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Federated

WORLD-CLASS INVESTMENT MANAGER[®]

April 25, 2011

VIA E-MAIL RULE-COMMENTS @SEC.GOV

Ms. Elizabeth M. Murphy
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

**Re: References to Credit Ratings in Certain Investment Company Act Rules
and Forms (File No. S7-07-11)**

Dear Ms. Murphy,

This letter presents the comments of Federated Investors, Inc. and its subsidiaries (“Federated”) on the recent issuance by the Securities and Exchange Commission (“SEC” or “Commission”) of a Release proposing to eliminate references to nationally recognized statistical rating organizations (“NRSROs”) in Rule 2a-7 under the Investment Company Act of 1940 (the “1940 Act”) and replace such credit ratings with alternative standards of creditworthiness that are designed to appropriately achieve the same purposes as the rating requirements (the “Proposed Amendments”).¹ Federated is one of the largest investment management firms in the United States, managing \$244.8 billion in registered money market fund assets and \$358.2 billion in total assets as of December 31, 2010. With 147 mutual funds and a variety of separately managed account options, Federated provides comprehensive investment management to more than 5,400 institutions and intermediaries including corporations, government entities, insurance companies, foundations and endowments, banks and broker/dealers.

Federated understands that the Proposed Amendments are a consequence of the implementation of Section 939A of Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”). Federated, however, strongly opposes the Proposed Amendments, as the use of credit ratings serves an important additional level of investor protection by keeping all money market funds managed in accordance with Rule 2a-7 (“Money Market Funds”) investing in securities of generally the same high credit quality.² The credit rating standards also restrain any particular Money Market Fund from taking materially greater credit risk than other competing Money Market Funds to increase yield (thus gaining a competitive advantage in a yield-sensitive market). The use of credit ratings in Rule 2a-7 provide a clear reference point for Money Market Funds, both large and small, by which to measure compliance with the rule’s requirements.

¹ The Proposed Amendments were published for comment in Release No. IC-29592 (the “Release”).

² Federated previously expressed its opposition to the removal of references to NRSROs in its September 5, 2008 Comment Letter Re: File No. S7-19-08: References to Ratings of Nationally Recognized Statistical Rating Organizations.

The prudent course of action is to not remove references to NRSROs in Rule 2a-7 and we urge the Commission and others in the industry to maintain an active dialog with Congress seeking to amend Section 939A of the Dodd-Frank Act.

Prudent course notwithstanding, in addition to highlighting the NRSRO credit rating boundaries that safeguards investors below, we set forth specific comments on the Proposed Amendments in the event that the Commission proceeds with the Proposed Amendments substantially in their current form. With respect to the items not specifically commented on in this letter, Federated joins in the comments submitted by the Investment Company Institute, specifically with respect to (i) Securities with a Conditional Demand Feature, (ii) Monitoring Minimal Credit Risk, (iii) Rule 5b-3, (v) Shareholder Reports, and (vi) Use of Credit Ratings by Directors and in Procedures.

I. NRSRO CREDIT RATINGS ESTABLISH INDEPENDENT AND ADDITIONAL BOUNDARIES THAT SAFEGUARD INVESTORS BY PROVIDING CONSISTENT MINIMUM CREDIT QUALITY

Since its adoption in 1983, Rule 2a-7 has provided a strong regulatory framework for Money Market Funds. Through different economic cycles, issuer defaults, and credit market turmoil, Money Market Fund investors have been well served by the protections afforded by Rule 2a-7. Federated appreciates the Commission's concern that some Money Market Funds may have placed undue reliance on NRSRO credit ratings that were flawed or otherwise inaccurate. However, to the extent that Money Market Funds may have placed undue reliance on NRSRO credit ratings, Federated believes that such Money Market Funds may have failed to meet their Rule 2a-7(c)(3)(i) obligation to make an independent minimal credit risk determination, and overlooked the Commission's long and consistent guidance that NRSRO credit ratings should not serve as the sole basis for determining whether a potential security is eligible for purchase by a Money Market Fund.

