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March 12, 2007

Nancy M. Morris, Secretary
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Proposed Rules To Implement Provisions Of The Credit Rating Agency Reform Act of 2006 (File No.: S7-04-07)

Dear Ms. Morris:

This letter is submitted by Standard & Poor's Ratings Services ("Ratings Services"), a business unit of Standard & Poor's, itself a division of The McGraw-Hill Companies, Inc. ("McGraw-Hill"), in response to the Securities and Exchange Commission's ("Commission") proposed rules ("Proposed Rules" or "PR") to implement provisions of the Credit Rating Agency Reform Act of 2006 (the "Act").

In passing the Act, Congress defined the term Nationally Recognized Statistical Rating Organization ("NRSRO"); provided authority for the Commission to implement registration, recordkeeping, financial reporting, and oversight rules with respect to NRSROs; and directed the Commission to issue final rules no later than June 26, 2007. While the Act generally provides the Commission with discretion in formulating rules, it does set forth certain critical limitations on that discretion, including the requirements that: (i) "*[n]otwithstanding any other provision of law*, neither the Commission nor any State (or political subdivision thereof) may regulate the substance of credit ratings or the procedures and methodologies by which any [NRSRO] determines credit ratings," and (ii) the Commission's rules should be "narrowly tailored" to meet the requirements of the Act. *See* Section 15E(c)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (emphasis added).

These express limitations on the Commission's rulemaking authority reflect the well-established view that overly intrusive regulation of rating agencies, particularly regulation that goes to the substance of the rating opinions issued by NRSROs, would jeopardize the analytical independence and editorial control that have long been essential to the utility of ratings in the marketplace. Rating agencies and market participants alike have repeatedly warned that a regulatory regime interfering with the substance of credit rating decisions could have a number of adverse effects, including: (i) compromising the independence of the credit rating process; (ii) encouraging firms to standardize their approaches, thereby deterring diversity and innovation in credit analysis; (iii) creating the impression that rating opinions have governmental approval; and (iv) encouraging issuers to provide less information to credit rating agencies.

We believe the Proposed Rules generally adhere to Congress's instructions. Given the stringent time demands imposed by Congress and the number of issues raised by the legislation, the drafters of the Proposed Rules deserve commendation for their efforts. There are, however, certain instances where we believe the Proposed Rules do not advance the purported regulatory purposes and are inconsistent with the express limitations that Congress imposed on the Commission's rulemaking authority. As detailed below, two noteworthy examples relate to: (i) Proposed Rule 17g-6(a)(4), which purports to prohibit a practice known as "notching"; and (ii) the lack of any safe harbors or other limitations to ensure that broad terms such as "associated persons" and "affiliates" do not sweep up persons and activities that have no relationship to the business of the credit rating agency or the process by which ratings are determined. The potentially broad reach of the "associated persons" and "affiliates" provisions is particularly troublesome to Ratings Services, given that it is a part of Standard & Poor's which itself is a division of McGraw-Hill. Numerous business units of Standard & Poor's and McGraw-Hill have no involvement whatsoever with Ratings Services's credit rating activities and, indeed, are walled-off from those activities. Contrary to Congress's narrow tailoring requirement, the Proposed Rules, then, have the potential to create considerable burdens without serving a regulatory purpose. In general, we believe the final rules should be flexible enough to permit NRSROs such as Ratings Services to continue to adopt and adhere to policies that reflect their own organizational structures and ratings businesses.

These two issues are discussed in detail in sections I and II below. Section III sets forth Ratings Services's other comments on the Proposed Rules in numerical order. In addition, we have attached as Schedule A hereto a "mark-up" of the Proposed Rules reflecting our suggested line-by-line edits.[1] Subject to these concerns, Ratings Services is pleased that the Commission has generally avoided proposing regulations that could affect the substantive credit rating process.

At Ratings Services, our processes are already consistent with many aspects of the Proposed Rules. Among other things, our ratings analysts are all presently subject to Ratings Services's Code of Conduct, as well as the McGraw-Hill Code of Business Ethics, which are already publicly-available policies that establish standards to promote honest and ethical conduct by our employees and independence and objectivity in our credit rating process. We believe our adherence to these Codes and related policies and procedures has contributed, and will continue to contribute, to Ratings Services's longstanding objectivity and independence and the market's perception of Ratings Services as a credible provider of rigorous analytical information.

