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109TH CONGRESS
2^D SESSION

H. R. 2990

[Report No. 109-546]

To improve ratings quality by fostering competition, transparency, and accountability in the credit rating agency industry.

IN THE HOUSE OF REPRESENTATIVES

JUNE 20, 2005

Mr. FITZPATRICK of Pennsylvania introduced the following bill; which was referred to the Committee on Financial Services

JULY 7, 2006

Additional sponsors: Mr. BAKER, Mr. FEENEY, Mr. OXLEY, Mr. AKIN, Mr. GARRETT of New Jersey, Mr. DAVIS of Kentucky, Mr. GERLACH, Mr. ENGLISH of Pennsylvania, Mr. FOLEY, Mr. BARRETT of South Carolina, Ms. HART, Mr. GILLMOR, Mr. CASTLE, Mr. MCHENRY, and Mr. BLUNT

JULY 7, 2006

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in *italic*]

[For text of introduced bill, see copy of bill as introduced on June 20, 2005]

A BILL

To improve ratings quality by fostering competition, transparency, and accountability in the credit rating agency industry.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; REFERENCES.**

4 (a) *SHORT TITLE.*—*This Act may be cited as the*
5 *“Credit Rating Agency Duopoly Relief Act of 2006”.*

6 (b) *REFERENCES.*—*Except as otherwise expressly pro-*
7 *vided, whenever in this Act an amendment or repeal is ex-*
8 *pressed in terms of an amendment to, or repeal of, a section*
9 *or other provision, the reference shall be considered to be*
10 *made to a section or other provision of the Securities Ex-*
11 *change Act of 1934 (15 U.S.C. 78a et seq.).*

12 **SEC. 2. FINDINGS.**

13 *Upon the basis of facts disclosed by the record and re-*
14 *port of the Securities and Exchange Commission made pur-*
15 *suant to section 702 of the Sarbanes-Oxley Act of 2002 (116*
16 *Stat. 797), hearings before the House Committee on Finan-*
17 *cial Services during the 108th and 109th Congresses, com-*
18 *ment letters to the concept releases and proposed rules of*
19 *the Securities and Exchange Commission, and facts other-*
20 *wise disclosed and ascertained, the Congress finds that—*

21 (1) *credit rating agencies are of national con-*
22 *cern, in that, among other things—*

23 (A) *their ratings, publications, writings,*
24 *analyses, and reports are furnished and distrib-*
25 *uted, and their contracts, subscription agree-*

1 *ments, and other arrangements with clients are*
2 *negotiated and performed, by the use of the mails*
3 *and means and instrumentalities of interstate*
4 *commerce;*

5 *(B) their ratings, publications, writings,*
6 *analyses, and reports customarily relate to the*
7 *purchase and sale of securities traded on securi-*
8 *ties exchanges and in interstate over-the-counter*
9 *markets, securities issued by companies engaged*
10 *in business in interstate commerce, and securi-*
11 *ties issued by national banks and member banks*
12 *of the Federal Reserve System;*

13 *(C) the foregoing transactions occur in such*
14 *volume as substantially to affect interstate com-*
15 *merce, and securities markets, the national bank-*
16 *ing system, and the national economy; and*

17 *(D) their regulation serves the compelling*
18 *interest of investor protection; and*

19 (2) *the Securities and Exchange Commission—*

20 *(A) has, through its designation of certain*
21 *credit rating agencies as nationally recognized*
22 *statistical rating organizations, created an arti-*
23 *ficial barrier to entry for new participants; and*

1 (B) will, in its latest proposed rule defining
2 nationally recognized statistical rating organiza-
3 tions, codify and strengthen this barrier.

4 **SEC. 3. DEFINITIONS.**

5 Section 3(a) (15 U.S.C. 78c(a)) is amended by adding
6 at the end the following new paragraphs:

7 “(60) *CREDIT RATING*.—The term ‘credit rating’
8 means an assessment of the creditworthiness of an ob-
9 ligor as an entity or with respect to specific securities
10 or money market instruments.

