

MEMO# 6197

September 2, 1994

SEC CONCEPT RELEASE ON RATING AGENCIES (NRSROs)

September 2, 1994 TO: BOARD OF GOVERNORS NO. 92-94 SEC RULES COMMITTEE NO. 100-94 RE: SEC CONCEPT RELEASE ON RATING AGENCIES (NRSROs)

The Securities and Exchange Commission has issued a concept release soliciting comment on the appropriate role of ratings in the federal securities laws, and the need to establish formal procedures for designating and monitoring the activities of nationally recognized statistical rating organizations ("NRSROs"). In addition, and of particular interest to investment companies, the Commission has requested input on the use of mutual fund risk ratings. Specifically, the Commission solicited comment on: (1) whether mutual fund risk ratings issued by NRSROs and other organizations should be disclosed in fund prospectuses, sales literature and advertisements; (2) the type of disclosure that should accompany these ratings to assure that their significance and limitations are appreciated by investors, and any other appropriate conditions for their use in fund prospectuses and advertisements; (3) whether the use of these ratings may lead investors to select a fund based solely on a fund's rating; and (4) whether Rule 436(g) under the Securities Act should be amended so that a fund could include these types of ratings in its registration statement without having to provide a written consent conveying expert liability to the organization preparing the ratings. A copy of the Commission's release is attached. Comments are due on the concept release within 90 days from the date the release is published in the Federal Register. Please provide the undersigned with any comments on the release that you would like the Institute to consider including in its comment letter by October 7, 1994. My direct number is 202/326-5824. Amy B.R. Lancellotta Associate Counsel Attachment