

July 31, 2006

Honorable Richard Shelby  
Chairman  
Senate Committee on Banking,  
Housing and Urban Affairs  
534 Dirksen Senate Office Building  
Washington, DC 20510

Honorable Paul Sarbanes  
Ranking Minority Member  
Senate Committee on Banking,  
Housing and Urban Affairs  
534 Dirksen Senate Office Building  
Washington, DC 20510

Dear Chairman Shelby and Ranking Minority Member Sarbanes:

The Investment Company Institute<sup>1</sup> urges the Committee to support the bipartisan committee print of the "Credit Rating Agency Reform Act of 2006." This legislation brings much needed transparency to the SEC's Nationally Recognized Statistical Rating Organization (NRSRO) designation process. The impact of credit ratings is far-reaching and the Committee's longstanding work on this issue will benefit a wide range of market participants.

The SEC's current designation process presents barriers for new entrants to compete with already designated NRSROs. Currently, companies seeking the designation apply to the Commission and then must await a "no action letter," which grants them the ability to issue ratings as an NRSRO (the designation is required for ratings by much of the institutional investor community by regulation). Under the current system, some applicants have described waiting for their "no action" responses for years, if responses come at all, with little feedback from the Commission as to the deficiencies with their applications. As a result, only five companies are currently designated as NRSROs and two companies dominate with a combined eighty percent of the market share.

This legislation is the product of your committed leadership over many years. The Committee has held multiple hearings and the SEC issued a report on NRSROs as required by the Sarbanes-Oxley accounting reform legislation. Specifically, the committee print will establish an SEC registration process through which applicants can acquire the NRSRO designation after three consecutive years of issuing ratings. At the same time, the bill provides regulators tools to oversee the integrity of an agency's ratings. The bill also brings much needed sunlight to credit ratings by requiring disclosure of an NRSRO's rating criteria, its methodologies and policies, how an NRSRO addresses conflicts of interest (as well as the conflicts themselves), and the organizational structure of an NRSRO.

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<sup>1</sup> The ICI is the national association of the American investment company industry. ICI members include 8,712 open-end investment companies (mutual funds), 653 closed-end investment companies, 177 exchange-traded funds, and 5 sponsors of unit investment trusts. Mutual fund members of the ICI have total assets of approximately \$9.212 trillion (representing 98 percent of all assets of US mutual funds); these funds serve approximately 89.5 million shareholders in more than 52.6 million households

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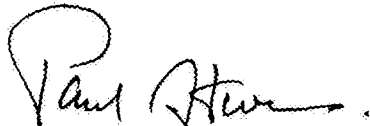
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The Institute and its members have a longstanding interest in credit ratings. Mutual funds employ credit ratings in a variety of ways – to help make investment decisions, to define investment strategies, to communicate with their shareholders about credit risk, and to inform the process for valuing securities. Most significantly for Institute members is the role of credit ratings in the operation of money market mutual funds, which currently have some \$2.1 trillion in assets. Money market funds are governed by Rule 2a-7 under the Investment Company Act, which limits these funds to investing in securities either rated in the two highest short-term rating categories by an NRSRO, or determined by the fund board to be of comparable quality.

The committee print is a fitting culmination to the Committee's review of the credit rating process and its ongoing efforts to improve transparency in the capital markets and protect investors. Given the importance of credit ratings to mutual funds and fund shareholders, we greatly appreciate the work of the Committee on this issue. Accordingly, we urge the Committee to support this important reform legislation and look forward to its consideration by the Senate at large.

With very best regards.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Schott Stevens". The signature is written in a cursive style with a large initial "P" and a long horizontal stroke at the end.

Paul Schott Stevens

cc: Member of the Senate Committee on Banking