

**MEMO# 24819**

December 29, 2010

# **SEC Seeks Comment on Dodd-Frank Act Study Regarding Standardization for Credit Ratings; Conference Call January 4**

[24819]

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TO: CLOSED-END INVESTMENT COMPANY COMMITTEE No. 31-10  
FIXED-INCOME ADVISORY COMMITTEE No. 38-10  
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 70-10  
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 55-10  
SEC RULES COMMITTEE No. 70-10 RE: SEC SEEKS COMMENT ON DODD-FRANK ACT STUDY REGARDING STANDARDIZATION FOR CREDIT RATINGS; CONFERENCE CALL JANUARY 4

The Securities and Exchange Commission is requesting public comment to help inform its credit rating agency study on standardization pursuant to Section 939(h) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act"). [\[1\]](#) Specifically, the SEC is seeking comment on the feasibility and desirability of: standardizing credit ratings terminology; standardizing the market stress conditions under which ratings are evaluated; requiring a quantitative correspondence between credit ratings and a range of default probabilities and loss expectations under standardized conditions of economic stress; and standardizing credit rating terminology across asset classes.

Comments on the SEC Release are due February 7th. We will hold a conference call on Tuesday, January 4, at 3:00 p.m. Eastern time to discuss the SEC Release and possible ICI comments. If you plan to participate on the call, please contact Ruth Tadesse by email at [rtadesse@ici.org](mailto:rtadesse@ici.org) or by phone at 202-326-5836 to receive the dial-in information. If you are unable to participate on the call but have views to offer, please contact Heather Traeger at [htraeger@ici.org](mailto:htraeger@ici.org) prior to the call.

In the Release, the SEC seeks commenters' opinions on a series of questions related to standardization of credit ratings. First, the SEC seeks comment on whether to require

standardization of credit ratings terminology so that all credit rating agencies issue credit ratings using identical terms. The SEC asks for clarification regarding whether “terminology” in the Dodd-Frank Act refers only to the symbols and numbers used to denote credit ratings or to a broader group of terms, and whether a separate credit rating terminology should be used for certain asset classes. It seeks comment on whether it is desirable to have credit ratings of different credit rating agencies address different risks, such as probability of default versus expected loss. The SEC also asks whether some types of credit rating symbols used by credit rating agencies are more or less suitable to standardization and whether it is feasible or desirable to use a single credit rating scale for all types of issues and issuances.

Second, the SEC addresses the issue of standardizing the market stress conditions under which credit ratings are evaluated. It seeks comment on whether market stress conditions can be defined in a consistent manner across industry sectors and geographic regions and whether standardized market stress conditions are equally relevant to the evaluation of all asset classes or issuers.

Third, the SEC explores whether it is feasible and desirable to require quantitative correspondence between credit ratings and a range of default probabilities and loss expectations under standardized conditions of economic stress. In particular, the SEC seeks information on the current use of quantitative correspondence and the extent to which such correspondence is constant throughout the economic cycle and over time. It also asks for input on whether there is a role for market-based measures such as credit spreads or option-based approaches in determining a correspondence between credit ratings and a range of default probabilities and loss expectations.

Fourth, the SEC seeks comment on standardizing credit rating terminology across asset classes so that named credit ratings correspond to a standard range of default probabilities and expected losses independent of asset class and issuing entity. On this topic, the SEC asks whether credit ratings are currently comparable across asset classes and what mix of quantitative and qualitative factors should be considered if standardizing terminology across asset classes. It also questions whether there are asset classes where the risk characteristics of the asset class, limitations on the quality of data, limitations on historical performance data or other factors make it more difficult to apply to that asset class a standardized credit rating terminology which applies to other asset classes and issuers so that named ratings correspond to a standard range of default probabilities and expected losses.

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#### **endnotes**

[1] See Securities Exchange Act Release No. 63573 (December 17, 2010) (“Release”), available at <http://www.sec.gov/rules/other/2010/34-63573.pdf>. The SEC must submit to Congress, not later than one year after the date of enactment of the Dodd-Frank Act, a report containing the findings of the study and the recommendation, if any, of the SEC with respect to the study.

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