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SEC (Securities and Exchange Commission) Adopts Rule and Form Amendments to Remove Credit Rating References

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- Securities & SEC
- Financial Institutions & Banking
- Administrative & Regulatory

- All Federal

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On December 27, 2013, the **SEC** (Securities and Exchange Commission) adopted amendments to Rule 5b-3 under the 1940 Act and Forms N-1A, N-2 and N-3 in response to the requirements of the Dodd-Frank Act that any references to or requirements regarding credit ratings in the SEC's regulations be removed and replaced with other standards of creditworthiness.

Rule 5b-3 generally permits funds to treat the acquisition of a repurchase agreement as an acquisition of the underlying securities in certain circumstances. Rule 5b-3 has been amended to remove references to credit ratings with respect to securities collateralizing repurchase agreements and replace them with alternative standards of creditworthiness. As amended, Rule 5b-3 requires a fund's board or its delegate to determine, at the time the repurchase agreement is entered into, that any collateral consisting of non-government securities is issued by an issuer that has "an exceptionally strong capacity to meet its financial obligations" and is "sufficiently liquid that [it] can be sold at approximately [its] carrying value in the ordinary course of business within seven calendar days."

Forms N-1A, N-2 and N-3 contain the requirements for shareholder reports of mutual funds, closed-end funds and certain insurance company separate accounts that offer

variable annuities, respectively. Prior to these amendments, the Forms required shareholder reports to include certain information with respect to portfolio holdings by category, and if credit quality was depicted, the ratings assigned by a single nationally recognized statistical rating organization (NRSRO) was required. The Forms have been amended to permit a fund to depict the credit quality of portfolio holdings using (1) alternative categorizations not based on NRSRO credit ratings; (2) the ratings assigned by different NRSROs (for split-rated securities); or (3) ratings provided by credit rating agencies that are not NRSROs. If depicted, funds will be required to describe how the credit quality of its holdings was determined and, if credit ratings are used, how they were identified and selected.

These amendments were proposed in March 2011, along with proposals to remove references to credit ratings in Rule 2a-7 under the 1940 Act and Form N-MFP with respect to money market funds. However, the SEC noted that it will address the references to credit ratings in Rule 2a-7 and Form N-MFP in a separate rulemaking.

The amendments to Rule 5b-3 and Forms N-1A, N-2 and N-3 become effective 30 days after publication in the Federal Register and compliance is required by 180 days after publication in the Federal Register.