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September 8, 2009

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

Re: Money Market Fund Reform (File No. S7-11-09)

Dear Ms. Murphy:

We are writing on behalf of T. Rowe Price Associates, Inc. ("**Price Associates**"), which together with other affiliates, serves as investment adviser to the T. Rowe Price family of mutual funds ("**Price Funds**") (over 120 funds with approximately $189 billion in assets as of June 30, 2009), and in particular, the Price money market funds, and T. Rowe Price Investment Services, Inc., which serves as principal underwriter and distributor to the Price Funds, to express our views on the amendments to Rule 2a-7 under the Investment Company Act of 1940 (the "**Proposal**"). Price Associates manages 11 taxable and tax-exempt money market mutual funds, of which eight are sold to retail investors, two are cash management vehicles for the Price Funds and other institutional clients,[1] and one is a variable annuity portfolio, and which held, in total, approximately $28 billion in assets as of June 30, 2009. The Price Funds currently maintain the third largest market share in the direct-marketed retail distribution channel.

Rule 2a-7 is one of the Commission's great success stories since its adoption over 25 years ago. This Rule is primarily responsible for creating a vibrant and sound cash management vehicle, offering investors a high degree of liquidity, stability of principal value, and current yield competitive with or greater than bank deposits. Money market funds have a track record that is unrivaled in stability of principal by any other type of security, even considering the credit events and extreme market volatility in the fall of 2008. During this tumultuous time, we found that our Price money market funds remained popular investment vehicles for the cash reserves of our clients. Although we agree that the events of last fall may necessitate a thorough review of Rule 2a-7, we continue to believe that the Rule has generally provided a rigorous framework to protect money market investors.

We generally support the comments of the Investment Company Institute ("**ICI**") in its letter dated September 8, 2009. However, in certain instances, we may not have the same view as the ICI. In this regard, we would like to provide the following comments and observations on the Proposal. [2]

[1] These two internal funds are registered under the 1940 Act and are managed to comply with Rule 2a-7.

[2] This letter uses defined terms as they are defined in either current Rule 2a-7 or the Proposal.

I. General Comments

The objectives of the Proposal are to make money market funds more resilient to certain short-term market risks, and to provide greater protections for investors in a money market fund that is unable to maintain a stable net asset value per share. In order to achieve these goals, the Commission has proposed several new or modified requirements for money market funds, including that money market funds maintain a daily and weekly percentage of their assets in liquid securities; that the weighted average maturity ("**WAM**") for a money market fund be shortened from 90 days to 60 days; and that a money market fund's portfolio be subject to a weighted average life limit of 120 days.

As a general comment, we believe that the combination of these proposals would create a highly limiting framework within which to manage a money market fund. Each of these proposals, if adopted separately, would significantly alter the portfolio management of a money market fund. We are concerned that the combination of the proposals, if implemented as proposed, would create a framework so restrictive that it would become challenging to maintain the competitive value of a money market fund as an investment option. We believe that the proposed weighted average life requirement is the most effective way to mitigate the money fund management risks highlighted by the Commission in the Proposal. Further, we believe that the weighted average life limit in combination with a daily liquidity requirement would be sufficient to achieve the goals of the Commission, as noted above. We will discuss these proposals in more detail below.

Distinction Between Retail and Institutional Money Market Funds

We agree with the Commission on the need for a distinction between retail and institutional money market funds in the operation of Rule 2a-7. As evidenced by the events of the fall of 2008, retail and institutional money market funds each serve a distinct shareholder base with distinct investment and redemption patterns, creating different liquidity requirements. We believe that there is a significant risk that institutional shareholders may react more quickly than retail shareholders to market events and redeem substantial percentages of the assets of a money market fund. These risks become more pronounced, and potentially harmful for retail investors, when money funds have both an institutional and retail shareholder base. Therefore, we believe that this potential risk creates a regulatory need to impose separate limits on institutional money market funds.

