in turn, ensure minimum margins of safety for firms holding those securities in their capital positions.

Moreover, adopting the Commission's proposed changes will require increased oversight by Commission staff to enforce the use of internal processes in capital charge calculations. Because broker-dealers, especially those in financial distress, may be inclined to exaggerate their capital positions, the Commission will be forced to review the internal processes used in calculation methodologies of all broker-dealers. With internal processes likely to be different at each broker-dealer, the Commission will necessarily have to decode the algorithms of broker-dealer internal processes requiring intensive scrutiny to large and small broker-dealers alike.

NRSRO ratings are not infallible, as we have seen, and firms should apply their internal processes on top of the ratings provided by NRSROs as an additional check on credit risk. Highly rated securities need not be purchased should a broker-dealer's internal models indicate greater risk than the ratings suggest. However, the SEC seems to have reversed the proper sequence of risk management – the proposed rule change suggests the use of internal processes for calculating capital charges but permits firms to use NRSRO ratings as one method of complying with the rule. If rated securities establish compliance, we believe that these securities should be the floor of compliance, not the ceiling. To obtain lower haircuts, securities should first be highly rated by NRSROs and then be subject to internal processes to ensure credit quality. If the Commission is concerned about over-reliance on ratings, it should not eliminate the minimum floor of compliance, but rather encourage firms to perform their own analysis once the securities have met the standard of NRSRO ratings. This is similar to the approach currently

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[9] *See Viewpoint: SEC's Old Capital Approach was Tried – and True,* Lee A. Pichard, The American Banker (Friday, August 8, 2008).

imposed by rule 2a-7 under the Investment Company Act for purchase of securities for money market funds. In fact, as discussed below, we believe that rule 2a-7 is better for the requirement that securities first meet the NRSRO test and then be subject to internal models for credit risk.

Below we address certain specific questions posed by the Commission with regard to rule 15c3-1:

A. Internal Evaluations

Would internal evaluations of individual debt securities by broker-dealers for purposes of determining the capital charges ("internal processes") instead of reliance on NRSRO ratings accomplish the stated goals of the Commission's net capital requirements?

As stated above, we are concerned with the removal of NRSRO ratings from rule 15c3-1 and replaced by reliance on the subjective internal processes of broker-dealers. We believe that the objective, third-party ratings provide a floor of safety that should be augmented by internal processes of the firms. It seems to us that by allowing the use of ratings to comply with the rule and yet removing them specifically from the rule means that the ratings become the ceiling for compliance. Instead, with the ratings requirements in the rule, firms must apply the haircuts applicable to the NRSRO rating at a minimum and, should the internal processes of the firm detect that the rating is unwarranted, the firm may apply a greater haircut to the security.

We also believe that a capital regime that depends on internal processes is more susceptible to manipulation by firms in desperate financial condition. As such, the Commission would be required to be more vigilant in its oversight responsibilities – something that the Commission may lack the resources to accomplish.

B. Flexibility

What are the benefits, other than those we have identified, of the use of internal processes?

One of the benefits of internal processes for the calculation of capital charges is the increased flexibility granted to broker-dealers in determining securities that may be retained for capital purposes. The universe of securities that may be determined to meet the standards applicable to specific capital charges expands through this mechanism, which may decrease the cost of capital for the firms. Naturally, as we have indicated above, this is a double-edged sword. Retaining securities for capital purposes that have been haircut to some lesser extent than they may have been were they subject to NRSRO ratings may create risk of insufficient capital should these securities need to be disposed of in times of market stress.

C. Sophisticated Firms

> *Are we correct in our preliminary belief that broker-dealers have the financial sophistication and the resources necessary to generate internal processes and make the basic determinations of whether or not a security meets the requirements in the proposed amendments and to distinguish between securities subject to minimal credit risk and those subject to moderate credit risk?*
>
> Schwab does not believe that all broker-dealers have the financial sophistication or resources to perform the level of internal processing necessary to safely determine minimal or moderate credit risk. Indeed, this is one of the flaws in the proposal and a good reason for retaining the ratings-based haircuts. NRSROs, while not perfect, act as an objective party in determining the quality of securities they rate. Employing a sophistication that clearly is not universally retained by broker-dealers, NRSROs, being in the ratings business, generally have the resources available to meet the task. Small broker-dealers, on the other hand, may not have the necessary resources or expertise. Moreover, the differentiation between "minimal" and "moderate" credit risk adds substantial subjectivity into internal processes and, depending on the securities, will be difficult to distinguish.

