

mechanism to detect and prevent fraudulent and manipulative acts and practices. Accordingly, the Exchange believes that the amendments are consistent with investor protection and the public interest.

B. Self-Regulatory Organization's Statement on Burden on Competition

The proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any unsolicited written comments from members or other interested parties.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act⁸ and Rule 19b-4(f)(6)⁹ thereunder.

A proposed rule change filed under Rule 19b-4(f)(6)¹⁰ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),¹¹ the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. Because the proposed rule change is designed to codify and/or enhance certain of the Exchange's governance provisions, the Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest, and designates the proposed rule change to

be operative upon filing with the Commission.¹²

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>) or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-EDGX-2011-29 on the subject line.

Paper Comments

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE., Washington, DC 20549-1090.

All submissions should refer to File Number SR-EDGX-2011-29. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission's Public Reference Room, 100 F Street, NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and

copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-EDGX-2011-29 and should be submitted on or before October 11, 2011.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹³

Elizabeth M. Murphy,
Secretary.

[FR Doc. 2011-24068 Filed 9-19-11; 8:45 am]

BILLING CODE 8011-01-P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-65339]

Order Granting Temporary Exemption of Kroll Bond Rating Agency, Inc. From the Conflict of Interest Prohibition in Rule 17g-5(c)(1) of the Securities Exchange Act of 1934

September 14, 2011.

I. Introduction

Rule 17g-5(c)(1) of the *Securities Exchange Act of 1934* ("Exchange Act") prohibits a nationally recognized statistical rating organization ("NRSRO") from issuing or maintaining a credit rating solicited by a person that, in the most recently ended fiscal year, provided the NRSRO with net revenue equaling or exceeding 10% of the total net revenue of the NRSRO for the fiscal year. In adopting this rule, the Commission stated that such a person would be in a position to exercise substantial influence on the NRSRO, which in turn would make it difficult for the NRSRO to remain impartial.¹

II. Application and Exemption Request of Kroll Bond Rating Agency, Inc.

Kroll Bond Rating Agency, Inc. ("Kroll"), f/k/a LACE Financial Corp. ("LACE"), is a credit rating agency registered with the Commission as an NRSRO under Section 15E of the Exchange Act for the classes of credit ratings described in clauses (i) through (v) of Section 3(a)(62)(B) of the Exchange Act. Kroll traditionally has operated mainly under the "subscriber-paid" business model, in which the NRSRO derives its revenue from restricting access to its ratings to paid

⁸ 15 U.S.C. 78s(b)(3)(A).

⁹ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. EDGX has satisfied this requirement.

¹⁰ 17 CFR 240.19b-4(f)(6).

¹¹ 17 CFR 240.19b-4(f)(6)(iii).

¹² For purposes only of waiving the operative delay for this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹³ 17 CFR 200.30-3(a)(12).

¹ Release No. 34-55857 (June 5, 2007), 72 FR 33564, 33598 (June 18, 2007).

subscribers. Kroll has informed the Commission that it intends to expand its existing NRSRO business by establishing a new “issuer-paid” rating service under which it will issue ratings paid for by the issuer, underwriter, or sponsor of the security being rated. In connection with this planned expansion, Kroll has requested a temporary and limited exemption from Rule 17g-5(c)(1) on the grounds that the restrictions imposed by Rule 17g-5(c)(1) would pose a substantial constraint on the firm’s ability to compete effectively with large rating agencies offering comparable ratings services. Specifically, Kroll argues that given that the fees typically associated with issuer-paid engagements tend to be relatively high when compared to the fees associated with its existing subscriber-based business, it is possible that in the early stages of its expansion the fees associated with a single issuer-paid engagement could exceed ten percent of its total net revenue for the fiscal year. Accordingly, Kroll has requested that the Commission grant it an exemption from Rule 17g-5(c)(1) for any revenues derived from non-subscription based business during the remainder of calendar years 2011 and 2012, which are also the end of Kroll’s 2011 and 2012 fiscal years, respectively.

III. Discussion

The Commission, when adopting Rule 17g-5(c)(1), noted that it intended to monitor how the prohibition operates in practice, particularly with respect to asset-backed securities, and whether exemptions may be appropriate.² The Commission has previously granted two temporary exemptions from Rule 17g-5(c)(1), including one on February 11, 2008 to LACE, as Kroll was formerly known, in connection with its initial registration as an NRSRO (“LACE Exemptive Order”).³ The Commission noted several factors in granting that exemption, including the fact that the revenue in question was earned prior to the adoption of the rule, the likelihood of smaller firms such as LACE being more likely to be affected by the rule, LACE’s expectation that the percentage of total revenue provided by the relevant client would decrease, and the increased competition in the asset-backed securities class that could result from LACE’s registration. In granting the LACE Exemptive Order, the Commission also noted that an exemption would further the primary

purpose of the *Credit Rating Agency Reform Act of 2006* (“Rating Agency Act”) as set forth in the Report of the Senate Committee on Banking, Housing, and Urban Affairs accompanying the Rating Agency Act: To “improve ratings quality for the protection of investors and in the public interest by fostering accountability, transparency, and competition in the credit rating industry.”⁴ On June 23, 2008, the Commission, citing the same factors set forth in the LACE Exemptive Order, issued a similar order granting Realpoint LLC a temporary exemption from the requirements of Rule 17g-5(c)(1) in connection with Realpoint LLC’s registration as an NRSRO.⁵