Federated generally has recognized that Rule 2a-7 imposes two requirements directly related to the creditworthiness of a Money Market Fund's portfolio securities. First, Rule 2a-7(c)(3)(i) provides that every security acquired by a Money Market Fund must be an "Eligible Security," which generally is an objective standard determined by reference to NRSRO credit ratings.³ Second, Rule 2a-7(c)(3)(i) provides that every security acquired by a Money Market Fund must present minimal credit risks, which is a subjective standard determined by the board or its delegate. Federated believes that NRSRO credit ratings continue to be a key protective element to Rule 2a-7, because they establish a uniform and independent boundary for a Money

³ Under Rule 2a-7(a)(10), an "Eligible Security" is a "First Tier Security" or a "Second Tier Security" with a remaining maturity of 397 days or less. Federated recognizes that an "Unrated Security" may be a "First Tier Security" or a "Second Tier Security" based on the subjective analysis of the board of directors or its delegate.

Market Fund's portfolio securities. Such an industry-wide boundary is critical and their removal would substantially weaken Rule 2a-7 to the detriment of Money Market Fund investors.

II. THE CURRENT DUAL REQUIREMENTS THAT A PORTFOLIO SECURITY BE AN "ELIGIBLE SECURITY" AND PRESENT MINIMAL CREDIT RISK SHOULD BE RETAINED.

The Commission's charge of removing references to NRSROs from the text of Rule 2a-7 should be and can be accomplished in a manner that provides at least the same amount of investor protection as is currently in place and should provide investors, and those who utilize Money Market Funds in the capital markets, with the same degree of certainty as exists today. In the Proposed Amendments the Commission asks whether Money Market Funds should be limited to "investing in securities solely based on a minimal credit risk determination, i.e., establish a single test for determining whether a fund could invest in a security." We do not believe that a change to a single test is appropriate.

Since the first exemptive order permitting the use of the amortized cost method of valuing shares, the Commission has required that a Money Market Fund "limit its portfolio investments... to those instruments which the Board of Directors (Trustees) determines present minimal credit risk."⁴ When it adopted Rule 2a-7, the Commission further explained the need for both a high NRSRO credit rating and a minimal credit risk assessment, observing that a potential security 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" and that the board "may look at some aspects when evaluating the risk of an investment that would not be considered by the [NRSROs]."⁵ Subsequently, the Commission has observed that a board must determine minimal credit risk "based upon an analysis of the issuer's capacity to repay its short-term debt," and provided "[e]xamples of elements of such an analysis."⁶

Federated believes that Rule 2a-7's dual requirements that a portfolio security be an "Eligible Security" and present minimal credit risk provides an independent "check and balance" which protects investors and serves as an independent sounding board for Money Market Fund advisers.

⁴ In the Matter of Intercapital Liquid Asset Fund, Inc., et. al. Investment Company Act Release No. 10824, 18 SEC Docket 52 (August 8, 1979).

⁵ Valuation of Debt Instruments and Computation of Current Price Per Share by Certain Open-End Investment Companies (Money Market Funds), Investment Company Act Release No. 13380, 28 SEC Docket 375 (July 11, 1983).

⁶ Letter to Registrants, WSB File No. 051490039 (publicly available May 8, 1990).

III. THE IMPLEMENTATION OF A SINGLE TEST FOR DETERMINING WHETHER A MONEY MARKET FUND COULD INVEST IN A SECURITY WOULD NEGATIVELY IMPACT ISSUERS OF SECOND TIER SECURITIES AND WOULD LIMIT THE NUMBER OF INVESTMENT OPTIONS FOR MONEY MARKET FUNDS WITHOUT A CORRESPONDING BENEFIT TO SHAREHOLDERS.

Federated supports the Commission's proposal to continue to permit Money Market Funds to invest up to 3% of their total assets in Second Tier Securities, subject to more restrictive diversification requirements. The implementation of a single credit standard for determining whether a Money Market Fund could invest in a security would put undue pressure on Money Market Funds to limit their exposure to Second Tier Securities above and beyond the current 3% exposure limits in place today. The issue of whether or not Second Tier Securities should be considered as permissible investments in Money Market Funds was addressed in the Commission's 2010 amendments to Rule 2a-7. Federated continues to strongly believe that the Commission should allow Money Market Funds to hold Second Tier Securities subject to the restrictions currently in place. Given the additional investment protections included in Rule 2a-7, as amended, the benefit of investing in Second Tier Securities far outweighs any potential increased credit risk.

We believe that a change to a single credit standard would effectively close the door on Money Market Funds investing in Second Tier Securities to the detriment of shareholders and issuers.

