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(Original Signature of Member)

111TH CONGRESS
1ST SESSION

H. R. _____

To ensure uniform and accurate credit rating of municipal bonds and provide
for a review of the municipal bond insurance industry.

IN THE HOUSE OF REPRESENTATIVES

Mr. FRANK of Massachusetts introduced the following bill; which was referred
to the Committee on _____

A BILL

To ensure uniform and accurate credit rating of municipal
bonds and provide for a review of the municipal bond
insurance industry.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Municipal Bond Fair-
5 ness Act”.

1 **SEC. 2. PRESERVATION OF AUTHORITY TO PREVENT DIS-**
2 **CRIMINATION.**

3 Section 15E of the Securities Exchange Act of 1934
4 (15 U.S.C. 78o-7) is amended—

5 (1) by redesignating subsection (p) as sub-
6 section (q); and

7 (2) by inserting after subsection (o) the fol-
8 lowing new subsection:

9 “(p) RATINGS CLARITY AND CONSISTENCY.—

10 “(1) COMMISSION OBLIGATION.—Subject to
11 paragraphs (2) and (3), the Commission shall re-
12 quire each nationally recognized statistical rating or-
13 ganization that is registered under this section to es-
14 tablish, maintain, and enforce written policies and
15 procedures reasonably designed—

16 “(A) to establish and maintain credit rat-
17 ings with respect to securities and money mar-
18 ket instruments designed to assess the risk that
19 investors in securities and money market in-
20 struments may not receive payment in accord-
21 ance with the terms of issuance of such securi-
22 ties and instruments;

23 “(B) to define clearly any rating symbol
24 used by that organization; and

1 “(C) to apply such rating symbol in a con-
2 sistent manner for all types of securities and
3 money market instruments.

4 “(2) ADDITIONAL CREDIT FACTORS.—Nothing
5 in paragraph (1)(A), (B), or (C)—

6 “(A) prohibits a nationally recognized sta-
7 tistical rating organization from using addi-
8 tional credit factors that are documented and
9 disclosed by the organization and that have a
10 demonstrated impact on the risk an investor in
11 a security or money market instrument will not
12 receive repayment in accordance with the terms
13 of issuance;

14 “(B) prohibits a nationally recognized sta-
15 tistical rating organization from considering
16 credit factors that are unique to municipal se-
17 curities that are not backed by the issuer’s full
18 faith and credit in its assessment of the risk an
19 investor in a security or money market instru-
20 ment will not receive repayment in accordance
21 with the terms of issuance; or

22 “(C) prohibits a nationally recognized sta-
23 tistical rating organization from using an addi-
24 tional symbol with respect to the ratings de-
25 scribed in paragraph (1)(A) for the purpose of

1 distinguishing the ratings of a certain type of
2 security or money market instrument from rat-
3 ings of any other types of securities or money
4 market instruments.

5 “(3) COMPLEMENTARY RATINGS.—The Com-
6 mission shall not impose any requirement under
7 paragraph (1) that prevents nationally recognized
8 statistical rating organizations from establishing rat-
9 ings that are complementary to the ratings described
10 in paragraph (1)(A) and that are created to measure
11 a discrete aspect of the security’s or instrument’s
12 risk.

13 “(4) REVIEW.—

14 “(A) PERFORMANCE MEASURES.—The
15 Commission shall, by rule, establish perform-
16 ance measures that the Commission shall con-
17 sider when deciding whether to initiate a review
18 concerning whether a nationally recognized sta-
19 tistical rating organization has failed to adhere
20 to such organization’s stated procedures and
21 methodologies for issuing ratings on securities
22 or money market instruments.

23 “(B) CONSIDERATION OF EVIDENCE.—
24 Performance measures the Commission may
25 consider in initiating a review of an organiza-

1 tion’s ratings in each of the categories described
2 in clauses (i) through (v) of section 3(a)(62)(B)
3 during an appropriate interval (as determined
4 by the Commission) include the transition and
5 default rates of its in discrete asset classes.”.

6 **SEC. 3. IMPLEMENTATION.**

7 The Securities and Exchange Commission shall pre-
8 scribe rules to implement the amendments made by sec-
9 tion 101 within 270 days after the date of enactment of
10 this Act.