



Government Finance Officers Association
1301 Pennsylvania Avenue, NW Suite 309
Washington, D.C. 20004
202.393.8020 fax: 202.393-0780

September 5, 2008

Ms. Florence E. Harmon
Acting Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

**RE: File Number: S7-19-08
References to Ratings of Nationally Recognized Statistical Rating Organizations**

Dear Ms. Harmon:

The Government Finance Officers Association (GFOA) appreciates the opportunity to submit comments on the proposal by the Securities and Exchange Commission to eliminate reliance on the ratings of Nationally Recognized Statistical Rating Organizations (NRSRO) in many of its Rules, per announcement S7-19-08. The GFOA has over 17,500 members in the United States and represents the interests of our members by developing policies and practices that promote the professional management of state and local governments.

As has been shown by the ongoing turmoil in the municipal bond market, the reliance on the ratings of securities has exacerbated, rather than relieved, many of the problems that both issuers and investors have faced in recent months, and has called into question the fundamentals that are used to determine a security's rating.

The GFOA and other associations representing state and local governments have expressed concern about the dual ratings system, and the likelihood that many municipal securities ratings have been unduly suppressed over the years. Ratings cannot protect investors by establishing 'a uniform minimum credit quality' when a particular rating means different things for different securities. We support legislation introduced by House Financial Services Chairman Barney Frank (H.R. 6308) that would require the SEC to give NRSRO accreditation only to those entities that use a comparable – or uniform – rating scale for all securities. We believe that such a system will benefit issuers and investors alike, especially retail investors, who will be better able to compare securities across sectors and make appropriate investment decisions.

We also generally support the Commission's proposals to deemphasize the reliance on ratings throughout its Rules. Our specific reason for commenting today is related to municipal securities and Rule 2a-7 under the Investment Company Act of 1940. The downgrades of the bond insurance companies this year forced many money market mutual funds to sell insured variable rate demand bonds, even though the borrowers' underlying credit, the ratings of which have been suppressed by the dual rating scales, may well have been at least as good as other securities in the funds' portfolios. This forced withdrawal of much of the demand for these securities and caused rates to jump, harming taxpayers, ratepayers, students and patients, even though nothing had changed in the underlying credits.

While ratings are an important signal to investors, fund managers should not be forced to buy or sell securities based on ratings changes unrelated to the credit quality of the government issuer. The ability of fund managers to make those judgments ought not be constrained when NRSRO ratings reflect factors unrelated to repayment security, and ultimately, investor protection.

By changing the criteria to allow money market mutual funds to determine their own criteria, rather than insist that a security must be rated double-A or better, the municipal bond market may attract more investors, which could help all types and sizes of municipal bond issuers.

GFOA supports having investors use appropriate and vigorous standards when adopting necessary investment policies. The deletion of the specific rating of a security should not distract from such high standards, since a security's rating will likely still be taken into account, just not solely relied upon.

Thank you for the opportunity to comment on this proposed rule. As the Commission continues its reforms related to NRSROs, we hope that it will move to create an environment for more appropriate and sophisticated evaluation of the creditworthiness for municipal securities. We look forward to a continuing dialogue on these important matters.

Sincerely,

//sg//

Susan Gaffney
Director, Federal Liaison Center