Scott C. Goebel
Senior Vice President
General Counsel
FMR Co.
82 Devonshire Street V10E, Boston, MA 02109-3614
617.563.0371 FAX 617.385.1331 SCOTT.GOEBEL@FMR.COM

April 28, 2011

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

RE: File Number S7-07-11, Release No. IC-29592 (the "Release")
References to Credit Ratings in Certain
Investment Company Act Rules and Forms

Dear Ms. Murphy:

Fidelity Investments,[1] the largest manager of money market mutual funds with over $450 billion in money market assets, appreciates the opportunity to comment on the Securities and Exchange Commission's (the "Commission") proposed amendments to certain rules and forms under the Investment Company Act of 1940.[2]

Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") directs the Commission to review and identify any of its regulations that require an assessment of a security's credit-worthiness and any references to credit ratings therein, to remove those references, and to substitute in their place a standard of credit-worthiness that the Commission deems appropriate.[3] Fidelity recognizes the efforts undertaken by the staff at the Commission in preparing the Release in response.

Fidelity is concerned that the credit-worthiness standard proposed by the Commission in the Release to replace the objective standard of credit ratings in Rule 2a-7[4] would add a significant degree of subjectivity to the tier designation of securities. We believe that this potential variation in credit-worthiness standards may not be well understood by all investors, and may lead to significantly different risk profiles within money market funds, which would increase risks to investors in those funds. To mitigate these risks, Fidelity recommends that each

[1] Fidelity Investments is one of the world's largest providers of financial services, with assets under administration of more than $3.6 trillion, including managed assets of more than $1.6 trillion. The firm is a leading provider of investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and many other financial products and services to more than 20 million individuals and institutions, as well as through 5,000 intermediary firms.
[2] References to Credit Ratings in Certain Investment Company Act Rules and Forms, 76 Fed. Reg. 12896 (Mar. 9, 2011) (to be codified at 17 C.F.R. pts. 239, 270, 274). Citations to the Commission's proposed rule are referred to herein as the "Proposed Rule."
[3] Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010. *See* § 939A(a) and (b).
[4] 17 C.F.R. § 270.2a-7 (2010) (as used herein, "Rule 2a-7" or the "Rule").

money market mutual fund should be required to disclose (i) in its Statement of Additional Information, the specific parameters utilized by the fund board or its delegate in assigning tier designations and (ii) on a monthly basis, the tier designation assigned to each of the holdings of the fund. These proposals will further improve the transparency of money market mutual funds, which would reduce risk and provide greater clarity for investors and regulators.

Regarding conditional demand features, we refer you to the letter submitted to the Commission by the Investment Company Institute on April 25, 2011, which recommends that no amendment to the Rule be adopted that would change the current treatment of existing securities with conditional demand features. We also agree with the Investment Company Institute that money market mutual funds should not be able to purchase a security that has a conditional demand feature that terminates upon a downgrade of the underlying security by a credit rating agency unless the security has received ratings from the credit rating agency that are two full categories higher than the lowest rating at which the demand feature would remain exercisable.

I. Existing Rule

Rule 2a-7 currently has two independent tests to determine whether a security is eligible for purchase by money market mutual funds. First, a fund's board (or its delegate) must determine that the security represents minimal credit risk.[5] The minimal credit risk determination is based on an analysis of the fundamental credit strength of the issuer or credit enhancer of the security. Credit ratings are not permitted to be the basis for a minimal credit risk determination.

Second, if the security represents minimal credit risk and it is a rated security, then it must also satisfy the Rule's requirements for a first or second tier security.[6] If the security has received a rating from a nationally recognized statistical rating organization in the highest short-term rating category or, if not rated, is of comparable quality to an eligible security that is rated in the highest short-term rating category, then the security is a first tier security. If the security is rated in the second-highest category or, if not rated, is of comparable quality to an eligible security that is rated in the second-highest category, then it is a second tier security and is subject to additional maturity and diversification limits that do not apply to first tier securities.[7]

The use of ratings is a clear, objective standard through which the Commission has (i) established money market fund eligibility standards and (ii) distinguished between first and second tier securities. Because this objective standard is applied consistently across all money market mutual funds, it provides protection for investors, predictability for issuers, and general stability for the money market industry.

