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September 5, 2008

Florence Harmon
Acting Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

*Re: References to Ratings of Nationally Recognized Statistical Rating
Organizations (File No. S7-19-08)*

Dear Ms. Harmon:

We are writing on behalf of the T. Rowe Price family of mutual funds (“**Price Funds**”) (123 funds with over \$230 billion in assets as of June 30, 2008), and in particular, the Price money market funds; T. Rowe Price Associates, Inc. (“**Price Associates**”), which serves as investment adviser to the Price money market funds; and T. Rowe Price Investment Services, Inc., which serves as principal underwriter and distributor to the Price Funds, to express our strong opposition to the Commission’s proposal to remove references to credit ratings from Rule 2a-7 under the Investment Company Act of 1940 (the “**Proposal**”). Price Associates manages 11 money market mutual funds, both taxable and tax-exempt, which held approximately \$26 billion in assets as of June 30, 2008. The Price Funds currently maintain the third largest market share in the direct-marketed retail distribution channel, and as such, this proposal is of great concern to us.

Rule 2a-7 is one of the Commission’s great success stories since its adoption 25 years ago. This rule is primarily responsible for creating a vibrant and sound cash management vehicle, offering investors a high degree of liquidity, stability of principal value, and current yield competitive with or greater than bank deposits. Money market funds have a track record that is unrivaled in stability of principal by any other type of security, in both good and bad markets, and they remain popular investment vehicles for cash reserves among large and small investors. The rigorous standards of Rule 2a-7, including its ratings requirements, have played an essential role in this success story. It is our view that the Proposal would strip an important investor protection standard from Rule 2a-7 and inevitably lead to a deterioration in credit quality of money funds, possibly leading to increased failures by funds to maintain a stable net asset value. Such an outcome would not be in the interests of the investing public or the mutual fund industry.

We concur with the comments of the Investment Company Institute in their letter dated September 5, 2008. In addition, we offer the following comments and observations on

the Proposal. While our letter addresses the proposed amendments to Rule 2a-7, many of the views we express apply as well to the proposed changes to Rule 5b-3, relating to the treatment of repurchase agreements and refunded securities. Again, we strongly object to the proposed changes to both rules.

Ratings Requirements Offer an Essential Objective Standard

Because money market funds invest in very short-term, high-quality securities, they are the lowest-risk investment among all mutual funds. One of the key conditions in the rule is that a money fund invest only in “eligible securities.” Eligible securities are defined by a two-part test. The objective test generally defines an eligible security as one that has received a short-term rating by the requisite rating agencies in one of the two highest short term rating categories, or an unrated security of comparable quality as determined by the fund’s board of directors. Rule 2a-7 requires taxable money market funds to invest at least 95% of their assets in “first tier” securities – U.S. government issues and other short-term debt securities carrying the highest credit rating by the requisite number of rating agencies. Tax-free money funds must limit their investments to first and second-tier securities. Importantly, Rule 2a-7 supplements its objective test with a subjective one that limits a money market fund’s portfolio “to 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 additional to any rating assigned to such securities[by a rating agency.]**)”¹ (emphasis supplied) No other rule under the 1940 Act contains such rigorous standards for a fund’s investments.

The Commission is proposing to eliminate the references to credit agency ratings in the definition of eligible security. Instead, the fund’s board and investment adviser would be required to determine that the fund’s investments present minimal credit risks based on the issuer’s credit quality and ability to meet its short-term financial obligations. The Proposal replaces an existing objective test that is easily verifiable by fund shareholders, SEC examiners, auditors, the press and others, with a subjective one that is already part of the current rule and which, by itself, will be inadequate to protect money fund investors. The objective standard now in Rule 2a-7, while not alone sufficient, is necessary and works in tandem with the subjective standard to provide a well-balanced approach to protect fund shareholders. The minimum rating requirement provides a “floor” that prevents money fund managers, for whatever reason, from taking greater risks in search of higher yields to gain a competitive advantage. We are very concerned that removal of the objective test will lead to “a race to the bottom” in terms of money fund credit quality, as well as less transparency, as fund managers, their fund boards and even regulators apply their individual interpretations to the subjective “minimal credit risk” test. Ultimately, this will result in greater risks to investors who count on the stability of money funds for their savings.

¹ See Rule 2a-7(c)(3)(i) under the Investment Company Act of 1940.

It is important to emphasize that it is unlikely that the Proposal, if adopted, would have any significant impact on the way the Price money funds operate. Price Associates has a dedicated high quality credit research group and a strong commitment to fundamental credit research. Every money market security purchased by the Price money funds is rigorously and independently researched to determine its short and long-term creditworthiness and, consistent with Rule 2a-7, whether it presents “minimal credit risks.” Credit agency ratings are only one point of reference in our independent evaluation of an issuer’s credit quality. However, as noted above, we believe that other investment advisers, who may not have the same dedicated resources, commitment to credit research, or philosophy with respect to the use of ratings or of what constitutes “minimal credit risk,” may take advantage of the absence of an objective standard to purchase riskier investments for their money funds in pursuit of higher yields. This would be an unfortunate and unintended consequence of the Commission’s reforms.