However, the Proposal relies on criteria which in our view do not clearly delineate the distinction between retail and institutional funds. Moreover, in today's market in which large numbers of investors purchase their shares through intermediaries that hold omnibus accounts in retail mutual funds, it has become more difficult to accurately determine if a fund is predominantly retail or institutional.[3] Specifically, we believe that

[3] The Funds may also have certain intermediary, non-omnibus accounts that are held as NSCC networked accounts, in which the underlying investor account is on the books of the Fund's transfer agent; however,

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there may be significant overlap in the characterization of investors as retail or institutional, particularly when an institution holds its investment through an intermediary account comprised of underlying retail-based clients. Even in this context, however, there may not be a single decision maker authorized to transfer existing shareholder accounts or new shareholder accounts to another money market fund.

Therefore, we believe that the Proposal is flawed by asking a board to make a determination of whether a fund is retail or institutional, without clear guidance. We also believe that it would be possible for certain fund boards to label a fund as a retail fund, notwithstanding a large institutional shareholder base. Although the Commission suggests some quantifiable criteria in the Proposal, we believe that a more rigid definition of retail versus institutional, perhaps based on shareholder diversification, types of prospective investors who are offered the fund, minimum or average account size, or other quantifiable criteria is more appropriate. For example, at T. Rowe Price, we distinguish our institutional funds from retail funds based on the types of eligible investors (i.e., corporations and employer-sponsored plans) and a relatively high minimum account size ($1 million). We believe these are appropriate criteria to distinguish retail and institutional funds.

Moreover, under the Proposal, fund boards would have to annually classify a fund as retail or institutional based on both objective and subjective factors. We believe that this determination should more appropriately be made by the fund's adviser, which typically has responsibility for the day-to-day monitoring of the fund's client and investment activity, including the fund's liquidity needs. If the classification criteria in the rule are specific enough, the board should not have to be involved in the determination. We believe that the adviser is in the best position to monitor the characterization of the fund as retail or institutional based on quantifiable, objective criteria which can be verified and subject to examination by the SEC staff.[4] If the Commission is concerned about the appropriate oversight of the adviser's determination, the Commission may require a fund's board to approve that determination.

Finally, we should note that T. Rowe Price is not a manager of publicly offered institutional money market funds. However, we believe that if the Commission proposed a bright line distinction between retail and institutional funds based on quantifiable factors as outlined above, the Commission may be able to consider a separate regulatory scheme under Rule 2a-7 for institutional money funds. In the fall, institutional funds experienced rapid and significant outflows, which became disruptive to the money markets. In light of this, we would suggest that the Commission consider separate

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the identity of the underlying shareholder may not be readily available to the Fund. We believe that the same issues may be applicable to these accounts.

[4] We would also suggest that the Commission consider allowing a fund that is overwhelmingly held by retail shareholders, for example, over 80% of the fund's assets are held by retail investors, to make an initial assessment of the composition of the fund's shareholders based solely on this fact and not be subject to more rigorous "know your customer" requirements. We believe that retail funds have a relatively stable shareholder base.

operational controls and investment guidelines for institutional funds, and specifically, we support differentiating retail and institutional funds with respect to the liquidity and other risk-limiting conditions in the Proposal.

II. Risk-Limiting Conditions of Rule 2a-7

Although we generally support the proposed amendments to strengthen the risk-limiting provisions of the Rule, we have some specific comments on the Proposal.

A. Portfolio Liquidity

Weekly Liquidity Requirement

The Proposal would amend Rule 2a-7 by adding explicit daily and weekly liquidity requirements for retail and institutional money market funds. We believe that the weekly liquidity requirement in addition to the daily liquidity requirement and the other proposed amendments to the Rule would be overly restrictive on portfolio managers of retail money market funds.

