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September 4, 2008

Ms. Florence Harmon
Acting Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File No. S7-19-08 – Proposed Rule Amendments: *References to Ratings of Nationally Recognized Statistical Rating Organizations*

Dear Ms. Harmon:

On behalf of OppenheimerFunds, Inc.,[1] I submit this comment letter on the proposal by the U.S. Securities and Exchange Commission (the "Commission") to amend certain rules (the "Proposed Amendments") under the Investment Company Act of 1940, as amended (the "Investment Company Act"), and the Investment Advisers Act of 1940, as amended (the "Advisers Act"), that reference and rely on ratings issued by nationally recognized statistical rating organizations ("NRSROs").[2] The Proposing Release states that the Proposed Amendments are intended to address concerns, presumably of the Commission, that the references to NRSRO ratings in the referenced rules may have contributed to "undue reliance on NRSRO ratings by market participants."

While we commend and support the Commission's efforts to re-examine and refine the securities rating process, evidenced in the companion NRSRO rule proposal by the Commission ("Proposed Rules for Nationally Recognized Statistical Rating Organizations," SEC Release No. 34-57967, [June 17, 2008] [the "NRSRO Rule Proposal"]), which is designed to promote the integrity and quality of the rating process and to enhance the transparency of the procedures followed by NRSROs in rating issuers and securities, we do not agree with the stated premise underlying the Commission's Proposed Amendments to the Investment Company Act and the Advisers Act. Indeed, the Proposed Amendments to the Investment Company Act and Advisers Act rules in the Proposing Release would, in our view, run counter to the direction taken by the

[1] OppenheimerFunds, Inc. is the investment adviser to the more than 100 investment companies (including 9 money market funds) that comprise the Oppenheimer family of mutual funds, having more than 6 million shareholder accounts. Including its affiliates, OppenheimerFunds, Inc. managed as of August 31, 2008, assets in excess of $215 billion, including approximately $200 billion of mutual fund assets.

[2] See "References to Ratings of Nationally Recognized Statistical Rating Organizations," SEC Release Nos. IC-28327, IA-2751 (July 1, 2008), 73 Fed. Reg. 40124 (July 11, 2008) (the "Proposing Release").

Commission in proposing the reforms and regulatory enhancements in the NRSRO Rule Proposal, and seem paradoxical: on the one hand, through the NRSRO Rule Proposal, the Commission would strengthen the integrity of the rating process, and on the other, through the Proposed Amendments, the Commission would appear to throw in the towel on the utility and validity of ratings by NRSROs. These mixed signals from the Commission on NRSROs are inapposite, and we believe the Proposed Amendments pose substantial and unnecessary risks for the mutual fund industry and its investors.

Money Market Funds and Rule 2a-7. In particular, we have focused our comments on the Proposed Amendments to Rule 2a-7 under the Investment Company Act with respect to money market funds because we believe that those Proposed Amendments would:

- remove important investor protections that exist under current regulations,
- threaten the integrity of the $3.5 trillion money market fund industry by removing minimum credit standards that apply to all funds, thus creating uncertainty as to the standards to be employed by investment managers in selecting money market fund investments,
- undercut the ability of investors to readily understand the quality requirements pertaining to money market fund investments by removing from regulatory requirements important benchmark standards for investment quality,
- remove recognized standards of investment credit quality that readily lend themselves to compliance testing and substitute vague standards that could be applied in an inconsistent manner across the fund industry, and
- pose additional challenges and burdens for boards of directors/trustees of money market funds by creating uncertainty as to the extent of the role of the boards in the oversight of investment managers. This aspect of the Proposed Amendments runs contrary to the Commission's (and the Staff of the Commission's) laudable attempts to reduce the burdens of investment company boards of directors.[3]

For those reasons, further discussed below, we strenuously object to the Proposed Amendments to Rule 2a-7. If the Commission is able to implement the reforms of the NRSRO process through its related NRSRO Rule Proposal, we believe that removing the references to NRSRO ratings from the rules under the Investment Company Act is unnecessary and counterproductive. We believe that there are other, better ways for the Commission to strengthen the effectiveness of Rule 2a-7.

