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Removing a Regulatory Barrier

Breaking up the Credit Rating Cartel

Executive Summary

- Credit ratings reflect a rating agency's opinion of the creditworthiness of a particular company, security, or obligation. Credit rating changes are major news and greatly influence the market. Numerous state and federal laws and corporate bylaws rely on credit ratings.

- The Securities and Exchange Commission (SEC) regulates the credit rating industry by providing certain firms with a "nationally recognized statistical rating organization" (NRSRO) designation. There has been no official federal statutory or regulatory definition of NRSRO.

- To obtain NRSRO status from the SEC, a firm must be "widely accepted" in the United States as an issuer of credible and reliable ratings; but, in practice, to become "widely accepted," a firm needs the NRSRO designation. The Justice Department opposes the NRSRO designation and believes it "is likely to create a nearly insurmountable barrier to de novo entry into the market for NRSRO services."

- Federal laws and regulations and corporate bylaws require the use of ratings from NRSROs. Even though experts that there are estimate over 150 credit rating agencies in the world today, the SEC has recognized only eight companies as NRSROs since 1975. And, there have never been more than five NRSROs at any given time.

- Incumbent rating firms are protected and potential entrants are impeded due to an artificial barrier to entry created by the SEC. As a result, new ideas and technologies for assessing the riskiness of debt may be stifled.

- The House has already passed H.R. 2290, the Credit Rating Agency Duopoly Relief Act of 2006, and the Senate Banking Committee marked up S. 3850, the Credit Rating Agency Reform Act of 2006, on August 2, 2006. It is appropriate for Congress to intervene to encourage competition in this market.

Introduction

As capital markets have become increasingly complex, investors and regulators have increased their reliance on credit ratings. These ratings reflect a rating agency's assessment of the creditworthiness of a particular company or security, such as a municipal bond or an asset-backed security. A growing number of state and federal laws, regulations, and corporate bylaws rely on credit ratings. Given the importance of credit ratings to both the public and private sector, one would expect an extremely competitive industry. In fact, the credit ratings of only five companies are widely used, with 80 percent of the market controlled by Standard & Poor's Corporation (S&P) and Moody's Investor Service, Inc. (Moody's).[1]

This paradox may be explained by the role of the Securities and Exchange Commission (SEC) in the credit rating industry. State and federal laws and regulations, and many corporate bylaws, require the use of credit ratings only from firms with a "nationally recognized statistical rating organization" (NRSRO) designation, a designation granted by the SEC. To obtain NRSRO status from the SEC, a firm must be "widely accepted" in the United States as an issuer of credible and reliable ratings. However, in practice, to become "widely accepted," a firm needs the NRSRO because the designation is required by so many laws, regulations, and corporate bylaws. The requirement that an agency be widely used by major investors before it can be designated as an NRSRO clearly favors incumbents.

The SEC's gatekeeping function on NRSRO status has led to the protection of incumbent rating firms and the obstruction of potential market entrants. As a result, investors have fewer options to assess their investments and new ideas and technologies for assessing the riskiness of debt may be stifled. Congress should intervene to encourage competition in this market. The House has already passed H.R. 2290, the Credit Rating Agency Duopoly Relief Act of 2006, and the Senate Banking Committee marked up S. 3850, the Credit Rating Agency Reform Act of 2006, on August 2, 2006.[2] As reported out of committee, the Senate bill represents an important step towards increasing competition in the credit rating agency industry and protecting consumers who rely on credit ratings for investment decisions.

Background on the Credit Rating Industry

Credit rating agencies play an important role in the market by issuing an assessment on the creditworthiness of companies and bond issues. Credit ratings are generally reported as a combination of letters and numbers combined with a plus or minus sign. A credit rating is a valuable complement to an investor's own credit analysis precisely because it is both expert and independent. Credit ratings also guide the market's pricing decisions.[3] While