Moreover, under the language currently proposed, a retail money market fund could not acquire any securities other than daily liquid assets if immediately after the acquisition the fund would have invested less than 5% of its total assets in daily liquid assets. This limitation requires a fund to monitor its daily liquid assets each time it acquires additional assets. Therefore, because this liquidity requirement must be met daily, we believe that the weekly liquidity requirement is unnecessarily redundant for retail money market funds. Based on the information provided in the Proposal, even for those days in the September 2008 period with the most significant redemptions, only a small percentage of prime retail money market funds experienced outflows greater than 5%.[5] This is also true for the T. Rowe Price retail money market funds, which only had one tax-exempt fund that experienced a net outflow greater than 5% during the month of September 2008. Overall, however, the T. Rowe Price retail money market funds had net inflows during the month of September 2008 on an aggregate basis.

General Liquidity Requirement

We believe that the proposed general liquidity requirement based on a fund's ability to meet reasonably foreseeable redemptions is unnecessary. In light of the daily liquidity requirement and stress testing that will test a fund's ability to maintain a stable net asset value per share based on an increase in shareholder redemptions; we do not believe that the Commission should also impose a vague liquidity requirement. This requirement may open up a fund to potential liability based on second-guessing by regulators or others when the market becomes suddenly volatile and illiquid.

[5] *See* Proposal at p. 58, note 185.

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Moreover, T. Rowe Price currently monitors purchase and redemption activity in all of its money market funds. In fact, we have operational procedures that require portfolio manager notification of purchases and redemptions above a certain size. This allows portfolio managers to appropriately position the portfolios to accommodate large transactions, and to protect the fund and its shareholders. Therefore, we believe that these types of procedures, coupled with the daily liquidity requirement, would satisfy the goal of the Commission that funds continually monitor their liquidity.

With respect to the proposed ban on illiquid investments, we agree that it is appropriate to preclude money funds relying on a stable net asset value from investing in securities determined to be illiquid at the time of purchase.

Stress Testing

The Commission is proposing that boards of directors of money market funds using the amortized cost method adopt procedures providing for periodic stress testing of the money market fund's portfolio. The procedures would require testing of a fund's ability to maintain a stable net asset value per share in the event of interest rate changes, higher redemptions, and changes in yields on an appropriate benchmark. The proposal would require that stress tests be conducted at intervals that the board of directors determines appropriate and reasonable in light of current market conditions. The proposal would leave to the money market fund's board of directors (and the fund manager) the specifics of the scenarios to be tested. While we agree that stress testing of money market portfolios should be required, we are concerned that the Proposal would require a fund's board to play too significant of a role in assessing the results of the stress test and the intervals for testing.

In originally adopting Rule 2a-7, the Commission stated that it did not expect a money market fund board "to become personally involved in the day-to-day operations of the fund" or "to be insurers of the activities of the investment adviser or the fund." [6] Despite the events of the fall of 2008, we believe that certain aspects of the Proposal, such as the stress testing and NRSRO approval requirements, go beyond the board's general oversight role and forces them to become more active in the monitoring of the daily operations of money funds – a role which is inconsistent with the general governance function of boards and one for which they are not well-suited.

Finally, the Commission has proposed that the board receive a report of the stress test results at its next regularly scheduled meeting. Although we agree that the funds should conduct regular stress tests, we believe that the board should be permitted to delegate the functions related to the stress tests to a fund's adviser. Instead of a regular board review of the stress testing results (which for the Price Funds could be up to 5 times a year), we recommend that the final rule require the adviser to review the results of the regularly

[6] *See* Valuation of Debt Instruments and Computation of Current Price Per Share by Certain Open-End Investment Companies (Money Market Funds), SEC Release No. IC-13380 (July 11, 1983).

conducted stress tests with the board on an annual basis. However, in the event that there are extraordinary circumstances, or matters of significant concern arising from the stress tests, we believe the fund's adviser should report the results of the stress test to the board at closer intervals, as determined by the fund's adviser.