11 “(61) *CREDIT RATING AGENCY*.—The term ‘credit
12 rating agency’ means any person—

13 “(A) engaged in the business of issuing
14 credit ratings on the Internet or through another
15 readily accessible means, for free or for a reason-
16 able fee;

17 “(B) employing either a quantitative or
18 qualitative model, or both, to determine credit
19 ratings; and

20 “(C) receiving fees from either issuers, in-
21 vestors, or other market participants, or a com-
22 bination thereof.

23 “(62) *NATIONALLY RECOGNIZED STATISTICAL*
24 *RATING ORGANIZATION OR NRSRO*.—The term ‘nation-

1 *ally recognized statistical rating organization’ means*
 2 *a credit rating agency that—*

3 *“(A) has been in business for at least three*
 4 *consecutive years; and*

5 *“(B) is registered under section 15E.*

6 *“(63) PERSON ASSOCIATED WITH A NATIONALLY*
 7 *RECOGNIZED STATISTICAL RATING ORGANIZATION.—*

8 *The term ‘person associated with a nationally recog-*
 9 *nized statistical rating organization’ means any part-*
 10 *ner, officer, director, or branch manager of such na-*
 11 *tionally recognized statistical rating organization (or*
 12 *any person occupying a similar status or performing*
 13 *similar functions), any person directly or indirectly*
 14 *controlling, controlled by, or under common control*
 15 *with such nationally recognized statistical rating or-*
 16 *ganization, or any employee of such nationally recog-*
 17 *nized statistical rating organization.”.*

18 **SEC. 4. REGISTRATION OF NATIONALLY RECOGNIZED STA-**
 19 **TISTICAL RATING ORGANIZATIONS.**

20 *(a) AMENDMENT.—The Securities Exchange Act of*
 21 *1934 is amended by inserting after section 15D (15 U.S.C.*
 22 *780–6) the following new section:*

23 **“SEC. 15E. REGISTRATION OF NATIONALLY RECOGNIZED**
 24 **STATISTICAL RATING ORGANIZATIONS.**

25 *“(a) REGISTRATION PROCEDURES.—*

1 “(1) *FILING OF APPLICATION FORM.*—A credit
2 rating agency that elects to be treated as a nationally
3 recognized statistical rating organization for the pur-
4 poses of Federal statutes, rules, and regulations may
5 be registered by filing with the Commission an appli-
6 cation for registration in such form and containing
7 such of the following and any other information and
8 documents concerning such organization and any per-
9 sons associated with such organization as the Com-
10 mission, by rule, may prescribe as necessary or ap-
11 propriate in the public interest or for the protection
12 of investors:

13 “(A) any conflicts of interest relating to the
14 issuance of credit ratings by a nationally recog-
15 nized statistical rating organization;

16 “(B) the procedures and methodologies such
17 nationally recognized statistical rating organiza-
18 tion uses in determining credit ratings;

19 “(C) credit ratings performance measure-
20 ment statistics over short-term, mid-term, and
21 long-term periods of such nationally recognized
22 statistical rating organization;

23 “(D) policies or procedures adopted and im-
24 plemented by such nationally recognized statis-
25 tical rating organization to prevent the misuse

1 *in violation of this title (or the rules and regula-*
2 *tions thereunder) of material, non-public infor-*
3 *mation; and*

4 *“(E) the organizational structure of such*
5 *nationally recognized statistical rating organiza-*
6 *tion.*

7 “(2) *REVIEW OF APPLICATION.—*

8 *“(A) INITIAL DETERMINATION.—Within 90*
9 *days of the date of the filing of such application*
10 *(or within such longer period as to which the ap-*
11 *plicant consents) the Commission shall—*

12 *“(i) by order grant such registration;*
13 *or*

14 *“(ii) institute proceedings to determine*
15 *whether registration should be denied.*