On September 2, 2010, the Commission issued an Order Instituting Administrative and Cease-and-Desist Proceedings (“LACE/Putnam Order”) against LACE and Barron Putnam, LACE’s founder as well as its majority owner during the relevant time period. The LACE/Putnam Order found, among other things, that the firm made misrepresentations in its application to become registered as an NRSRO and its accompanying request for an exemption from Rule 17g-5(c)(1). Specifically, the Commission found that the firm materially misstated the amount of revenue it received from its largest customer during 2007.⁶ On November 9, 2010, the Commission issued an Order Making Findings and Imposing A Cease-and-Desist Order (the “Mouzon Order”) against LACE’s former president, Damyon Mouzon. The Mouzon Order found, among other things, that as LACE’s president, Mouzon was responsible for ensuring the accuracy of the information provided to the Commission in connection with the firm’s NRSRO application and its request for an exemption, and that he knew or should have known that the financial information that LACE provided to the Commission in connection with its NRSRO application and its request for an exemption from Rule 17g-5(c)(1) was inaccurate.⁷ LACE,

Putnam and Mouzon each consented to the entry of those orders on a neither admit nor deny basis.

In the request that is subject to this Order, Kroll acknowledged the recent orders against LACE and its former owner and president and stated that it has taken significant steps to enhance the compliance and other functions associated with the traditional subscriber-based business, including replacing senior management, retaining new compliance and financial personnel, and adding new independent directors comprising a majority of the board. Kroll has informed Commission staff that LACE’s former ownership and management personnel no longer have any ownership or other relationship, financial or otherwise, with Kroll. Kroll has further informed Commission staff that LACE ceased performing any work or analysis in connection with the issuer-paid ratings that were the subject of the LACE Exemptive Order in December 2008.

The Commission believes that a temporary, limited and conditional exemption allowing Kroll to enter the market for rating structured finance products is consistent with the Commission’s goal of improving ratings quality for the protection of investors and in the public interest by fostering accountability, transparency, and competition in the credit rating industry. In order to maintain this exemption, Kroll will be required to publicly disclose in Exhibit 6 to Form NRSRO, as applicable, that the firm received more than 10% of its net revenue in fiscal years 2011 and 2012 from a client or clients that paid it to rate asset-backed securities. This disclosure is designed to alert users of credit ratings to the existence of this specific conflict and is consistent with exemptive relief the Commission has previously granted to LACE and Realpoint LLC. Furthermore, in addition to Kroll’s existing obligations as an NRSRO to maintain policies, procedures, and internal controls, by the terms of this order, Kroll will also be required to maintain policies, procedures, and internal controls specifically designed to address the conflict created by exceeding the 10% threshold. Finally, the Commission notes that Kroll is subject to the September 2, 2010 Order Instituting Administrative and Cease-and-Desist Proceedings against LACE Financial Corp.

Section 15E(p) of the Exchange Act, as added by Section 932(a)(8) of the *Dodd-*

Securities Exchange Act of 1934, Release No. 63280 (November 9, 2010).

² Release No. 34-55857 (June 5, 2007), 72 FR 33564, 33598 (June 18, 2007).

³ Release No. 34-57301 (February 11, 2008), 73 FR 8720 (February 14, 2008).

⁴ See Report of the Senate Committee on Banking, Housing, and Urban Affairs to Accompany S. 3850, *Credit Rating Agency Reform Act of 2006*, S. Report No. 109-326, 109th Cong., 2d Sess. (Sept. 6, 2006).

⁵ Release No. 34-58001 (June 23, 2008), 73 FR 36362 (June 26, 2008).

⁶ In the Matter of LACE Financial Corp. and Barron Putnam, Respondents: Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Sections 15E(d) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and Cease-and-Desist Orders, Release No. 62834 (September 2, 2010).

⁷ In the Matter of Damyon Mouzon, Respondent: Order Making Findings and Imposing a Cease-and-Desist Order Pursuant to Section 21C of the

Frank Wall Street Reform and Consumer Protection Act, requires Commission staff to conduct an examination of each NRSRO at least annually. As part of this annual examination regimen for NRSROs, Commission staff will closely review Kroll's activities with respect to managing this conflict and meeting the conditions set forth below and will consider whether to recommend that the Commission take additional action, including administrative or other action.

The Commission therefore finds that a temporary, limited and conditional exemption allowing Kroll to enter the market for rating structured finance products is consistent with the Commission's goal, as established by the *Rating Agency Act*, of improving ratings quality by fostering accountability, transparency, and competition in the credit rating industry, subject to Kroll's making public disclosure of the conflict created by exceeding the 10% threshold and maintaining policies, procedures and internal controls to address that conflict, is necessary and appropriate in the public interest and is consistent with the protection of investors.