As noted in the Proposal, many money market funds are currently stress testing their portfolios based on one or more factors. In fact, T. Rowe Price currently conducts a daily stress test on its money market funds to assess the funds' ability to withstand interest rate changes.

B. Portfolio Quality

Designation of Nationally Recognized Statistical Rating Organization ("NRSRO")

The Commission is proposing that a money market fund's board designate three (or more) NRSROs that the fund would look to for all purposes under Rule 2a-7 in determining whether a security is an eligible security. The Commission is also proposing that fund boards determine at least annually that the designated NRSROs are sufficiently reliable for that use.

The Commission requested comment as to whether Rule 2a-7 should specify minimum policies and procedures for monitoring NRSROs, and whether the board should be permitted to delegate the responsibility to designate NRSROs. We believe that a fund's adviser that maintains a credit research department would be much better suited to analyze NRSROs than a fund's board. A fund's directors are not experts in assessing the reliability of credit ratings, nor are they likely to possess independent information about rating agencies that would influence the determination on the designations. Therefore, we believe that the fund's adviser should annually review and recommend NRSROs to the fund's board.

Moreover, we believe that the Commission should provide guidance in the adopting release or share "best practices" that its examination staff has seen for monitoring NRSROs and determining their reliability. In the Commission's continuing efforts to monitor and oversee rating agencies as discussed below, we believe that the Commission should also outline the standards it applies to monitor rating agencies. The Commission should acknowledge in the adopting release that investment advisers should be able to rely on public information relating to the NRSROs and their ratings histories, since advisers typically do not have access to the internal policies and controls of NRSROs for due diligence purposes. We believe these standards would be useful in assisting advisers in their annual assessment and designation of NRSROs.

Limitations on Unrated Long-Term Securities

We concur with the Money Market Working Group of the ICI ("**ICI Working Group**") and the Proposal to limit money market funds to investments in "First-Tier" securities

rated in the highest short-term rating category.[7] Generally, Rule 2a-7 measures the quality of a security based on the rating of an issuer's short-term debt. However, in the absence of a short-term rating, the Proposal will preclude money market funds from investing in a long-term security, unless the security has received a long-term rating from the Requisite NRSROs within one of the two highest long-term rating categories. We believe that this restriction, and the restriction discussed below related to conditional demand features, may severely limit the availability of municipal securities for tax-exempt money market funds. In addition, we understand that the highest short-term ratings categories would generally correlate to the top three long-term rating categories. Therefore, for long-term securities with no short-term ratings, we believe that the Commission should not modify the current provision.

Limitations on Securities Subject to Conditional Demand Features

Similarly, with respect to securities with conditional demand features, the Commission, in addition to requiring that the conditional demand feature be an Eligible Security, appears to be requiring that the underlying security or any guarantee of such security (or other debt securities of the same issuer of the underlying debt securities or a guarantee comparable in priority and security) receive a rating within **the NRSRO's highest short-term or long-term rating categories.** However, with respect to long-term securities generally, the Proposal permits funds to invest in long-term securities in one of the two highest long-term rating categories.

Therefore, it appears that Commission may have unintentionally limited the underlying securities or guarantees of such securities to the highest long-term rating category, which may severely restrict tax-exempt money market fund investments. Prior to 2008, many tender option bonds were collateralized by bonds that were rated in the highest long-term rating category based on credit enhancements that guarantee timely payment of principal and interest. Because the obligations of the financial obligors have been downgraded below the highest long-term rating category, municipal money market funds may not be able to continue to hold these securities or purchase newly issued tender option bonds under the Proposal. We believe this ratings change could be disruptive to the tender option bond market and have a negative impact on municipal financings.

Therefore, in light of the Commission's proposed definition of Eligible Securities, which permits investments in long-term securities rated in the two highest rating categories, and the fact that the conditional demand feature will continue to be an Eligible Security, we believe that the Commission should permit investments in securities in which the underlying security or guarantee is rated within one of the *two* highest long-term rating categories.