16 “(B) *CONDUCT OF PROCEEDINGS.—Such*
17 *proceedings shall include notice of the grounds*
18 *for denial under consideration and opportunity*
19 *for hearing and shall be concluded within 120*
20 *days of the date of the filing of the application*
21 *for registration. At the conclusion of such pro-*
22 *ceedings the Commission, by order, shall grant or*
23 *deny such registration. The Commission may ex-*
24 *tend the time for conclusion of such proceedings*
25 *for up to 90 days if it finds good cause for such*

1 *extension and publishes its reasons for so finding*
2 *or for such longer period as to which the appli-*
3 *cant consents.*

4 “(C) *GROUND FOR DECISION.*—*The Com-*
5 *mission shall grant such registration if the Com-*
6 *mission finds that the requirements of this sec-*
7 *tion are satisfied. The Commission shall deny*
8 *such registration if it does not make such a find-*
9 *ing or if it finds that if the applicant were so*
10 *registered, its registration would be subject to*
11 *suspension or revocation under subsection (b).*

12 “(3) *PUBLIC AVAILABILITY OF INFORMATION.*—
13 *Subject to section 24, the Commission, by rule, shall*
14 *require a nationally recognized statistical rating or-*
15 *ganization, upon the granting of registration under*
16 *this section, to make the information and documents*
17 *filed with the Commission in its application for reg-*
18 *istration, or in any amendment filed under subsection*
19 *(b)(1) or (2), publicly available on the website or*
20 *comparable readily accessible means of such nation-*
21 *ally recognized statistical rating organization.*

22 “(b) *UPDATE OF REGISTRATION.*—

23 “(1) *UPDATE.*—*Each nationally recognized sta-*
24 *tistical rating organization shall promptly amend its*
25 *application for registration under this section if any*

1 *information or documents provided therein become*
2 *materially inaccurate, except that a nationally recog-*
3 *nized statistical rating organization is not required to*
4 *amend the information required to be filed under sub-*
5 *section (a)(1)(C) by a filing under this paragraph,*
6 *but shall amend such information in such organiza-*
7 *tion’s annual filing under paragraph (2) of this sub-*
8 *section.*

9 “(2) *CERTIFICATION.*—*Not later than 90 days*
10 *after the end of each calendar year, each nationally*
11 *recognized statistical rating organization shall file*
12 *with the Commission an amendment to its registra-*
13 *tion, in such form as the Commission, by rule, may*
14 *prescribe as necessary or appropriate in the public*
15 *interest or for the protection of investors—*

16 “(A) *certifying that the information and*
17 *documents in the application for registration of*
18 *such nationally recognized statistical rating or-*
19 *ganization continue to be accurate; and*

20 “(B) *listing any material changes that oc-*
21 *curred to such information or documents during*
22 *the previous calendar year.*

23 “(c) *ACCOUNTABILITY FOR RATINGS PROCEDURES.*—

24 “(1) *AUTHORITY.*—*The Commission shall have*
25 *the authority under this Act to take action against*

1 *any nationally recognized statistical rating organiza-*
2 *tion if such nationally recognized statistical rating*
3 *organization issues credit ratings in contravention of*
4 *those procedures, criteria, and methodologies that such*
5 *nationally recognized statistical rating organiza-*
6 *tion—*

7 *“(A) includes in its application for reg-*
8 *istration under this section; or*

9 *“(B) makes and disseminates in reports*
10 *pursuant to section 17(a) or the rules and regu-*
11 *lations thereunder.*

12 *“(2) LIMITATION.—The rules and regulations ap-*
13 *plicable to nationally recognized statistical rating or-*
14 *ganizations the Commission may prescribe pursuant*
15 *to this Act shall be narrowly tailored to meet the re-*
16 *quirements of this Act applicable to nationally recog-*
17 *nized statistical rating organizations and shall not*
18 *purport to regulate the substance of credit ratings or*
19 *the procedures and methodologies by which such na-*
20 *tionally recognized statistical rating organizations de-*
21 *termine credit ratings.*

