

Dominion Bond Rating Wins SEC Credit Rater Status

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By Kevin Drawbaugh

WASHINGTON, Feb 24 (Reuters) - U.S. market regulators on Monday cleared Canada's Dominion Bond Rating Service Ltd. to be an officially recognized corporate credit rating service, breaking down the door to what had become an exclusive club.

Only three other credit raters -- Standard & Poor's, Moody's Investors Service and Fitch Ratings -- in recent years had enjoyed the lucrative status of being a "nationally recognized statistical rating organization," or NRSRO.

Dominion Bond, based in Toronto, will now be able to assume that status under a "no action" letter released by the Securities and Exchange Commission. The SEC had been considering Dominion's NRSRO application for two years.

"The SEC is currently reviewing other applications, but no timetable for determinations has been set," said commission spokesman John Nester in Washington.

At least two other credit rating organizations -- Pennsylvania-based Egan-Jones Rating Co. and Maryland-based LACE Financial Corp. -- have said they want to be NRSROs.

"Investors can benefit from increased participation in the rating industry," said Fitch spokesman James Jockle.

"We expect that the SEC will only designate those organizations that are sufficiently competent to develop accurate and reliable ratings," Jockle said.

Credit raters grade the riskiness of debt instruments, such as bonds, issued by corporations with codes like AA3 or Baa2. Their judgments can be crucial to corporations' finances.

The so-called Big Three raters -- S&P, Moody's and Fitch -- have lately dominated the industry. Several other companies once had NRSRO status, but a consolidation cycle narrowed the field. That left smaller competitors that did not have NRSRO status to complain they were locked out.

Frances Laserson, spokeswoman for Moody's Corp. [MCO.N](#), parent of Moody's Investors Service, said, "We have competed successfully in markets with no licensed rating agencies and many licensed rating agencies. We are comfortable that the competitive environment will favor Moody's."

An S&P spokeswoman said, "Market acceptance of credit ratings is the key to a rating organization's success. A NRSRO designation alone does not create this acceptance."

The decision on Dominion "gives that rating agency more credibility, at a time when all buy-side managers are looking hard at rating agencies and their independence," said Mark MacQueen, portfolio manager for Sage Advisory Services Ltd. in Austin, Texas. "I think any additional players in the rating business would be welcomed by the market."

Credit raters came under close scrutiny recently after the collapse of former energy trader Enron Corp. [ENRNQ.PK](#) . Days before Enron filed, on Dec. 2, 2001, what was then the largest bankruptcy in U.S. history, S&P and Moody's still rated its debt as investment grade.

Those ratings were at the low end of both agencies' scales and were immediately chopped to non-investment grade -- or junk bond status -- after the bankruptcy filing.

But members of Congress afterward asked why the rating agencies, which employ hundreds of financial analysts, were not on to Enron's troubles sooner and more publicly. Congress told the SEC to study and report on the industry by Jan. 26.

The SEC held two public round-table discussions in November with various participants from the rating industry. The commission told Congress last month that it plans to write new rules for credit-rating agencies after further study.