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[7] *See* Investment Company Institute, Report of the Money Market Working Group (March 17, 2009), *available at* http://www.ici.org/pdf/ppr_09_mmwg.pdf ("ICI Report").

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Asset Backed Securities

The Commission has requested comment on whether to amend Rule 2a-7 to address the risks associated with asset backed securities. The request for comment suggests that investors may not have the sophistication to determine creditworthiness of an asset backed security, which may imply that investors are relying entirely on the NRSROs for a determination of minimal credit risk. Under the current Rule and as proposed, advisers are required to make an independent minimal credit risk determination in addition to the NRSRO rating.

The financial market crisis of 2008 revealed that some investment advisers did not fully assess or appreciate the risks posed by the credit structures and underlying assets in structured investment vehicles and other asset backed issuers. We believe, however, that creditworthy asset backed securities represent an important sector of the short-term money market, and that the Commission should not unduly restrict their issuance. We further believe that investment advisers to money market funds that are able to analyze the creditworthiness of asset backed issuers should be permitted to invest in those securities. In this regard, T. Rowe Price maintains a Money Market Credit Policy Committee that effectively functions as a new products committee, and reviews and evaluates novel securities, credit structures, and investment techniques. We also have a securitized products research team in our fixed income division with dedicated credit analysts covering asset backed issuers. Therefore, we believe that this research process minimizes the risks to our money funds of any new investment or technique, and achieves the goals of the Commission without imposing specific requirements on asset backed securities. Any adviser to a money market mutual fund should have similar credit research and product review functions, and the Commission's inspection staff should be able to review and evaluate an adviser's capabilities in this area to confirm compliance with Rule 2a-7's subjective credit determination requirements.

C. Portfolio Maturity

Weighted Average Maturity

While we agree with the Commission's proposal to shorten the WAM for money market funds, we believe that shortening the WAM to 60 days in combination with the other proposals will overly restrict a money market fund's investments, and in a low interest rate environment, prevent a money market fund from earning yields that exceed its expenses. We, therefore, support the ICI Working Group's recommendation to shorten the WAM to 75 days.

The Commission notes in the Proposal that, during the fall of 2008, funds with shorter portfolio maturities were much better positioned to withstand heavy redemptions. The Commission also notes that retail money market funds did not experience the significant redemption pressure experienced by institutional money market funds. Therefore, we generally support a 75-day WAM for all retail money market funds.

Weighted Average Life

We generally support the Proposal's new requirement to impose a weighted average life of 120 days on money market funds. We agree with the Commission's assessment that the liquidity of securities with maturity shortening provisions, particularly floating rate notes, in the absence of demand features, became severely impacted during the market events of the fall of 2008. We further believe that 120 days is the appropriate limit, even during normal market conditions.

Maturity Limit for Other Portfolio Securities

Currently, in order to qualify as an eligible security under Rule 2a-7, an individual security generally cannot have a remaining maturity that exceeds 397 days. The Commission has requested comment on whether it should consider reducing the maximum maturity for individual non-Government securities acquired by a money market fund from 397 days to, for example, 270 days. We believe that limiting the final maturity to 270 days for individual securities would severely impact the issuance of certain types of securities. As the Commission notes in the Proposal, if the Rule limits the purchase of eligible securities to those with a maximum 270-day maturity, money market funds would not be permitted to purchase certain municipal securities, which are typically issued with a one-year maturity to coincide with the fiscal year-end of the municipality or the issuer of the municipal security. Therefore, we do not believe that the Commission should shorten the remaining maturity for individual securities from 397 days to 270 days.