Fidelity shares the view of various regulators and market participants that money market fund boards (or their delegates, as applicable) should not place undue reliance on credit ratings,

[5] Rule 2a-7(c)(3)(i).
[6] Rule 2a-7(a)(12),(14) and (24).
[7] Rule 2a-7(c)(3) and (4).

and we believe that the Rule already appropriately prohibits such undue reliance.[8] The ratings requirement in the Rule simply encourages a minimum and uniform level of credit quality of securities held by money market funds across the money market industry. The minimal credit risk requirement provides a strong standard of credit-worthiness that cannot be based on ratings, which helps ensure that ratings do not play an overly significant role in determining which securities may be purchased by a money market mutual fund.

II. Proposed Rule

A. General

As proposed by the Commission, the eligibility criterion that every security purchased by a money market mutual fund must represent minimal credit risk would remain unchanged.[9] Therefore, consistent with current practice, the minimal credit risk determination would be based on factors pertaining to credit quality and would not be based on credit ratings.

The Commission also proposed in the Release to retain the two tier categorization of securities, but without relying on credit ratings to distinguish between the two tiers. Rather, as proposed in the Release, a first tier security (or its issuer or guarantor), in addition to representing minimal credit risk, would have the "highest capacity to meet its short-term financial obligations."[10] The Release also states that a first tier security should have an "exceptionally strong ability to repay its short-term debt obligations and the lowest expectation of default."[11] A second tier security (or its issuer or guarantor), on the other hand, would be a security that represents minimal credit risk but does not meet the description of a first tier security.[12] The Release states that a second tier security should have a "very strong ability to repay its short-term debt obligations and a very low vulnerability to default."[13]

B. Recommendation: Require Additional Disclosure in Order to Minimize Risk

Fidelity believes that the first and second tier categories as proposed in the Release are vague and introduce risk with the possibility for different interpretations. The various interpretations of these standards will cause securities of widely differing credit quality to be categorized as first tier securities by some funds and second tier securities by others. Furthermore, if the changes proposed in the Release were adopted, some securities that are ineligible under the current version of Rule 2a-7 would likely be acceptable holdings in the view of some money market mutual funds.

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[8] *See also* Comment letter of Fidelity Management & Research Company on Proposed Amendment to References to Ratings of Nationally Recognized Statistical Rating Organizations (August 29, 2008) available at http://sec.gov/comments/s7-19-08/s71908-14.pdf.
[9] Proposed Rule 2a-7(a)(11).
[10] Proposed Rule 2a-7(a)(13).
[11] References to Credit Ratings in Certain Investment Company Act Rules and Forms, 76 Fed. Reg. at 12899.
[12] Proposed Rule 2a-7(a)(21). Note that this new definition of "second tier security" would mean that as long as a minimal credit risk determination is made by a money market fund board (or its delegate), a money market fund could purchase a security that is rated below the highest two short-term rating categories of a credit rating agency.
[13] 76 Fed. Reg. at 12899.

Minimal credit risk is a term that has not been defined by statute or by the Commission's regulations. Each money market mutual fund board (and its delegate) has, by necessity, developed its own view about what the phrase means. A minimal credit risk determination has become an accepted method to establish the credit-worthiness of a security, issuer or guarantor. Layering a subjective standard for distinguishing between tiers of securities on top of a money market fund's minimal credit risk determination, will create confusion and inconsistency across the industry. Under the Proposed Rule, tier categorizations will no longer be determined by a clear, objective standard based on published credit rating agency ratings; rather, that determination will be put in the hands of myriad money market mutual funds, and a fund's standards for the first and second tiers could change from month to month, or even week to week. We believe this will result in less predictability and more confusion for investors seeking a stable and consistent product and for issuers seeking sources of financing.