1. Ratings Standards in Rule 2a-7 Provide Important Investor Protection. In the Proposing Release, the Commission states that it is considering whether the inclusion of ratings requirements in its rules for mutual funds has, in effect, "placed an official 'seal of approval' on ratings that could adversely affect the quality of due diligence and

[3] *See* Division of Investment Management, Securities and Exchange Commission, *Protecting Investors: A Half Century of Investment Company Regulation* (1992), in which the Division stated that "[w]e believe that independent directors are unnecessarily burdened . . . when required to make determinations that call for a high level of involvement in day-to-day matters."

investment analysis." We have seen no evidence that the employment of ratings standards in the Commission's rules, in particular Rule 2a-7, has had that effect overall. The use of ratings standards in a Commission rule does, admittedly, involve reference to standards created by non-regulatory bodies, the NRSROs, but that represents a pragmatic recognition by the Commission about how the credit markets work in our economy and the importance of credit ratings in assisting investors to evaluate credit risks. The Proposing Release recognizes that fact by stating that "ratings by NRSROs today are used widely as benchmarks in federal and state legislation, rules issued by other financial regulators, in the United States and abroad, and private financial contracts." The Commission has wisely never taken on the role of a rating body for itself. In regulating the NRSROs and the process they follow, the Commission has employed a regulatory process in which it has established controls and checks on NRSRO conduct. Indeed, the Commission's proposed steps to strengthen the process followed by NRSROs in the NRSRO Rule Proposal evidences the Commission's intention and ability to influence the conduct and standards of the rating agencies.

The Proposing Release makes several references to the allegation that "undue reliance" has been placed on credit ratings, but presents no substantive evidence to support that statement as to investment companies (and we have seen no evidence to support that concern). We believe that to the extent that investments in certain rated securities have posed problems in recent months for money market funds and other investment companies and have required special action by investment advisers and fund boards of directors with respect to those investments, those problems likely resulted more from deficient credit analysis than over-reliance on ratings. While investments by money market funds in SIVs and tranches of CDOs resulted in a number of grants of written and oral no-action relief by the Commission Staff over the past year, we have seen no evidence that the investment managers of the funds requiring relief would not have made those investments if they could not have initially used NRSRO ratings to determine the threshold eligibility of those securities for consideration as money market fund investments (in that regard, we believe that the Staff of the Division of Investment Management has done a highly commendable job in rising to the challenge of dealing with the fallout from the sub-prime market disruption as it affected the money market fund industry, reaching out to the industry to offer assistance and seeking additional ways to make its oversight of the industry helpful and responsive).

Rule 2a-7 already recognizes that ratings should not be the only, or indeed the principal, measure of creditworthiness utilized by money market fund investment managers. The current language of Rule 2a-7 states, in the discussion of "Portfolio Quality," that a money market fund:

> . . . shall limit its portfolio investments to those United States Dollar-Denominated securities that the fund's board of directors determines 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) and that are at the time of Acquisition Eligible Securities.

That provision of the Rule clearly places primary emphasis on the need for careful credit quality evaluation by the fund and its investment adviser under the standards set by and overseen by the fund's board of directors/trustees. The NRSRO ratings requirement embedded in the existing definition of "Eligible Security" acts as a complimentary, objective investment standard. The NRSRO references serve as a "ratings floor," a credit risk analysis minimum, which is secondary to the requirement that fund boards make their own credit risk assessment.

The reference to ratings within the definition of "Eligible Security" is clearly secondary to the overall responsibility of the investment manager to perform good credit analysis and due diligence with respect to such securities and not to merely rely on ratings, and secondary to the board of directors' existing responsibility to establish standards for creditworthiness for fund investments. The use of minimum ratings criteria in Rule 2a-7 provides investment advisers and fund boards with an additional point of reference by an outside source, an NRSRO, having expertise as to credit characteristics of securities and issuers. As the Commission stated in adopting Rule 2a-7 in 1983[4]:

> In order to fulfill the rule's requirements that the instruments be rated "high quality," the instruments, if rated, must have been given a rating by a major financial rating service . . . that would be considered high quality. Even if the board of directors believes that the rating service incorrectly rated the instrument too low or that because of changed circumstances the instrument is now of higher quality, this provision of the rule precludes a money market fund which is relying on the rule from investing in any rated instrument which does not have a "high quality" rating. [Footnotes omitted.]