III. Disclosure of Portfolio Information

A. Public Disclosure of Market-Based Prices

As a general matter, we support the proposed disclosure of the amortized cost of a fund's portfolio holdings. However, the Commission has requested comment on whether money market funds should be required to publish their market-based net asset value per share and market-based prices of portfolio holdings. We believe that a requirement to disclose the market-based net asset value per share or the market-based prices of a fund's holdings may unnecessarily confuse and alarm investors. Investors may focus on market-based prices of holdings that represent a small percentage of a fund's assets, and would have a correspondingly minimal impact on the fund's net asset value. Moreover, investors may inappropriately redeem their shares based on the public disclosure of information about market-based prices, which could lead to significant redemption pressures on funds based on a snapshot of a fund's portfolio holdings. This would seem to be at odds with the Commission's goals of making money market funds less susceptible to a run by diminishing the chance that a money market fund will break a dollar and strengthening the stability of money market funds. Therefore, we would not support a requirement for a money market fund to provide public information of its market-based net asset value per share or the market-based prices of its portfolio securities.

B. Public Website Disclosure

The Proposal includes two new requirements with respect to disclosure of portfolio information -- (1) posting on a fund's website month-end portfolio holdings within two business days after the end of the month and (2) reporting to the Commission detailed monthly information on portfolio holdings within two business days after the end of the month. We believe that the timing requirements for both reports are extremely burdensome for funds and may require the presentation of information that is difficult to verify within the required timeframes.

In addition, the Proposal would require that the schedule of investments posted to a fund's website comply with the requirements of Rules 12-12 to 12-14 of Regulation S-X. As the Commission notes in the Proposal, the requirement for website posting is intended to provide investors with more timely information about a fund's holdings. We believe that this goal will be achieved with disclosure of the issuer of the security, the coupon, maturity and principal amount, and the current amortized cost, and without the detailed disclosure required by Regulation S-X. In addition, we believe that it would be more reasonable and would not necessarily reduce the Commission's goal of providing investors with more transparency, if funds were permitted to post their holdings within five business days after the end of the month. This will not only accomplish the Commission's goals, but also ensure that funds have sufficient time to appropriately verify the information.

As discussed more fully below, in order to avoid unnecessarily duplicative disclosure obligations, the Proposal will amend Rule 30b1-5 to exempt money market funds from the requirement to quarterly file their schedules of investments on Form N-Q. However, funds will continue to file their holdings in annual and semi-annual reports. Therefore, we would propose that a fund should be permitted to remove from its website its monthly portfolio holdings once those holdings are publicly disseminated by means of an annual or semi-annual report. We believe that requiring funds to maintain their holdings on a website for no more than six months would be consistent with the current requirements for portfolio holdings for non-money market funds and would support the Commission's goal of providing transparency to money market investors.[8]

C. Reporting to the SEC

With respect to the proposed requirement for monthly detailed reports to the Commission on new Form N-MFP, we believe that it would be unnecessarily burdensome to require funds to report detailed information on their holdings within two business days after month-end. This information is likely to be gathered from multiple sources and requires

[8] *See* Disclosure Regarding Market Timing and Selective Disclosure of Portfolio Holdings, Investment Company Release No. 26418 (April 16, 2004).

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coordination and consolidation that would be difficult within the proposed timeframe. Therefore, we would propose that funds be permitted to file the detailed reports on proposed Form N-MFP within 10 business days of the month-end.

Moreover, although we do not generally oppose the Commission's ability to collect detailed information about money market portfolio holdings, we do not believe that it is appropriate to release this information to the public two weeks after the filing. The Commission has noted in the Proposal that one of the purposes of releasing the information is to provide academic researchers, financial analysts, and economic research firms with information to use to study and evaluate money market funds. Although these evaluations may be useful to some money market investors, we agree with the Commission's assessment that this information, unlike the information to be posted on a fund's website, may present different disclosure concerns. Further, we do not understand why money market funds should be singled out and treated differently than other funds for purposes of special public disclosure of data of the nature in Form N-MFP. Therefore, we do not support the Commission's public disclosure of the information.

In addition, we do not support any requirement to certify the information in proposed Form N-MFP. We believe that the requirement to certify such information on a monthly basis would be extremely onerous to funds, particularly within the timeframe proposed by the Commission.