Rule 2a-7

In the proposing release, the Commission considered whether the inclusion of ratings in its rules and forms has, in effect, placed an "official seal of approval" on ratings that could adversely affect the quality of due diligence and investment analysis.[10] Schwab disputes this contention and does not believe that ratings requirements adversely affect the quality of independent analysis because under current Rule 2a-7, as noted in note 18 of the proposing release, the required ratings provide a necessary but not sufficient condition for investment. Specifically, Rule 2a-7(c)(3)(i)[11] requires that money market funds limit their investments to Eligible Securities (including satisfying NRSRO rating requirements) that present minimal credit risks, "which determination must be based on factors pertaining to credit quality *in addition to* any rating assigned to such securities by an NRSRO."[12]

In essence, the ratings requirement is the beginning of a sorting process for Schwab. At the time a security comes to market, if it does not meet the rating requirements (or, in the case of an unrated security, is not deemed to be of comparable quality) then the investment review process ends. If the requirements are met and the security is determined to be an Eligible Security, then an internal review is commenced to determine whether the security also presents minimal credit risk. The fact that a security has received the requisite ratings has no bearing on whether it will meet our internal standard of presenting minimal credit risk. There have been many instances where we have not been able to make a determination of minimal credit risk for a security with First Tier ratings and have therefore declined to purchase the security.

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[10] Investment Company Act Release at 40106.
[11] 17 CFR 270.2a-7(c)(3)(i).
[12] *Id* (emphasis added).

Therefore, rather than removing the rating requirements, Schwab suggests that the Commission emphasize the importance of the current provision within Rule 2a-7(c)(3)(i) that requires money market funds to conduct their own independent minimal credit risk analysis without reference to NRSRO ratings. Further, the Commission should also provide more specific guidance on the nature and extent of analysis necessary to determine minimal credit risk. Additional guidance should focus money market fund boards (or their delegates) on their obligation under Rule 2a-7 to determine minimal credit risks independently of any NRSRO ratings.

Below we provide responses to questions posed by the Commission:

A: Minimal Credit Risk Determination

What are the advantages and disadvantages of eliminating the requirement to use NRSRO ratings from rule 2a-7? Would eliminating the rating requirements from rule 2a-7 affect the amount or nature of risks money market funds would be willing or able to take?

One disadvantage of eliminating the ratings requirement would be the loss of the limited amount of leverage that money market funds currently have in the structuring of new products. Schwab has found that issuers and other market participants are very cognizant of the rule's rating requirements and most issuers and underwriters use the rating requirements as a tool when structuring products intended for money market investment. The fact that the ratings requirement is a necessary condition for investment provides the funds with leverage when issuers and dealers are marketing new securities to the money funds. Schwab believes that removing the references to the ratings would be a disservice to the funds because it would eliminate one of the few means funds have to compel a level of market discipline.

Another disadvantage is a potentially wide disparity among funds regarding what constitutes an Eligible Security. Without the objective floor provided by NRSRO ratings requirements, money market funds' investment decisions will be far more subjective, making it more difficult for investors to compare the safety and quality of investments held by one fund versus another.

What are the advantages and disadvantages of relying on minimum credit risk determinations?

The disadvantage of relying solely on minimum credit risk determinations lies in the limited guidance from the Commission on what constitutes minimum credit risk discussed above. Faced with additional uncertainty due to the removal of ratings requirements, some funds may become hesitant to purchase any but the highest quality securities, thus causing scarcity of such securities and an associated drop in yields; other

funds may feel that the Commission has given them permission to exceed the risk parameters currently dictated by the rule's rating requirements.

Are we correct that the current rule's reliance on credit ratings discourages fund directors and investment advisors from performing independent credit risk assessments?

In our experience, the current rule's references to credit ratings do not discourage independent credit risk assessments. The current rule **requires** that a security satisfy the ratings requirement **and be determined to present minimal credit risk**. Rule 2a-7 mandates a two-part test. Therefore, we do not believe that the current rule's reference to credit ratings discourages the performance of independent credit risk assessments. Schwab's analysis of a security incorporates both the determination of whether the rating requirement is met as well as whether it presents minimal credit risk.

What other alternatives could we adopt to encourage more independent credit risk analysis and meet the regulatory objectives of rule 2a-7's requirement of NRSRO ratings?

In the Commission's June release related to NRSROs,[13] the Commission asked whether the increased disclosure of information used by the rating agencies to assign a rating would benefit investors in making their investment decisions. In response, the Investment Company Institute ("ICI") submitted comments to the Commission dated July 25, 2008, that its members were in favor of an increase in the disclosure of information used to assign ratings. Schwab is in full agreement with the ICI's July 25, 2008, comment letter.