The requirements under Rule 2a-7's definition of Eligible Security that such security be in one of the two highest short-term rating categories of the requisite NRSROs provides a readily-ascertainable minimum credit standard for fund boards and investment managers, but does not excuse the investment managers from conducting their own credit analysis nor does it excuse the boards from establishing procedures for measuring the credit risks of particular investments:

> The requirement that a security have a high quality rating provides protection by ensuring input into the quality determination by an outside source. However, the mere fact that an instrument has or would receive a high quality rating may not

[4] "Valuation of Debt Instruments and Computation of Current Price Per Share by Certain Open-End Investment Companies (Money Market Funds)," SEC Release No. IC-13380 (July 11, 1983).

> be sufficient to ensure stability. The Commission believes that the instrument must be evaluated for the credit risk that it presents to the particular fund at that time in light of the risks attendant to the use of amortized cost valuation or penny-rounding. Moreover, the board may look at some aspects when evaluating the risk of an investment that would not be considered by the rating services.[5]

By removing the NRSRO ratings from Rule 2a-7's investment standards, the Commission is weakening, not strengthening, the credit standards applicable to money market fund investments.

2. Removal of Ratings Standards from Rule 2a-7 Could Undermine Public Confidence in Money Market Funds. In the Proposed Amendments to Rule 2a-7, the Commission has also proposed to modify the standard for credit quality in the definition of "First Tier Security" from an objective standard based on credit ratings to a subjective standard based on an issuer's capacity to meet its short-term financial obligations. In effect, investment securities purchased by registered money market funds would no longer need to meet specified NRSRO credit ratings. While it is true that fund boards and investment advisers could, voluntarily, adopt such rating standards, the absence from the Rule of a mandated minimum credit rating standard creates substantial risks that a money market fund manager seeking higher yields and a competitive advantage could select securities that pose greater risks than would be allowed under the current provisions of the Rule.

If fund boards interpret the Proposed Amendments as an opportunity to invest in securities previously unavailable under Rule 2a-7, the proposed credit risk standard could create the opportunity for money market funds to invest more aggressively. In the Proposing Release, the Commission has confirmed that a fund would possibly be able to make investments that were not previously permissible under the current rule because they did not carry the specified rating. Without objective "ratings floors," money market fund managers will have the opportunity to distinguish themselves with more aggressive risk determinations in an effort to produce higher returns. In the current credit environment, such an opportunity could result in money market funds being unable to maintain a stable net asset value. The possibility of a money market fund "breaking the buck" because of the failure of such internal credit analysis standards could greatly increase. We fear that such occurrence could dramatically erode public confidence in money market funds. We do not believe that it is in the best interests of investors or the fund industry to adopt a rule amendment that carries that risk. Indeed, such an approach runs counter to the observations of the Commission about such risks in adopting Rule 2a-7 in 1983.

Having the use of ratings as an optional standard would also eliminate the requirement under the current rule that all funds follow consistent standards in applying ratings to measure the eligibility of securities for money market fund portfolios. Having consistently applied, uniform credit standards as a baseline for all money market funds

[5] SEC Release No. IC-13380, *Ibid.*

has been, in our view, an important foundation for investor confidence in the money market fund industry that the Proposed Amendments would remove.

3. Removal of Ratings Requirements from Rule 2a-7 Will Undermine the Public's Ability to Understand Money Market Fund Investment Standards. We believe that the general public (and their financial advisors) have come to trust money market funds as relatively stable investments in part because of the requirements under Rule 2a-7 that impose credit analysis requirements on fund investment managers but also impose minimum credit risk standards using NRSRO ratings. Without that readily-understandable reference point for investors, they will have a more difficult time wading through the discussion of the fund's investment policies in the fund's prospectus to try to glean from that disclosure the kinds of analytical standards that are employed by the investment manager in selecting securities that in the manager's view "present minimal credit risk." Thus, the average investor herself will be expected to be a credit analyst. Moreover, that type of analytical process is complex and usually not readily capable of reduction to a brief discussion in a prospectus; indeed, some of it may be the investment adviser's proprietary information. Investors will, in effect, be at sea as to the credit analysis standards employed by the investment manager in investing for a money market fund. The minimum ratings requirements at the least give the average investor an idea of the minimum credit standards employed, in addition to the manager's own due diligence and analytical process. The absence of those ratings requirements could therefore undermine investor understanding of, and confidence in, money market funds.