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[1] Alex J. Pollock, "End the Government-Sponsored Cartel in Credit Ratings," *AEI Financial Services Outlook*, January 2005, p. 1. Available at http://www.aei.org/publications/filter.all,pubID.21743/pub_detail.asp.
[2] Text of the Senate bill can be found on the Senate Banking Committee website: http://banking.senate.gov/index.cfm?Fuseaction=Hearings.Detail&HearingID=232.
[3] See Micah Green, President, Bond Market Association, in testimony before the Senate Banking Committee, February 8, 2005 ("Bonds with lower ratings are viewed as riskier than higher-rated bonds by investors who

professional bond investors have the resources to analyze information about issuances, some investors rely upon bond ratings published by credit rating agencies.[4]

Moody's	S&P	Fitch	Brief Definition
Investment Grade -- High Creditworthiness			
Aaa	AAA	AAA	Gift edge, prime, maximum safety
Aa2	AA	AA	Very high grade, high quality
A2	A	A	Upper medium grade
Baa2	BBB	BBB+	Lower medium grade
Distinctly Speculative -- Low Creditworthiness			
Ba2	BB	BB	Low grade, speculative
B2	B	B	
Predominantly Speculative -- Substantial Risk or in Default			
Caa	CCC	CCC	Substantial risk, in poor standing
Ca	CC	CC	May be in default, extremely speculative
C	C	C	Even more speculative than those above
	D	D	Default

Source: Richard S. Wilson and Frank J. Fabozzi, Corporate Bonds: Structures and Analysis (New Hope, PA: Frank J. Fabozzi Associates, 1996).

Credit ratings are not just for investors, though. Congress has incorporated credit ratings into a wide range of federal securities regulations, as well as banking, insurance, education, and housing laws and regulations. Almost all regulated financial institutions must use approved credit ratings in deciding which bonds they can hold in their portfolios.

NRSRO Status

In 1975, the SEC began using the designation of a "nationally recognized statistical rating organization," or "NRSRO," for the purpose of determining the appropriate amount of capital that a broker must hold to protect against trading losses.[5] Although the SEC initially created this designation for a narrow purpose, the designation now serves as a universally-accepted benchmark for investment quality, and has been incorporated into over 100 federal laws and 50 regulations. For example, when Congress defined the term "mortgage-related security," it required, among other things, that such securities be rated in one of the two highest rating categories by at least one NRSRO. Additionally, state and foreign laws and regulations today rely on credit ratings and further require that rating agencies have NRSRO status.[6] The NRSRO designation has evolved into a stamp of market credibility.

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demand a yield premium as compensation for this risk. Conversely, higher-rated bonds will offer a relatively lower yield as a reflection of their stronger credit standing.").

[4] Frank J. Fabozzi, *The Handbook of Fixed Income Securities*, New York: McGraw-Hill, 2000, p. 272.

[5] This is known as the Net Capital Rule which requires broker-dealers, when calculating their assets for the purposes of net capital requirements, to take a larger discount on speculative-grade corporate bonds than for investment-grade bonds.

[6] For example, in El Salvador, a rating agency can register as a "classifier of risk" under the country's securities law if the rating agency is an NRSRO as recognized by the SEC. For more background, see the *SEC Report on*

To obtain NRSRO status, a credit rating agency requests from the SEC a no-action letter stating that the SEC will not recommend enforcement action against persons who use the firm's credit ratings for purposes of the Commission's net capital rule.[7] The Commission reviews a credit rating agency's operations, position in the marketplace, and other specific factors to determine whether to grant a no-action letter.[8] The Commission has stated that the single most important factor is whether the credit rating agency is "nationally recognized" in the United States.[9] However, the SEC has never released the specific criteria and rules used to determine if a firm is "nationally recognized."