22 *“(d) CENSURE, DENIAL, OR SUSPENSION OF REG-*
23 *ISTRATION; NOTICE AND HEARING.—The Commission, by*
24 *order, shall censure, place limitations on the activities,*
25 *functions, or operations of, suspend for a period not exceed-*

1 *ing 12 months, or revoke the registration of any nationally*
2 *recognized statistical rating organization if the Commission*
3 *finds, on the record after notice and opportunity for hear-*
4 *ing, that such censure, placing of limitations, suspension,*
5 *or revocation is in the public interest and that such nation-*
6 *ally recognized statistical rating organization, or any per-*
7 *son associated with such nationally recognized statistical*
8 *rating organization, whether prior to or subsequent to be-*
9 *coming so associated—*

10 “(1) *has committed or omitted any act, or is*
11 *subject to an order or finding, enumerated in sub-*
12 *paragraph (A), (D), (E), (H), or (G) of paragraph*
13 *(4) of section 15(b), has been convicted of any offense*
14 *specified in subparagraph (B) of such paragraph (4)*
15 *within 10 years of the commencement of the pro-*
16 *ceedings under this subsection, or is enjoined from*
17 *any action, conduct, or practice specified in subpara-*
18 *graph (C) of such paragraph (4);*

19 “(2) *has been convicted during the 10-year pe-*
20 *riod preceding the date of filing of any application*
21 *for registration, or at any time thereafter, of—*

22 “(A) *any crime that is punishable by im-*
23 *prisonment for 1 or more years, and that is not*
24 *described in section 15(b)(4)(B); or*

1 “(B) a substantially equivalent crime by a
2 foreign court of competent jurisdiction; or

3 “(3) is subject to any order of the Commission
4 barring or suspending the right of the person to be as-
5 sociated with a nationally recognized statistical rat-
6 ing organization.

7 “(e) *WITHDRAWAL FROM REGISTRATION.*—A nation-
8 ally recognized statistical rating organization registered
9 under this section may, upon such terms and conditions
10 as the Commission may establish as necessary in the public
11 interest or for the protection of investors, withdraw from
12 registration by filing a written notice of withdrawal with
13 the Commission. If the Commission finds that any nation-
14 ally recognized statistical rating organization is no longer
15 in existence or has ceased to do business as a credit rating
16 agency, the Commission, by order, shall cancel the registra-
17 tion of such nationally recognized statistical rating organi-
18 zation.

19 “(f) *REPRESENTATIONS.*—

20 “(1) *REPRESENTATIONS OF SPONSORSHIP BY*
21 *UNITED STATES OR AGENCY THEREOF.*—It shall be
22 unlawful for any nationally recognized statistical rat-
23 ing organization registered under this section to rep-
24 resent or imply in any manner whatsoever that such
25 nationally recognized statistical rating organization

1 *has been designated, sponsored, recommended, or ap-*
2 *proved, or that such nationally recognized statistical*
3 *rating organization's abilities or qualifications have*
4 *in any respect been passed upon, by the United States*
5 *or any agency, any officer, or any employee thereof.*

6 *“(2) REPRESENTATION AS NRSRO OF UNREGIS-*
7 *TERED CREDIT RATING AGENCIES.—It shall be unlaw-*
8 *ful for any credit rating agency to represent or imply*
9 *in any manner whatsoever that such credit rating*
10 *agency has been designated, sponsored, recommended,*
11 *or approved, or that such credit rating agency's abili-*
12 *ties or qualifications have in any respect been passed*
13 *upon, by the United States or any agency, any offi-*
14 *cer, or any employee thereof. It shall be unlawful for*
15 *any credit rating agency that is not registered under*
16 *this section as a nationally recognized statistical rat-*
17 *ing organization to state that such credit rating agen-*
18 *cy is a nationally recognized statistical rating orga-*
19 *nization under this Act.*