The fund industry has made a considerable effort to educate investors on the merits of money market funds. An important part of that effort has been assuring investors that money market funds are prohibited from investing in securities that fall below a specified credit rating. We believe that removal of the NRSRO ratings from Rule 2a-7 could be interpreted by some investors as a sign that money market funds are becoming more risky investments. And, by removing the NRSRO ratings from Rule 2a-7, the Commission is eliminating an investment standard familiar to investors (and their financial advisors) which may negatively impact the marketability of money market funds.

4. The Proposed Amendments Substitute Vague Standards of Credit Quality for Standards Capable of Measurement and Compliance Testing. Under current Rule 2a-7, fund boards are required to make the same type of determination of minimal credit risk that the Commission repeats in the Proposed Amendments. However, we fear that the proposed requirement in the Proposed Amendments in the definition of "First Tier Security," that the fund's board of directors determine that the issuer has the "highest capacity to meet its short-term financial obligations," creates a nebulous standard with no objective reference point anywhere in the rule, unlike Rule 2a-7's current standards.

Additionally, to carry out the type of review necessary to determine that an issuer satisfies the proposed standard that the issuer must have the "highest capacity to meet its

short-term financial obligations," individual money market fund investment managers will have to create a process enabling them to determine a relative ranking standard for issuers. That is the type of credit analysis and ranking currently being performed by NRSROs. That would mean that investment managers will be expected to duplicate the process followed by the NRSROs, in addition to performing the credit analysis that such managers are performing under current Rule 2a-7 to establish that an issue meets the standard of presenting minimal credit risk using the data the manager gathers from available sources, including information compiled from reports issued by NRSROs. In essence, by proposing this standard, the Commission is asking every money market fund investment manager to become a mini-NRSRO. Requiring investment managers to duplicate the process followed by rating agencies will undoubtedly require hiring additional staff and other additional, substantial costs. We do not see what is to be gained by having every money market fund manager replicate the rating agency process in-house, in addition to performing the credit analysis such managers are already engaged in using data compiled from NRSROs and other sources.

We are also troubled by the proposed standards as to monitoring for downgrades and defaults. Proposed Rule 2a-7(c)(6)(a) would require that a money market fund's board of directors/trustees reassess the fund's investment in, and take action regarding, a security if the money market fund's investment adviser (or any delegate of such function by the fund's board) "becomes aware of any information about a portfolio security or an issuer of a portfolio security that may suggest that the security may not continue to present minimal credit risks." The proposed language changes the specific requirements in the current rule, which links such requirement to a security falling from qualification as a First Tier Security or to the investment adviser's becoming aware that a rated or unrated security has been given a rating by an NRSRO below the NRSRO's second highest short-term rating category. The broader standard in the Proposed Amendments leaves open to question what the term "suggest" means (it does not, for example, specify that it must suggest *to the investment manager or delegate*) or what "[m]ay not continue to present minimum credit risk" means or how it is to be ascertained. A standard without any point of reference is likely to produce different results for the same security for different investment managers, and it will be difficult, if not impossible, to establish an investment manager's satisfaction of that standard. We believe that eliminating the NRSRO rating downgrade trigger contained in the current rule would effectively weaken Rule 2a-7's credit quality standards.

The Proposing Release does not provide any guidance as to what types of sources of information it expects fund boards to review in connection with downgrades. The Commission notes in its Proposing Release that an investment adviser is expected "to exercise reasonable diligence in keeping abreast of new information about a portfolio security that is reported in the national financial press or in publications to which the investment adviser subscribes," but the Release does not offer any guidance as to what might constitute reasonable diligence, with respect to the identity, category or quantity of sources or the frequency of review. Without the guidelines under the current rule basing the requirement for board action on downgrades in ratings, a board of directors might

determine that since the onus is placed on it to take action with respect to a security if the investment adviser becomes aware of "any information" about an issuer that suggests the security no longer presents minimal credit risk, it is obligated to make specific investment

decisions and further to specify what sources of information the investment adviser must review, including sources not currently reviewed, such that the investment adviser will be expected to incur additional cost of subscriptions for ratings services and financial publications. Typically, boards do not have the expertise or the resources to make such investment decisions on their own.

