

2. AN AMENDMENT TO BE OFFERED BY REPRESENTATIVE
KANJORSKI OF PENNSYLVANIA, OR HIS
DESIGNEE, DEBATABLE FOR 20 MINUTES:

**AMENDMENT IN THE NATURE OF A SUBSTITUTE
TO H.R. 2990, AS REPORTED
OFFERED BY MR. KANJORSKI OF PENNSYLVANIA**

Strike all after the enacting clause and insert the following:

1 SECTION 1. SHORT TITLE.

2 This act may be cited as the "Credit Ratings Ac-
3 countability and Transparency Act of 2006".

4 SEC. 2. FINDINGS.

5 Congress finds the following:

6 (1) Credit rating agencies play an important
7 role in the United States capital markets by opining
8 on the creditworthiness of certain entities, securities,
9 and money market instruments.

10 (2) Institutional and retail investors utilize rat-
11 ings issued by credit rating agencies in connection
12 with evaluating credit risk and making investment
13 decisions.

14 (3) The Securities and Exchange Commission
15 staff, through the no action letter process, has iden-
16 tified certain credit rating agencies as Nationally
17 Recognized Statistical Rating Organizations or
18 NRSROs.

1 (4) Many Federal and State regulators and leg-
2 islatures require the use of NRSRO ratings in regu-
3 lations and statutes, including those concerning cap-
4 ital requirements for regulated financial institutions
5 and portfolio quality standards, to ensure the utiliza-
6 tion of high quality ratings.

7 (5) The Commission staff's process for identi-
8 fying NRSROs should be more transparent and effi-
9 cient, while maintaining a high level of quality
10 among NRSROs.

11 (6) Increased competition among credit rating
12 agencies seeking to be identified as a NRSRO is de-
13 sirable, so long as it is consistent with efforts to en-
14 sure high quality ratings.

15 **SEC. 3. RULEMAKING ON NRSRO DEFINITION.**

16 (a) NRSRO DEFINITION.—Within 60 days after the
17 date of enactment of this Act, the Commission shall final-
18 ize its proposed rulemaking to define a NRSRO, published
19 in the Federal Register on April 25, 2005 (70 Fed. Reg.
20 21306 et seq.).

21 (b) PUBLICATION OF GUIDELINES.—Within 180 days
22 after the date of enactment of the Act, the Commission
23 shall publish guidelines concerning the process by which
24 Commission staff issues no-action letters regarding

1 NRSROs, including guidelines concerning the staff's de-
2 terminations in such no-action letters.

3 **SEC. 4. SENSE OF CONGRESS ON NRSRO VOLUNTARY**
4 **FRAMEWORK.**

5 (a) FINDINGS.—Congress finds the following:

6 (1) The existing NRSROs in the United States
7 have entered into discussions to improve current
8 oversight of their activities via the adoption of a vol-
9 untary framework.

10 (2) These discussions have sought to apply the
11 self-regulatory model approved by the International
12 Organization of Securities Commissions (in this sec-
13 tion referred to as "IOSCO") of which the Commis-
14 sion is a participant.

15 (3) The European Commission policy on credit
16 rating agencies set out in December 2005 used com-
17 pliance with the IOSCO code as a central component
18 in ensuring the proper functioning of rating agencies
19 in the capital markets.

20 (4) The Chairman of the Commission has testi-
21 fied before the Financial Services Committee of the
22 House of Representatives that Commission staff are
23 continuing to review drafts of a voluntary framework
24 developed by the NRSROs and offer advice about its
25 provisions and contents.

1 (5) The adoption of a voluntary framework by
2 NRSROs in the United States based on the IOSCO
3 self-regulatory model and paralleling the regulatory
4 regime adopted by the European Commission would
5 enhance market discipline, advance investor protec-
6 tion, and facilitate the harmonization of inter-
7 national standards in the area of credit ratings.

8 (b) SENSE OF CONGRESS.—In light of the findings
9 set forth in subsection (a), it is the sense of the Congress
10 that—

11 (1) all interested parties involved in establishing
12 a voluntary framework for self-regulation in the
13 United States, which is similar to the self-regulatory
14 regime recently adopted by the European Commis-
15 sion that is based upon the IOSCO-approved code
16 for overseeing credit rating agencies, should com-
17 plete discussions and implement a self-regulatory
18 model as soon as practicable;

19 (2) such voluntary framework should be devel-
20 oped in consultation with the Commission and in-
21 clude adoption of any and all rules, regulations, poli-
22 cies, and practices deemed necessary and appro-
23 priate for the protection of investors and in the pub-
24 lic interest, including the disclosure of written poli-

1 cies and procedures of NRSROs in the United
2 States designed to—

3 (A) address conflicts of interest relating
4 to—

5 (i) relationships between NRSROs
6 and rated entities;

7 (ii) relationships between NRSROs
8 and underwriters; and

9 (iii) fee structures of the NRSROs;

10 (B) prevent the misuse of confidential in-
11 formation by a NRSRO or any person associ-
12 ated with a NRSRO;

13 (C) ensure compliance with all relevant
14 Federal securities laws;

15 (D) ensure that each NRSRO is capable of
16 issuing independent, predictive, consistent, and
17 reliable ratings; and

18 (E) provide performance data, including
19 default rates for its ratings, for the immediately
20 preceding 4 years, or if in existence less than
21 4 years, for the life of the entity.

22 **SEC. 5. ANNUAL TESTIMONY ON IMPROVING THE CREDIT**
23 **RATING INDUSTRY.**

24 The Chairperson of the Commission, or a designee
25 of the Chairperson, shall annually provide oral testimony

1 beginning in 2007, and for 5 years thereafter, to the Com-
2 mittee on Financial Services of the House of Representa-
3 tives regarding efforts to improve the transparency and
4 accountability of the credit rating industry, including—

5 (1) the designation of NRSROs;

6 (2) the status and the effectiveness of the vol-
7 untary framework described in section 4;

8 (3) the quality of ratings issued by NRSROs;

9 (4) the state of competition among NRSROs;

10 and

11 (5) the appropriateness, need, and form of any
12 potential legislation in the area of credit ratings.

13 **SEC. 6. DEFINITIONS.**

14 As used in this Act—

15 (1) the term “Commission” means the Securi-
16 ties and Exchange Commission; and

17 (2) the term “NRSRO” means a Nationally
18 Recognized Statistical Rating Organization as deter-
19 mined by the Commission.