Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090
United States
www.sec.gov

Chris Barnard

10 March 2011

- File No. S7-07-11
- References to Credit Ratings in Certain Investment Company Act Rules and Forms

Dear Sir.

Thank you for giving us the opportunity to comment on your proposed rule: References to Credit Ratings in Certain Investment Company Act Rules and Forms.

You are proposing a new rule as well as rule and form amendments under the Securities Act of 1933 and the Investment Company Act of 1940 to implement provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). The SEC is proposing amendments to two rules and four forms under the Investment Company Act and the Securities Act that contain references to credit ratings. The proposed amendments would give effect to provisions of Dodd-Frank that call for the amendment of SEC regulations that contain credit rating references. In addition, the SEC is proposing a new rule under the Investment Company Act to establish a standard of credit-worthiness in place of a statutory reference to credit ratings in that Act that Dodd-Frank removes.

I support that investment company boards, and their advisers/delegates, should not blindly rely on credit ratings from NRSROs when evaluating securities, but should take more responsibility in this arena in line with their fiduciary responsibilities.[1] This would properly reflect that investment company boards are able to outsource various duties to third parties, but are unable to outsource their fiduciary responsibilities.

[1] The SEC proposed originally in 2009 in order "to address the risk that the reference to and use of NRSRO ratings in Commission rules could be interpreted by investors as an endorsement of the quality of the credit ratings issued by NRSROs, and may encourage investors to place undue reliance on NRSRO ratings".

Example: money market fund investments

I support that money market funds should develop more independent credit risk analysis when evaluating securities for investment. Your proposals to remove references to credit ratings in rule 2a-7 of the Investment Company Act will replace an objective standard with a subjective one, which should spur such developments here. For example, a security would only be classified as first tier if the money market fund's board (or its delegate) determines that the issuer has the "highest capacity to meet its short-term financial obligations". Such a determination requires the money market fund to develop and implement a credit risk management strategy, policy and procedure, and a control and auditing mechanism thereon. This is a heavy burden on money market funds. I am not suggesting that money market funds should not be allowed to base their determinations on ratings produced by NRSROs, but that at least the money market fund should develop, implement and be prepared to explain its credit risk management policy and procedure to stakeholders, including regulators and investors.

Yours faithfully

Chris Barnard