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October 7, 2014

Mr. Kevin M. O'Neill
Deputy Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: Removal of Certain References to Credit Ratings and Amendment to the Issuer Diversification Requirement in the Money Market Fund Rule; File No. S7-07-11

Dear Mr. O'Neill:

The Independent Directors Council[1] appreciates the opportunity to provide comments on the Securities and Exchange Commission's re-proposal to remove certain references to credit ratings in the money market fund rule.[2] Although IDC had previously urged the Commission to retain the references to credit ratings,[3] we recognize that the Commission is implementing a Congressional directive in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The Dodd-Frank Act requires that the Commission, to the extent applicable, review any regulation that requires the use of an assessment of the credit-worthiness of a security or money market instrument, modify any such regulations identified by the review to remove references to or requirements for reliance on ratings, and substitute a standard of credit-worthiness as the Commission determines to be appropriate.[4] Given this mandate, IDC is generally supportive of the approach taken

[1] IDC serves the U.S.-registered fund independent director community by advancing the education, communication, and policy positions of fund independent directors, and promoting public understanding of their role. IDC's activities are led by a Governing Council of independent directors of Investment Company Institute member funds. ICI is the world's leading association of regulated funds, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States and similar funds offered to investors in jurisdictions worldwide. ICI's U.S. fund members manage total assets of $17.2 trillion and serve more than 90 million U.S. shareholders. The views expressed by IDC in this letter do not purport to reflect the views of all fund independent directors.

[2] *Removal of Certain References to Credit Ratings and Amendment to the Issuer Diversification Requirement in the Money Market Fund Rule*, Release No. IC-31184 (July 23, 2014).

[3] *See* Letter from Robert W. Uek, Chair, IDC Governing Council, to Florence E. Harmon, Acting Secretary, SEC regarding References to Ratings of Nationally Recognized Statistical Rating Organizations; File No. S7-19-08 (August 29, 2008) ("NRSRO Letter").

[4] Section 939A of the Dodd-Frank Act.

in the re-proposal, which reflects comments raised by IDC and others on the initial proposal.[5] Our specific comments are provided below.

Eligible Securities

The Commission proposes to eliminate the references to credit ratings in rule 2a-7 under the Investment Company Act of 1940 (1940 Act) by, among other things, amending the definition of "eligible security." Rule 2a-7 currently requires, among other things, that money market fund portfolio investments be limited to eligible securities, defined as those securities that have received credit ratings from the requisite nationally recognized statistical rating organizations (NRSROs) in one of the two highest short-term rating categories (*i.e.*, first or second tier securities) or comparable unrated securities.

Under the Commission's initial proposal, in place of the requirement that eligible securities be rated or of comparable quality, a fund board (or its delegate) would have been required to: (1) determine whether securities are eligible securities based on minimal credit risks; and (2) distinguish between first and second tier securities based on subjective standards (*e.g.*, "highest capacity to meet its short-term financial obligations" for a first tier security). IDC and others expressed concern about the proposed approach and recommended eliminating the first and second tier categories and subjecting eligible securities to one uniform, very high standard. IDC and others also stated concern about the "highest capacity" standard, which does not seem to contemplate a range of ratings.[6] The re-proposal responds to these concerns by eliminating the distinction between first and second tier securities and using the "exceptionally strong capacity" standard. We support this approach.

We have one technical comment on the re-proposal. We note that a different standard is proposed for evaluating a long-term security subject to a conditional demand feature. Under the re-proposal, a fund would have to determine, as with any other short-term security, that the conditional demand feature is an eligible security. A fund's board (or its delegate) also would have to evaluate the long-term risk of the underlying security and determine that it (or its guarantor) "has a very strong capacity for payment of its financial commitments." While we are not in a position to offer a view as to which standard is more appropriate, we recommend that the same standard be used for eligible securities and for evaluating the long-term risk of underlying securities with conditional demand features. The difference between "exceptionally strong" and "very strong" is not readily apparent. Employing the same standard in these circumstances would minimize any confusion and make the rule more practicable.

