

REFERENCES TO RATINGS OF NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS

AGENCY: Securities and Exchange Commission ["Commission"].

ACTION: Proposed rule.

Request for Comments Due: September 5, 2008.

**Executive Summary:** This response is submitted in connection with the Commission's request for comments on its proposed amendments -- to Rules 2a-7, 3a-7, 5b-3, 10f-3 under the Investment Company Act of 1940 and 206(3)-3T under the Investment Advisers Act of 1940 -- that remove reliance on NRSRO ratings for investments in debt securities, particularly debt securities held by money market funds.

The Underlying Issue: Remove NRSRO Reference OR Distinguish Between NRSROs?

Not all NRSROs are created equal. "Issuer NRSROs" act for debt issuers. "Investor NRSROs" act for debt investors. Issuer NRSROs and embedded conflicts of interest are a cause of much of today's multitrillion dollar credit crunch losses.

Many institutional investors admit using NRSRO ratings and oppose removing references to NRSRO ratings, as proposed by the Commission.

Edward J. Grebeck suggests that the Commission alter its proposed amendments to permit use of Investor NRSRO ratings.

The incremental economic cost of a change from Issuer NRSROs ratings to Investor NRSROs ratings is negligible.

=====

**Background:** The Commission proposes to amend each rule to omit references to NRSRO ratings to alleviate concerns about failures in NRSRO ratings and rating processes which, used as the basis for investment, bear some responsibility for illiquidity affecting, in particular, money market fund investors.

Many institutional investors admit using NRSRO ratings, see them as a safety mechanism for money fund investments and reportedly oppose removing references to NRSRO ratings, as proposed by the commission [WSJ -- 9/5/08, page C3, "ICI Joins Opposition to Money-Fund Rule"; by Aaron Lucchetti].

**Underlying Issue: Remove NRSRO Reference OR Distinguish Between NRSROs?**

Not all NRSROs are created equal.

Some act for debt issuers and claim they also act for investors ["Issuer NRSROs"]. Others, who gained NRSRO status only after passage of the Credit Rating Agency Reform Act of 2006, act only for debt investors ["Investor NRSROs"].

Debt ratings issued by Issuer NRSROs are the source of investor losses from failed NRSRO debt ratings and rating processes that the Commission seeks to address. Nowhere are NRSRO conflicts of interest more apparent than in Structured Finance "Fabricated Ratings", where Issuer NRSROs structured and negotiated debt securities to predetermined Structured Finance target ratings in collaboration with investment bank issuers.

Issuer NRSRO conflicts of interest and shortcomings of the rating agency business model as it applied to Structured Finance was foreseen long before the current "credit crunch" [Euromoney -- April 2006 -- "Why Should Institutional Investors Invest in CDOs, at All?"; see also: [www.riskcenter.com/video.php?vid=grebeck2-29-1](http://www.riskcenter.com/video.php?vid=grebeck2-29-1)]. Later, The Credit Rating Reform Act of 2006 was enacted to relieve conflicts of interest in debt ratings and several new NRSROs, some acting only for investors, were registered by the Commission [Euromoney -- April 2007 -- "The Debt Ratings Business After 2006: Who Wins?"].

I submit that the Commission's proposed amendments should distinguish between Investor vs Issuer NRSROs, as I have defined above, and permit institutional investors, including money market fund investors, to use debt ratings supplied by investor NRSROs.

My proposal adds no incremental economic cost to institutional investors, while safeguarding the investments of their fiduciaries. In some ways, the "investor pays -- issuer pays" dichotomy is artificial. The investor always pays for debt ratings. He pays for "free" issuer NRSROs ratings, since he is not at the table when the Issuer NRSRO and investment banks negotiate structured finance tranche borders. In contrast, Investor NRSROs are paid by, and act solely for, investors and have no conflicts of interest.

Edward J. Grebeck  
Chief Executive Officer  
Tempus Advisors  
164 Janes Lane  
Stamford, CT 06903  
Office: 203-329-1539  
Mobile: 203-326-0501  
Skype: 203-803-1341  
email: [edgre@optonline.net](mailto:edgre@optonline.net)