20 *“(3) STATEMENT OF REGISTRATION UNDER SE-*
21 *CURITIES EXCHANGE ACT OF 1934 PROVISIONS.—No*
22 *provision of paragraph (1) shall be construed to pro-*
23 *hibit a statement that a nationally recognized statis-*
24 *tical rating organization is a nationally recognized*
25 *statistical rating organization under this Act, if such*

1 *statement is true in fact and if the effect of such reg-*
2 *istration is not misrepresented.*

3 “(g) *PREVENTION OF MISUSE OF NONPUBLIC INFOR-*
4 *MATION.—Each nationally recognized statistical rating or-*
5 *ganization shall establish, maintain, and enforce written*
6 *policies and procedures reasonably designed, taking into*
7 *consideration the nature of such nationally recognized sta-*
8 *tistical rating organization’s business, to prevent the misuse*
9 *in violation of this title, or the rules or regulations there-*
10 *under, of material, nonpublic information by such nation-*
11 *ally recognized statistical rating organization or any per-*
12 *son associated with such nationally recognized statistical*
13 *rating organization. The Commission, as it deems necessary*
14 *or appropriate in the public interest or for the protection*
15 *of investors, shall adopt rules or regulations to require spe-*
16 *cific policies or procedures reasonably designed to prevent*
17 *misuse in violation of this title (or the rules or regulations*
18 *thereunder) of material, nonpublic information.*

19 “(h) *MANAGEMENT OF CONFLICTS OF INTEREST.—*
20 *Each nationally recognized statistical rating organization*
21 *shall establish, maintain, and enforce written policies and*
22 *procedures reasonably designed, taking into consideration*
23 *the nature of the business of such nationally recognized sta-*
24 *tistical rating organization and affiliated persons and af-*
25 *filiated companies of such nationally recognized statistical*

1 *rating organization, to address and manage the conflicts*
2 *of interest that can arise from such business. The Commis-*
3 *sion, as it deems necessary or appropriate in the public*
4 *interest or for the protection of investors, shall adopt rules*
5 *or regulations to prohibit, or require the management or*
6 *disclosure of, any conflicts of interest relating to the*
7 *issuance of credit ratings by a nationally recognized statis-*
8 *tical rating organization including, without limitation,*
9 *conflicts of interest relating to—*

10 “(1) *the manner in which a nationally recog-*
11 *nized statistical rating organization is compensated*
12 *by the obligor, or any affiliate of the obligor, for*
13 *issuing credit ratings or providing related services;*

14 “(2) *the provision of consulting, advisory, or*
15 *other services by a nationally recognized statistical*
16 *rating organization, or any person associated with*
17 *such nationally recognized statistical rating organiza-*
18 *tion, to the obligor, or any affiliate of the obligor;*

19 “(3) *business relationships, ownership interests,*
20 *or any other financial or personal interests between*
21 *a nationally recognized statistical rating organiza-*
22 *tion, or any person associated with such nationally*
23 *recognized statistical rating organization, and the ob-*
24 *ligor, or any affiliate of the obligor; and*

1 “(4) any affiliation of a nationally recognized
2 statistical rating organization, or any person associ-
3 ated with such nationally recognized statistical rating
4 organization, with any person that underwrites the
5 securities or money market instruments that are the
6 subject of a credit rating.