While the Commission's proposal in the NRSRO Release was focused on additional disclosure in the structured product arena, Schwab believes that improved disclosure would be beneficial across all parts of the money market industry. We feel strongly that providing the marketplace with the level of detailed information which the rating agencies require to assign credit ratings would greatly enhance the ability of money market fund investment advisers to make independent credit determinations and reduce their reliance on credit ratings. This would likely have the most impact in the structured products arena where many products are proprietary and there is limited public information available prior to issuance. However, we believe it would benefit many areas of the market, with particular benefits achieved by applying this requirement in the municipal marketplace, as was suggested in the white paper Chairman Cox delivered to Congress on July 26, 2007, which called for improvements in accounting and disclosure in the municipal securities market.

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[13] NRSRO Release at 36215.

And as discussed above, we believe that the Commission should provide sufficient time to allow the enhanced disclosure regime to take effect before adopting the NRSRO proposal. However, should the Commission determine to act now, rather than remove the references to NRSRO ratings from Rule 2a-7, we believe that coupling more guidance on what constitutes minimal credit risk with renewed emphasis on the mandate for an independent determination of minimal credit risk – a determination above and beyond the ratings requirement – will address the Commission's concern with investment advisers over-relying on credit ratings.

B. Portfolio Liquidity

Should we include in rule 2a-7 an express requirement that money market funds limit their exposure to illiquid securities? Do the proposed requirements provide money market funds sufficient flexibility to retain securities that may be illiquid if the disposal of those securities would not be in the best interest of the fund?

Schwab supports the Commission's proposal to include an express requirement that a money market fund limit its exposure (at time of purchase) to illiquid securities to ten percent of its total assets. We feel that the proposed requirements provide the funds with sufficient flexibility to retain illiquid securities if doing so would be in the best interest of the fund.

C. Monitoring Minimal Credit Risks

Would the requirement that the board of directors reassess the credit risk of a security when investment advisors become aware of information that may suggest the security no longer presents minimal credit risks provide adequate investor protections? Would investment advisors be able to stay abreast of new information about their portfolio securities?

The new trigger that the Commission proposes for having a fund's board of directors reassess minimal credit risk is too broad: a standard of "any information" that "suggests" a security "may not" continue to present minimal credit risks does not distinguish between the factual and reliable-source information we currently use in our analysis and other less reliable information that may appear in the general media. As part of its ongoing task of monitoring minimal credit risk, Schwab monitors updates provided by the rating agencies and information obtained from the issuer of a security as well as from national and appropriate local news sources. However, we rely most heavily on facts derived from financial statements and discussion directly with an issuer's financial staff rather than general comments in the press which could be misleading or incomplete. Because a rating change is only one of the several factors we consider in analyzing minimal credit risk, we already stay abreast of new information about our portfolio securities.

D. Commission Notice of Rule 17a-9 Transactions

Schwab supports the Commission's proposal that money market funds provide the Commission with prompt notice when an affiliate of the money market fund purchases from the fund a security that is no longer an Eligible Security.

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Rule 206(3)-3T

Nearly one year ago, the SEC adopted interim final rule 206(3)-3T[14] following the Court of Appeals for the District of Columbia's decision in Financial Planning Association vs. the SEC[15] to vacate rule 202(a) (11)-1.[16] Rule 202(a)(11)-1 provided, among other things, that fee-based brokerage accounts were not advisory accounts and were thus not subject to the Investment Advisers Act of 1940. As a consequence of the repeal, Schwab converted its fee-based brokerage program to a non-discretionary investment advisory program, in accordance with rule 206(3)-3T. This interim final rule has allowed Schwab to continue to provide ongoing portfolio-based advice and services to some 140,000 account holders who desire and need this ongoing investing assistance.

The interim final rule enables a broker-dealer like Schwab to offer its clients a non-discretionary advisory program and continue to offer those clients access to thousands of fixed income securities through the dealer markets. This is important, as individual bonds can be a significant component in an investor's overall portfolio. As the SEC recognized when it adopted the interim rule, "clients may face difficulties and higher costs in obtaining these debt instruments, particularly municipal bonds, through an advisory account if the adviser is not permitted to rely on the interim final rule's alternative means of complying with Section 206(3),"[17] the general prohibition on advisers trading with their clients on a principal basis.

