

**MEMO# 9670**

February 11, 1998

# **DRAFT INSTITUTE COMMENT LETTER ON SEC PROPOSAL TO DEFINE NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION**

1 See Memorandum to Money Market Funds Advisory Committee No. 8-97 and SEC Rules Committee No. 119-97, dated December 23, 1997. [9670] February 11, 1998 TO: SEC RULES COMMITTEE No. 11-98 MONEY MARKET FUNDS ADVISORY COMMITTEE No. 1-98 RE: DRAFT INSTITUTE COMMENT LETTER ON SEC PROPOSAL TO DEFINE NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION

As we previously reported, the Securities and Exchange Commission recently proposed amendments to its broker-dealer net capital rule (Rule 15c3-1) under the Securities Exchange Act of 1934 which would define the term “Nationally Recognized Statistical Rating Organization” for the purposes of that rule.<sup>1</sup> Attached and summarized below is the Institute’s draft comment letter on the proposal. The letter generally supports the proposal to the extent that it formalizes the NRSRO designation process for the purpose of issuing credit ratings relied upon by the Commission in certain instances. However, the letter stresses that the NRSRO designation process should not be expanded to cover other types of ratings issued by rating agencies where such agencies’ expertise is not a meaningful qualification to issue such other ratings. The letter also urges the SEC to more actively oversee NRSROs to ensure continued compliance with the criteria included in the rule, including, most importantly, periodically soliciting public comment on the performance of NRSROs. The letter further recommends that the SEC consider rescinding NRSROs’ Rule 436(g) exemption from expert liability under Section 11 of the Securities Act of 1933. Finally, the letter recommends that the rule be modified to authorize the SEC staff to make limited purpose NRSRO designations for rating agencies whose expertise and experience are limited to certain types of securities. Comments on the NRSRO proposal are due to the SEC by March 2, 1998. The SEC Rules Committee will be discussing the comment letter at its February 18 meeting. If you will not be attending the Rules Committee meeting and would like to comment on this draft, please contact me by Tuesday, February 24, 1998. I can be reached at (202) 326-5819, by e-mail at [savage@ici.org](mailto:savage@ici.org), or by fax at (202) 326-5827. Joseph P. Savage Assistant Counsel Attachment

should not be considered a substitute for, legal advice.