Ratings Services appreciates the opportunity to address these issues and looks forward to working with the Commission as it considers the appropriate actions to take.

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[1] Schedule A includes a mark-up of the Proposed Rules and the Instructions to Form NRSRO. Several of the edits proposed in Schedule A may also require conforming edits to Form NRSRO itself.

I. Proposed Rule 17g-6(a)(4) Would Inappropriately Regulate NRSROs' Substantive Ratings Process

Proposed Rule 17g-6(a)(4) would improperly involve the Commission in the substance, procedures and methodologies of NRSROs' ratings process, contravening Congress's express mandate not to do so and, thus, inevitably and unnecessarily raising constitutional issues. The proposed provision provides in relevant part that NRSROs will be prohibited from:

> [i]ssuing or threatening to issue a lower credit rating, or lowering or threatening to lower an existing credit rating, or refusing to issue a credit rating or withdrawing a credit rating, with respect to securities or money market instruments issued by an asset pool or as part of any asset-backed or mortgage-backed securities transaction, unless a portion of the assets which comprise the asset pool or the asset-backed or mortgaged-backed securities also are rated by the rating organization. The prohibitions on refusing to issue a credit rating or withdrawing a credit rating shall not apply if the rating organization has rated less than 85% of the market value of the assets underlying the asset pool or the asset-backed or mortgage-backed securities.

According to the proposing release, this provision seeks to address "notching," a practice that is sometimes utilized by rating agencies when they are asked to rate, for example, collateralized debt obligations that are backed by a pool of underlying assets. The proposing release includes a "preliminary" finding that this practice is "unfair, coercive, or abusive." Ratings Services disagrees with that preliminary finding, which is unsupported by any substantive data submitted to Congress or the Commission, and believes this proposed restriction contravenes Congress's express mandate that the Commission not involve itself in the substantive rating process.

As an initial matter, what "notching" is has been subject to widespread mischaracterization and/or misunderstanding. Therefore, a brief description is in order. As noted, the practice is occasionally utilized when rating agencies such as Ratings Services are asked to rate structured products that are backed by underlying assets. Ratings Services believes that in evaluating the creditworthiness of any such structured product, it must understand the credit quality of all of the underlying assets, which are typically the sole source of payment for the structure's debt. There are several ways to do so. Where the underlying assets (say, corporate bonds held by the structured vehicle) have been previously rated by Ratings Services, we will use the existing rating of those bonds in our analysis of the securities of the overall structure. If, on the other hand, the underlying assets have not already been rated by Ratings Services, we may evaluate the credit quality of those underlying assets by performing "a credit estimate," which, while not a credit rating, is a detailed review of the assets using our approved credit rating models and criteria.

Over the years, certain issuers of structured products have told us that, rather than paying for us to perform a rating or credit estimate in situations in which Ratings Services has

not rated 100% of the underlying assets, they wanted us to "incorporate" ratings of those assets issued by other rating agencies into our rating of the overall structure. This presented a significant problem since Ratings Services was being asked to rate a structured product based in part on the analytical work and opinions of another rating agency, but without any input into that work. Ratings Services and its analytical reputation would thus be subject to criticism, and perhaps legal liability, for what at the end of the day was the work of others. Since we cannot control the quality of the processes or surveillance methodologies followed by other rating agencies, we believe it would be improper, even irresponsible, to rely blindly on another agency's opinion of the credit quality of underlying assets.

To accommodate the issuers' requests while at the same time protecting against the risks inherent in relying on the work of others, Ratings Services decided that it could use other rating agencies' ratings as a starting point for a small portion of the pool of underlying assets. However, to account for, among other things, analytical and surveillance practice differences among rating agencies, our inability to perform our own surveillance on the underlying assets, and the possibility that those assets could be downgraded by the other rating agencies at any time without notice to Ratings Services, we reserved the right to "discount" the ratings of other agencies when incorporating them into our independent analysis. This discount builds an inherent conservatism into our analysis that we feel is justified. To foster some predictability about this discount, Ratings Services assured issuers and the market that it would discount the ratings of other NRSROs no more than certain established notches below their reported level. In other words, as practiced by Ratings Services, "notching" actually puts a floor under the discount that Ratings Services believes it must take in order to issue a ratings opinion in these circumstances.

