

S 3850

Credit Rating Agency Reform Act of 2006

Congress: 109 (2005–2007, Ended)

Chamber: Senate

Policy Area: Finance and Financial Sector

Introduced: Sep 6, 2006

Current Status: Became Public Law No: 109-291.

Latest Action: Became Public Law No: 109-291. (Sep 29, 2006)

Law: 109-291 (Enacted Sep 29, 2006)

Official Text: <https://www.congress.gov/bill/109th-congress/senate-bill/3850>

Sponsor

Name: Sen. Shelby, Richard C. [R-AL]

Party: Democratic • State: AL • Chamber: Senate

Cosponsors

No cosponsors are listed for this bill.

Committee Activity

Committee	Chamber	Activity	Date
Banking, Housing, and Urban Affairs Committee	Senate	Reported Original Measure	Sep 6, 2006

Subjects & Policy Tags

Policy Area:

Finance and Financial Sector

Related Bills

Bill	Relationship	Last Action
109 HR 2990	Related bill	Jul 13, 2006: Received in the Senate and Read twice and referred to the Committee on Banking, Housing, and Urban Affairs.

(This measure has not been amended since it was passed by the Senate on September 22, 2006. The summary of that version is repeated here.)

Credit Rating Agency Reform Act of 2006 - (Sec. 4) Amends the Securities Exchange Act of 1934 to require nationally recognized statistical rating organizations (NRSROs) to register with the Securities and Exchange Commission (SEC).

Requires registration applications, among other items, to include on a confidential basis: (1) a list of the 20 largest securities issuers and subscribers that use the applicant's rating services; and (2) certifications from at least 10 qualified institutional buyers (QIBs) that they have used the ratings for at least the three most recent years, including two certifications for each type of rating the applicant will issue. Exempts from the latter written certification requirement any credit rating agency which has received, or been the subject of, a no-action letter from the SEC staff before August 2, 2006, stating that such staff would not recommend enforcement action against any broker or dealer that considers credit ratings issued by such credit rating agency to be ratings from an NRSRO.

Requires the SEC within 90 days of receiving an application to grant registration or institute proceedings to determine whether not to. Requires the SEC to grant registration unless the applicant does not have adequate financial and managerial resources to consistently produce credit ratings with integrity and to comply materially with the procedures and methodologies disclosed in its application.

Requires each NRSRO to certify annually that the application documents (other than the QIB certifications) remain accurate, and to list any material changes that occurred.

Grants the SEC exclusive enforcement authority over any NRSRO that issues credit ratings in material contravention of the procedures included in its registration application.

Prohibits the SEC or any state or or local government from regulating the substance of credit ratings or the procedures and methodologies by which a NRSRO determines credit ratings.

Requires SEC rules to be narrowly tailored, and not purport to regulate either the substance of credit ratings or the procedures and methodologies by which NRSROs determine credit ratings.

Provides for censure, denial, suspension, or revocation of NRSRO registration.

States that it shall be unlawful for: (1) an NRSRO to represent or imply that it has been designated, sponsored, recommended, or approved, or that its abilities or qualifications have in any respect been passed upon, by the United States or any federal agency, officer, or employee; or (2) a credit rating agency that is not registered as a NRSRO under this Act to state that it is so registered.

Requires each NRSRO to establish and enforce written policies and procedures to: (1) prevent the misuse of nonpublic information; and (2) manage conflicts of interest.

Directs the SEC to issue final rules to prohibit unfair, coercive, or abusive acts or practices by NRSROs. Includes among such acts: (1) conditioning or threatening to condition an issuer's credit rating on the purchase of other services or products; (2) lowering or threatening to lower a credit rating, or refusing to rate securities or money market instruments issued by an asset pool, unless a portion of the assets in the pool also is rated by the NRSRO; and (3) modifying or threatening to modify a credit rating based on whether the issuer or an affiliate will purchase other services from the

NRSRO.

Requires an NRSRO to: (1) designate a compliance officer to ensure compliance with securities laws, rules, and regulations; and (2) furnish the SEC with financial statements certified by an independent public accountant.

Makes registration under this Act the sole method of NRSRO registration. Prohibits any credit rating agency treated as an NRSRO before enactment of this Act from relying on no-action relief for continued treatment as an NRSRO in lieu of active registration.

Preempts any state and local law requiring the registration, licensing, or qualification of an NRSRO (or any employee or contractor) as a credit rating agency or an NRSRO. Declares, however, that nothing in this preemption prohibits a state securities commission (or similar agency or office) from investigating and bringing an enforcement action with respect to fraud or deceit against any NRSRO or associated person.

Amends the following Acts to reflect the provisions of this Act: (1) Securities Exchange Act of 1934; (2) Investment Company Act of 1940; (3) Investment Advisers Act of 1940; (4) Housing and Community Development Act of 1992; and (5) Higher Education Act of 1965.

Amends the Investment Advisers Act of 1940 to exclude any NRSRO from the meaning of investment adviser unless it engages in issuing recommendations as to purchasing, selling, or holding securities or in managing assets, consisting in whole or in part of securities, on behalf of others.

(Sec. 6) Directs the SEC to report annually to specified congressional committees on: (1) applicants for NRSRO registration; (2) actions taken on such applications; and (3) the views of the SEC on the state of competition, transparency, and conflicts of interest among NRSROs.

(Sec. 7) Requires the Comptroller General to study and report to certain congressional committees on the impact of this Act upon: (1) the quality of credit ratings issued by NRSROs; (2) the financial markets; (3) competition among credit rating agencies; and (4) the incidence of inappropriate conflicts of interest and sales practices by NRSROs.

Actions Timeline

- **Sep 29, 2006:** Signed by President.
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- **Sep 29, 2006:** Became Public Law No: 109-291.
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- **Sep 28, 2006:** Presented to President.
- **Sep 28, 2006:** Presented to President.
- **Sep 27, 2006:** Mr. Oxley moved to suspend the rules and pass the bill.
- **Sep 27, 2006:** Considered under suspension of the rules. (consideration: CR H7565-7571)
- **Sep 27, 2006:** DEBATE - The House proceeded with forty minutes of debate on S. 3850.
- **Sep 27, 2006:** Passed/agreed to in House: On motion to suspend the rules and pass the bill Agreed to by voice vote.(text: CR H7565-7568)
- **Sep 27, 2006:** On motion to suspend the rules and pass the bill Agreed to by voice vote. (text: CR H7565-7568)
- **Sep 27, 2006:** Motion to reconsider laid on the table Agreed to without objection.
- **Sep 25, 2006:** Received in the House.
- **Sep 25, 2006:** Held at the desk.
- **Sep 22, 2006:** Measure laid before Senate by unanimous consent. (consideration: CR S10011-10016)
- **Sep 22, 2006:** Passed/agreed to in Senate: Passed Senate with an amendment by Unanimous Consent.(text: CR S10013-10016)
- **Sep 22, 2006:** Passed Senate with an amendment by Unanimous Consent. (text: CR S10013-10016)
- **Sep 22, 2006:** Message on Senate action sent to the House.
- **Sep 6, 2006:** Introduced in Senate
- **Sep 6, 2006:** Committee on Banking, Housing, and Urban Affairs. Original measure reported to Senate by Senator Shelby. With written report No. 109-326.
- **Sep 6, 2006:** Committee on Banking, Housing, and Urban Affairs. Original measure reported to Senate by Senator Shelby. With written report No. 109-326.
- **Sep 6, 2006:** Placed on Senate Legislative Calendar under General Orders. Calendar No. 590.
- **Aug 2, 2006:** Committee on Banking, Housing, and Urban Affairs ordered to be reported an original measure.