

MEMO# 9720

March 2, 1998

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

* See Memorandum to Money Market Funds Advisory Committee No. 8-97 and SEC Rules Committee No. 119-97, dated December 23, 1997. [9720] March 2, 1998 TO: MONEY MARKET FUNDS ADVISORY COMMITTEE No. 3-98 SEC RULES COMMITTEE No. 19-98 RE: INSTITUTE COMMENT LETTER ON SEC PROPOSAL TO DEFINE NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION

The Institute recently filed with the Securities and Exchange Commission the attached comment letter on the SEC's 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.* 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 SEC should 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 NRSRO designation process 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 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. Finally, the letter recommends that the SEC consider rescinding NRSROs' Rule 436(g) exemption from expert liability under Section 11 of the Securities Act of 1933. Joseph P. Savage
Assistant Counsel Attachment