THE FINANCIAL SERVICES ROUNDTABLE

Impacting Policy. Impacting People.

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EXECUTIVE DIRECTOR
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March 12, 2007

Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
100 F. Street, N.E.
Washington, DC 20549-1090

Re: Proposed Rules Regarding Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations (Release No. 34-55231; File No. S7-04-07)

Dear Ms. Morris:

The Financial Services Roundtable appreciates the opportunity to comment to the Securities and Exchange Commission ("SEC") on the above-captioned proposed rules ("Proposed Rules"). The Proposed Rules are intended to implement provisions of the Credit Rating Agency Reform Act of 2006 ("Reform Act"), the objectives of which are to increase competition, transparency and accountability in the credit rating agency industry.

The Roundtable believes credit rating agencies play an important role in the global debt capital markets. Through their independent analysis and opinions on the creditworthiness of securities and issuers, they enhance the transparency and efficiency of the markets and are broadly relied on by issuers, investors and regulators. For rating agencies to continue to serve the financial markets in this way, they should be independent in their opinion formation processes, act with integrity and objectivity, transparently disclose their rating methodologies and performance, and ultimately compete based on the quality and usefulness of their opinions. We believe the objectives of the Reform Act are consistent with these principles, and the SEC framework for registration and oversight of Nationally Recognized Statistical Rating Organizations ("NRSRO") ultimately can further them.

With these principles in mind, we recommend that the SEC consider the following as it finalizes the rules.

1. Preserve the Independence of Rating Agencies

The Reform Act acknowledges the need to protect rating agency independence in their opinion formation process by prohibiting the SEC from regulating "the substance of the credit ratings, or the procedures and methodologies by which any NRSRO determines

credit ratings". We are pleased that the SEC has acknowledged this mandate in its release on the Proposed Rules; however, several aspects of the Proposed Rules may contravene this principle. These include:

- Form NRSRO Exhibit 1, disclosure of ratings performance metrics, in which the SEC raises the possibility of establishing standardized definitions and inputs for such disclosures. Such standardization should be avoided, as it may favor one NRSRO's rating approaches over another's and ultimately lead to harmonization of the rating process.
- Rule 17g-6(a)(4), which prohibits certain practices known as "notching", related to rating structured finance asset pools. This section is ambiguously drafted and can be interpreted as mandating that NRSROs use the ratings of other NRSROs interchangeably with their own. This would contradict the Reform Act and undermine rating agency independence to the detriment of the financial markets. This rule should be clarified to plainly state the legislative objective – that such practices be prohibited only if they are due to coercive or anti-competitive intent and not if they represent legitimate approaches to forming an independent rating opinion.

Exhibit 10 of proposed Form NRSRO seeks to prevent conflicts of interest in requiring an NRSRO to make public information about the applicant's 20 largest issuer and subscriber customers by the amount of net revenue received by the credit rating agency. This proposal creates unnecessary disclosure because it ignores the best practice standard at most credit rating agencies which have already constructed a "Chinese Wall" to separate the credit analyst division from the business relationship division of the agency.

2. <u>Promote Competition by Avoiding Over-Regulation</u>

Certain of the Proposed Rules may create regulatory barriers to entry that would discourage rather then encourage new NRSRO applicants, contrary to the Reform Act's objective to promote competition. These rules may exceed the Reform Act's mandate to be "narrowly tailored" to meet the legislative intent, and the potential burden on rating agencies may be disproportionate to their public interest benefits. These include:

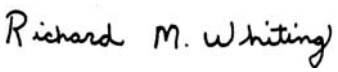
- Form NRSRO disclosures, some of which are overly detailed and arguably are not necessary to assess the suitability of an NRSRO applicant.
- Record retention rules, which place potentially onerous compliance requirements on NRSROs, including maintaining virtually every record produced or received for time periods that in some cases could span many decades.
- Rules that extend beyond the NRSRO and place unnecessary burdens on its affiliates and associated persons, such as the rule prohibiting any NRSRO affiliate from soliciting payment for any product or service from an entity that is the subject of an unsolicited rating.

Further, the Proposed Rules create greater regulation costs which are passed on to issuers. The Proposed Rules should avoid creating unnecessary costs because such costs could create a disincentive for larger firms to seek multiple ratings and for smaller firms to be rated at all.

We believe the SEC should moderate the rules where warranted to ensure that they are proportionate with the objectives of the Reform Act and the public interest benefits. For example, in the third case cited above, requiring appropriate firewall and conflict avoidance policies could meet the SEC's objectives without unduly constraining NRSRO affiliates' business activities.

The Roundtable thanks the SEC for considering these recommendations. If you have any questions concerning these comments or would like to discuss them further, please contact Rich Whiting at Rich@fsround.org.

Sincerely,



Richard M. Whiting