



July 25, 2008

Florence E. Harmon
Acting Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Proposed Rules for Nationally Recognized Statistical Rating
Organizations
File Number S7-13-08

Dear Ms. Harmon:

The Municipal Securities Rulemaking Board (MSRB)¹ appreciates the opportunity to comment on the Securities and Exchange Commission's (SEC or Commission) release regarding proposed rules for Nationally Recognized Statistical Rating Organizations (NRSROs), noted above (Release). The MSRB supports the SEC's goal to improve the quality of NRSRO credit ratings by fostering accountability, transparency and competition in the credit rating industry. Certain characteristics of the municipal securities market highlight the importance that many retail investors place on NRSRO ratings for municipal securities. Thus, the MSRB believes that, whether or not certain of these proposals are expanded to apply specifically to ratings on municipal securities, an SEC rule in this area should ensure that any differentiation in ratings by security product or by category is fully disclosed in a manner that is understandable by and reasonably accessible to retail investors.

Currently, there are approximately 1.5 million different issues of municipal securities outstanding issued by over 50,000 state and local government entities. Issues of municipal securities range from under \$100,000 total par value issued by localities up to \$5 - 10 billion total par value issued by states and state agencies. Such issuances help to finance vital infrastructure and other important state and local government projects. Because of the

¹ The MSRB is a self-regulatory organization established by Congress in the Securities Acts Amendments of 1975 to write rules with respect to transactions in municipal securities effected by brokers, dealers and municipal securities dealers.

historically low default rate for municipal securities, as well as the federal tax benefits provided by most municipal securities, many retail investors include municipal securities as an important component of their investment portfolios. Of the approximately \$2.6 trillion par value of outstanding municipal securities at the end of 2007, about \$913 billion (or 34.9%) was held directly by households.²

The very large number of distinct municipal securities outstanding, many issued by governmental entities that are infrequent issuers, combined with the exemption of municipal securities issuers from the disclosure regime applicable to registered securities under the federal securities laws, has historically made it more challenging for a retail investor to undertake an independent assessment of the credit-worthiness of a potential investment in municipal securities, particularly for securities trading in the secondary market. As a result, many retail investors rely heavily on municipal securities ratings in making their investment decisions.

In the 1990's, the SEC set up a structure to assist municipal security investors to obtain necessary information about their securities, in both the new issue and secondary markets, through Exchange Act Rule 15c2-12 on municipal securities disclosure. The MSRB worked to ensure that much of the important information made available pursuant to the SEC rule, including in particular official statements in connection with new issues of municipal securities, would be readily available to the market through our Municipal Securities Information Library (MSIL) system. More recently, the MSRB has begun a pilot of a new information disclosure system – Electronic Municipal Market Access (EMMA) - that provides, at no cost, public access not only to official statements for new issues but also transaction price information, made available in a format that makes it easy for the retail municipal securities investor to obtain and review. The MSRB anticipates expanding EMMA's current collection of disclosure documents to also include continuing disclosure provided by municipal issuers under Exchange Act Rule 15c2-12 as well as certain other items of importance to the investing community. While these developments represent significant steps that help retail investors obtain important information about municipal securities, the sheer volume of the issues, issuers and information will ensure that ratings continue to remain an important source of information for retail municipal securities investors.

In the Release, the SEC requested comment on various proposals that would require disclosure or elimination of potential conflicts of interest in the credit agency industry, as well as additional information regarding the credit rating process. The SEC also proposed new Rule 17g-7, which would require an NRSRO to publish a report accompanying every credit rating it publishes for a security or money market instrument issued by an asset pool or as part of any asset-backed or mortgage-backed securities transaction. Such report would describe the rating

² The remaining balance of outstanding municipal securities was held by mutual funds (35.8%), insurance companies (15.4%), banks and savings institutions (7.8%) and other (6.1%). Federal Reserve System Statistical Release, Flow of Funds Accounts of the United States, Table L.211 (June 5, 2008).

methodology used to determine the credit rating and how it differs from a rating for any other type of obligor or debt security, as well as how the risks associated with the rated security or money market instrument are different from other types of rated obligors and debt securities. Because the goal of the rule is to foster greater independent analysis by investors, the SEC preliminarily believes that permitting an NRSRO to comply with the rule by differentiating its structured finance product rating symbols would be an equally effective alternative. Such different symbol would put investors on notice that these products have different characteristics than other types of rated debt. The Commission asked for comment on this proposed rule, as well as whether the rule should be expanded to require reports or different rating symbols for other classes of ratings, such as municipal securities, or whether a different set of symbols for different securities categories or additional types of ratings for different types of obligors and debt securities should be required.

The MSRB believes that retail investors would benefit from increased transparency in the ratings process, clearer articulation of the considerations used in arriving at ratings, and an understanding of how these considerations differ across security classes, as well as the stability and accuracy of the ratings themselves. In addition, the MSRB believes that retail investors would benefit from disclosure or elimination of potential conflicts of interest. While the MSRB has no position on whether it would be appropriate to expand the scope of proposed Rule 17g-7 to municipal securities or other specific debt instruments, it believes that any such rule should ensure that differentiation in ratings by security product or by category is fully disclosed in a manner that is understandable by and reasonably accessible to retail investors.

If you have any questions, please do not hesitate to contact Lynnette Kelly Hotchkiss, Executive Director, at 703-797-6600.

Sincerely,



Frank Chin
Chairman
MSRB



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