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[5] *See* Letter from Dorothy A. Berry, Chair, IDC Governing Council, to Elizabeth M. Murphy, Secretary, SEC, regarding References to Credit Ratings in Certain Investment Company Act Rules and Forms; File No. S7-07-11 (April 25, 2011); *see also* Letter from Karrie McMillan, General Counsel, ICI, to Elizabeth Murphy, Secretary, SEC, regarding References to Credit Ratings in Certain Investment Company Act Rules and Forms; File No. S7-07-11 (April 25, 2011).

[6] *Id.*

We commend the Commission for continuing to recognize that a fund board may delegate the minimal credit risk determination to the fund's adviser. Analyzing credit risks and the quality of investments is a core function of the fund adviser and not a function that a board should be expected to perform.[7] Moreover, we support the Commission's statement in the release that, when determining whether a security presents minimal credit risks, a fund adviser could take into account credit quality determinations prepared by outside sources, including NRSRO ratings, that the adviser considers are reliable in assessing credit risk. Even if NRSRO ratings are no longer part of the rule's requirements, they will continue to be an important source for credit analysis. We urge the Commission to reiterate these important points in its adopting release.

Factors for Considering Minimal Credit Risks

In the release, the Commission sets forth factors that generally should be analyzed to the extent appropriate in a minimal credit risk determination as well as factors fund advisers may wish to consider with respect to particular asset classes. Although IDC is generally wary of the use of factors that could become too prescriptive and outmoded over time,[8] we do not have specific concerns with the proposed factors, which appear to be sufficiently broad. We also agree that they are more appropriate for inclusion in the release and should not be codified. We would, however, object to any significant changes to the factors that would alter their nature and make them prescriptive. We urge the Commission to reiterate in the adopting release that these factors are not exhaustive and that funds and their advisers have the discretion to include in their policies and procedures various types of data and other factors that they deem appropriate, and, concomitantly, that boards approve in the exercise of their business judgment.

Monitoring Minimal Credit Risks

The Commission's re-proposal regarding the monitoring of minimal credit risk appears to incorporate comments raised by IDC and others about the vague standard included in the initial proposal. IDC expressed support for ICI's recommendation that the rule provide for a general obligation to monitor the credit risks of portfolio securities and not impose a separate requirement to identify specific triggers for reassessment.

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[7] Indeed, we have previously urged the Commission to re-examine entirely the role of money market fund boards and to update rule 2a-7 to reflect that the appropriate role of the board is to oversee, and not to manage, the funds. *See* NRSRO Letter, *supra* n. 3.

[8] *See e.g.*, Letter from Dorothy A. Berry, Chair, IDC Governing Council, to Elizabeth Murphy, Secretary, SEC, regarding Mutual Fund Distribution Fees; Confirmations; File No. S7-15-10 (November 5, 2010); Letter from Robert W. Uek, Chair, IDC Governing Council, to Florence E. Harmon, Acting Secretary, SEC, regarding Commission Guidance Regarding the Duties and Responsibilities of Investment Company Boards of Directors with Respect to Investment Adviser Portfolio Trading Practices; File No. S7-22-08 (September 30, 2008).

IDC supports the approach taken in the re-proposal to require each money market fund to adopt written procedures that require the fund adviser to provide ongoing review of the credit quality of each portfolio security (including any guarantee or demand feature on which the fund relies to determine portfolio quality, maturity, or liquidity) to determine that the security continues to present minimal credit risks.

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We commend the Commission for taking into consideration the comments it received on the initial proposal and re-proposing amendments that seek to address concerns that were raised. If you have any questions about our comments, please contact me at ([redacted]

Sincerely,

Amy Lancellotta

Amy B.R. Lancellotta
Managing Director

cc: The Honorable Mary Jo White
The Honorable Luis A. Aguilar
The Honorable Daniel M. Gallagher
The Honorable Kara M. Stein
The Honorable Michael S. Piwowar

Norm Champ, Director
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