Existing NRSRO Entities

Today, there are five credit rating agencies with the NRSRO designation: Moody's, S&P, Fitch Ratings Inc., Dominion Bond Rating Service, and A.M. Best.[10] Since the NRSRO requirement went into effect in 1975, the SEC has designated only nine agencies as NRSROs.[11] When NRSRO ratings were first incorporated into the net capital rule, SEC determined that the ratings of S&P, Moody's and Fitch were used nationally and gave each firm NRSRO status. Since 1975, the Commission staff has issued NRSRO status to six additional credit rating agencies, though a few of these additional agencies have since merged with or been acquired by other NRSROs, resulting in five NRSROs at present.[12]

S&P and Moody's control over 80 percent of the credit rating agency market.[13] Having rated various securities for almost 100 years, S&P and Moody's have established strong reputations built upon market expertise.[14] Although the financial statements of S&P are not publicly available, Moody's is a publicly traded corporation and files standard disclosures. Moody's profit is outstanding by any measure. In 2005, the company had a profit margin of 33 percent.[15] Moody's has operating margins of nearly 50 percent, more than triple those of other financial service firms.[16] Annual rating industry revenues in aggregate are in the range of a billion dollars, an amount not typically associated with a commodity business, such as information publication.[17] As of early September 2005,

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the Role and Function of Credit Rating Agencies in the Operations of the Securities Markets, U.S. Securities and Exchange Commission, January 2003, available at http://www.sec.gov/news/studies/credratingreport0103.pdf.

[7] SEC proposed rule, 17 CFR Part 240, Release Nos. 33-8570; 34-51572; IC-26834; File No. S7-04-05, pg. 55. http://www.sec.gov/rules/proposed/33-8570.pdf

[8] Ibid, p. 10.

[9] Ibid.

[10] SEC, p. 5.

[11] Ibid, p. 9.

[12] 17 CFR Part 240, Definition of Nationally Recognized Statistical Rating Organization.

[13] Pollock, p.1.

[14] For more information, see testimony from Vickie Tillman, Executive Vice President of S&P before the Senate Banking Committee, March 7, 2006. Available at http://banking.senate.gov/_files/tillman.pdf. See also testimony from Raymond W. McDaniel, Jr., President of Moody's before the Senate Banking Committee, February 8, 2006. Available at http://banking.senate.gov/_files/mcdaniel.pdf.

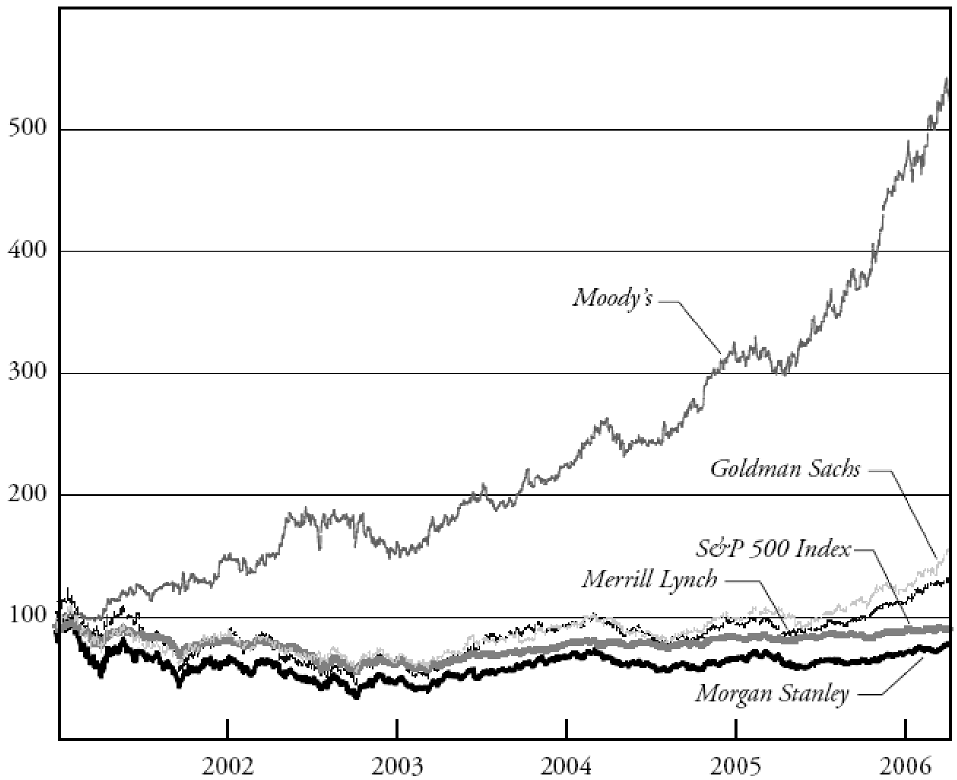
[15] Moody's Investor Services, 2005 Annual Report.