7 “(i) *PROHIBITED CONDUCT.*—

8 “(1) *PROHIBITED ACTS AND PRACTICES.*—*The*
9 *Commission may adopt rules or regulations to pro-*
10 *hibit any act or practice relating to the issuance of*
11 *credit ratings by a nationally recognized statistical*
12 *rating organization that the Commission determines*
13 *to be unfair, coercive, or abusive, including any act*
14 *or practice relating to—*

15 “(A) *seeking payment for a credit rating*
16 *that has not been specifically requested by the ob-*
17 *ligor—*

18 “(i) *from an obligor; or*

19 “(ii) *from an affiliate of an obligor,*
20 *unless—*

21 “(I) *the organization is organized*
22 *under subsection (a)(1)(E) to receive*
23 *fees from investors or other market*
24 *participants, or a combination thereof;*
25 *and*

1 “(II) the affiliate is such an in-
2 vestor or participant;

3 “(B) conditioning or threatening to condi-
4 tion the issuance of a credit rating on the obli-
5 gor’s, or an affiliate of the obligor’s, purchase of
6 other services or products, including pre-credit
7 rating assessment products, of the nationally rec-
8 ognized statistical rating organization or any
9 person associated with such nationally recog-
10 nized statistical rating organization;

11 “(C) lowering or threatening to lower a
12 credit rating on, or refusing to rate, securities or
13 money market instruments issued by an asset
14 pool unless a portion of the assets within such
15 pool also is rated by the nationally recognized
16 statistical rating organization;

17 “(D) modifying or threatening to modify a
18 credit rating or otherwise departing from its
19 adopted systematic procedures and methodologies
20 in determining credit ratings, based on whether
21 the obligor, or an affiliate of the obligor, pays or
22 will pay for the credit rating or any other serv-
23 ices or products of the nationally recognized sta-
24 tistical rating organization or any person associ-

1 *ated with such nationally recognized statistical*
2 *rating organization.*

3 “(2) *RULE OF CONSTRUCTION.*—*Nothing in*
4 *paragraph (1), or in any rules or regulations adopted*
5 *thereunder, shall be construed to modify, impair, or*
6 *supersede the operation of any of the antitrust laws.*
7 *For the purposes of the preceding sentence, the term*
8 *‘antitrust laws’ has the meaning given it in the first*
9 *section of the Clayton Act (15 U.S.C. 12), except that*
10 *such term includes section 5 of the Federal Trade*
11 *Commission Act (15 U.S.C. 45) to the extent such sec-*
12 *tion 5 applies to unfair methods of competition.*

13 “(j) *DESIGNATION OF COMPLIANCE OFFICER.*—*Each*
14 *nationally recognized statistical rating organization shall*
15 *designate an individual responsible for administering the*
16 *policies and procedures that are required to be established*
17 *pursuant to subsections (g) and (h), and for ensuring com-*
18 *pliance with the securities laws and the rules and regula-*
19 *tions thereunder, including those promulgated by the Com-*
20 *mission pursuant to this section.*

21 “(k) *STATEMENTS OF FINANCIAL CONDITION.*—*Each*
22 *nationally recognized statistical rating organization shall,*
23 *on a confidential basis, file with the Commission, at inter-*
24 *vals determined by the Commission, such financial state-*
25 *ments, certified (if required by the rules or regulations of*

1 *the Commission) by an independent public accountant, and*
2 *information concerning its financial condition as the Com-*
3 *mission, by rule, may prescribe as necessary or appropriate*
4 *in the public interest or for the protection of investors.*

5 “(1) *ELIMINATION OF COMMISSION DESIGNATION*
6 *PROCESS FOR NRSRO’S.—*

7 “(1) *CESSATION OF DESIGNATION.—Within 30*
8 *days after the enactment of the Credit Rating Agency*
9 *Duopoly Relief Act of 2006, the Commission shall*
10 *cease to designate persons and companies as nation-*
11 *ally recognized statistical rating organizations, as*
12 *that term is used under rule 15c3–1 of the Commis-*
13 *sion’s rules (17 CFR 240.15c3–1).*

14 “(2) *PROHIBITION ON RELIANCE ON NO-ACTION*
15 *RELIEF.—The no-action relief that the Commission*
16 *has granted with respect to the designation of nation-*
17 *ally recognized statistical rating organizations, as*
18 *that term is used under rule 15c3–1 of the Commis-*
19 *sion’s rules (17 CFR 240.15c3–1), shall be void and*
20 *of no force or effect.*