D. Amendments to Rule 30b1-5

In light of these monthly portfolio disclosure requirements, the Proposal would eliminate the requirement for funds to file their portfolio holdings on Form N-Q. Although the certifications in Form N-Q relate to financial reporting generally, Form N-Q is used specifically to provide holdings information. If funds are exempt from including the portfolio holdings information, we do not believe it would be necessary to continue to file the certifications related to a Form N-Q that does not contain a list of portfolio holdings. In fact, we would support the elimination of the requirement for money market funds to file Form N-Q.

IV. Money Market Fund Operations

The Proposal would permit a fund's board to suspend redemptions in the event a money fund's shares are priced below $1.00 per share and the board also determines to liquidate the fund. Although we support the Commission's proposal to permit the suspension, we believe that a fund's board should be able to suspend redemptions *before and in anticipation of when* a fund breaks a dollar – without having to also decide to liquidate the fund in order to suspend redemptions. Generally, retail money market funds require investors to place orders to purchase or redeem money market shares by 4:00 pm., and such orders are then settled on T+1. The market-based and amortized cost net asset value calculations necessary to support a determination as to whether a fund may break a dollar, therefore, will not be completed before the fund closes. At that point, the fund

will be obligated to redeem shares for those orders received prior to the 4:00 p.m. close. Nevertheless, the board in all likelihood will know that the fund is under redemption pressure, and should be able to take proactive measures to suspend redemptions in the absence of definitive net asset value information and a determination to liquidate the fund. A redemption suspension of a limited time period (i.e., seven business days or less) should give the board sufficient time to seek credit support or other action to restore the fund's net asset value, or in the absence of such measures, to decide to liquidate the fund. Therefore, we agree with the ICI Working Group's recommendation that a money fund's board be permitted to temporarily suspend redemptions in exigent circumstances, which would help to address these timing issues and help to treat fairly all shareholders.

V. Request for Additional Comments

Credit Rating Organizations

In the Proposal, the Commission sought comments on whether it should consider the eventual elimination of credit ratings from Rule 2a-7. We would like to restate our position that we set forth in our comment letter of September 5, 2008 relating to the Commission's proposal "References to Ratings of Nationally Recognized Statistical Rating Organizations" (File No. S7-19-18) ("**T. Rowe Comment Letter**"), and highlight several points that we made in our Letter. As noted in the Proposal, the ICI Working Group Report summed up the views of many of the commenters, asserting that elimination of the NRSRO ratings' floor would remove an important investor protection from Rule 2a-7 and introduce new uncertainties and risks. We should also note that on February 2, 2009, the Commission adopted rules to improve the rating agency process and re-proposed others.[9]

As mentioned earlier, we support the aspect of the Proposal that would limit eligible securities to those in the highest short-term rating category. Importantly, the current and proposed Rule supplement this objective ratings test with a subjective one that limits a money market fund's portfolio "to securities that the fund's board of directors determines present minimal credit risks (which determination **must be based on factors pertaining to credit quality in addition to any rating assigned to such securities[by a rating agency.])**"[10] (emphasis supplied) No other rule under the 1940 Act contains such rigorous standards for a fund's investments.

The Commission is requesting comment on whether to modify or eventually eliminate the provisions that incorporate minimal credit ratings. As we noted in the T. Rowe Comment Letter, we believe that, if the Commission modified or eliminated the provisions related to minimal credit ratings, the fund's board and investment adviser would be required to determine that the fund's investments present minimal credit risks. This would replace or

[9] *See* Amendments to Rules for Nationally Recognized Statistical Ratings Organizations, Exchange Act Release No. 34-59342 (February 2, 2009) and Re-proposed Rules for Nationally Recognized Statistical Rating Organizations, Exchange Act Release No. 34-59343 (February 2, 2009).
[10] *See* Rule 2a-7(c)(3)(i) under the 1940 Act.