By participating directly in the dealer markets to give its clients access to the wide variety of municipal, government entity, and corporate bonds, Schwab technically meets the definition of an "underwriter" when it recommends and sells these bonds to clients. As a practical matter Schwab would be precluded under the Investment Advisers Act from trading as principal without the exception provided by paragraphs (a)(2) and (c) of the interim final rule. Paragraph (a)(2) precludes an investment adviser from relying on the interim final rule if it acts as an "underwriter" of a security, except if it is an "investment grade debt security" defined in

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[14] Investment Advisers Act Release No. 2653 (Sept. 24, 2007), 72 FR 55022 (Sept. 28, 2007) ("Principal Trade Rule Release").
[15] 482 F.3rd 481 (D.C. Cir. 2007).
[16] 17 CFR 275.202(a)(11)-1.
[17] Principal Trading Rule Release at 55027.

paragraph (c) as "a non-convertible debt security at the time of sale … rated in one of the four highest rating categories of at least two nationally recognized statistical rating organizations."

When adopting the interim final rule the SEC expressed concern that a broker-dealer participating as an underwriter might have an economic interest in the success of the underwriting contrary to its client's interest, raising a risk of "dumping" an unwanted security in the client's account. Allowing an exception for investment grade debt securities provided an objective test to address that risk, while still meeting the need of investors in non-discretionary fee-based advice programs to continue having access to initial offerings and the dealer market for fixed income securities.

Contrary to these policy decisions the Commission made less than one year ago, the proposed amendment effectively would require an adviser to substitute its subjective analysis in determining whether a fixed income security is "investment grade" and therefore could be sold to a non-discretionary advisory client. Instead of an adviser relying on objective, third-party NRSRO ratings to determine whether a security is investment grade, the adviser would have to make its own assessment, taking into account whether the security "(i) has no greater than moderate credit risk; and (ii) is sufficiently liquid that it can be sold at or near its carrying value within a reasonably short period of time."

For an unscrupulous firm, eliminating the reference to NRSRO ratings invites the very self-dealing and potential for "dumping" the interim final rule intended to address. For scrupulous firms trying to offer non-discretionary advisory clients broad access to the dealer market for fixed income securities, this new subjective standard with undefined terms such as "moderate credit risk," "sufficiently liquid," and "reasonably short period of time" would be nearly impossible and extremely costly to implement given the thousands of debt instruments to evaluate. As we have commented with regard to removal of references to NRSRO ratings in rules 15c3-1 and 2a-7, use of subjective terms that are poorly defined significantly increase the risk of unwanted behavior by unscrupulous or desperate advisers or broker-dealers. Perhaps recognizing this, footnote 78 states that "although the proposed amendment would no longer require a security underwritten by an adviser or its control person to be rated by NRSROs to be eligible under the rule, investment advisers could refer to ratings, reports, analyses and other assessments issued by NRSROs and other persons, for the purpose of evaluating credit risk and liquidity."[18]

Given the Commission's view that advisers could continue to rely on NRSRO reports and ratings even under the proposed amendment, given the Commission's original intent to address potential conflicts of interest of advisers by adopting an objective definition of "investment grade debt security" in the interim final rule, and given that the interim final rule expires at the end of 2009, Schwab urges the Commission not to adopt the proposed amendment to Rule 206(3)-3T.

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[18] Investment Company Act Proposal at Note 78.

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In conclusion, we urge the Commission to reconsider its proposals to remove NRSRO references from the Commission rules highlighted above. Because the root of the ratings issue was the flawed processes by which NRSROs generated their ratings, the Commission should first allow its proposed remedy to have an opportunity to work. Restoring integrity to the ratings process may obviate the need for further rulemaking. Moreover, we recognize that NRSRO ratings should never be the sole determinant in an investment decision, whether for purposes of net capital or for investment in money market funds. However, their inclusion in SEC rules promotes a process that provides a minimum floor of risk aversion for broker-dealers and advisers. Particularly, compliance with rules 15c3-1 and 2a-7 is enhanced by the inclusion of NRSRO ratings as, we believe, experience over the last two decades has demonstrated. We conclude that the principle of "first, do no harm" should guide the Commission with regard to the extant proposals and urge the Commission to forebear from an "undue reliance" on rule amendments in reaction to current market events.

Sincerely,

Jeffrey T. Brown
Senior Vice President
Schwab Office of Legislative and Regulatory Affairs

cc: Honorable Christopher Cox, Chairman
Honorable Kathleen L. Casey, Commissioner
Honorable Elisse B. Walter, Commissioner
Honorable Luis A. Aguilar, Commissioner
Honorable Troy A. Paredes, Commissioner

Andrew J. Donohue, Director, Division of Investment Management
Erik R. Sirri, Director, Division of Trading and Markets
Robert E. Plaze, Associate Director, Division of Investment Management