21 “(3) *NOTICE TO OTHER AGENCIES.—Within 30*
22 *days after the date of enactment of the Credit Rating*
23 *Agency Duopoly Relief Act of 2006, the Commission*
24 *shall give notice to the Federal agencies which employ*
25 *the term ‘nationally recognized statistical rating or-*

1 *ganization’ (as that term is used under rule 15c3–1*
2 *of the Commission’s rules (17 CFR 240.15c3–1)) in*
3 *their rules and regulations regarding the actions un-*
4 *dertaken pursuant to this section.*

5 *“(4) REVIEW OF EXISTING REGULATIONS.—*
6 *Within 180 days after the date of enactment of the*
7 *Credit Rating Agency Duopoly Relief Act of 2006, the*
8 *Commission shall review its existing rules and regula-*
9 *tions which employ the term ‘nationally recognized*
10 *statistical rating organization’ or ‘NRSRO’ and pro-*
11 *mulgate new or revised rules and regulations as the*
12 *Commission may prescribe as necessary or appro-*
13 *priate in the public interest or for the protection of*
14 *investors.”.*

15 *(b) CONFORMING AMENDMENTS TO THE 1934 ACT.—*

16 *(1) Section 15(b)(4)(B)(ii) (15 U.S.C.*
17 *780(b)(4)(B)(ii)) is amended by inserting “nationally*
18 *recognized statistical rating organization,” after*
19 *“transfer agent,”.*

20 *(2) Section 15(b)(4)(C) (15 U.S.C. 780(b)(4)(C))*
21 *is amended by inserting “nationally recognized statis-*
22 *tical rating organization,” after “transfer agent,”.*

23 *(3) Section 21B(a) (15 U.S.C. 78u–2(a)) is*
24 *amended by inserting “15E,” after “15C,”.*

25 *(c) OTHER CONFORMING AMENDMENTS.—*

1 (1) *Section 2(a) of the Investment Company Act*
2 *of 1940 (15 U.S.C. 80a-2(a)) is amended by adding*
3 *at the end the following new paragraph:*

4 “(53) *The term ‘credit rating agency’ has the*
5 *same meaning as given in section 3 of the Securities*
6 *Exchange Act of 1934.”.*

7 (2) *Section 9(a)(1) of the Investment Company*
8 *Act of 1940 (15 U.S.C. 80a-9(a)) is amended by in-*
9 *serting “credit rating agency,” after “transfer*
10 *agent,”.*

11 (3) *Section 9(a)(2) of the Investment Company*
12 *Act of 1940 (15 U.S.C. 80a-9(a)) is amended by in-*
13 *serting “credit rating agency,” after “transfer*
14 *agent,”.*

15 (4) *Section 202(a) of the Investment Advisers*
16 *Act of 1940 (15 U.S.C. 80b-2(a)) is amended by add-*
17 *ing at the end the following new paragraph:*

18 “(28) *The term ‘credit rating agency’ has the*
19 *same meaning as given in section 3 of the Securities*
20 *Exchange Act of 1934.”.*

21 (5) *Section 203(e)(2)(B) of the Investment Advis-*
22 *ers Act of 1940 (15 U.S.C. 80b-3(e)) is amended by*
23 *inserting “credit rating agency,” after “transfer*
24 *agent,”.*

1 (6) *Section 203(e)(4) of the Investment Advisers*
2 *Act of 1940 (15 U.S.C. 80b-3(e)) is amended by in-*
3 *serting “credit rating agency,” after “transfer*
4 *agent,”.*

5 (7) *Section 1319 of the Housing and Community*
6 *Development Act of 1992 (12 U.S.C. 4519) is amend-*
7 *ed by striking “effectively” and all that follows*
8 *through “broker-dealers” and inserting “that is a na-*
9 *tionally recognized statistical rating organization, as*
10 *such term is defined in section 3(a) of the Securities*
11 *Exchange Act of 1934”.*

