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13 July 2011

Elizabeth M. Murphy  
Secretary  
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:

CFA Institute<sup>1</sup> appreciates the opportunity to comment on the Securities and Exchange Commission's proposal that would eliminate references to required credit ratings for money market funds. CFA Institute represents the views of investment professionals before standard setters, regulatory authorities, and legislative bodies worldwide on issues that affect the practice of financial analysis and investment management, education and licensing requirements for investment professionals, and on issues that affect the efficiency, integrity and accountability of global financial markets.

**Executive Summary**

We support the proposed elimination of references to credit ratings in determining minimal credit risk. We believe that the proposed shift of responsibility to fund boards of directors to make the quality determination of a security or money market instrument is appropriate.

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<sup>1</sup> CFA Institute is a global, not-for-profit professional association of nearly 106,100 investment analysts, advisers, portfolio managers, and other investment professionals in 139 countries, of whom nearly 95,200 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 135 member societies in 58 countries and territories.



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## **Discussion**

In response to section 939A of the Dodd-Frank Act, the SEC has proposed rules to eliminate references to credit ratings in Rule 2a-7 and to replace them with other measures of credit-worthiness.

As proposed, a money market fund could only invest in securities that are deemed to present minimal credit risks and which are “eligible securities”. What constitutes eligible securities would require an analysis of factors relating to their credit quality and the issuer’s “ability to meet its short-term financial obligations.” A fund’s board of directors would be charged with determining a security’s quality but could rely on outside sources, including NRSRO ratings, in making their determinations.

In this release, the SEC notes that it expects fund boards to “understand the method for determining the rating and make an independent judgment of credit risks, and to consider an outside source’s record with respect to evaluating the types of securities “in which a fund invests. Thus, while retaining ultimate responsibility for determining security quality, boards can still avail themselves of outside resources to aid their analyses.

We support the proposed elimination of explicit reference to, and reliance upon, receiving a particular credit rating from an NRSRO in order to qualify as an “eligible security” under Rule 2a-7. The objective standard of reliance upon certain ratings bestowed by NRSROs would be replaced by boards’ analyses. We believe this to be an appropriate approach, particularly given that the board may still rely on ratings by third parties in making their determinations of credit risk.

In addition to the elimination of required credit ratings, the proposed rule would amend the approach for assessing whether an approved security has started to raise questions about whether it continues to present minimal credit risks. Rather than requiring an assessment of a security following a downgrade from an NRSRO, the proposed rule would instead require a reassessment whenever fund advisers (or their delegates) “become aware of any credible information about a portfolio security or a second tier security” that suggest it might not meet their requirements to remain an eligible security. As noted in the release, this would require advisers to remain current with information relating to their portfolio securities. We agree that advisers already generally perform this type of due diligence with respect to their duties under current Rule 2a-7 and thus believe that formally requiring this under amended rule 2a-7 is reasonable.



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### **Conclusion**

We believe the shift away from reliance on credit ratings for determining creditworthiness is appropriate and thus support the proposed changes to Rule 2a-7. Should you have any questions about our positions, please do not hesitate to contact Kurt N. Schacht, CFA at [kurt.schacht@cfainstitute.org](mailto:kurt.schacht@cfainstitute.org) or 212.756.7728; or Linda L. Rittenhouse at [linda.rittenhouse@cfainstitute.org](mailto:linda.rittenhouse@cfainstitute.org) or 434.951.5333.

Sincerely,

*/s/ Kurt N. Schacht*

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*/s/ Linda L. Rittenhouse*

Linda L. Rittenhouse  
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