

MEMO# 5944

June 3, 1994

SEC NO-ACTION LETTER CONCERNING USE OF OUTSIDE SERVICES IN MAKING CREDIT QUALITY DETERMINATIONS UNDER RULE 2A-7

June 3, 1994 TO: COMPLIANCE COMMITTEE NO. 11-94 MONEY MARKET FUNDS AD HOC COMMITTEE NO. 13-94 SEC RULES MEMBERS NO. 42-94 RE: SEC NO-ACTION LETTER CONCERNING USE OF OUTSIDE SERVICES IN MAKING CREDIT QUALITY DETERMINATIONS UNDER RULE 2a-7 _____ The Division of Investment Management issued an interpretive no-action letter regarding the proper use by money market funds and their advisers of credit analyses prepared by unaffiliated firms under Rule 2a-7 under the Investment Company Act of 1940. A copy of the letter is attached. In the letter, the staff stated that Rule 2a-7, which limits money market fund portfolios to instruments that present minimal credit risks, does not "specify the sources of information which a money market fund or its adviser may consult when evaluating securities' creditworthiness." Thus, the staff concluded that the use of reports prepared by unaffiliated firms is consistent with the Rule. The staff further advised, however, that the conclusions presented to a fund by a credit information service may not provide the sole basis for the fund's decision whether to purchase a security. The responsibility for reaching a conclusion as to whether a security presents minimal credit risks remains at all times with the fund's board or its delegate (which is typically the fund's adviser) and may not be delegated to a credit information service. Finally, the staff cautioned that during an inspection, Commission staff will not accept a fund's possession of a report on a security or its issuer from a credit information service as demonstrating that the fund's adviser has performed the requisite minimal credit risk analysis of that security. Instead, the fund must present documentation to substantiate that it has performed a credit risk analysis and reached its own conclusion about whether a security presents minimal credit risks. Amy B.R. Lancellotta Associate Counsel Attachment