[16] Ibid.

[17] Frank Partnoy, "The Paradox of Credit Ratings," *Law and Economics Research Paper No. 20*, University of San Diego School of Law (2001), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=285162.

Moody's market capitalization was more than $15 billion, roughly the same as Bear Stearns Companies Inc., a major investment bank. Yet Bear Stearns has 11,000 employees and $7 billion in revenue, whereas Moody's has 2,500 employees and $1.6 billion in revenues. Similar data for S&P are not available because the stock is not publicly traded. However, both S&P and Moody's charge similar fees.

Percent Change in Moody's Share Price versus S&P 500 versus Major Investment Banks



Source: Frank Partnoy, "How and Why Credit Rating Agencies are not like other Gatekeepers," Brookings Institution Press and the Nomura Institute of Capital Markets Research 2006, p.89.

Given the lack of economic competition, no substitutable goods, high rates of profitability, and price-setting behavior, the credit rating industry has all of the characteristics of a duopoly, a market where only two producers exist. A duopoly is often characterized by a lack of competition, few substitutable goods, and a significant amount of market influence by sellers, often in the form of price-setting behavior.[18]

Problems in the Credit Rating Industry

Three problems are frequently raised when discussing the credit rating agency industry: a lack of competition, conflicts of interest, and a lack of transparency.

[18] Christine Ammer and Dean S. Ammer. *Dictionary of Business and Economics*. New York: The Free Press, 1986, p. 140.

Lack of Competition

With only five NRSROs, two of which control over 80 percent of the credit rating industry, competition is clearly lacking. Natural market forces such as economies of scale and expertise, network externalities, and reputation make market entry difficult.[19] However, in addition to natural barriers, there exists an artificial barrier of entry created by the SEC. The NRSRO designation creates a regulatory hurdle for potential entrants into the industry. A number of observers, including the Justice Department in 1998, have criticized the NRSRO requirement as creating an artificial barrier of entry for new agencies.[20] Additional competition would increase customer choice, reduce prices, and spur innovation and creativity in credit rating analysis. The lack of competition is not the result of any anti-competitive actions of incumbent NRSROs but rather a result of natural market forces *and* the artificial barrier of entry created by the SEC.

While the current duopoly has great expertise, its results are far from perfect. In the case of Enron, S&P and Moody's failed to downgrade the company until just prior to its bankruptcy filing. In fact, as recently as four days prior to bankruptcy, Enron was rated at investment grade, meaning that financial risk is relatively low and the probability of future payment relatively high.[21] The Senate Banking Committee staff found that, "In the case of Enron, the credit rating agencies displayed a lack of diligence in their coverage and assessment of that company."[22] The Senate Governmental Affairs Committee came to a similar conclusion that "the credit rating agencies were dismally lax in their coverage of Enron. They didn't ask probing questions and generally accepted at face value whatever Enron officials chose to tell them." [23] The committee also said that "analysts from Standard & Poor's told committee staff that not only did they not read Enron's proxy statement, they didn't know all the information it contained."[24]

Additional competition in the credit ratings industry may help identify credit problems earlier. In the case of Enron, Egan-Jones Ratings Company, a non-NRSRO credit rating agency, downgraded Enron below investment grade six weeks prior to Enron's bankruptcy announcement, while S&P downgraded Enron below investment grade just four days prior to the announcement.[25] While it is doubtful that additional NRSROs would have prevented an Enron collapse, additional NRSROs would have provided investors with more independent assessments on the credit risk of the company.