As practiced by Ratings Services, "notching" therefore represents a reasonable and carefully considered response to issuer demand, not an anti-competitive, coercive or abusive practice. While, as with any practice, one can imagine abusive application of the practice (for example, an agency might flatly refuse to deal at all with an issuer that used the ratings of others, etc.), Ratings Services does not practice "notching" in a manner that would give rise to any abuse. Indeed, despite claiming to have made a "preliminary determination" that notching is somehow "unfair, coercive, or abusive," the proposing release contains no factual finding on the issue and no evidence to support any such assertion. Certainly the Commission's preliminary determination cannot be based upon the practice of "notching" as followed by Ratings Services. In this regard, we note that Congress did not intend for the Commission to promulgate an outright ban on practices that are not specifically found to be unfair, coercive, or abusive. *See* S. Rep. No. 109-326, at 11 (2006) ("With respect to the activities described in subparagraph (B), the Committee recognizes that there are instances when a rating agency may refuse to rate securities or money market instruments for reasons that are not intended to be anticompetitive. Indeed, in this section, the Committee intends that the Commission, after resolving the threshold consideration described above, should prohibit only those rating refusals that occur as part of unfair, coercive, or abusive conduct.")

Beyond the overbroad reach of the proscription in Proposed Rule 17g-6(a)(4) and the resulting problem under the Commission's clear mandate to "narrowly tailor" all Section 15E rules, Proposed Rule 17g-6(a)(4) also runs directly afoul of the Act's express requirement

that the Commission avoid regulating the substance, procedures and methodologies of the ratings process. By expressly prohibiting NRSROs from treating the work of other rating agencies with caution, the Proposed Rules would directly — and impermissibly — interfere with those NRSROs' criteria and methodologies. Analytical independence, the cornerstone of ratings quality, requires that each rating agency be free to determine its own opinions without governmental proscription of acceptable methods. So, too, does the First Amendment.

One alternative to any ban on notching would be a record retention regime whereby NRSROs would be required to retain records related to their decisions to "notch" another rating agency's ratings on underlying assets in a structured transaction. The Commission could require such records to include, among other things, the NRSRO's reasons for "notching." Such reasons could include, for example, differences in criteria or methodologies among rating agencies, a lack of transparency about another rating agency's methods, or a lack of track record on the part of another rating agency. Requiring NRSROs to be prepared to explain the reasons for their "notching" decisions would guard against unfair, coercive, or abusive applications of the practice.

To the extent, however, that the Commission is committed to prohibiting "notching" as a practice, then at a minimum the relevant provision of the Proposed Rules should be crafted so that it addresses only that, and nothing more. That is, any prohibition should be narrowly tailored to be limited only to instances in which an NRSRO chooses to use the ratings of other rating agencies in its analysis. Under such a rule, an NRSRO would be precluded from discounting the work of others (*i.e.*, "notching"), but, importantly, would not by rule be required to use such work in its own independent analysis. Instead, in situations in which it has not rated 100% of the underlying assets, an NRSRO would have the option of: (i) accepting the ratings of others at face value; (ii) refusing to rate the structured transaction at all; or (iii) reviewing all the underlying assets and be compensated for the additional work involved. Issuers of structured products, too, would have a choice. They could either: (i) use the ratings of NRSROs that accept the ratings of other rating agencies at face value; or (ii) pay the additional fees associated with having one NRSRO review all the underlying assets. The first approach would, of course, be cheaper for issuers, and if NRSROs that chose to employ it were able to put out quality ratings, they presumably would attract more business from the market.