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modify an existing objective test that is easily verifiable by fund shareholders, SEC examiners, auditors, the press and others, with a subjective one that is already part of the current Rule and which, by itself, will be inadequate to protect money fund investors. The objective ratings standard now in Rule 2a-7 and in the Proposal, while not alone sufficient, is necessary and works in tandem with the subjective standard to provide a well-balanced approach to protect fund shareholders. The minimum rating requirement provides a "floor" that prevents money fund managers, for whatever reason, from taking greater risks in search of higher yields to gain a competitive advantage. We are very concerned that removal or modification of the objective test will lead to "a race to the bottom" in terms of money fund credit quality, as well as less transparency, as fund managers, their fund boards and even regulators apply their individual interpretations to the subjective "minimal credit risk" test. Ultimately, this will result in greater risks to investors who count on the stability of money funds for their savings.

It is important to emphasize that even if the Commission modifies or eliminates the minimum ratings requirements, it would not have any significant impact on the way the Price money funds operate. Price Associates has a dedicated credit research group and a strong commitment to fundamental credit research. Every money market security purchased by the Price money funds is rigorously and independently researched to determine its short and long-term creditworthiness and, consistent with Rule 2a-7, whether it presents "minimal credit risks." Credit agency ratings are only one point of reference in our independent evaluation of an issuer's credit quality. However, as noted above, we believe that other investment advisers, who may not have the same dedicated resources, commitment to credit research, or philosophy with respect to the use of ratings or of what constitutes "minimal credit risk," may take advantage of the absence of an objective standard to purchase riskier investments for their money funds in pursuit of higher yields. This would be an unfortunate and unintended consequence of any modification or elimination of the current requirements for ratings.

Moreover, we continue to believe that modifying or eliminating minimum rating requirements will essentially require the fund's board to determine what should or can be held in a money fund's portfolio. Moreover, we believe that application of a subjective standard will undoubtedly lead to differences of interpretation between fund groups in their determinations of the credit quality of various money market instruments. By forcing more responsibility onto the board to evaluate these subjective determinations, it will undoubtedly create more opportunity for a board to be second-guessed even where the board has properly delegated its responsibility to the fund's investment adviser.

Finally, as noted above, the Commission has adopted and re-proposed its rules related to rating agencies. The rule that was adopted will impose additional requirements on NRSROs in order to address concerns about the integrity of their procedures and methodologies.[11] We believe through these proposals that the Commission is properly focused on improvements in transparency and accountability in the process by which

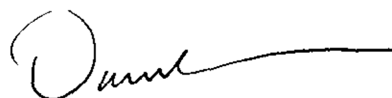
[11] *Supra*, note 9.

credit agencies assign ratings as opposed to eliminating ratings requirements from the Rule. Accordingly, we strongly support the Commission's continued efforts to regulate conflicts of interest, require additional recordkeeping, and enhance disclosure of rating agency methodologies, policies and ratings results.[12] These reforms will enable investment advisers like Price Associates to more effectively critique an issuer's ratings and potentially uncover "failures in the ratings process." We believe that the Commission should continue to adopt reforms and allow time for the adopted reforms to work, instead of removing the ratings requirement from Rule 2a-7 altogether.

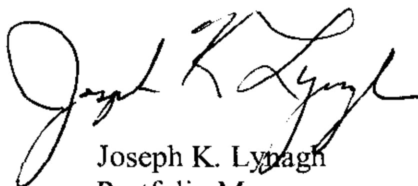
We appreciate the opportunity to comment on the Proposal. If you have any questions concerning our comments or would like additional information, please feel free to contact any of the undersigned.

Sincerely,

David Oestreicher
Chief Legal Counsel



Darrell N. Braman
Managing Counsel



Joseph K. Lynagh
Portfolio Manager

Fran Pollack-Matz
Senior Legal Counsel

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

[12] *Id.*