



NASAA

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Via Electronic Submission

February 16, 2010

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: **Comments on Amendments to Credit Rating Agencies**
Release No. 34-61051; File No. S7-28-09
Release No. 33-9070; File No. S7-24-09

Dear Secretary Murphy:

The North American Securities Administrators Association, Inc. (“NASAA”)¹ supports the efforts of the Securities and Exchange Commission’s (“Commission”) most recent proposed calls for amendments to regulations governing credit rating agencies.

Part of NASAA’s legislative agenda for this year is to improve oversight through better risk assessment. We believe that Nationally Recognized Statistical Rating Organizations (“NRSROs”), or credit rating agencies, can play a vital role in our capital markets. Their evaluations of the creditworthiness of companies and securities can assist state and local governments, municipalities, hedge funds, mutual funds, pension funds, and individual investors in making their investment decisions. Additionally, their ratings are used for a variety of regulatory purposes. As financial instruments became more arcane and complex, the role of NRSROs grew in proportionate significance.

Yet, it is obvious that NRSROs were a substantial contributing factor in our current economic crisis having, at least, supplied market participants with wildly inaccurate ratings based in large part on faulty and/or incomplete quantitative models. There is little

¹ NASAA is the association of all state, provincial, and territorial securities regulators in North America. Its membership consists of the securities regulators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and Mexico. Their core mission is protecting investors from fraud and abuse in the offer and sale of securities. Organized in 1919, NASAA is the oldest international organization devoted to investor protection.

question that NRSROs failed to analyze certain securities offerings competently and issued ratings that were, at best, highly inflated. In addition, the common practice of having issuers compensate NRSRO's for rating their own instruments created, and continues to create, irreconcilable conflicts of interest and promotes "ratings shopping."

NASAA regards the SEC's recent rulemaking efforts, which are intended to curb conflicts of interest and increase disclosure, transparency and accountability, as a constructive first step.

We suggest the following common sense steps be considered by the SEC and legislative bodies:

- Prior to NSMIA, all NRSROs were registered with the Securities and Exchange Commission (SEC) as investment advisers and subject to both state and federal oversight. NSMIA bifurcated the oversight of investment advisers between the SEC and the states. In rulemaking pursuant to NSMIA, the SEC exempted the NRSROs from investment adviser registration, thus removing them from review of any kind by the states. We would suggest returning to a regulatory model which requires investment adviser registration.
- NASAA supports a massive overhaul of rating agencies, particularly with regard to certain structured products, and believes that action in this regard cannot be postponed.
- Full and complete disclosure concerning actual and potential conflicts of interest, preliminary ratings, credit rating procedures, and sources of revenue are common sense measures that ought to be implemented as soon as possible.
- Chief compliance officer signatures and new annual compliance reports as affidavits of truthfulness should be a part of NRSROs' credit rating procedures.
- The SEC should carefully examine the issuer-pay business model that contains inherent conflicts of interest and that lends itself to "ratings shopping," and should recommend legislative solutions that are beyond the reach of the SEC's regulatory authority.

Thank you again for the opportunity to comment on these proposed Rules. Please do not hesitate to contact the undersigned regarding this matter.

Sincerely,

/S/

Rex A. Staples
General Counsel
NASAA