



*Insight beyond the rating.*

## Filed Electronically

September 8, 2009

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

DBRS Tower  
181 University Avenue  
Suite 700  
Toronto, ON M5H 3M7  
TEL +1 416 593 5577  
FAX +1 416 593 8432  
www.dbrs.com

Re: *Money Market Fund Reform, File No. S7-11-09*

Dear Ms. Murphy:

DBRS appreciates the opportunity to comment on the above-referenced proposal which is designed to make money market funds more resilient to certain types of short-term market risk and to enhance investor protections where a fund is unable to maintain stable net asset value per share.<sup>1</sup> DBRS is a registered nationally recognized statistical rating organization ("NRSRO").

In its effort to revamp rule 2a-7 under the Investment Company Act of 1940, the Commission asks a number of questions about the use of NRSRO credit ratings in identifying securities that are eligible for purchase by money market funds. The first of these is whether all references to NRSRO ratings should be eliminated from the rule, making the assessment of the quality of portfolio investments dependent solely on the fund manager's internal credit risk determination.<sup>2</sup> The Commission asked the same question last year as part of a broader examination into the role of credit ratings under the federal securities regulations.<sup>3</sup>

The overwhelming majority of commenters on last year's proposal, including DBRS and a number of large fund complexes, supported retaining the ratings requirement in rule 2a-7.<sup>4</sup>

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<sup>1</sup> "Money Market Fund Reform," Investment Company Act Release No. IC-28807 (June 30, 2009), 74 Fed. Reg. 32688 (July 8, 2009) ("Proposing Release").

<sup>2</sup> As it stands today, the quality of a money market fund investment is determined both by reference to NRSRO ratings and by a separate credit risk analysis undertaken by the fund board or its adviser. Rule 2a-7(c)(3)(i).

<sup>3</sup> "References to Ratings of Nationally Recognized Statistical Rating Organizations," Investment Company Act Release No. IC-28327 (July 1, 2008).

<sup>4</sup> See, Letter from Kent Wideman, Group Managing Director, Policy & Rating Committee, and Mary Keogh, Managing Director, Policy & Regulatory Affairs, DBRS, to Florence E. Harmon, Acting Secretary, SEC, dated September 8, 2008.



In this regard, DBRS and others opined that the credit analyses performed by NRSROs and fund boards (or their delegates) under the current rule work together very well. Fund investors benefit from this "two-view" approach, which adds a stream of independent, reliable information to the boards' internal decision-making process. Eliminating this independent information would diminish the safety and soundness of money market fund management.

Notwithstanding market events over the past year, DBRS continues to believe that eliminating the objective NRSRO standards from the credit quality provisions of rule 2a-7 would significantly weaken the rule's investor protections. While credit ratings should never be the sole determinant of portfolio investment quality, they remain an important complement to fund boards' (or managers') subjective credit assessments.

The Commission also seeks comment on the advisability of requiring a money market fund's board to designate at least three NRSROs that the fund would look to for all purposes under rule 2a-7 in determining whether a security qualifies as an "eligible security."<sup>5</sup> The Commission wonders whether such a requirement would be consistent with the Credit Rating Agency Reform Act's goals of improving the quality of credit ratings by, among other things, enhancing competition in the rating industry.<sup>6</sup>

DBRS finds this idea appealing in theory, but is concerned that in practice, such a requirement could further entrench the market dominance of the three largest rating agencies. In order to discourage fund boards from simply defaulting to the current NRSRO oligopoly, DBRS suggests that boards be required to: (i) designate at least four NRSROs; (ii) confirm their selections annually; (iii) disclose their selections and a brief explanation of the reasons therefor in the funds' statements of additional information; and (iv) maintain records relating to their selection process. DBRS believes that such requirements would force fund boards to assess the quality, reliability and coverage of a number of NRSROs. Such a rational and transparent evaluation process is likely to result in better independent credit ratings for purposes of rule 2a-7 and thus, enhanced investor protection.

DBRS has no objection to permitting fund boards to designate different NRSROs with respect to different types of issuers of securities in which the fund invests. Nor does DBRS object to allowing fund boards to delegate the NRSRO selection process to the fund managers. DBRS does not believe, however, that money market fund boards (or their delegates) should be permitted to designate credit rating agencies that are not registered with the Commission as NRSROs.

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<sup>5</sup> Proposing Release at 33-34, 74 Fed. Reg. at 32697.

<sup>6</sup> *Id.* at note 113 and accompanying text.

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The Credit Rating Agency Reform Act and the Commission's rules thereunder have established a robust regulatory regime that is designed to reduce rating agencies' conflicts of interest, increase transparency of rating methodologies and processes and foster comparability of ratings quality. Permitting the ratings of parties not subject to those requirements to be used as the independent credit assessment under rule 2a-7 would risk eliminating the benefit of that objective view.

### **CONCLUSION**

We appreciate the opportunity to comment on this important proposal. We would be happy to supply the Commission or the staff with additional information regarding any of the matters discussed herein. Please direct any questions about these comments to the undersigned or to our outside counsel, Mari-Anne Pisarri of Pickard and Djinis LLP. She can be reached at 202-223-4418.

Very truly yours,

A handwritten signature in black ink, appearing to read "Mary Keogh".

Mary Keogh  
Managing Director, Regulatory Affairs  
416.597.3614

A handwritten signature in black ink, appearing to read "Daniel Curry".

Daniel Curry  
President, DBRS, Inc.  
212.806.3244

cc: Hon. Mary L. Schapiro  
Hon. Kathleen L. Casey  
Hon. Elisse B. Walter  
Hon. Luis A. Aguilar  
Hon. Troy A. Paredes  
Andrew J. Donohue