

Federated Investors, Inc.
Federated Investors Tower
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April 9, 2009

Via Email

Ms. Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Re: Roundtable on Oversight of Credit Rating Agencies Supporting Material (File No. 4-579)

Dear Ms. Murphy:

Federated Investors, Inc. (“Federated”) is one of the largest investment managers in the United States, managing \$407.3 billion in assets as of December 31, 2008, including \$355.7 billion in money market assets. Federated has the somewhat unique perspective of utilizing both (i) ratings issued by nationally recognized statistical rating organizations (“NRSROs”) that are accessible only to subscribers (“subscriber-paid credit ratings”) for use in its due diligence process as an investor and, (ii) ratings paid for by the obligor being rated or the issuer, underwriter or sponsor of the security being rated (“issuer-paid credit ratings”) as certain of Federated’s advised funds are rated.

This paper is intended to supplement Deborah A. Cunningham’s presentation at the April 15, 2009 “Roundtable to Examine Oversight of Credit Rating Agencies.” Ms. Cunningham is an Executive Vice President with Federated, the Chief Investment Officer for Federated’s Taxable Money Markets, and Senior Portfolio Manager with additional responsibility for the Tax-Exempt Money Market and Municipal Investment Groups. Ms. Cunningham joined Federated in 1981.

Money Market Funds & NRSROs

Independent Credit Review. In the context of managing money market funds, Federated performs an independent credit review of each portfolio investment. Such a review is mandated by Rule 2a-7, promulgated under the Investment Company Act of 1940 (“Rule 2a-7”), and requires a money market fund’s board (or its delegate, which is usually the fund’s investment adviser) to evaluate independently the credit quality of each portfolio investment and determine that each investment presents minimal credit risks. Under Rule 2a-7, any determination of minimal credit risk “must be based on factors pertaining to credit quality in addition to any rating assigned to such securities by an NRSRO.”

Retention of NRSRO ratings. Federated is not in favor of eliminating all references to NRSRO ratings from Rule 2a-7. As discussed in the “Report of the Money Market Working Group” on March 17, 2009, NRSRO ratings provide a “clear reference point” for money market funds. By acting as a floor, the rating requirement serves to keep all money market funds operating at or above the same level and constrains any money market fund from taking imprudent risks to increase yield. NRSROs ratings also discourage funds from “stretching” the minimal credit risk concept to include investment opportunities that do not have a “high quality” rating and that could prove to be imprudent in light of the fund’s objective of maintaining a stable NAV.

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WORLD-CLASS INVESTMENT MANAGER
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Utilization of NRSRO ratings. Federated utilizes credit ratings (both ratings from NRSROs and other credit rating agencies) as part of its independent credit review process. Federated subscribes to certain of the services offered by the rating agencies and determines where to allocate internal resources based upon the perceived quality of the information provided. The ability of market participants to pick and choose which credit rating agencies to utilize operates as a check on the rating agencies themselves, in that only those rating agencies that are perceived to offer quality information and analysis will be subscribed to at the highest levels. These include subscriber only paid credit rating agencies as well as dual paid credit rating agencies which are paid a fee by both the issuer and the subscriber. There are no issuer only paid credit rating agencies.

Increased NRSRO Disclosure. In its February 2, 2009 Re-Proposing Release,¹ the Securities and Exchange Commission proposed requiring NRSROs to disclose ratings history information for 100% of their current issuer-paid credit ratings, determined on or after June 26, 2007, on a twelve (12) month delayed basis. While Federated supports increased disclosure by NRSROs, money market funds would be better served by focusing on the disclosure of the NRSROs decision making process and the analysis performed in making rating determinations. Access to ratings history is helpful to increase competitiveness among the NRSROs, but users of issuer-paid credit ratings obtain a far greater benefit from the analysis provided by the NRSROs rather than simply the ratings history.

Sincerely,

FEDERATED INVESTORS, INC.

Deborah A. Cunningham
Executive Vice President, Chief Investment Officer

¹ SEC Release No. 33-9005 (February 2, 2009).