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October 3, 2008

Florence Harmon, Acting Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Re: Comments on Proposed Rule Regarding References to Ratings of Nationally Recognized Statistical Rating Organizations, File No. S7-19-08

Dear Ms. Harmon:

I am writing on behalf of the Independent Trustees (the "Independent Trustees") of the domestic open-end fixed income management investment companies (the "Fidelity Fixed Income Funds") managed by Fidelity Management & Research Company ("FMR"). The Fidelity Fixed Income Funds comprise more than 50 registered investment companies ("funds") with aggregate assets in excess of $541 billion, including more than 30 money market funds with aggregate assets in excess of $425 billion.

The Independent Trustees appreciate the opportunity to comment on the proposed amendments to rules under the Investment Company Act of 1940 (specifically, Rules 2a7 and 5b-3) that would remove references to NRSRO ratings. Rather, fund boards would be required to make additional determinations about the credit quality of portfolio securities.

We believe that the changes will impose significant new responsibilities on fund boards in connection with credit quality determinations that are within the expertise of the fund's investment adviser. In this respect, the proposed amendments would appear to mark a significant reversal of Commission initiatives to remove rule requirements that rely unnecessarily on fund boards of trustees. As noted in the Division of Investment Management's landmark study of mutual fund regulation:

> We believe that independent directors are unnecessarily burdened, however, when required to make determinations that call for a high level of involvement in day-to-day activities. Rules that impose specific duties and responsibilities on the independent directors should not require them to "micro-manage" operational matters. To the extent possible, operational matters that do not present a conflict between the interests of advisers and the

> investment companies they advise should be handled primarily or exclusively by the investment adviser.[1]

Based on this conclusion, the Commission adopted a number of rule amendments to limit fund board approval requirements in matters that do not involve conflicts of interest. In contrast, the proposed amendments will expand fund board responsibilities in day-to-day matters that do not implicate the types of conflicts of interest that fund boards are uniquely qualified to oversee.

A. Rule 2a-7 Amendments

1. Overview

FMR has submitted a comment letter on the Rule proposals. We join FMR in being extremely concerned about the consequences of removing the references to NRSRO ratings in these rules. Based on our experience with Rule 2a-7 in particular, we believe that the references to NRSRO ratings have been extremely useful in accomplishing the Rule's objectives.

We believe that FMR has the resources and capacity to manage the money market funds in the interest of investors without Rule 2a-7's references to NRSRO ratings. We understand that the Commission is concerned that money managers rely too heavily on NRSRO ratings in managing money market funds. We understand, however, that such heavy reliance is inconsistent with the provisions of Rule 2a-7. Thus, we question whether removing the references to ratings would have a positive impact on money market funds.

2. Credit Quality Determinations

Money market funds may only invest in Eligible Securities. Under the current rule, an Eligible Security is generally a security that has received a rating from the "Requisite NRSROs" in one of the two highest short-term rating categories or an unrated security that is of comparable quality. This would be replaced by a requirement that would require a fund board to determine that "the security 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."[2]

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[1] SEC, Protecting Investors: A Half Century of Investment Company Regulation (1992) at 266.

[2] We recognize that Rule 2a-7 currently limits money market fund portfolio investments to "securities that the fund's board of directors determines present minimal credit risks." While certain of our comments might apply to this

In addition, Rule 2a-7 limits a fund's ability to invest in Eligible Securities that are not First Tier Securities. Generally, a First Tier Security is any Eligible Security that is (i) a rated security that has received a short-term rating from the Requisite NRSROs in the highest short-term rating category for debt obligations; (ii) an unrated security that is of comparable quality to a rated First Tier Security; (iii) a security issued by a registered investment company that is a money market fund; or (iv) a U.S. Government Security. Under the proposed amendments, a First Tier Security would generally be defined as "a security the issuer of which the fund's board of directors has determined has the highest capacity to meet its short-term financial obligations."

