



April 4, 2007

Nancy M. Morris  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

**Re: File Number S7-04-07 – Oversight of Credit Rating Agencies Registered as  
Nationally Recognized Statistical Rating Organizations**

Dear Ms. Morris:

Fidelity Management & Research Company ("Fidelity") thanks the Securities and Exchange Commission (the "Commission") for the opportunity to comment upon the proposed rules (the "Proposed Rules") to implement provisions of the Credit Rating Agency Reform Act of 2006 (the "CRA Act").<sup>1</sup>

Fidelity, through its Fixed Income Division, manages approximately \$530 billion in investment grade bond mutual funds, money market mutual funds and other fixed income accounts. Fidelity's managed assets include approximately \$294 billion invested in money market mutual funds governed by Rule 2a-7 of the Investment Company Act of 1940 ("Rule 2a-7"). In its role as investment adviser, Fidelity acts as a fiduciary for approximately 22 million individuals.

Fidelity believes that the Commission plays a vital role in overseeing credit rating agencies and has supported the efforts of Congress and the Commission to determine the appropriate level of regulation for credit rating agencies.<sup>2</sup> Fidelity incorporates by reference the letters and testimony cited above and asks the Commission to consider the following additional comments in connection with the promulgation of final rules.

The Proposed Rules reflect extensive research and thoughtful deliberation on the part of the Commission, especially in light of the Congressionally mandated deadline of June 26, 2007. As mentioned above, Fidelity generally supports the Commission's effort to ensure minimum standards for registration and agrees that rating agencies should be required to disclose the procedures and methodologies used in determining ratings as well as any conflicts of interest and how those conflicts are managed.

<sup>1</sup> Securities and Exchange Commission, "Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations," SEC Rel. No. 34-55231 (February 2, 2007), 72 Fed. Reg. 6378 (February 9, 2007).

<sup>2</sup> Securities and Exchange Commission, "Definition of Nationally Recognized Statistical Rating Organization," Release Nos. 33-8570, 34-51572, 70 Fed. Reg. 21306 (April 25, 2005), footnotes 20, 45 & 64. *See also*, Fidelity's comment letter to the International Organization of Securities Commissions ("IOSCO") regarding IOSCO's proposed Code of Conduct Fundamentals for Credit Rating Agencies (available at [http://www.iosco.org/pubdocs/pdf/IOSCOPD177\\_34.pdf](http://www.iosco.org/pubdocs/pdf/IOSCOPD177_34.pdf)); Letter from Steven C. Nelson, Director of Taxable Money Market Research, Fidelity Investments Money Management, Inc. to Jonathan G. Katz, Secretary (July 25, 2003) (available at [www.sec.gov/rules/concept/s71203/snelson072503.htm](http://www.sec.gov/rules/concept/s71203/snelson072503.htm)); Letter from Charles S. Morrison, Money Market Group Leader, Fidelity Management & Research Company, Fixed Income Division, to Jonathan G. Katz, Secretary (June 23, 2005) (available at <http://www.sec.gov/rules/proposed/s70405/s70405-8.pdf>).

Fidelity Management  
& Research Company  
Fixed Income Division

Mailing Address:  
P.O. Box 9600  
Merrimack, NH 03054-9600  
Office Address:  
One Spartan Way  
Merrimack, NH 03054

The Proposed Rules will impact the money market mutual fund industry. The significant trust that investors place in the money market fund industry has allowed the assets invested in money market funds to grow to \$2.431 trillion,<sup>3</sup> which is equivalent to nearly 18% of the U.S. gross domestic product.<sup>4</sup> Rule 2a-7, as written and overseen by the Commission, has worked remarkably well to ensure that investors' trust in the money market fund industry is well placed.