On the other hand, a rule that required an NRSRO to accept blindly the ratings of other rating agencies in certain circumstances and denied it the ability to review the underlying assets in a structured transaction before associating its good name with that transaction would surely go too far. Consider, for example, a situation in which an NRSRO has an existing rating on 85% of the assets in a particular pool for a structured transaction, and the other 15% has no rating, or a rating from another NRSRO that the first one chose simply not to adopt as its own. Any rule that required that NRSRO to rate the transaction against its will would not only force that NRSRO to stake its reputation on a "pig in a poke," but would also be fundamentally incompatible with the core principles of competition and analytical independence that are at the heart of the Act and that the law would, in any event, protect. The problem would likely be particularly acute in the new regime contemplated by the Act,

since NRSROs would be forced to take at face value the ratings of other NRSROs that have a limited, if any, track record.

Moreover, issuers, aware that NRSROs would be required to rate their structured transactions if they also rated 85% or more of the underlying assets, would have an incentive to fill their pools up to 85% with quality assets and 15% with something less (perhaps far less) than that. Under a literal reading of the current draft of the Proposed Rules, the NRSRO could not refuse to rate the transaction or lower the rating, even if the issuer refused to provide the NRSRO with any details about the mysterious 15%. That sort of requirement is exactly what Congress sought to avoid when it made express that "*[n]otwithstanding any other provision of law*," (including the statute's provisions related to notching) "neither the Commission nor any State (or political subdivision thereof) may regulate the substance of credit ratings or the procedures and methodologies by which any [NRSRO] determines credit ratings." NRSROs must be free to make their own methodological decisions about what to rate, when to rate, how to rate and what opinions to publish — and the market will determine who does it best. In short, a desire to address a perceived problem with "notching" should not be used as a springboard to undermine the very nature of a truly independent rating.

Thus, while we believe firmly that on the record before it the Commission should decline to adopt Proposed Rule 17g-6(a)(4), if the Commission is able to clearly identify an abusive practice, we suggest that the final rules include at most a record retention regime, or, alternatively, simply state that NRSROs are prohibited from discounting any ratings of other rating agencies that they may choose to use as part of their analyses, but that an NRSRO may not be required to incorporate another rating agency's ratings into its own analyses and would not be prohibited from conducting, if it chooses to, its own independent assessments of creditworthiness and charging for doing so.

II. The Proposed Rules Are Not Narrowly Tailored With Respect to NRSROs Such as Ratings Services That Are Part Of A Broader Corporate Structure

As noted, Ratings Services is part of Standard & Poor's, which itself is a division of McGraw-Hill. That corporate structure means that a number of entities and business units that have nothing to do with ratings (and that are firewalled off from ratings activities) fall under the same, broad corporate umbrella as Ratings Services. The broad terms "associated persons" and "affiliates," which are used repeatedly in the Proposed Rules, as well as the Act itself, could be read to regulate these wholly separate entities and business units. We propose that the Commission include clarifying language to ensure that its final rules will be narrowly tailored consistent with Congress's express mandate. Although Congress understandably gave the Commission broad discretion in the statutory definition of "person associated with a nationally recognized statistical rating organization" to determine which persons and entities must be subject to the Act's provisions, Congress clearly limited this discretion by expressing its intent that the Commission not use its rulemaking authority to the fullest conceivable extent when a rule or regulation could be more "narrowly tailored to meet the requirements of" the Act. Exchange Act § 15E(c)(2).

An example of the potential overbreadth problem is found in Exhibit 10 to Form NRSRO, which would require disclosure of an NRSRO's twenty largest customers ranked by "net revenue." The Proposed Rules define "net revenue" to include "all fees, sales, proceeds, commissions, and other revenues received by the credit rating agency *and its affiliates* for any type of service or product, regardless of whether related to credit rating services[.]" (emphasis added). If the proposed term "affiliates" is given a broad interpretation, the information that Ratings Services would be required to report would be largely irrelevant to anyone seeking to understand the nature of Ratings Services's business. Although if required to do so Ratings Services would undertake the extremely burdensome task of calculating and reporting revenue received from any rated entity who also happens to advertise in *BusinessWeek* magazine (published by McGraw-Hill), or even purchase textbooks from McGraw-Hill's educational publishing division, it is not at all clear how the resulting disclosure would be of any use to a regulator seeking to understand the pressures and potential conflicts faced in Rating Services's business. This is because Ratings Services operates as a separate business unit of McGraw-Hill and does not, and is not permitted to, take the business needs of other McGraw-Hill units into account in operating its ratings business. So not only would such an exercise be costly and burdensome, but its results would have no informational value.