12 (8) *Section 439 of the Higher Education Act of*
13 *1965 (20 U.S.C. 1087-2) is amended in subsection*
14 *(r)(15)(A) by striking “means any entity recognized*
15 *as such by the Securities and Exchange Commission”*
16 *and inserting “means any nationally recognized sta-*
17 *tistical rating organization as that term is defined*
18 *under the Securities Exchange Act of 1934”.*

19 (9) *Section 601(10) of title 23, United States*
20 *Code, is amended by striking “identified by the Secu-*
21 *rities and Exchange Commission as a Nationally*
22 *Recognized Statistical Rating Organization” and in-*
23 *serting “registered with the Securities and Exchange*
24 *Commission as a nationally recognized statistical rat-*

1 *ing organization as that term is defined under the Se-*
2 *curities Exchange Act of 1934 (15 U.S.C. 78 et seq.)”.*

3 **SEC. 5. ANNUAL AND OTHER REPORTS.**

4 *Section 17(a)(1) (15 U.S.C. 78q(a)(1)) is amended by*
5 *inserting “nationally recognized statistical rating organiza-*
6 *tion,” after “registered transfer agent,”.*

7 **SEC. 6. GAO STUDY AND REPORT REGARDING CONSOLIDA-**
8 **TION OF CREDIT RATING AGENCIES.**

9 *(a) STUDY REQUIRED.—The Comptroller General of*
10 *the United States shall conduct a study—*

11 *(1) to identify—*

12 *(A) the factors that have led to the consoli-*
13 *dation of credit rating agencies;*

14 *(B) the present and future impact of the*
15 *condition described in subparagraph (A) on the*
16 *securities markets, both domestic and inter-*
17 *national; and*

18 *(C) solutions to any problems identified*
19 *under subparagraph (B), including ways to in-*
20 *crease competition and the number of firms ca-*
21 *pable of providing credit rating services to large*
22 *national and multinational business organiza-*
23 *tions that are subject to the securities laws;*

1 (2) of the problems, if any, faced by business or-
2 ganizations that have resulted from limited competi-
3 tion among credit rating agencies, including—

4 (A) higher costs;

5 (B) lower quality of services;

6 (C) anti-competitive practices;

7 (D) impairment of independence; and

8 (E) lack of choice; and

9 (3) whether and to what extent Federal or State
10 regulations impede competition among credit rating
11 agencies.

12 (b) *CONSULTATION*.—In planning and conducting the
13 study under this section, the Comptroller General shall con-
14 sult with—

15 (1) the Securities and Exchange Commission;

16 (2) the Department of Justice; and

17 (3) any other public or private sector organiza-
18 tion that the Comptroller General considers appro-
19 priate.

20 (c) *REPORT REQUIRED*.—Not later than 180 days
21 after the date of enactment of this Act, the Comptroller Gen-
22 eral shall submit a report on the results of the study re-
23 quired by this section to the Committee on Banking, Hous-
24 ing, and Urban Affairs of the Senate and the Committee
25 on Financial Services of the House of Representatives.

1 **SEC. 7. EFFECTIVE DATE.**

2 *The amendments made by sections 4 and 5 shall take*
3 *effect on January 1, 2008, except as otherwise provided in*
4 *paragraphs (1), (3), and (4) of subsection (l) of section 15E*
5 *of the Securities Exchange Act of 1934 (as added by such*
6 *amendments), and except that the Securities and Exchange*
7 *Commission is authorized to prescribe rules and regulations*
8 *to carry out such amendments beginning on the date of en-*
9 *actment of this Act.*

Union Calendar No. 306

109TH CONGRESS
2^D SESSION

H. R. 2990

[Report No. 109-546]

A BILL

To improve ratings quality by fostering competition, transparency, and accountability in the credit rating agency industry.

JULY 7, 2006

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed