MEMO# 26709

November 21, 2012

SEC Issues Staff Report of NRSRO Examinations

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TO: CLOSED-END INVESTMENT COMPANY COMMITTEE No. 46-12
EQUITY MARKETS ADVISORY COMMITTEE No. 36-12
FIXED-INCOME ADVISORY COMMITTEE No. 28-12
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 56-12
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 50-12
SEC RULES COMMITTEE No. 75-12 RE: SEC ISSUES STAFF REPORT OF NRSRO EXAMINATIONS

The Securities and Exchange Commission recently issued its second annual staff report on the findings of examinations of credit rating agencies registered with the SEC as Nationally Recognized Statistical Rating Organizations (NRSROs).*

Congress mandated the creation of the Office of Credit Ratings as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which imposed new reporting, disclosure, and examination requirements to enhance the regulation of NRSROs. The Dodd-Frank Act requires the Commission staff to examine each NRSRO at least annually and issue a report summarizing the essential findings of the examinations.

The 2012 report discusses the staff's findings and recommendations in eight areas, including whether the NRSRO conducts business in accordance with its policies, procedures, and methodologies, how it manages conflicts of interest, and whether it maintains effective internal controls. The staff identified findings and made recommendations to all NRSROs. Findings identified at one or more NRSROs include the following:

- The methodology applied to rating certain securities appears to have been changed, but the change was not publicly disclosed for several months.
- Certain securities were not timely downgraded in accordance with policies and procedures related to rating watch status.
- Methodologies were published and disclosed inconsistently and in a less-than-transparent manner.
- Directors were not actively exercising their required oversight duties.

In addition to the recommendations to NRSROs based on the 2012 exams, the SEC's Office of Credit Ratings will promote compliance between exams by sending letters to the Designated Compliance Officers at all of the firms as issues arise.

Jane G. Heinrichs
Senior Associate Counsel
