

MEMO# 18936

June 10, 2005

ICI LETTER ON SEC PROPOSED RULE DEFINING THE TERM "NRSRO"

©2005 Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice. [18936] June 10, 2005 TO: SEC RULES MEMBERS No. 77-05 CLOSED-END INVESTMENT COMPANY MEMBERS No. 34-05 MONEY MARKET FUNDS ADVISORY COMMITTEE No. 11-05 FIXED-INCOME ADVISORY COMMITTEE No. 13-05 UNIT INVESTMENT TRUST MEMBERS No. 14-05 RE: ICI LETTER ON SEC PROPOSED RULE DEFINING THE TERM "NRSRO" The Institute has filed a comment letter with the Securities and Exchange Commission on a proposed new rule under the Securities Exchange Act of 1934 which would define the term "nationally recognized statistical rating organization" ("NRSRO").¹ The most significant aspects of the comment letter are summarized below and a copy of the letter is attached. The letter supports the adoption of a formal definition of "NRSRO." The letter notes, however, that the proposal does not enhance the Commission's current regulatory structure and oversight of NRSROs and, in fact, may diminish the Commission's oversight by eliminating the need for credit rating agencies to seek no-action letters in order to be designated as NRSROs. Absent Commission authority to impose a more stringent regulatory structure over NRSROs, the letter recommends that the Commission continue to require that credit rating agencies obtain NRSRO designation through the no-action process. At the same time, in order to facilitate competition among credit rating agencies, the letter recommends that the Commission institute several changes to the current no-action process. Specifically, the letter supports the establishment of a time period within which Commission staff would act on credit rating agency no-action requests for NRSRO status. Establishing a time period for staff action would address concerns regarding the current length of time necessary to obtain a no-action letter and would facilitate the designation of credit rating agencies as NRSROs. In addition, the letter supports allowing credit rating agencies that confine their activities to limited sectors of the debt market or to limited geographic areas to be deemed an NRSRO. The letter states that these changes would significantly improve the current no-action process and facilitate competition for credit rating agencies, while at the same time 1 SEC Release Nos. 33-8570; 34-51572; and IC-26834 (April 19, 2005). See Memorandum to SEC Rules Members No. 52-05, Closed-End Investment Company Members No. 22-05, Money Market Funds Advisory Committee No. 7-05, Fixed-Income Advisory Committee No. 9-05 and Unit Investment Trust Members No. 6-05, dated April 22, 2005 [18798]. 2 time ensuring that there is the minimum amount of NRSRO oversight necessary to ensure adequate investor protections and an efficient NRSRO process. The letter notes that the transparency of the ratings process, and of the procedures in place to ensure that this process operates smoothly, is very important to investors. The letter therefore recommends that the Commission consider, as an additional factor for assessing whether a credit rating agency

meets the proposed NRSRO definition, the level of disclosure of these procedures to investors. The letter states that the public disclosure of this information would allow investors a continuous opportunity to appraise the NRSROs' independence, their capabilities as NRSROs and their unique operations. Ari Burstein Associate Counsel Attachment (in .pdf format) Note: Not all recipients receive the attachment. To obtain a copy of the attachment, please visit our members website (<http://members.ici.org>) and search for memo 18936, or call the ICI Library at (202) 326-8304 and request the attachment for memo 18936.

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