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April 25, 2011

Ms. Elizabeth Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

**RE: References to Credit Ratings in Certain Investment Company Act Rules and Reforms
File Number S7-07-11**

Dear Ms. Murphy:

Wells Fargo appreciates the opportunity to comment on the Securities and Exchange Commission's (the "Commission") rule proposal (the "Proposal") set forth in Release No. IC-29592 (the "Release"). The Proposal would revise Rule 2a-7 and other provisions under the Investment Company Act of 1940 and the Securities Act of 1933 by removing references to credit ratings issued by nationally recognized statistical rating organizations ("NRSROs") and replacing such references with a new subjective standard of creditworthiness. The proposed amendments would give effect to provisions contained in Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") that require the Commission to remove references to credit ratings from its rules and regulations.

We recognize that the Commission had no choice but to make the Proposal in light of the Dodd-Frank Act. We nonetheless wish to express our disagreement with the removal of references to credit ratings from Rule 2a-7, and our strong belief that doing so may ultimately have the opposite effect of what Congress intended in mandating their removal. Accordingly, we strongly urge the Commission to ask Congress to reconsider this portion of the Dodd-Frank Act.

I. Summary

Currently, Rule 2a-7 permits a money market fund to maintain a stable price of \$1.00 per share provided that, among other requirements, the fund limit its portfolio holdings to securities that pose minimal credit risk to the fund, as determined by the Fund's board of trustees (or the board's delegate) and that are "Eligible Securities" as defined in the Rule 2a-7. In order to meet the definition of an Eligible Security, a security must, at the time of acquisition, have a rating within one of the two highest short-term rating categories of an NRSRO, or if unrated, be of comparable quality. Thus, NRSRO ratings serve as an objective and necessary, but not sufficient, qualification for purchasing a money market security, because this qualification must always be paired with a subjective determination of creditworthiness by the board or its delegate.

Among other modifications, the Proposal would remove this objective portion of the standard, changing the definition of Eligible Security to a security that a money market fund's board (or its delegate) determines presents minimal credit risk, based on factors pertaining to credit quality and an issuer's ability to

meet its short-term financial obligations. Thus the Proposal would take the current two-part, subjective and objective standard, and effectively collapse it into a completely subjective standard.

The current subjective and objective framework has served investors and the money market industry well since Rule 2a-7 was first adopted in 1983. The reference to credit ratings in the definition of Eligible Security has prevented money market funds from taking on excessive risk by providing an objective investment “floor” by which all funds must abide. It has also contributed to the reputation of money market funds as safe, stable and liquid investment vehicles by providing a common, standardized set of criteria that the investing public understands and relies upon in making investment decisions.

In mandating the removal of credit ratings, Congress hopes to decrease regulatory reliance on ratings agencies and thereby decrease systemic risk. As outlined below however, we believe that the Proposal may in fact have the exact opposite effect. While it is true that the Proposal would decrease money market funds’ reliance on NRSROs with respect to the ratings of securities, it may increase such funds’ reliance on NRSROs with respect to the ratings of the funds themselves, which we believe may actually serve to strengthen, rather than weaken, the influence of the ratings agencies. Further, removing the credit rating “floor” from Rule 2a-7 may increase, rather than decrease, systemic risk by increasing the likelihood that a money market fund may “break the buck” and by otherwise undermining investor confidence in money market funds.

II. The Proposal Will Increase Investor Confusion and as a Result May Strengthen the Influence of the Ratings Agencies

The marketplace for fixed income securities in general, and money market securities in particular, is dominated by securities that have been rated by NRSROs. In fact, non-rated money market securities are virtually non-existent. Investors have also demonstrated a clear preference for money market funds that are themselves rated by one or more NRSROs. As of April 2011, over eighty percent of institutional money market assets were in rated funds, and over sixty percent of all money market assets were in rated funds.¹ Often, institutional investors are mandated by governing investment guidelines to invest only in money market funds that are rated. Ratings agencies have very specific criteria that funds must follow in order to be rated. These criteria are in many ways more stringent than the investment guidelines a money market fund must follow under Rule 2a-7. A ratings agency determines such criteria solely in its own discretion; the SEC has no oversight of this process.

Without the minimum investment floor and common set of criteria that the current definition of Eligible Security under Rule 2a-7 provides, money market funds will be left entirely on their own to determine whether a security meets the standard of creditworthiness necessary to qualify as an Eligible Security. This will lead money market funds to make investment decisions in a far more subjective manner, and creditworthiness standards will diverge across the industry. Prospectuses and other disclosure documents will vary widely in their descriptions of funds’ standards of creditworthiness, confusing investors and making it more complicated for them to compare the relative safety and quality of investments held by one fund versus another. Ultimately, investors will find it far more difficult to determine which funds meet their investment needs in light of their individual risk profiles.

