

MEMO# 15866

April 7, 2003

SEC STAFF NO-ACTION LETTER REGARDING NEW NRSRO DESIGNATION

[15866] April 7, 2003 TO: FIXED-INCOME ADVISORY COMMITTEE No. 7-03 MONEY MARKET FUNDS ADVISORY COMMITTEE No. 6-03 RE: SEC STAFF NO-ACTION LETTER REGARDING NEW NRSRO DESIGNATION The staff of the Securities and Exchange Commission's Division of Market Regulation has provided no-action relief to Dominion Bond Rating Service Limited regarding its credit ratings service.¹ Specifically, the staff's letter states that it will not recommend enforcement action to the Commission if Dominion is considered by broker-dealers to be a nationally recognized statistical rating organization ("NRSRO") for purposes of Rule 15c3-1 under the Securities Exchange Act of 1934 (the "net capital rule"). The staff's relief is conditioned on Dominion not representing in any of its ratings, marketing, or similar literature that the Commission considers it to be recognized as an NRSRO. A copy of the staff's letter is attached. The staff cited several factors in granting Dominion's no-action request. First, the staff noted that Dominion, an investment adviser registered under the Investment Advisers Act of 1940, does not directly or indirectly control any financial institution, is not controlled by any such institution, and maintains its independence from any company it rates. Second, the staff noted that Dominion's ratings process incorporates an analysis and review of an issuer's annual reports, financial statements, prospectuses, and year-to-date interim results, and uses the same categories and definitions as are used by Standard & Poors and Fitch, Inc. In addition, all ratings decisions require approval by a Dominion rating committee, which consists of analysts and senior management. Finally, the staff noted that Dominion maintains internal procedures to prevent misuse of information, including: (1) prohibiting staff from investing in or advising on securities of any company or subsidiary that Dominion rates or benchmarks; (2) instructing staff not to inform an issuer of any definite rating action prior to a decision by Dominion's rating committee; (3) prohibiting staff from discussing nonpublic information with non-Dominion staff; and (4) requiring staff and consultants to annually review and sign Dominion's code of conduct and ethics policy. Barry E. Simmons Associate Counsel Attachment (in .pdf format) 1 Dominion Bond Rating Service Ltd., SEC No-Action Letter, avail. February 24, 2003.