IV. IF THE COMMISSION MOVES FORWARD WITH THE PROPOSED AMENDMENTS IN SUBSTANTIALLY THE FORM PRESENTED, THE USE OF SUPERLATIVES IN THE PROPOSED AMENDMENTS SHOULD BE QUALIFIED AND ADDITIONAL GUIDANCE ON SPECIFIC INTENT SHOULD BE INCLUDED IN THE ADOPTING RELEASE.

The Proposed Amendments eliminate the objective requirement that an eligible security be rated by an NRSRO or be of comparable quality while maintaining the division between First and Second Tier Securities. While it may be difficult to maintain current distinctions between First and Second Tier Securities without an objective, external ratings floor, we believe certain additional measures could be implemented by the Commission to improve the Proposed Amendment and maintain the risk parameters currently in place under Rule 2a-7.

The Proposed Amendment's designation of "highest capacity" should be revised to reflect that there are multiple securities which would fall under a "highest" category at any given time, and as such, should be qualified as being "among the highest." A determination that an issuer has the highest capacity to meet its short-term financial obligations, if taken literally, does not seem to contemplate any variation in creditworthiness among issuers of First Tier Securities. Adding a qualifier would serve to limit confusion.

The Proposed Amendment's definition of Second Tier Security remains the same – an “eligible security that is not a first tier security.” This would include issuers whose obligations present minimal credit risks but whose capacity for repayment, while strong, is not “among the highest,” which would be consistent with the current standard.

To mitigate the potential for the varied interpretations under the new definitions of First Tier and Second Tier Securities, the Commission should note in the adopting release that it is their intent that credit standards using the revised First Tier Security definition be applied in the same manner as the existing First Tier Security definition, even though a board or its delegate would not be bound by any credit ratings the security may have received. This would provide clear guidance on how the industry should interpret what is and what is not “highest”, or as proposed above, “among the highest” and other securities which may be considered Second Tier Securities. The inclusion of the Commission's clear intent reduces the likelihood that an investment advisor would take a broader interpretation as to what constitutes a First Tier Security today, and prevent the inclusion of a higher percentage of Second Tier Securities than is permissible under current credit standards.

V. REMOVAL OF NRSRO REFERENCES FROM FORM N-MFP ELIMINATES TRANSPARENCY AND A STRONG DETERRENT FOR THOSE LOOKING TO PURCHASE LOWER RATED SECURITIES.

In 2009, when the proposal to include NRSRO credit ratings in Form N-MFP was put forward by the Commission, Federated opposed such inclusion, and commented that Form N-MFP would require Money Market Funds to provide the Commission with redundant information that could be obtained more efficiently from other sources. Over the past few years our position has changed. The inclusion of references on Form N-MFP will provide investors, industry participants, and the Commission with increased transparency, easy access and an efficient means of identifying any potential outliers to the revised regulatory scheme. Additionally, the inclusion of NRSRO credit ratings serves, and will continue to serve, a more prominent role should the ratings floor be removed, as a warning flag to advisers of Money Market Funds which may be inclined to make more aggressive credit determinations.

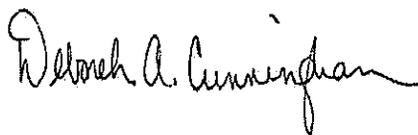
Additionally, we believe even if the Commission concludes that Section 939A applies to Rule 2a-7, the Commission should continue to require the disclosure of credit ratings in Form N-MFP, a disclosure document which is not covered by the requirement for Commission review in Section 939A.

VI. CONCLUSION

Removal of the references to NRSROs, and as a result their use as a credit rating floor, without a replacement that is clearly defined, is not in the shareholders best interest and will subject them to increased risk. Notwithstanding the merits of continuing to include NRSROs in Rule 2a-7, Federated believes that the proposal by the Commission, while not an optimal solution, if modified as noted above, will serve to protect fund shareholders far better than a change to a single credit standard.

Federated hopes that the Commission finds these comments helpful and constructive and is happy to provide additional information relating to our comments or discuss any questions you may have.

Yours very truly,



Deborah A. Cunningham, CFA
Executive Vice President
Chief Investment Officer, Money Markets

cc: The Honorable Mary L. Schapiro
The Honorable Kathleen L. Casey
The Honorable Elisse B. Walter
The Honorable Luis A. Aguilar
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