IV. Conclusion

Accordingly, pursuant to Section 36 of the Exchange Act,

It is hereby ordered that Kroll Bond Rating Agency, Inc., formerly known as LACE Financial Corp., is exempt from the conflict of interest prohibition in Exchange Act Rule 17g-5(c)(1) until January 1, 2013, with respect to any revenue derived from issuer-paid ratings, provided that: (1) Kroll Bond Rating Agency, Inc. publicly discloses in Exhibit 6 to Form NRSRO, as applicable, that the firm received more than 10% of its total net revenue in fiscal year 2011 or 2012 from a client or clients; and (2) in addition to fulfilling its existing obligations as an NRSRO to maintain policies, procedures, and internal controls, Kroll Bond Rating Agency, Inc. also maintains policies, procedures, and internal controls specifically designed to address the conflict created by exceeding the 10% threshold.

By the Commission.

Elizabeth M. Murphy,
Secretary.

[FR Doc. 2011-24028 Filed 9-19-11; 8:45 am]

BILLING CODE 8011-01-P

SELECTIVE SERVICE SYSTEM

Privacy Act of 1974; Publication of Notice of Systems of Records

AGENCY: Selective Service System.

ACTION: Notice: publication of systems of records.

SUMMARY: The purpose of this notice is to meet the requirement of the *Privacy Act of 1974* regarding the publication of the agency's notice of systems of records. The complete text of all Selective Service System notices appears below.

Authority: 5 U.S.C. 552a

Systems of Records

SSS-2 General Files (Registrant Processing).
SSS-3 Reconciliation Service Records.
SSS-4 Registrant Information Bank (RIB) Records.
SSS-5 Reserve and National Guard Personnel Records.
SSS-6 Uncompensated Personnel Records.
SSS-7 Suspected Violator Inventory System.
SSS-8 Pay Record.
SSS-9 Registrant Registration Records.

SSS-2

SYSTEM NAME:

General Files B (Registrant Processing) SSS.

SECURITY CLASSIFICATION:

None.

SYSTEM LOCATION:

National Headquarters, Selective Service System, 1515 Wilson Boulevard, Arlington, VA 22209-2425.

CATEGORIES OF INDIVIDUALS COVERED BY THE SYSTEM:

Registrants of the Selective Service System and other individuals and organizations.

CATEGORIES OF RECORDS IN THE SYSTEM:

Contains current and previous correspondence with individual registrants, private individuals and Government agencies, requesting information or resolution of specific problems related to registrant processing or agency operations.

AUTHORITY FOR MAINTENANCE OF THE SYSTEM:

Section 10(b)(3), *Military Selective Service Act* (50 U.S.C. App. 460(b)(3)).

ROUTINE USES OF RECORDS MAINTAINED ON THE SYSTEM, INCLUDING CATEGORIES OF USERS AND THE PURPOSES OF SUCH USES:

Department of Justice—To refer reports received as to possible violations of the *Military Selective Service Act*.

Federal Bureau of Investigation—To refer reports received as to possible violations of the *Military Selective Service Act*.

Department of Defense—To exchange information respecting status of individuals subject to the provisions of the *Military Selective Service Act*.

U.S. Citizenship and Immigration Services—For responding to inquiries concerning aliens.

Department of Health and Human Services—For locations of parents pursuant to the *Child Support Enforcement Act* (42 U.S.C. 651 *et seq.*)

POLICIES AND PRACTICES FOR STORING, RETRIEVING, ACCESSING, RETAINING, AND DISPOSING OF RECORDS IN THE SYSTEM:

Storage:

Paper copies maintained in routine filing equipment.

RETRIEVABILITY:

Records are indexed alphabetically by last name.

SAFEGUARDS:

Measures that have been taken to prevent unauthorized disclosures of records are:

a. Records maintained by authorized personnel only, who have been trained in the rules and regulations concerning disclosures of information; offices are locked when authorized personnel are not on duty.

b. Periodic security checks and other emergency planning.

c. Records transferred for storage are boxed and taped; records in transit for temporary custody of another office are sealed. Records eligible for destruction are destroyed by maceration, shredding or burning.

RETENTION AND DISPOSAL:

Hold file intact for five years from date of latest correspondence.

SYSTEM MANAGER(S) AND ADDRESS:

Director of Selective Service, Selective Service System, 1515 Wilson Boulevard, Arlington, VA 22209-2425, Attn: Records Manager.

RECORD ACCESS PROCEDURES:

An individual desiring to obtain information on the procedures for gaining access to and contesting records may write to: Director of Selective Service, Selective Service System, 1515 Wilson Boulevard, Arlington, VA 22209-2425, Attn: Records Manager.

It is necessary to furnish the following information in order to identify the individual whose records are requested:

- Full name of the individual.
- Date of birth.
- Selective Service Number (if available).
- Mailing address to which the reply should be mailed.

CONTESTING RECORD PROCEDURES:

See Record Access Procedures, above.

RECORD SOURCE CATEGORIES:

Individual registrants, private individuals and organizations, and