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For Immediate Release

Proposed Money Market Ratings Threaten Further Risk to Financial System

November 11, 2010 – (Chicago, IL) – The new methodology for rating Money Market Funds proposed by Moody's Investor Services is based on subjective assessments and assumptions. It encourages fund managers to take on additional risk, and it will lead to inaccurate and misleading ratings according to Treasury Strategies. The treasury consulting firm expressed these concerns in a recent letter to Moody's urging the ratings agency to withdraw its proposal.

"We believe the proposal will result in serious, adverse consequences for Money Market Fund investors, sponsors, and the financial system as a whole," says Anthony Carfang, a Partner of Treasury Strategies. "Under the proposed system, Moody's would create ratings based on information that in many cases is conjecture at best."

The Moody's proposal places "greater emphasis" on a sponsor's willingness and ability to support a money fund and keep it from breaking the buck. To accomplish this goal, Moody's will consider numerous subjective factors. These include the strategic importance of the funds to the sponsor and intangibles such as brand name and reputation.

"Using these proposed qualitative factors to assess a fund's quality will result in unreliable ratings because they rely on assumptions that cannot be proven," says John Bilson, a professor of finance at Illinois Institute of Technology, who co-authored the letter to Moody's.

Moody's would reserve the highest rating for sponsors who appear able or motivated to guarantee their funds. "Among other things, this fuels moral hazard," Carfang explains. "The expectation of sponsor support would encourage fund managers to take on additional risk by chasing higher yields because the fund is perceived to be guaranteed," he says.

It is unlikely any sponsor would ever enter into such an arrangement. To do so would trigger burdensome accounting and capital requirements as well as SEC disclosure requirements, which would make sponsoring MMFs a very unattractive business, according to Carfang.

A wide variety of MMF investors rely on the soundness of the ratings to make their fund selections. If ratings are inaccurate or unreliable, the integrity of the funds will be questioned and their role in the larger financial system will be undermined.

"An investment in a money fund is just that, an investment. Not a federally insured deposit. Investments are not guaranteed," says Carfang. "Investors need ratings to be based on concrete, reliable information about the quality of a MMF's

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investment portfolio, investment manager, objectives and strategies, record of compliance, and performance."

Access the complete letter to Moody's, "Request For Comment: Moody's Proposes New Money Market Fund Rating Methodology and Symbols."

As a market participant, you are invited to email your comments on this matter to Moody's at cpc@moodys.com.

Note to Editors, Reporters: Finance Professor John Bilson and Treasury Strategies Partner Anthony Carfang are available for commentary on this matter.

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