IDC Independent Directors Council
Promoting Excellence in Fund Governance

ICI Urges SEC to Retain Credit Ratings in Money Market Fund Rule

Keep Credit Ratings in Money Market Fund Rule, ICI Says

SEC Proposal to Eliminate NRSRO Ratings From Rule Would Harm Investors

Washington, DC, September 8, 2008 - Credit ratings are a vital part of the investor protections that have made money market mutual funds so successful, and the U.S. Securities and Exchange Commission should not repeal the requirement that money market funds use ratings as a factor in determining whether a security is eligible for investment, the Investment Company Institute said Friday.

In a comment letter filed on September 5, ICI strongly opposed the Commission's proposal to eliminate ratings by registered credit rating agencies, or nationally recognized statistical ratings organizations (NRSROs), from Rule 2a-7, the rule governing money market funds. The letter suggested that the proposal is unnecessary to address the Commission's stated policy concerns regarding the use of ratings in its rules and could have serious unintended consequences.

Instead, ICI said, the Commission should persist in its earlier efforts to improve the transparency and accountability of NRSROs. ICI filed a comment letter in support of those efforts on July 28.

"This proposal would weaken the investor protections embedded in Rule 2a-7, and it may create the potential to harm investor and market confidence in the entire money market fund industry, one that has operated effectively under the safeguards provided by Rule 2a-7 for 25 years," ICI President and CEO Paul Schott Stevens said.

"It has never been appropriate for money market funds to rely solely on a security's NRSRO rating without also separately considering whether that security presents minimal credit risks," Stevens continued. "But the ratings requirement in Rule 2a-7 provides a 'floor,' below which investments may not be made, that serves to provide an additional and important layer of protection for investors.”

The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of $12.14 trillion and serve almost 90 million shareholders.