Not only will this standard be difficult to apply, but it will also be difficult to test from a compliance perspective. Compliance departments will be left to their own devices to determine whether their investment teams have considered enough information and have taken action when required by the new rules. In so doing, they will be put in the awkward position of objectively evaluating the subjective determinations made by the fund's board. Of equal concern is how the Commission's Office of Compliance Inspections and Examinations ("OCIE") will interpret the standards established in the Proposed Amendments. How will OCIE enforce the Proposed Amendments when fund boards (and their investment adviser delegates) will be basing their decisions about "highest capacity" and "any information" on different data sources and applying their own idiosyncratic interpretations of the revised credit risk standards?

5. The Proposed Amendments Will Add Substantially to the Burdens of Fund Boards. We are also concerned about the lack of clarity in the Proposed Amendments about the role of the investment manager as a delegate of the fund's board of directors, to conduct the day-to-day credit analysis and carry out the overall standards for credit quality created by the fund board. Unlike the adopting release for Rule 2a-7 cited above, the Proposing Release says very little about the role of the investment adviser and the interplay between the fund's board of directors/trustees and the adviser in setting and reviewing credit quality standards for money market funds. We are concerned that the absence of such commentary may lead some fund boards to believe that the Proposed Amendments would place additional responsibilities on them to do more than establish standards for investments held by a money market fund, and would require the board to become actively involved in the selection of specific securities for purchase or sale. Such action would significantly add to the burdens of fund boards and would be contrary to the Commission's well-placed concern that fund boards already have substantial oversight responsibilities such that ways should be found to help reduce requirements for board involvement in day-to-day operational matters so that they may focus on matters of greater consequence. We believe it would be helpful for the Commission to reiterate the types of actions the board could take in setting standards and delegating responsibility to the investment adviser to assure employment of rigorous credit analysis. As noted in that release:

> . . . [T]he Commission believes that the ultimate responsibility for the quality of portfolio instruments should be placed on the board of directors, who have undertaken special responsibilities designed to ensure stability of the fund.

> However, as discussed earlier, although the rule provides that the fund will invest only in those instruments which the board has determined to be of sufficient quality, the Commission will not object to the delegation of the day-to-day function of determining quality, provided that the board retains sufficient oversight. An example of acceptable delegation would be for the board to set forth a list of "approved instruments" in which the fund could invest, such list including only those instruments which the board had evaluated and determined presented minimal credit risks. The board could also approve guidelines for the investment adviser regarding what factors would be necessary in order to deem a particular instrument as presenting minimal credit risk. The investment adviser would then evaluate the particular instruments proposed for investment and make only conforming investments. In either case, on a periodic basis the board should secure from the investment adviser and review both a listing of all instruments acquired and a representation that the fund had invested in only acceptable instruments. The board, of course, could revise the list of approved instruments or the investment factors to be used by the investment adviser. [Footnotes omitted].[6]

In the Proposing Release, the Commission notes that money market fund boards are able to use quality determinations prepared by outside sources, including NRSROs. The Proposed Amendments otherwise leave fund boards to guess at what additional support is required and to what extent investment teams may base credit quality determinations on independent analysis or experience and to override NRSRO judgments about the risks of individual securities, exactly the conduct the Commission was attempting to prevent when adopting Rule 2a-7 in 1983 with the NRSRO ratings requirements as part of the definition of "Eligible Security". We note that if fund boards feel increased pressure to supplement substantially the money market fund investment information they have historically reviewed, this may result is increased costs, in terms of subscriptions to additional ratings services and financial publications and for additional staff to analyze that information. Also, the costs for rating service subscriptions may increase if the Proposed Amendments are adopted. If NRSRO ratings are no longer required, issuers may be less likely to pay for credit ratings, forcing NRSROs either to reduce coverage or to increase the cost to subscribers.

If the Proposed Amendments are adopted, we believe that a greater burden will rest on the boards of directors of money market funds to oversee the investment process. While fund boards have always had either direct or oversight responsibilities regarding the fund's investment process, including review of the "minimal credit risk" determination, the adoption of the Proposed Amendments and the exclusive reliance on subjective credit risk determinations will compel fund boards to be even more involved. Additionally, if fund boards were to adopt internal money market fund credit standards using ratings of NRSROs, the Proposed Amendments would require the boards to take responsibility for the evaluation of the reliability of the ratings, a management task for which boards typically are not equipped, to the point of creating the likelihood that some boards, out of fear of litigation risk will believe they must take on functions that verge on

[6] SEC Release IC-13880, *Ibid.*

investment decision-making and other investment oversight functions that have traditionally been, and we believe are better left to, the responsibility of investment managers. This may require a significant allocation of a board's resources and may complicate the board's ability to validate the fund's compliance with the Proposed Amendments.

