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Office of the Treasurer

HOWARD G. RIFKIN
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September 4, 2008

Mr. Christopher Cox
Chairman
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: File S7-19-08: References to Ratings of Nationally Recognized Statistical Rating Organizations (NRSROs)

Dear Chairman Cox:

I am pleased to have this opportunity to provide feedback to the Commission on its proposals to eliminate references to NRSRO ratings in its regulations. These comments augment the comments that I provided to the Commission on July 25, 2008, with regard to File S7-13-08 -- Proposed Rules for Nationally Recognized Statistical Rating Organizations.

As Treasurer of the State of Connecticut, my office has responsibility for the State's issuance of debt obligations and management of its $16 billion debt portfolio and serves as principal fiduciary of the State's $25 billion Connecticut Retirement Plans and Trust Funds. Through the management and operation of the State's $5 billion Short-Term Investment Fund (STIF), the State Treasury also provides an important investment vehicle for many of Connecticut's municipalities and public enterprises. STIF functions in a manner similar to a money market mutual fund, although it is technically not classified as such.

My commentary focuses on your proposed amendments to remove references to NRSROs and their ratings from Rule 2a-7 under the Investment Company Act which sets minimum rating thresholds for money market fund investments, and from Rule 5b-3 under the Investment Company Act which allows funds to treat the acquisition of a refunded security rated in the highest rating category by an NRSRO as the acquisition of the escrowed government securities. While I understand the stated goal of the proposed rule changes (i.e. to "reduce undue reliance on credit ratings and result in improvements in the analysis that underlies investment decisions"), I am very concerned about the impact of the changes on investors and therefore I cannot support your proposals.

Impact of Rule 2a-7 Proposal

As mentioned above, STIF serves as a liquid cash management and investment tool for the State, State agencies and authorities, and for numerous municipalities statewide. The fund is not an SEC registered fund and therefore is not subject to Rule 2a-7; however, fund management has always held itself to high standards and patterns its practices after those of the 2a-7 funds. STIF has consistently been rated AAAm by Standard & Poor's. The fund uses minimum rating categories as investment criteria and augments these standards with internal monitoring and reviews. Despite much criticism of the credit rating industry and general agreement on the need for improvement in certain areas, I believe that credit ratings in general remain a highly efficient method of evaluating risk and assessing credit quality in measurable and comparable terms. Your proposed rule changes eliminate the requirement that fund investments be rated by an NRSRO in one of the two highest short term rating categories and suggest that a fund's board of directors identify securities as eligible investments if the securities meet minimal credit risks as determined by the board, with the board responsible for making the assessment of credit quality. As a practical matter, while existing and prospective holdings can be subjected to internal review and assessment by a board of directors or similar governing body, these assessments should supplement, not substitute for the investor protection and fund management efficiency that comes from the use of minimum rating thresholds. In addition to the impact of your proposal on funds like Connecticut's STIF, I am also very concerned about the impact on retail investors in money market funds. With the proposed changes to Rule 2a-7, investors might unknowingly be lured to higher yielding, higher risk funds for the investment of their most liquid assets. Minimum credit ratings provide these investors with a baseline of credit quality as they consider their investment options. While I certainly support additional analyses by fund management, I believe that the minimum ratings provide important protection for retail investors and are critical in the current market environment.

The Commission's efforts to ensure the integrity and consistency of the ratings process will support a regulatory framework that incorporates minimum rating requirements. As I indicated in my previous comments to you, I am a proponent of a single rating scale for all types of debt. As the NRSROs revise their policies to achieve this goal, and as the SEC's continued oversight leads to increased transparency and accuracy of ratings, all market participants, and governmental entities in particular, will benefit. As municipal ratings are adjusted upward to reflect governments' minimal risk of default, the minimum rating requirements in the current regulations will not be a barrier to those governmental issuers seeking to appeal to money market funds as an investor base. Access to these investors is of increased importance given the devolution of the bond insurance industry and auction rate market. I believe that improving the quality and consistency of the

ratings process should remain a key focus of the SEC with regard to the NRSROs. Achieving ratings equity and accuracy will obviate the need for removing references to ratings from Commission regulations.

Impact of Rule 5b – 3 Proposal

The Commission also proposes to amend Rule 5b-3 with respect to a fund's investment in refunded bonds backed by a portfolio of escrowed securities by requiring a fund to determine that an accountant has certified to the escrow agent that the deposited securities will satisfy all scheduled payments on the refunded securities. Under your proposal, funds will no longer have the option of satisfying this requirement if the refunded securities are rated in the highest rating category by an NRSRO (with the NRSRO typically requiring such an accountant's certification in order to assign the highest rating). There have been no significant issues in refunded securities that necessarily need to be addressed, and given the steps that the Commission is taking to improve the integrity of the ratings process in general, there are distinct advantages to keeping the existing system. In particular, if funds are required to determine whether an accountant's certification has been obtained, and evaluate the nature of the certification, refunded securities may be less freely marketable. There is at present no means by which such certifications are readily available, and thus market participants will be requesting issuers or trustees for copies of these materials, significantly burdening issuers and increasing their costs. I do not believe the Commission is correct in its assessment that there will not be additional costs for issuers or funds as to this change in Rule 5b-3.

To summarize, I am opposed to the elimination of references to credit ratings in Rules 2a-7 and 5b-3. I believe that minimum credit rating standards are critical to all investors, and to retail investors in particular, as they assess investment opportunities. By focusing its efforts on improving the integrity and transparency of the ratings process, the Commission can help ensure that these standards are meaningful tools which the market can use as a starting point in evaluating securities.

Thank you for this opportunity to provide feedback. Please feel free to contact me if I can be of any further assistance.

Sincerely,

Denise L. Nappier
Treasurer