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[19] See Raymond W. McDaniel Jr., President of Moody's Investor Services, in testimony before the U.S. Senate Banking Committee, February 8, 2005, p. 11.
[20] Comments of the United States Department of Justice in the Matter of: File No. S7-33-97, Proposed Amendments to Rule 15c3-1 under the Securities Exchange Act of 1934 (March 6, 1998).
[21] Fabozzi, p. 272.
[22] U.S. Securities and Exchange Commission (SEC), "Report on the Role and Function of Credit Rating Agencies in the Operation of the Securities Markets," January 2003. Available at www.sec.gov/news/studies/credratingreport0103.pdf.
[23] Senate Government Affairs Committee, Press Release, October 7, 2002, available at http://hsgac.senate.gov/100702press2.htm.
[24] Ibid.
[25] For more information, see the Egan-Jones Ratings Company website: http://www.egan-jones.com/success.aspx.

What would the credit rating agency market look like without the NRSRO designation process? For one thing, there would be additional entrants, such as Egan-Jones Ratings Company and Rating and Investment Information, Inc., both of which applied for NRSRO designation in 1998 and are still working with the SEC to obtain the designation. More competition would result in more companies using different methods and models to determine creditworthiness. Also, with additional players in the industry, market forces would be able to discipline credit rating agencies that are consistently incorrect.

Conflicts of Interest

Some conflicts of interest exist between issuers and credit rating agencies.[26] Bond issuers, rather than investors, pay NRSRO rating agencies for a credit rating. The higher the rating, the easier it is to sell a bond. In the rating agencies' defense, their reputation for issuing objective and credible ratings is of paramount importance. If it were shown that an issuer could pay an NRSRO for a better rating, that credit rating agency would likely lose customers. But, in the absence of competition, rating agencies can hide behind the NRSRO cover and markets have few options. With only five companies in the credit rating industry, customers do not have a high degree of choice. Increased competition could address the problem of conflicts of interest. If an agency were found to issue inflated ratings, the market could discipline that agency by using the ratings of other firms.

Transparency

A third problem that is frequently raised is the lack of transparency within credit rating agencies.[27] All five NRSROs make rating determinations in secret. The nature and extent of information made available to the public varies from one credit rating agency to another. Some agencies provide comprehensive, lengthy research reports detailing rating methodology, while others provide summary information. Some investors believe there should be more public disclosure from rating agencies about the reasons for their ratings decisions and the assumptions underlying the ratings.[28]

Increased competition would alleviate some of the transparency concerns. More competition forces firms to differentiate their products from one another. Firms that do not disclose information may be disadvantaged in a competitive market if investors desire such information. At the same time, some firms may choose not to disclose their information and rely upon a strong reputation and long history of credit ratings. Increased competition will provide consumers with more choice.

How the NRSRO Process Thwarts Competition

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[26] For more information, see testimony from Colleen S. Cunningham, President of Financial Executives International before the Senate Banking Committee, March 7, 2006, available at http://banking.senate.gov/_files/cunningham.pdf.

[27] For more information, see testimony from Paul Schott Stevens, President of Investment Company Institute before the Senate Banking Committee, March 7, 2006, available at http://banking.senate.gov/_files/stevens.pdf.

[28] SEC, p. 22.

Competition has not existed in the industry in part because the SEC has acted as a gatekeeper to the credit rating industry. The NRSRO designation means that a firm cannot compete without an NRSRO designation, but at the same time, a firm cannot obtain the designation without a national reputation. In 1998, the Department of Justice (DOJ) opposed the use of the "national recognition" requirement because that criterion likely creates a "nearly insurmountable barrier to entry into the market for NRSRO services." DOJ argued that, while the historical dominance of Moody's and S&P had eroded in recent years for certain types of securities, the overall level of market power they retained continued to be a competitive concern.[29] While a handful of firms have cleared the high hurdle of the NRSRO designation, the vast majority of credit rating agencies are still trying to become "nationally recognized."

