



Mr Fabrice Demarigny
Secretary General
The Committee of European Securities Regulators
11-13 Avenue de Friedland
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France

15 September 2006

Dear Mr Demarigny

Questionnaire on the day-to-day application of the IOSCO code by the Credit Rating Agencies

The Institutional Money Market Funds Association (IMMFA) welcomes the opportunity to comment on CESR's questionnaire on the day-to-day application of the IOSCO code by the Credit Rating Agencies.

IMMFA is the trade body representing promoters of triple-A rated money market funds¹ and covers nearly all of the major promoters of this type of fund outside the USA. Triple-A rated money market funds are bought primarily by institutions to manage their liquidity positions and not for 'total return' investment purposes. They are used as an alternative to bank deposits by many investors as they offer a practical means of consolidating and outsourcing short-term investment of cash. Total assets in IMMFA members' funds as at August 2006² were in excess of €230 billion. You may obtain further information from our website, www.immfa.org.

IMMFA members offer rated money market funds and as such are in regular contact with Credit Rating Agencies (CRAs). IMMFA members are rated by at least one and sometimes three of the following CRAs: Standard & Poor's, Moody's Investors Service and Fitch Ratings.

Money market funds which meet the guidelines issued by CRAs are rated differently from other counter parties and are assigned a special rating. The precise notation of the rating differs between ratings agencies. Fitch and Moody's provide two ratings for money market funds, a credit rating and a market risk/volatility rating; Standard & Poors employs a similar approach but provides a combined notation. The ratings for money market funds are Aaa/MR1+ from Moody's, AAA/V-1+ from Fitch and AAAM from Standard & Poors. The market risk/volatility rating uses a scale from 1- indicating the lowest volatility to 10 – indicating the highest. Each rating is intended to demonstrate that money market funds exhibit minimal credit (Aaa /AAA) or market (MR1+/V-1+/m) risk. Stable NAV funds are appended a +modifier to the market risk rating.

Money market funds are subject to portfolio restrictions issued by CRAs. The Agencies undertake regular reviews of the assets, portfolio and management characteristics of the funds and methodically assesses each fund in terms of its ability to deliver on its objectives. Funds are rated on a broad set of criteria that stipulate: (i) expected loss of the portfolio; (ii) credit ratings of individual securities; (iii) weighted average maturity (WAM) of the portfolio; (iv) weighted average life of the portfolio; (v) counterparty exposures; (vi) shareholder concentrations; and (vii) duration and volatility. There is also a prohibition on the use of derivatives. The guidelines are more prescriptive than the corresponding articles of the UCITS Directive, and in some respects, are stricter than equivalent provisions in rule 2a-7 in the US.

The rating criteria broadly comprise four main areas of analysis that systematically address a fund's operating principles: its credit quality, portfolio construction, fund management and regular post-rating inspection. These are described in more detail below.

¹ References to triple-A rated money market funds means funds rated, specifically, AAAM by Standard & Poors, Aaa/MR1+ by Moody's and AAA/V-1+ by Fitch.

² Source: iMoneyNet IMMFA Money Fund Report.



Credit quality

Credit quality is evaluated on three levels: what the fund can buy, with whom it can do business (including the nature of business) and who it can appoint to keep its assets safe. The rating criteria stipulate the fund's asset range and restrictions (such as quality, type and currency), acceptable counterparty risk (for all transaction based investments) and acceptable choice of custodian.

Portfolio construction

Capital preservation is expressed in terms of the stability or constant accumulation of the fund's net asset value per share. As such, both formats are scrutinised for potential deviation in the fund's market value. All money market instruments (rated or otherwise) are subject to price fluctuations – based on interest rate movements, maturity, liquidity and the supply and demand for each type of security. Quantifying the cumulative effect of these is crucial to assessing overall portfolio performance.

Determination of market value, or portfolio price exposure, starts with the examination of susceptibility to rising interest rates. A critical component of this is the fund's weighted average portfolio maturity, which is specifically restricted by the rating category. As they are triple-A rated, IMMFA members' funds must keep within a 60 day limit, an optimal level derived from portfolio stress testing analysis. Other variables evaluated include instrument liquidity, index and spread risk, portfolio diversification, potential dilution of investor holdings and portfolio valuation.

