

March 12, 2007

Nancy M. Morris  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-1090

Re: Oversight of Credit Rating Agencies Registered as Nationally Recognized  
Statistical Rating Organizations (File No. S7-04-07)

Dear Ms. Morris:

The Investment Company Institute<sup>1</sup> supports the Commission's proposed rules<sup>2</sup> to implement the Credit Rating Agency Reform Act of 2006 (the "Act").<sup>3</sup> Maintaining the integrity and quality of the credit ratings process is essential to promoting the proper functioning of our capital markets. The Act gives the Commission the authority to implement registration, recordkeeping, financial reporting, and oversight rules for registered credit rating agencies. The Act and the proposed rules should increase competition among credit rating agencies and provide for an effective oversight regime.

Of critical importance to our members is the role that credit rating agencies and "nationally recognized statistical rating organizations" ("NRSROs") play in the regulation and operation of money market funds.<sup>4</sup> This role is reflected in Rule 2a-7 under the Investment Company Act of 1940, which governs the operations of money market funds.

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<sup>1</sup> The Investment Company Institute is the national association of the U.S. investment company industry. More information about the Institute is included at the end of this letter.

<sup>2</sup> SEC Release No. 34-55231 (February 2, 2007), 72 FR 6378 (February 9, 2007) ("Release").

<sup>3</sup> Public Law No. 109-291. The Act directs the Commission to issue its implementing rules no later than June 26, 2007. The provisions of the Act become effective on the earlier of June 26, 2007 or the date the Commission issues final rules under the Act. The Institute strongly supported the Act. See Statements of Paul Schott Stevens, President, Investment Company Institute, on "Assessing the Current Oversight and Operation of Credit Rating Agencies," before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate (March 7, 2006) and on the "Credit Rating Agency Duopoly Relief Act of 2005," before the Committee on Financial Services, U.S. House of Representatives (November 29, 2005).

<sup>4</sup> The Institute and its members have a longstanding interest in the oversight of credit rating agencies, as evidenced in comment letters and statements on several Commission initiatives relating to credit rating agencies and NRSROs. See e.g., Letter from Amy B.R. Lancellotta, Senior Counsel, Investment Company Institute, to Jonathan G. Katz,

Money market funds currently hold almost \$2.4 trillion in assets on behalf of nearly 40 million accounts. Given the large number of investors and assets in money market funds, and the impending June 26 effective date of the Act, we recommend that the Commission evaluate the need for any appropriate changes to Rule 2a-7. The Commission's review can ensure that there are no unintended consequences for money market funds caused by the new NRSRO regulatory structure. Our concerns in this area are discussed below as well as our comments for improving the functioning of the proposed rules.

### **Significance of Credit Rating Agencies and NRSROs to Money Market Funds**

The Act requires the Commission to review, and amend or revise, its existing rules and regulations that use the term "NRSRO." The requirements of Rule 2a-7 are based on, and are appropriate in, today's environment where only a few NRSROs exist. The Release states that the Commission estimates that approximately 30 credit rating agencies will be registered as NRSROs under the new regulatory structure. Credit rating agencies that specialize in rating particular types of structured products or that utilize new methods of rating products also are expected to register as NRSROs. Depending on the changes that occur, Rule 2a-7 may need to be amended to reflect the new NRSRO regulatory structure.

By way of illustration, Rule 2a-7 limits a money market fund's investments to securities that are either rated by an NRSRO in one of its two highest short-term rating categories or, if unrated, are of "comparable quality" to an eligible rated security. Rule 2a-7 requires money market funds to take certain actions if a security is downgraded by an NRSRO. In particular, if a money market fund's adviser becomes aware that *any* NRSRO has rated a security below its second highest rating category, the fund's board (or its delegate) must promptly reassess whether to continue to hold the security.