A related problem is that the procedure to become an NRSRO is opaque. There are no statutes or regulations establishing either the substantive or procedural requirements for an entity to become an NRSRO.[30] In fact, the SEC has spent the last ten years internally debating the definition of NRSROs with no official statement. In 1994, the SEC issued a Concept Release soliciting public comment on the Commission's use of NRSRO ratings.[31] This led to a Proposed Rule in 1997 to define the term NRSRO. However, since the proposed rule, the Commission has not acted upon the rule proposal. In 2003, per the requirements of the Sarbanes-Oxley Act, the SEC issued a report on the role and function of credit rating agencies.[32]

More recently, the SEC, on March 3, 2005, voted to issue a rule proposal that would define the term "NRSRO" for purposes of Commission rules. The SEC proposed to define the term "NRSRO" by three criteria: 1) an NRSRO must issue publicly available credit ratings at no cost, 2) an NRSRO must be "generally accepted" by "predominant users of securities ratings" as an issuer of credible and reliable ratings, and 3) an NRSRO must use "systematic procedures" to ensure ratings quality, manage conflicts, prevent misuse of nonpublic information and possess sufficient financial resources.[33] Even though the 2005 Proposed Rule differs from the 1997 proposal, the "generally accepted" requirement presents the same barrier to entry issue.[34] In fact, it was in response to this Proposed Rule that Congress began pursuing the current legislative efforts.[35]

The Utility of the NRSRO Designation

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[29] SEC, p. 37.
[30] Claire A. Hill "Regulating the Rating Agencies," *Washington University Law Quarterly*, Spring 2004.
[31] The Commission occasionally publishes "concept" releases to solicit the public's views on securities issues so that it can better evaluate the need for future rulemaking.
[32] Section 702 of the Sarbanes-Oxley Act required the Securities and Exchange Commission to conduct a study of the role and function of credit rating agencies in the operation of the securities market, and to submit a report to the President and the Senate Banking Committee.
[33] 17 CFR 240, Proposed Rule regarding the Definition of Nationally Recognized Statistical Rating Organizations, available at http://www.sec.gov/rules/proposed/33-8570.pdf.
[34] White, pp. 10-14.
[35] House Report 109-546 accompanying H.R. 2990, the Credit Rating Agency Duopoly Relief Act of 2006, p. 13.

There are some who question having any NRSRO designation in federal laws and regulations.[36] They argue that the responsibility to choose among rating agencies should belong to investors, financial firms, issuers, creditors, and other users of ratings—in short, the market.[37] Because capital markets and regulators operated reasonably well without NRSROs prior to 1970s, it is possible that markets and regulators could operate without NRSROs.[38] One possible model for a world without the NRSRO is bank regulation. Bonds would be treated on par with how bank loans are treated. When a bank examines a loan, it asks about the creditworthiness of the borrower and evaluates the amount of risk associated with making such a loan. Without NRSROs, the responsibility for the safety and soundness of a bank's portfolio would rest with the bank. Participants in such a market would then be free to make their own determinations as to whose ratings, if any, are most useful.[39]

While this argument is worthy of consideration, eliminating the NRSRO designation would be a dramatic shift for capital markets, because the NRSRO designation is embedded in over 100 federal and state laws and corporate bylaws. A more incremental approach in opening the market is likely the safest course of action.

Congress Needs to Reform NRSRO Designation

With bills before the House and the Senate, Congress has the opportunity to encourage more competition within the credit rating industry. The key to increasing competition is to eliminate the SEC's gatekeeping function and to allow new market entrants.

H.R. 2990, the Credit Rating Agency Duopoly Relief Act of 2006, passed the House on July 12, 2006 by a vote of 255-166. That bill requires the SEC to establish a registration process for credit rating agencies, eliminating the current application process. Any company that operates as a credit rating agency for at least three consecutive years would qualify for registration. H.R. 2990 would allow such credit rating agencies to voluntarily register as an NRSRO. Under the bill, the SEC would impose disclosure and filing requirements on credit rating agencies seeking registration. H.R. 2990 would also prohibit certain activities of registered credit rating agencies, such as seeking payment for unsolicited ratings and issuing

[36] Partnoy, p. 3 ("Ratings dependent regulation is suboptimal and should be eliminated, or, perhaps replaced by credit spread-dependent regulation. Credit spreads are more accurate than credit ratings and reflect at minimum the information contained in credit ratings. This paper recommends that policymakers avoid creating additional regulatory licenses through new rules that depend substantively on credit ratings, and suggest credit spread-based regulation as an attractive alternative.").