Fund management

The rating process requires an assessment of a fund manager's operations. Key areas of interest are the fund manager's level of experience, the stated investment objectives, portfolio management techniques, risk aversion strategies, operating procedures and internal controls, including disaster recovery. The fund's management must be able to withstand close scrutiny and demonstrate effective, ongoing integrity of operation.

Portfolio inspection

Owing to the constraints of the rating criteria and the extremely low margin of error permitted at the level of fund valuation, rated money market funds are contractually obliged to supply all portfolios for periodic rating agency inspection. Any infringement or potential concern is communicated to the fund and timely rectification is required.

We would welcome the opportunity to explain the operation of money market funds in more detail and answer any questions that may arise from our response, should further clarification be required.

Yours Sincerely,

Gerard Fitzpatrick
Secretary General, IMMFA

Appendix - Questionnaire on the day-to-day application of the IOSCO code by the Credit rating agencies

1. Do you know of cases where the methodologies used by CRAs were not consistently applied or where changes of methodologies were not clearly explained and disclosed?

IMMFA response: No.

2. Do you know of ratings based on inaccurate information or issued without the credit rating agency having taken into account all relevant information?

IMMFA response: No

3.1 Do you consider that the CRAs devote sufficient resources to assign high quality credit ratings?

IMMFA response: Yes.

3.2 Do you consider that the CRAs devote sufficient resources to assign high quality credit ratings of structured finance instruments and to monitor them on an on going basis?

IMMFA response: Yes.

4. Do you consider that the period of time during which the rating decisions, the rating reports and the updates are publicly available is sufficient?

IMMFA response: No. Members would welcome consideration of the merits of current processes with a view to extending the periods of time.

5. It is always clear to you which are the critical elements underlying the rating decision (including its updates)?

IMMFA response: Yes.

6. Do you think that the ongoing surveillance of CRAs on ratings, which can result in a rating action, is effective and timely?

IMMFA response: Generally, surveillance of fund ratings is effective and timely. There have been few rating actions that have affected IMMFA member funds.

However, from investor perspective where IMMFA members are users of ratings as part of their credit assessment process there are occasions when a more timely response from CRAs would have been preferred.

7. Have you ever experienced (or heard about) situations where the CRA or its employees have given any assurance or guarantee of a particular rating prior to a rating assessment?

IMMFA response: No.

8.1 Do you consider that the CRAs disclose clearly in the rating decision whether

a. the rating was not initiated at the issuers request?

IMMFA response: Yes.

b. the issuer has not participated in the rating process?

IMMFA response: Yes.

8.2 Is the abovementioned disclosure valuable for you?

IMMFA response: Yes.

8.3 Do you know of cases where ratings of the type mentioned above (a and b) had a lower degree of quality than others?

IMMFA response: No cases if these types have been reported to the Association.

9. Have you ever experienced (or heard about) situations where the CRA has denied the issuer the opportunity to clarify any likely factual misperceptions or other matters that the CRA should be aware of prior to issuing or revising the rating?

IMMFA response: No.

10. Are you aware of cases where the rating decision was influenced by pressures from the issuers or other parties?

IMMFA response: No.

11.1 Do you consider that CRAs have put in place adequate separations and firewalls between credit rating analysts and staff involved in providing other businesses (such as rating advisory, consulting, credit assessment, research)?

IMMFA response: Yes.

11.2 Have you ever been in contact with credit rating analysts for other services than the one they provide within the context of credit rating?

IMMFA response: Members did not report such instances to the Association.

12. As an issuer, have you ever negotiated the fees of the rating service with analysts involved in the rating process?

IMMFA response: Members did not report concerns regarding the approach to the rating fee.

13. Have you experienced any situation where the rating disclosure was not done in a timely manner?

IMMFA response: No.

14. Have you encountered any problems in relation to the use of confidential information in your day-to-day business with CRAs?

IMMFA response: No.

15. Do you know of cases where the credit rating agencies are not applying the provisions of their own codes of conduct?

IMMFA response: No.

16. Are there any other comments you would like to make?

IMMFA response: No.