Monitoring the ratings of NRSROs to determine if a security has been downgraded by *any* NRSRO may no longer be appropriate if the number of NRSROs increases. Our members report that substantial costs and resources will be required to monitor even one or two additional NRSROs. The Commission will need to balance these burdens and potential benefits in determining whether to continue to link the requirements of Rule 2a-7 to a single ratings downgrade. Other changes to Rule 2a-7 also are likely to be necessary and appropriate.

The Institute stands ready to assist the Commission in its review of Rule 2a-7. The Institute is in the process of gathering information from our members on the anticipated impact of the Act and proposed rules on money market funds. Once we have gathered this information,

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Secretary, Securities and Exchange Commission, dated June 9, 2005 (Proposed Definition of Nationally Recognized Statistical Rating Organization); Letter from Amy B.R. Lancellotta, Senior Counsel, Investment Company Institute, to Jonathan G. Katz, Secretary, Securities and Exchange Commission, dated July 28, 2003 (Concept Release Regarding Rating Agencies and the Use of Credit Ratings Under the Federal Securities Laws); and Statement of Amy Lancellotta, Senior Counsel, Investment Company Institute, for the SEC Hearings on Issues Relating to Credit Rating Agencies, dated November 21, 2002.

we look forward to working with the staff to ensure that money market funds operate efficiently and consistent with investor protections under the new NRSRO regulatory structure.

### **Recommendations to Commission Proposal**

We have two recommendations on the proposal. These recommendations relate to standardized performance measurement statistics and the availability of information about NRSROs.

#### *Standardized Performance Measurement Statistics*

Under the proposed rules, a credit rating agency seeking to register as an NRSRO will be required to apply to the Commission using a new form, "Form NRSRO." Information to be included in Form NRSRO will include an explanation of a credit rating agency's performance measurement statistics. These performance measurement statistics are generally represented by symbols, numbers or other designations to distinguish the creditworthiness of rated issuers.

The Release requests comment on whether certain aspects of the performance measurement statistics should be standardized. The Institute believes that standardization of performance measurement statistics should be seriously considered. Standardization will ease the comparability of measurement statistics across all NRSROs. If there is an increase in the number of NRSROs, standardization will significantly assist money market funds in complying with the requirements of Rule 2a-7.

#### *Availability of Information about NRSROs*

As proposed, a credit rating agency will be required to make all non-confidential information submitted in connection with Form NRSRO publicly available within five business days of the NRSRO being registered. The Release requests comment on whether this five-day time limit should be longer or shorter. The Institute recommends that the Commission not lengthen the time period available to make such information public. We also encourage the Commission and credit rating agencies to make this information available, if possible, even earlier in the application process. It is important that money market funds and other users of credit ratings have sufficient access to information about an NRSRO as soon as possible. Early access to this information is an important way for money market funds and other credit rating users to familiarize themselves with the NRSRO, which in turn facilitates compliance with Rule 2a-7 and other Commission rules.

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The Institute appreciates the opportunity to comment on this proposal. If you have any questions about our comments or would like any additional information, please contact me at 202-326-5815, Ari Burstein at 202-371-5408 or Jane Heinrichs at 202-371-5410.

Sincerely,

/s/ Elizabeth Krentzman

Elizabeth Krentzman  
General Counsel

cc: The Honorable Christopher Cox  
The Honorable Paul S. Atkins  
The Honorable Roel C. Campos  
The Honorable Annette L. Nazareth  
The Honorable Kathleen L. Casey

Erik R. Sirri, Director  
Robert L.D. Colby, Deputy Director  
Division of Market Regulation

Andrew J. Donohue, Director  
Robert E. Plaze, Associate Director  
Division of Investment Management

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### **About the Investment Company Institute**

ICI members include 8,839 open-end investment companies (mutual funds), 658 closed-end investment companies, 363 exchange-traded funds, and 4 sponsors of unit investment trusts. Mutual fund members of the ICI have total assets of approximately \$10.445 trillion (representing 98 percent of all assets of US mutual funds); these funds serve approximately 93.9 million shareholders in more than 53.8 million households.