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April 25, 2011

Ms. Elizabeth Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE Washington, DC 20549-1090

Re: *Proposed Amendments to Remove References to Credit Ratings in Rule 2a-7 Under the Investment Company Act of 1940 (File No. S7-07-11)*

Dear Ms. Murphy:

We write in response to the Commission's request for comments on its recent proposal to remove credit rating references in Rule 2a-7 under the Investment Company Act of 1940 (the "Act"), the rule governing the operations of money market funds. We do not support the proposed amendments because they do not eliminate subjective determinations of credit risks, and they do not significantly decrease the reliance on credit ratings by money market funds.

The American Federation of State, County and Municipal Employees ("AFSCME") is the largest union in the AFL-CIO representing 1.6 million state and local government, health care and child care workers. AFSCME members participate in over 150 public pension systems whose assets total over $1 trillion. AFSCME members are elected and appointed trustees at many of these public pension systems. In addition, the AFSCME Employees Pension Plan (the "Plan") is a long-term shareholder that manages $850 million in assets for its participants, who are staff members of AFSCME and its affiliates. Pension plans invest in money market funds during the course of their routine cash management operations.

During consideration of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), AFSCME strongly supported reforms to the regulatory structure and business models of the nationally recognized statistical rating organizations ("NRSROs") or credit rating agencies. In the words of the Financial Crisis Inquiry Commission, the credit rating agencies were "key enablers" of the global financial crisis. They advised issuers of mortgage backed securities and collateralized debt obligations how to structure the securities to obtain high credit ratings, while purporting to be neutral arbiters of credit quality. Those high ratings, which implied low risk of default, enabled many investors to purchase the securities because the investors either were required by regulation to invest in highly rated securities or maintained internal policies requiring them to do so. Ratings agencies competed with one another for this lucrative business, creating a "race to the bottom."

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Section 939A of Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") requires that the Commission work to remove references to NRSROs in regulations promulgated pursuant to the Act. We support the goal of eliminating overreliance on credit ratings embodied in section 939A. The rule proposed by the Commission (the "Proposed Rule") would replace the references to credit ratings assigned by NRSROs in Rule 2a-7 with new, more subjective creditworthiness standards.

Among other things, Rule 2a-7 requires money market funds to hold securities that pose "minimal credit risks" to the fund and that are Eligible Securities within the meaning of the Rule. The Rule provides that the minimal credit risks determination must be "based on factors pertaining to credit quality in addition to any ratings assigned to such securities by an NRSRO." Thus, the current test has both objective and subjective elements. Additionally, nearly all of a money market fund's portfolio must be made up of Eligible Securities that are "first tier" securities; the rest must be "second tier" securities. The definitions of first tier and second tier also refer to NRSRO ratings. Credit quality monitoring requirements in the Rule also reference NRSRO ratings.

Under the Proposed Rule, a rating from an NRSRO would no longer be a required element for determining which securities are permissible investments for a money market fund. Instead, a security would be an eligible investment for a money market fund if the fund's board or its delegate determines that the security presents minimal credit risks. A security would qualify as a first tier security if the issuer had the "highest capacity to meet its short-term financial obligations." Thus, the Proposed Rule expands the subjective standard, which we fear is not likely to increase investor protection and market stability.

We share the concern of some commentators that the elimination of credit ratings without the substitution of some other external measure of risk will seriously undermine the Commission's ability to determine whether mutual funds are in compliance with Rule 2a-7. It is virtually impossible, from a regulatory perspective, to police subjective determinations of creditworthiness.

We also agree with Commissioner Aguilar that the current proposal creates uncertainty for market participants regarding the extent to which they may still rely on credit ratings.[1] While this proposal is designed to reduce reliance on ratings, it explicitly permits the board of directors of a mutual fund to continue to rely on credit ratings in making its own subjective determinations of risk.[2]

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[1] http://www.sec.gov/news/speech/2011/spch030211laa-ratings.htm

[2] "In making these credit quality determinations, money market funds would continue to be able to use analyses provided by third party parties, including ratings provided by ratings agencies, that the funds conclude are reliable for such purposes." References to Credit Ratings in Certain Investment company Act Rules and Forms, Investment Company Act Release, March 2, 2011.

Most important, we do not believe the Proposed Rule complies with section 939A of Dodd-Frank. That section directs agencies, when removing references to NRSRO ratings in their rules, to "substitute such standards of credit-worthiness as each respective agency shall determine as appropriate for such regulations." Section 939A also directs each agency, to the extent feasible, to establish "uniform standards of credit-worthiness for use by each such agency, taking into account the entities regulated by each such agency and the purposes for which such entities would rely on such standards of credit-worthiness." The Proposed Rule does not substitute an alternative standard of credit-worthiness, but simply leaves the definition of that term up to fund boards of directors.

Considerable effort is already being devoted in academia and in the private sector to developing externally-verifiable standards of credit-worthiness. The Commission would benefit from working together with these experts, as well as with other regulators addressing implementation of section 939A, to develop workable approaches to this problem before continuing to remove references to NRSRO ratings from the rules.

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We appreciate the opportunity to express our views on this matter. Should you have questions regarding our comments, please contact Lisa Lindsley at (202) 429-1275.

Sincerely,

Gerald W McEntee

GERALD W. McENTEE
International President