There are Other Ways to Improve Rule 2a-7. We hope that the Commission will leave Rule 2a-7 intact as to the inclusion of the NRSRO standards in the definition of "Eligible Security." If the Commission does so, we would encourage it to consider one modification that we believe will assist money market fund investment managers in conducting their analysis of securities. We suggest revising the definition of "Requisite NRSROs" in the Rule to allow fund boards to designate (presumably after considering any recommendations of the investment manager) the identity and number of NRSROs that will be included in the universe of NRSROs whose ratings will be reviewed to determine whether a security is an Eligible Security. We believe that change is necessary and desirable because of the proliferation of NRSROs designated by the Commission. In a number of cases a particular NRSRO may have a limited scope of securities it follows and rates or may have a less-developed capability and reputation for rating particular securities than other NRSROs; yet, under the current standard, an investment manager for a money market fund has to consider the ratings of *all* NRSROs that rate a security. It is conceivable that a manager could pick and choose among all of the NRSROs rating a particular security to find two that give it an acceptable rating, even if one or more of them was not regarded as having substantial experience with respect to that issuer or type of security. Allowing a fund to utilize the ratings of NRSROs specifically designated by the fund board of directors/trustees (allowing deviation from the selected list if a security is rated only by an NRSRO not on the list) would add a degree of rigor to the process.

Additionally, we suggest that the Commission adopt a procedure to highlight the notice of the designation of a new NRSRO prominently on the Commission's web site. At present, that information is not readily observable.

If the Commission is concerned that some investment managers may be relying too heavily on NRSRO ratings in their investment process, removal of ratings standards from Rule 2a-7 is not the way to deal with that concern. The Commission could strengthen the current language of the Rule by stating in "Portfolio Quality" that the determination that a security presents minimal credit standards must be based on the investment adviser's review of factors pertaining to the credit quality of the security and its issuer's ability to meet its obligations to repay such indebtedness when due, and not merely on the ratings assigned to such securities by an NRSRO. However, we believe that the language of the proposing and adopting releases for Rule 2a-7 in 1982 and 1983 already make that responsibility clear. Perhaps the Commission could consider issuing interpretive guidance in this area similar to the language contained in the adopting release for Rule 2a-7.

Rule 17a-9. OppenheimerFunds, Inc. supports the Commission's proposal to require a money market fund to provide notice to the Commission when it relies on Rule 17a-9 under the Investment Company Act, as a means to codify market practice and to ensure more comprehensive reporting about affiliates supporting money market funds, particularly in times of financial stress. We believe that reporting all purchases by an affiliate of a money market fund of securities of the fund that are no longer Eligible Securities will assist the Commission and its Staff in its oversight of money market funds particularly in times of market volatility and disruption.

One way that we believe the Commission should consider to enhance this effort, regardless of whether the Proposed Amendments are adopted, is a broadening of the provisions of Rule 17a-9 to allow an affiliate of a money market fund to purchase a security from the fund if the investment adviser determines that the security has become illiquid or that the security's credit quality has deteriorated such that it may soon no longer be an Eligible Security, provided that the purchase price is the current market price, the board of directors/trustees finds it in the best interests of the fund to allow such purchase, and the purchase otherwise satisfies the conditions of Rule 17a-9. We believe this may help the investment adviser to avert the possibility that a security that has become illiquid or whose credit quality is deteriorating rapidly may pose a threat to the fund's stable net asset value per share if the adviser is forced to wait until the point in time when the security is no longer an Eligible Security.

Rule 5b-3. We have concerns about the Proposed Amendments relating to Rule 5b-3 under the Investment Company Act, which permits a registered investment company to treat repurchase agreements and certain refunded securities as the acquisition of the securities collateralizing the instrument for purposes of Section 5(b)(1) of the Investment Company Act and, for repurchase agreements only, Section 12(d)(3) of the Act.