Allow Rating Agency Reforms to Work

As the recent crisis in the credit markets illustrates, the highest credit ratings do not ensure the safety of principal for any investment, including money market instruments. Yet, the fact that ratings agencies have too often failed to understand the true risk of an individual investment or complex structure does not mean that the ratings process provides no value to investors. The Commission cited in its Proposal the concern that some fund managers may have placed “undue reliance” on ratings, and as a result, “may be vulnerable to failures in the ratings process.” While this may be true, the Proposal will not cure this problem. As noted, under the Proposal, funds and advisers will be permitted to take into account credit agency ratings in making their “minimal credit risk” determinations. The Proposal makes it clear that a fund and adviser can not rely exclusively on credit agency ratings, but this is the same requirement that applies under existing Rule 2a-7 so we fail to see how the Proposal effectively addresses the problem of over-reliance. Also, the rule already requires an investment adviser to keep a written record of its determination that a portfolio security presents minimal credit risks.² So, through its inspection program, the Commission has a means to ensure that money fund advisers are not placing undue emphasis on the credit rating agencies in fulfilling their duties under Rule 2a-7. On the other hand, what the Proposal clearly does do is remove an objective standard which has provided, and can continue to provide, significant value to money funds and their shareholders, assuming the Commission pursues its credit rating agency reforms.

The Commission has stated that possession of a minimum rating for a money fund investment is not a “safe harbor” and that it cannot be the sole factor considered in determining whether a security has minimal credit risks.³ We agree. Vigorous credit research can place into question overly generous credit ratings and uncover problematic

² See Rule 2a-7(c)(10)(iii).

³ Revisions to Rules Regulating Money Market Funds, SEC Release No. IC-18005 (Feb. 20, 1991), at note 18 and accompanying text.

ratings. Therefore, the Commission should focus on improvements in transparency and accountability in the process by which credit agencies assign ratings as opposed to eliminating ratings requirements from the rule. Accordingly, we strongly support the Commission's proposed rating agency reforms which would regulate conflicts of interest, require additional recordkeeping, and enhance disclosure of rating agency methodologies, policies and ratings results.⁴ These reforms will enable investment advisers like Price Associates to more effectively critique an issuer's ratings and potentially uncover "failures in the ratings process." We believe that the Commission should move to adopt and allow time for its proposed ratings agency reforms to work, instead of removing the ratings requirement from Rule 2a-7 altogether.

Removal of Ratings Will Place Undue Burdens on Fund Boards

Oversight by a money market fund's board of directors has been an essential component of Rule 2a-7 since its adoption in 1983. The rule imposes specific responsibilities on a fund board to approve and monitor the fund's technical policies and procedures, including guidelines for determining whether a money fund's portfolio securities present minimal credit risks. Under its current structure, Rule 2a-7 permits a fund board to delegate certain of its responsibilities to the fund's adviser subject to the board's oversight of these activities. In adopting Rule 2a-7, the SEC stated that it did not expect a money market fund board "to become personally involved in the day-to-day operations of the fund" or "to be insurers of the activities of the investment adviser or the fund."⁵ Nevertheless, we are concerned that the effect of the Proposal will take fund boards beyond their general oversight responsibilities and force them to become more active in the day-to-day credit monitoring and investment review process for money funds – a role which is inconsistent with the general governance function of boards and one for which they are not well-suited.

The Proposal attempts to solve the problem of over-reliance on credit agency ratings by removing any reference to such ratings from Rule 2a-7 and substituting the judgment of the board as to what should or can be held in a money fund's portfolio. For example, the Proposal would require boards to determine whether a money market security is a "first-tier" security under the rule, which means that the board must determine that the issuer "has the highest capacity to meet its short-term financial obligations." As we stated before, this approach does not resolve the issue of funds and their advisers relying too much on the credit rating agencies. Application of this subjective standard will undoubtedly lead to differences of interpretation between fund groups in their determinations of the credit quality of various money market instruments. Further, because most fund directors do not have the credit expertise to make the types of determinations required by the Proposal, they will delegate this responsibility to the money fund's investment adviser. An investment adviser could ignore a money market

⁴ See Proposed Rules for Nationally Recognized Statistical Ratings Organizations, SEC Release No. 34-57967 (June 17, 2008).

⁵ See 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).

instrument's credit agency ratings and cite other factors to support its view of "minimal credit risk." Some fund advisers may be more conservative in their interpretation of "minimal credit risk" than others. By forcing more responsibility onto the board to evaluate these subjective determinations, it will undoubtedly create more opportunity for a board to be second-guessed even where the board has properly delegated its responsibility to the fund's investment adviser.

Finally, we are concerned that the Proposal's new standard for monitoring credit risk will be overly burdensome to implement and put fund directors in an unaccustomed role. Currently, Rule 2a-7 requires the fund board to reassess promptly whether a security continues to present minimal credit risks if it is downgraded and no longer an "eligible security." These credit downgrade events, and decisions relating to whether a fund should retain a troubled investment, are among the most difficult decisions a board has to make. In place of this downgrade triggering event, the Commission expects the adviser and/or fund board to monitor for "any information about a portfolio security or issuer ... that may **suggest** that the security may not continue to present minimal credit risks." (emphasis supplied) While an adviser can consider a number of factors in monitoring an issuer's credit quality, it is unreasonable to expect a board to monitor for such events and take action based on a subjective determination. Again, a board will need to rely on the adviser to bring such securities to the board's attention. The current objective standard in Rule 2a-7 is preferable as ratings downgrades can be monitored more easily, are subject to independent verification, and would be a significant factor that an adviser would consider in any event. To remove the ratings downgrade reassessment from Rule 2a-7 is a triumph of "form over substance," and adds more uncertainty to an already difficult credit decision for the board.

We appreciate the opportunity to comment on the rule proposal, and are hopeful that the Commission will re-evaluate its approach to Rules 2a-7 and 5b-3. If you have any questions concerning our comments or would like additional information, please feel free to contact any of the undersigned.

Sincerely,



David Oestreicher
Chief Legal Counsel



Darrell N. Braman
Associate Legal Counsel