The term "nationally recognized statistical rating organization" or NRSRO is critically important to money market fund regulation. Rule 2a-7 prescribes that money market funds determine whether a security is eligible for purchase on the basis of whether a security has received a rating from two NRSROs in one of the two highest short-term rating categories.<sup>5</sup> In the release for the Proposed Rules, the Commission estimates that 30 credit rating agencies may become registered as NRSROs.<sup>6</sup> Assuming those 30 NRSROs provide short-term ratings, a security would be eligible for purchase by money market funds if two NRSROs provide a rating in the highest short-term rating category, even if 28 rating agencies provide a rating below the two highest short-term rating categories ("Third Tier"). Thus, the risk to money market fund shareholders is that, under the Proposed Rules, investment advisers could comply with Rule 2a-7 by filling portfolios with securities that the overwhelmingly majority of NRSROs believe are Third Tier.

Fidelity believes that the fixed-income markets generally will benefit from the increased transparency and competition that the CRA Act creates. Given the importance and size of the money market mutual fund industry, however, Fidelity respectfully requests that the Commission revise the Proposed Rules and/or Rule 2a-7 to ensure that there is no money market disruption. The Proposed Rules, in accordance with the CRA Act, list five classes of credit ratings on Form NRSRO under which credit rating agencies may seek registration, including asset-backed securities and government securities. One possible revision is for the Commission to add an additional class of credit rating to Form NRSRO for money market securities (registration under which would also require written certifications from investment advisers to money market funds).<sup>7</sup> The Commission may also want to consider changing the numerical requirement for the definition of "Requisite NRSROs" in Rule 2a-7.<sup>8</sup> Just as the Commission allows only particular investment companies to hold themselves out as money market funds (*i.e.*, those that comply with Rule 2a-7),<sup>9</sup> the Commission should permit only certain NRSROs to rate money market securities.

Finally, Fidelity encourages the Commission to make clear which entities are NRSROs under the new registration process. The Commission may want to consider an identifiable part of the Commission's website that lists each NRSRO and, for the initial transition period with the existing five NRSROs, confirms that the existing NRSROs have filed a pending application for registration with the

---

<sup>3</sup> Investment Company Institute, "Money Market Mutual Fund Assets" (March 22, 2007) (available at [http://www.ici.org/home/mm\\_03\\_22\\_07.html#TopOfPage](http://www.ici.org/home/mm_03_22_07.html#TopOfPage)).

<sup>4</sup> Bureau of Economic Analysis, U.S. Department of Commerce, "Gross Domestic Product: Fourth Quarter (Preliminary)" (February 28, 2007) (available at <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>).

<sup>5</sup> 17 C.F.R. §§ 270.2a-7(a)(10)(i) and 270.2a-7(a)(21)(i). Rule 2a-7 also provides that a money market fund may rely on the rating of one NRSRO to determine an "Eligible Security" if only one NRSRO has issued a rating with respect to such security. 17 CFR § 270.2a-7(a)(21)(i).

<sup>6</sup> 72 Fed. Reg. 6405.

<sup>7</sup> Fidelity recognizes that the CRA Act mandates that the Commission adopt rules that are "narrowly tailored" to meet the CRA Act's requirements and that the CRA Act provides a specific definition of the term "nationally recognized statistical rating organization." 15 U.S.C. 78c(a)(62) and 78o-(7)(c)(2); 72 Fed. Reg. 6380. Fidelity, notes, however, that the Commission added an additional prohibited act and practice at Rule 17g-6(a)(5) which was not specified in the CRA Act. *See* 15 U.S.C. 78o-(7)(i)(1); 72 Fed. Reg. 6403.

<sup>8</sup> 17 C.F.R. § 270.2a-7(a)(21).

<sup>9</sup> 17 C.F.R. § 270.2a-7(b).

Commission. Investment advisers need to understand which credit rating agencies are NRSROs to ensure compliance with applicable regulations that reference NRSROs.

\*\*\*\*\*

Once again, Fidelity appreciates the opportunity to comment on the Proposed Rules. If you or your staff have any questions with regard to our views, please contact me at 603-791-7795 or Nancy Prior, Vice President and Associate General Counsel, at 603-791-6308.

Very truly yours,

A handwritten signature in cursive script that reads "Charles Morrison".

Charles S. Morrison  
Senior Vice President and  
Money Market Group Leader