Indeed, given that, as stated in the proposing release, the intended purpose of the disclosures in Exhibit 10 is to identify issuers that could potentially have undue influence on an NRSRO, including revenue information from business units completely divorced from Ratings Services would actually distort the informational value of the required disclosure and potentially mislead regulators about the true character of such influences. Aggregating revenue received by these other business units with Ratings Services's revenue would create a misleading impression and could be harmful to McGraw-Hill's business. It could also lead to unintended results. For example, an advertiser might refuse to purchase advertising from *BusinessWeek* if it knew the amount it paid would be disclosed to the Commission, albeit with the cold comfort that it would be kept confidential "to the extent permitted by law."

Likewise, Exhibit 6 to Form NRSRO would require disclosure of whether "the credit rating agency, *its affiliates*, or its employees have any other business relationship or affiliation with a rated obligor, issuer of rated securities or money market instruments . . . or [an] entity that uses credit ratings for regulatory purposes." (emphasis added). This proposed requirement, read literally, would also require disclosure of relationships between rated companies and divisions of McGraw-Hill that have absolutely no connection to, or ability to influence, Ratings Services's independent ratings business. Unnecessary and burdensome requirements such as that do not meet the "narrowly tailored" requirement of the Act.

Similarly, Section 8(A) of Form NRSRO would require an NRSRO applicant to disclose whether "any *person associated* with the credit rating agency, whether prior to or subsequent to becoming associated with the credit rating agency" committed certain violations of the federal securities laws, or any other offense (in the United States or abroad) that is punishable by imprisonment for one or more years. (emphasis added) Echoing the Act, but without observing the Act's mandate to craft narrowly tailored rules, the Proposed

Rule's definition of the term "person associated" would include any person under "common control" with the NRSRO, meaning quite literally all of the approximately 20,000 employees under the ultimate control of McGraw-Hill. While violations of the federal securities laws, if any, by non-ratings McGraw-Hill employees are serious matters, there is no basis for concluding that Congress intended to extend the Commission's jurisdiction to include individuals whose activities have no bearing on the fitness of Ratings Services to provide objective ratings analysis, or any other substantial connection to the U.S. securities markets.

There are numerous other uses within the Proposed Rules of the terms "associated persons" and "affiliate." We do not wish to belabor the point, but do want to emphasize the fact that the Proposed Rules, as written, fail to execute the clear mandate given by Congress to promulgate narrowly tailored rules. In Ratings Services's case, the potential sweep of these proposals is particularly inappropriate and unnecessary given that Ratings Services has firewalls in place that prevent anyone associated with *BusinessWeek*, or other McGraw-Hill businesses, from influencing, interfering or otherwise interacting with its ratings process. These firewalls: (i) ensure that ratings analysts express their respective opinions free from improper influence of other Standard & Poor's or McGraw-Hill employees and free from the influence of the commercial relationships between Standard & Poor's or McGraw-Hill and third parties; and (ii) protect the confidentiality of information given to Ratings Services employees in connection with the ratings process. The firewall policies establish informational and physical barriers between Ratings Services employees and other employees and separates the commercial and analytic functions within Ratings Services in order to protect the independence and objectivity of the rating process.

To address this potential overbreadth problem, we recommend that the final rules provide safe harbors for those credit rating agencies, such as Ratings Services, that maintain policies and procedures that establish firewalls to insulate ratings-related activities from other business activities under the same corporate umbrella.

III. Rule-By-Rule Comments

In addition to the two broad concerns discussed above, there are a number of provisions within the Proposed Rules that Ratings Services believes should be clarified so as to serve the narrow purposes of the Act. Below is a discussion of some of our concerns organized by the Proposed Rules in which they appear.