The current rule contains objective tests for making a determination that a rated security is an Eligible Security or First Tier Security (the NRSRO ratings) and an objective standard (comparability to a rated security) for making this assessment with respect to an Unrated Security. In contrast, the new standards are untethered from any narrowly crafted objective standard. More importantly, the responsibility for applying the standards would fall to the board, thus potentially involving the board in the day-to-day management of the fund.

Even if the Commission concludes that it is no longer appropriate to rely on NRSRO ratings to define Eligible and First Tier Securities – a change in approach which does not appear to be justified – we do not believe that it is appropriate to place this responsibility on a fund board. While a fund board can, and should, oversee an investment adviser's approach to implementing policies concerning credit quality, a board is not suited to making the types of credit quality determinations called for by the Rule. It is not enough to respond that a board may delegate this responsibility; the proposed Rule would assign this responsibility to the board.

3. Recognizing the Appropriate Role of the Board

If the Commission decides to adopt these amendments, or even if does not, it should revise the approach of the Rule to fund board involvement in credit quality and other determinations involving day-to-day management of the fund.

For example, the proposed definition of "First Tier Security" could provide that a First Tier Security is "a security the issuer of which has the highest capacity to meet its short-term financial obligations." Under this approach, as is the case for other operational matters, the board's involvement would one of oversight – *i.e.*, discussing with the fund's investment adviser how it has implemented this requirement.

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determination, the Commission and its staff have provided a significant amount of guidance on the operation of this standard over the past 25 years.

On the other hand, certain determinations should remain the responsibility of the board, such as the determination that it is in the best interests of the fund and its shareholders to maintain a stable net asset value per share or stable price per share.

B. Rule 5b-3

The Commission has also proposed amendments to Rule 5b-3, which provides that, subject to certain conditions, the acquisition of a repurchase agreement may be deemed to be an acquisition of the underlying securities. The amendments would require a fund board (or its delegate) to determine that certain types of securities underlying a repurchase agreement (i) are sufficiently liquid such they can be sold at or near their carrying value within a reasonably short period of time; (ii) are subject to no greater than minimal credit risk; and (iii) are issued by a person that has the highest capacity to meet its financial obligations.

We believe that this proposed amendment has all of the flaws of the proposed amendments to Rule 2a-7. In addition, assigning the board specific responsibility for these determinations is unwarranted and undercuts the Commission's objective of reducing unnecessary burdens on fund boards. The rule is designed to address diversification and certain other technical matters and not a conflict of interest that requires board oversight. The determinations that would be required by the proposed amendment are uniquely within the expertise of a fund's investment adviser.

C. Rule 10f-3

The Commission is proposing amendments to Rule 10f-3 that would allow funds to purchase unrated municipal securities. A determination would be made that the securities are sufficiently liquid that they can be sold at or near their carrying value within a reasonably short period of time and would have to be either (i) subject to no greater than moderate credit risk or (ii) if they are less seasoned securities, subject to a minimal or low amount of credit risk.

Fund boards would not be directly involved in making these determinations. However, the board would have to approve policies and procedures that incorporate the new determinations and would be required to periodically determine (as it is under the current rule) that the fund's purchases of securities have been made in compliance with the procedures. The proposed standards, given their emphasis on judgment, would likely increase the amount of time and costs devoted to that oversight. Thus, we encourage the Commission to revisit its cost benefit analysis, which suggests that the amendments would not impose any additional costs.

We appreciate the opportunity to comment on the Commission's proposed rule modifications. If we can be of any further assistance in this regard, please contact Woodrow W. Campbell at (212)-909-6779 or Kenneth J. Berman at (202) 383-8050.

Very truly yours,

Kenneth L. Wolfe
Chairman, Independent Trustees
Fidelity Fixed Income Funds

cc. Chairman Christopher Cox
Commissioner Luis Aguilar
Commissioner Kathleen L. Casey
Commissioner Troy Paredes
Commissioner Elisse B. Walter
Andrew J. Donohue, Director, Division of Investment Management
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