To the extent that investors cannot be reassured by Rule 2a-7 that money market funds are investing in rated securities, they can reasonably be expected to seek this reassurance in other ways. Such investors, who

¹ Calculations made based on data contained in “iMoneyNet Money Fund Report,” Apr. 8, 2011 ed. and “iMoneyNet Rated Money Fund Report,” Apr. ed., both available at iMoneyNet.com (subscription required).

already favor rated funds, may flock to such funds in greater numbers as the ratings, and the investment guidelines that underlie them, will provide an objective standard that investors can use to distinguish amongst funds. As more assets flow to rated funds, more and more funds will choose to become rated, thereby requiring them to comply with the investment guidelines dictated by the NRSROs. As a result, the NRSROs, the very entities whose influence Congress was attempting to curb in passing Section 939A of the Dodd-Frank Act in the first place, may actually become more influential if the Proposal is adopted.

III. The Proposal May Increase Systemic Risk

By including a reference to credit ratings in the definition of Eligible Security, Rule 2a-7 essentially creates a limited universe of securities in which a money market fund may invest. Currently, even if a fund believes that a rated security meets its standards of creditworthiness, if the security does not fall within one of the two highest short-term rating categories of a NRSRO, the fund may not purchase it. Thus, the ratings component of the Eligible Security definition creates a “check” on money market funds by preventing them from purchasing securities that might meet the funds’ own standards of creditworthiness but that do not meet the ratings criteria. If the reference to credit ratings is removed, however, funds would be free to purchase such securities.

The money market industry is very competitive, and in an effort to attract further assets, money market funds are constantly looking for ways to distinguish themselves from one another. The most effective way to do this has historically been through higher yields. Thus, there is always present an incentive for funds to invest in riskier securities in pursuit of higher yields. As economic conditions improve, and the specter of the recent credit crisis fades from memory, this incentive will only grow stronger. Under current Rule 2a-7, a fund’s ability to invest in riskier securities is largely limited by the objective credit ratings requirements. If this standard is removed from Rule 2a-7, the subjective standard of creditworthiness that remains may, in and of itself, not be a strong enough deterrent to prevent certain funds from investing in riskier securities, thus increasing systemic risk by increasing the likelihood that such funds may “break the buck”. As the events of 2008 illustrated, even if a single fund breaks the buck, the ramifications for the entire industry can be profound, undermining investor confidence and leading to runs on other money market funds.

Further, if the reference to credit ratings is removed from the definition of Eligible Security, increasing numbers of issuers may begin to issue money market fund eligible securities without NRSRO ratings, as issuers must pay a fee to the ratings agency in order to obtain a rating. Since higher quality issuers would be more likely to be able to offer their securities without ratings than would lower quality issuers, the average credit quality of the universe of rated securities would be lowered. Since, in order to be rated, NRSROs require money market funds to hold only rated securities, the overall quality of the universe of money market fund investments in rated funds would thus also be lowered, thereby increasing risk for the industry as a whole. In addition, the very fact that fewer securities, regardless of credit quality, would be available for purchase by rated funds in and of itself would increase overall risk as there would be less diversification amongst such funds. Finally, as ratings help contribute to the liquidity of money market fund eligible securities, to the extent that unrated securities become more prevalent, liquidity in the secondary market could be lessened for unrated funds that attempt to sell unrated securities.

Each of the factors outlined above will increase systemic risk throughout the money market fund industry, contrary to what Congress was attempting to achieve with the passage of Section 939A of the Dodd-Frank Act. Even if no funds ultimately were to break the buck as a result of the removal of credit ratings from Rule 2a-7, the very fact that such a scenario would be more probable could itself undermine investor confidence in money market funds.

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We appreciate the opportunity to provide comments on the Proposal and the Commission's consideration of our comments. We realize that, without further action by Congress, the Commission will have no choice but to adopt the Proposal, or a substantially similar version of it. For the reasons outlined above, we strongly believe that this would be detrimental to shareholders, to the money market industry, and to the credit markets as a whole. We therefore strongly urge the Commission to ask Congress to reconsider this portion of the Dodd-Frank Act.

Should you have any questions about any of our comments or wish to discuss these matters further with us, please feel free to contact the undersigned at 415-222-1140; Karla Rabusch, President of Wells Fargo Funds Management, LLC, at 415-396-4513; or David Sylvester, head of the money market fund portfolio management team for the *Wells Fargo Advantage Funds*, at 612-667-5107.

Very truly yours,



C. David Messman
Secretary and Chief Legal Officer
Wells Fargo Funds Management, LLC

cc: Karla Rabusch
David Sylvester