August 25, 2009

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

Re: File Number S7-11-09

Dear Ms. Murphy:

We commend the SEC in seeking to address the problems in the money market area but are dismayed that the effort is entirely inadequate in the face of the billions of dollars of losses incurred by investors in these and similar financial investments. In fact, the argument can be made that the entire industry could have collapsed in the absence of the emergency and ongoing Federal Reserve and other government assistance programs.

The Reserve Fund failed and, absent the various assistance programs, many other money market funds would have failed because of excessive losses generated through reliance on inflated, unsound, and conflicted ratings produced by Moody's, S&P, and Fitch. The SEC proposal proceeds on the premise that these funds suffered primarily from a liquidity crisis, which, of course, they did, However, as in almost every financial crisis, the liquidity crisis was the result rather than the cause of the problem.

For example, one of the specific problems at the Reserve Fund was its investment in Lehman Brothers, which was insufficiently capitalized to have been considered appropriate for money funds. At that time, Egan-Jones rated Lehman Brothers three and four notches below S&P, Moody's, and Fitch which held them at investment grade until just before the collapse of the company. If the Reserve Fund had been using our ratings, that investment would have disqualified Lehman from their portfolio standards.

Egan-Jones is able to rate firms like Lehman, MBIA, Fannie Mae, Enron, etc. more accurately because its income is not derived from the companies which are the issuers of the debt. Chairman Shapiro identified this problem with the following observation:

"Everyone knows compensation drives behavior."
April 6, 2009 CII Conference

Although this quote was used in the context of executive pay, it is equally applicable to the ratings field. The fundamental problem is that conflicted ratings have and are causing massive harm to investors and now, unfortunately, to the American taxpayer as well. The current credit crisis might cost taxpayers $23.7 trillion according to the TARP reviewer Neil Barofsky and inflated ratings are universally cited as one of the primary culprits in this collapse of the credit markets.
The problem is very simple: issuer-paid rating firms have an incentive to provide inflated ratings in an effort to garner market share and the attendant rating fees. At the

heart of the matter, it is the payment incentives which undermine current system. In contrast to conflicted rating firms, the interests of independent rating firms (that is, not paid by issuers) are aligned with investors and therefore they have a high incentive for issuing timely, accurate ratings. The claim that there are conflicts with both business models does not survive scrutiny. We and presumably other independent firms are not given information on current and prospective client holdings. Indeed, the providing of such information would violate most investment firms' policies and could be construed as "front-running." Even if the rating firm had accurate information on all client holdings, it would be of little value if the rating firm is judged on its ability to properly assess prospective credit quality as must be the case when the income model is derived from the investor side.

The proper SEC response to this situation is to require companies like the Reserve Fund to properly exercise their fiduciary responsibilities by utilizing non-conflicted ratings for investment purposes. At a minimum, these custodians of other peoples' savings should be required to disclose to their investors that those external ratings are generated by firms who are compensated from the issuers of the debt.

Yours sincerely,

Sean Egan