Fidelity thinks the Commission could greatly improve the aspects of the Proposed Rule that deal with distinguishing between tiers. We believe that requiring money market mutual funds to disclose specifically how securities are classified as first or second tier would largely mitigate the risk associated with removing references to credit rating agencies from Rule 2a-7. First, each money market mutual fund would set forth its definition of first tier and second tier categories in its Statement of Additional Information ("SAI").[14] The description of these categories would specify the criteria utilized by each money market mutual fund as approved by the fund's board. While such descriptions could vary among different money market mutual funds, each fund would be required to abide by its category descriptions, thereby providing clarity and transparency to investors and the market as a whole. For example, Fidelity would expect its definitions to be based on credit rating agency ratings as utilized in Rule 2a-7 today. Under this approach, determination of whether an investment is an eligible security would continue to be a two-part test. Each security would need to represent minimal credit risk and be a first tier or second tier security. Additionally, the current limitations on second tier securities in terms of 3% total portfolio exposure, 0.5% issuer exposure and 45-day maturity, would remain in place.

Fidelity hopes and expects that many money market mutual fund boards will continue to use ratings to define first and second tier securities in the same manner as required by Rule 2a-7 today. The Commission noted this possibility in the Release: "Nothing in the proposed rule would prohibit a money market fund from relying on policies and procedures it has adopted to comply with the current rule . . ."[15] Allowing money market mutual funds to continue to use third party credit rating agency ratings as a market best practice, coupled with a clear disclosure obligation, would reduce the risks that could result from a board or fund adviser applying a second subjective standard.[16] Thus, if the Commission were to require an adviser to define tier one and tier two in its SAI, Fidelity's expectation is that there will be few, if any, changes in how money market mutual funds are managed as advisers would use credit ratings in these definitions,

[14] If this recommendation is adopted by the Commission, Fidelity suggests that the Commission permit money market mutual funds adequate time to amend their SAIs to incorporate such disclosure.
[15] 76 Fed. Reg. at 12899, footnote 32.
[16] For securities that do not have ratings from credit rating agencies, the adviser would conduct a comparable quality analysis, as specified under Rule 2a-7 currently.

which will provide continued clarity and certainty for investors and the short-term capital markets.

The second aspect of our proposed new disclosure requirement would be to add the tier classification to each security as part of each money market mutual fund's mandatory monthly website disclosure of portfolio holdings.[17] Each fund would specify whether a security is first or second tier, based on the definition set forth in the fund's SAI.[18] Such tier classification would provide key information for investors, regulators, and other market participants to evaluate and monitor the quality of a fund's holdings.

This two-part proposal for disclosure described herein would satisfy the Commission's mandate under the Dodd-Frank Act, while mitigating the potential risk that could be introduced into the money market mutual fund industry by eliminating rating references from Rule 2a-7. These revisions to the Proposed Rule would help ensure that money market mutual funds continue to be a safe, transparent and predictable vehicle for investors.

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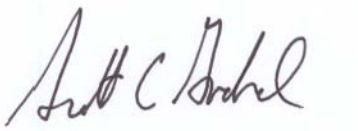
We would like to thank the Commission for considering our comments. Please contact me should you have any questions regarding this letter.

Sincerely yours,



cc: The Honorable Mary L. Schapiro, Chairman
The Honorable Kathleen L. Casey, Commissioner
The Honorable Elisse B. Walter, Commissioner
The Honorable Luis A. Aguilar, Commissioner
The Honorable Troy A. Paredes, Commissioner

Eileen Rominger, Director, Division of Investment Management
Robert E. Plaze, Associate Director, Division of Investment Management

[17] This requirement could be added to Rule 2a-7(c)(12).

[18] This requirement is very similar to Item 33 in Form N-MFP. Our proposal would simply move the public availability of this information up to five business days after the end of the month from 60 calendar days after the end of the month. A fund should also indicate in the monthly portfolio holdings report if a security is no longer an Eligible Security, as defined in Rule 2a-7.