

**FIRST AMERICAN FUNDS
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August 25, 2008

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090,

Attention: Ms. Florence E. Harmon, Acting Secretary

Re: File No. S7-19-08

*Directors [have] suggested that they should be able to delegate to others (the chief compliance officer was most often mentioned) certain of their duties in order to free up their time to devote more attention to substantive issues. I am particularly interested in this latter point and my staff is analyzing whether it makes sense for you to delegate certain duties, and if so, to whom and to what extent, in order to create better efficiencies. **As we approach this exercise, my staff is focused on the fact that directors are overseers — not executives who are involved in the day-to-day details of running a business.** (emphasis added)*

--Remarks of Andrew J. Donohue, Director, SEC Division of Investment Management, at the Mutual Fund Directors Forum Second Annual Directors' Institute (January 15, 2008)

Ladies and Gentlemen:

I serve as Chair of the Board of Directors of the First American Funds and the Mount Vernon Securities Lending Trust. Our Board is comprised of nine Directors, all of whom are “independent” within the meaning of the Investment Company Act of 1940 (the Act). We oversee 62 investment portfolios with \$91 billion in assets, including 6 money market funds with assets of about \$73 billion (approximately \$300 million of which represents investments by other funds in the First American Fund complex). I am writing this letter on behalf of our Board.

We are responding to your recent proposal to eliminate references to ratings issued by nationally recognized statistical rating organizations (NRSROs) from Rule 2a-7 under the Act. As we explain in more detail below, we are greatly concerned with the implications of replacing ratings provided by NRSROs, which have vast infrastructures and substantial expertise, with credit and risk determinations made by fund boards, whose members almost uniformly lack the knowledge and background necessary to make credible credit assessments.

We strongly urge the Commission to reconsider its proposed changes so that, if NRSROs are to be off the table, investment advisers, not fund boards, would have primary responsibility for credit evaluation. Any other result will replace conclusions reached by experts (as imperfect as those may be) with subjective determinations made by fund directors who are inexperienced

in this area. Equally troublesome is that the Commission's proposals, we believe, would erode our traditional oversight role by involving us in the daily affairs of fund management.

Credit Risk and Tier Determinations

Currently, an "Eligible Security" under Rule 2a-7 includes an instrument that has received one of the two highest short-term rating categories from an NRSRO. Also, a portfolio security must be grouped into a "First Tier" or a "Second Tier" depending, in part, on whether the security has received the highest short-term rating from an NRSRO.

The Commission now has proposed to "rely on money market fund boards of directors to determine that each portfolio instrument presents minimal credit risks, and whether the security is a 'First Tier Security' or a 'Second Tier Security' for purposes of the rule." Specifically, under the Commission's proposal, a security would be an Eligible Security "if the board of directors determines that it presents minimal credit risks, which determination must be based on factors pertaining to credit quality and the issuer's ability to meet its short-term financial obligations." A security would be in the First Tier "if the fund's board had determined that the issuer has the highest capacity to meet its short-term financial obligations." All other eligible securities would be Second Tier Securities.

Our Concerns

We struggle to understand the basis on which the Commission proposes to replace NRSROs with fund boards.

- First, credit determinations reached by boards can't possibly carry the same authority that accompanies a credit determination made by a party whose business, even if flawed, is dedicated to that very function.
- Second, while we appreciate that the Commission's proposals are motivated by a desire to inspire greater confidence in the quality of the portfolio investments held by money market funds, we are concerned that assessments made by fund boards will lead to a greater degree of inconsistency in that credit quality. This seems an inevitable result if credit determinations are no longer made in the first instance by a relatively few but, instead, are entrusted to potentially thousands of mutual fund directors, who could reach disparate conclusions based on varying backgrounds and levels of expertise.
- Third, we really are at a loss for how we would implement the Commission's proposal. Our board is comprised of smart, dedicated and talented individuals who conscientiously strive to protect the interests of shareholders in our funds. Yet, there isn't one among us with the appropriate background or experience to comfortably lead our board in determining a security's credit quality. Thus, we would likely seek the advice of a qualified consultant. What would we do, though, if the consultant's assessment of credit quality somehow differed from that of an NRSRO (whose ratings the Commission has noted we would still be able to take into account if those ratings are "credible")? Whether we rely on a

consultant or not, the Commission's proposals still would make us the final arbiters of credit quality—a result that we believe is neither appropriate nor protective of fund investors.

- Finally, if credit determinations ultimately vary from fund group to fund group, then what assurance is there that net asset value determinations for money market funds can be relied on by investors in this enormous and closely-watched industry?

Recommendations and Conclusion

We understand that the shortcomings of NRSROs, as reflected in recent market events, are a concern to the Commission. We appreciate that, in light of these events, the Commission may wish to avoid giving NRSROs a “stamp of approval” through specific references in Rule 2a-7. At the same time, for the reasons previously addressed, we strongly believe that fund boards are not the cure for this disease.

We suggest that the Commission consider whether the other changes that it has already proposed to address concerns with NRSROs would in themselves be sufficient to avoid deleting references to NRSROs from rules under the Act. If not, and the Commission remains intent on pursuing its proposed changes to the money market fund rule, we suggest that credit determinations be made to hinge on the judgment of an entity that is far better suited than any fund board to make these determinations: the fund's investment adviser. We recognize that, without independent oversight, an investment adviser's potential conflicts of interest in making credit determinations could go unchecked. We respectfully suggest, therefore, that fund boards (and chief compliance officers) be charged with overseeing the procedures used by the adviser to make its determinations. The adviser itself could continue to take into account ratings issued by NRSROs, research provided by financial services firms and any other input that the adviser deems reliable. This approach would provide a measure of consistency in reaching credit determinations and would relieve the fund board of taking on a vital responsibility for which we are ill-equipped — making “an independent judgment of risk.”

* * *

We strongly support Director Donohue's view that the appropriate role of fund directors is to oversee rather than to participate in the day-to-day elements of fund management. Asking us to take on ultimate responsibility for credit determinations is obviously inconsistent with that worthy goal. We stand ready to work closely with the Commission in helping to resolve its concerns and are grateful for the opportunity to comment upon these important proposals.

Very truly yours,

/s/ Virginia Stringer

By: Virginia Stringer, Board Chair
First American Funds
Mount Vernon Securities Lending Trust