Currently, a fund may rely on Rule 5b-3 with respect to a repurchase agreement only if the repurchase agreement is collateralized fully, that is, the collateral consists only of cash items, U.S. government securities, rated securities that have a rating in the highest rating category by Requisite NRSROs, or unrated securities that are of comparable quality to rated securities in the highest rating categories of Requisite NRSROs, as determined by the fund's board or its delegate. Under the Proposed Amendments, the Commission would eliminate the ratings requirements and would permit reliance on Rule 5b-3 if the repurchase agreement is collateralized entirely by cash items, U.S. government securities or other securities that are sufficiently liquid, subject to no greater than minimal credit risk, and issued by an issuer with the "highest capacity to meet its financial obligations." As in the case of the Proposed Amendments for Rule 2a-7 credit quality determinations, the proposal provides no guidance as to how these quality standards are to be implemented or measured and gives rise to the same types of objections as are cited above: the Commission has proposed to replace an objective credit ratings standard with a subjective standard. As noted with respect to Rule 2a-7 above, using a subjective standard is difficult to apply, difficult to test for compliance, and creates uncertainty regarding enforcement.

Currently, a fund may rely on Rule 5b-3 with respect to refunded securities—securities whose principal and interest will be paid by escrowed U.S. government securities—only if an independent certified public accounting firm certifies that payments from the U.S. government securities will meet the refunded securities' principal and interest obligations. Such certification is not required, however, if the refunded securities have the specified NRSRO credit rating. Under the Proposed Amendments, the Commission would eliminate the rating exemption and require refundable securities for which Rule 5b-3 coverage is sought to have an independent certified public accountant's certificate. In proposing this elimination, the Commission posits that funds may be able to satisfy the certification requirement by determining that an NRSRO required an independent certified public accountant to issue such a certificate.

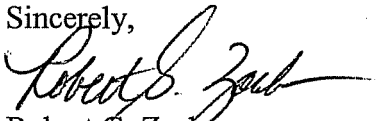
Having the requirement for NRSRO ratings in the Rule places the burden of obtaining the independent certified public accountant's certificate where it belongs: on the issuer seeking to market its securities. If, as a result of the Proposed Amendments, issuers no longer seek to have their securities rated, funds hoping to rely on the amended rule will be responsible for securing the accountant's certificates. It is unlikely that funds will have the time or be willing to expend the financial resources to acquire such a certificate, and thus would forego the investment altogether. For this reason we oppose this Proposed Amendment.

Overall, the Proposed Amendments seem to represent a case in which the goal of removing references to NRSROs from Commission regulations to deal with perceived weakness in the NRSRO process was deemed to be more important than the reasons those ratings requirements were put in the rules in the first place after careful consideration and public examination. After reviewing the proposing releases and subsequent rulemakings with respect to each of the Commission's rules affected by the Proposed Amendments, we believe that the Commission's judgment in employing the ratings standards in the rules was sound and sensible, and if the NRSRO process is broken, the better approach is to fix it (as the Commission has proposed to do in the NRSRO Rule Proposal cited above), not to eliminate the NRSRO ratings standards from the rules.

We appreciate having the opportunity to comment on the Proposed Amendments. While we appreciate and support the Commission's efforts to improve the process followed by NRSROs, we urge the Commission to consider the importance that credit ratings have in today's financial markets as an additional tool to supplement the credit analysis of investment advisers, especially in the case of money market funds. Credit rating standards in Rules 2a-7 help provide a measure of uniformity in the analytical process across all money market funds, with measurable compliance standards that promote the ability of such funds to maintain a stable net asset value per share and which we believe are in the best interests of fund investors.

We believe the Proposed Amendments may evidence a trend toward adopting "principles-based" rules to regulate the mutual fund industry, a trend that we find very troubling for an industry already subject to strict fiduciary principles and in which investors, financial advisors, funds and their boards of directors/trustees require unambiguous rules with readily-understandable, uniform compliance standards as a necessary means to promote market confidence and transparency in mutual funds as well as consistency and fairness in the application and enforcement of the rules by the Commission and its Staff.

Sincerely,



Robert G. Zack
Executive Vice President and
General Counsel

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

Andrew J. Donohue, Director
Robert E. Plaze, Associate Director,
Division of Investment Management