[37] Alex J. Pollock, "End the Government-Sponsored Cartel in Credit Ratings," *AEI Financial Services Outlook*, January 2005. Pollock argues, "In the truly procompetitive and best case, not only would the term 'NRSRO' be dropped, but the regulatory requirement of designation of approved rating agencies itself would be eliminated . . . it is time for it to retire."

[38] Partnoy, Frank, "How and Why Credit Rating Agencies are Not Like Other Gatekeepers." Financial Gatekeepers: Can They Protect Investors?, Yasuyuki Fuchita, Robert E. Litan, eds., Brookings Institution Press and the Nomura Institute of Capital Markets Research, 2006, p. 89, available at http://ssrn.com/abstract=900257.

[39] Lawrence J. White, "Good Intentions Gone Awry: A Policy Analysis of the SEC's Regulation of the Bond Rating Industry," Policy Brief #2006-PB-05, Networks Financial Institute, Indiana State University, April 2006.

ratings on the condition of the customer purchasing other services from the credit rating agency. The SEC would have the authority to take action against any NRSRO that issues ratings in contravention of its stated procedures and methodologies.

In dissent, Congressmen Barney Frank (D-MA) and Paul Kanjorski (D-PA) argued that the House bill did not sufficiently protect investors because the House bill would allow any entity that meets "minimal and almost meaningless standards" to issue credit ratings for regulatory purposes. They wrote, "The bill's voluntary registration regime merely increases the number of credit rating agencies holding the NRSRO designation without requiring these firms to adequately demonstrate that they are capable of producing consistently high-quality ratings."[40] In addition to this quality control concern, Congressmen Frank and Kanjorski argued that the House Financial Services Committee should have received the SEC's formal testimony.[41] Even though the SEC did not formally testify before Congress regarding the bill, the SEC had testified three times before the House Financial Services Committee on rating agencies during the 108th and 109th Congresses and the Administration supported House passage of H.R. 2990.[42] Congressmen Frank and Kanjorski did agree that "increasing competition in the credit ratings used for regulatory purposes is a desirable goal."[43] In general, these dissenters favored much more regulation and SEC oversight of the credit rating industry.

The House bill has been referred to the Senate Banking Committee, but the committee has elected to move its own product, one which addresses some concerns raised by Congressmen Frank and Kanjorski. Similar to H.R. 2990, the Credit Rating Agency Reform Act of 2006 creates a registration process and eliminates the current application process. The Senate bill addresses the quality-control concern by allowing companies to register for NRSRO status only if they have operated for at least three consecutive years as a credit rating agency *and* if their credit ratings are certified by at least ten qualified institutional buyers.[44] Some members of the Senate Banking Committee were concerned that the Senate bill would also diminish the rights and defenses that NRSROs currently have. In response to this concern, the Senate bill ensures that there is no waiver of rights, privileges, or defenses for NRSROs, and makes explicit that the bill does not create a private right of action. S. 3850, the Credit Rating Agency Reform Act of 2006, was reported by the Senate Banking Committee on August 2, 2006 by voice vote.[45]

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[40] House Report 109-546, p. 36.
[41] House Report 109-546, p. 34. ("The [House Financial Services Committee] would have been well advised to work closely with [the SEC] to ensure the development of good public policy before moving forward with a markup.").
[42] White House Statement of Administration Policy, H.R. 2990, Credit Rating Agency Duopoly Relief Act of 2006, July 12, 2006, available at http://www.whitehouse.gov/omb/legislative/sap/109-2/hr2990sap-h.pdf.
[43] House Report 109-546, p. 35.
[44] The term "qualified institutional buyers" refers to institutions that manage at least $100 million in securities including banks, savings and loans institutions, insurance companies, employee benefit plans, or an entity owned entirely by qualified investors.
[45] See Transcript of Proceedings, Senate Banking Committee Markup of Credit Rating Agency Reform Act of 2006, August 2, 2006.

Conclusion

Congress should remove the artificial barrier of the NRSRO by passing some version of the House and Senate bills. Such a bill would strengthen our capital markets by increasing innovation and consumer choice among the credit rating industry.