A. Proposed Rule 17g-1 - Form NRSRO

1. Exhibit 1 to Form NRSRO - Performance Measurement Statistics

The Commission has requested comment on whether performance measurement statistics should use standardized inputs, time horizons and metrics to allow for greater comparability and, more specifically, whether Exhibit 1 to Form NRSRO should require measurement of the performance of a given credit rating by comparing or mapping it

to the market value of the rated security or to the extreme declines in the market value of the security after the rating is issued.

In our experience, the most effective way to measure ratings performance is through historical measures such as default and transition studies. These studies can effectively demonstrate the existence (or lack) of a correlation between ratings assigned by an NRSRO and the likelihood of default. (Ideally, the higher the rating, the lower the probability of default, and vice versa.) Such default and transition studies have also, historically, been generally reliable.

Creating a standardized reporting framework for ratings performance, however, may be difficult, if not impossible. Meaningful differences exist among rating agencies in the way ratings are defined, in the way defaults and other relevant credit events are determined and measured, and in the quantitative methodologies used to measure performance, all of which can affect reported results. Given the broad definition of credit ratings in the Proposed Rule, and the range of analytical criteria and methodologies acceptable under the proposal, these differences are likely to grow under the new framework.

In light of these differences, to achieve strict comparability would require the Commission to impose a common definitional framework on ratings, which would be inappropriate and outside the scope of the Act. Moreover, even if truly comparable studies were possible, generating the necessary data would likely be costly, burdensome and could impose additional barriers to entry in the credit rating industry. In addition, Ratings Services does not believe any practical purpose would be served by "ranking" rating agencies based on their respective performance data. Instead, each rating agency's historical performance should be viewed independently, thereby allowing the Commission and the market to assess a particular agency's success rate on a standalone basis and to determine whether its performance has improved or declined over time.

We note that Exhibit 1 to Form NRSRO will require each NRSRO to disclose "an explanation of each grade or notch" of its credit ratings and an explanation of "the performance measurement statistics, including the metrics used to derive the statistics." PR 40. Ratings Services supports these required disclosures and believes that such information, combined with each agency's individual performance measurement statistics, would provide the necessary amount of data and transparency.

Finally, Ratings Services is strongly opposed to the suggestion on page 41 of the proposing release that NRSROs' performance be measured and compared based on the existence (or lack) or correlations between credit ratings and the fluctuating market value of public securities. Credit ratings are opinions, as of a specific date, of the creditworthiness (*i.e.*, the likelihood of default) of either an obligor in general or a particular financial obligation and, once published, our ratings are monitored on an ongoing basis. Rating opinions are *not* recommendations to buy, sell, or hold a particular security, comments on the suitability of an investment for a particular investor or group of investors, or personal recommendations to any particular user; nor are they investment advisory in nature. It would

be a serious mistake to expect any correlation between a rating opinion and the market price of a particular security. Ratings Services would argue, in fact, that there is no meaningful correlation at all. Indeed, in certain circumstances, the declining price of an issuer's stocks and bonds can reflect market influences that are wholly independent of the issuer's creditworthiness.

2. Exhibit 5 - Code of Ethics

The Commission has requested comment on whether it should propose specific elements to be included in NRSROs' codes of ethics. PR 49. As noted above, Ratings Services subjects all its analysts to our Code of Conduct, as well as the McGraw-Hill Code of Business Ethics, both of which establish standards to promote honest and ethical conduct by our employees and independence and objectivity in our credit rating process. These Codes are already publicly available and we have no objection to the Commission's proposal that all NRSROs similarly be required to disclose their own codes of ethics. We do not, however, believe it is necessary for the Commission to promulgate the specific elements of such codes. Exhibit 5 would already require each NRSRO to annex its code to Form NRSRO, meaning the content of each NRSRO's code of ethics would be fully disclosed to the users of ratings and the market. Moreover, other portions of the Proposed Rules already include requirements that would form the principle elements of an effective code of ethics, including, for example, managing potential conflicts of interest, handling material non-public information and prohibiting abusive practices.

The Commission also seeks comment on whether Exhibit 5 should require NRSROs to "disclose whether they comply with international principles and codes of conduct related to credit rating agencies." PR 50. We believe it would not be appropriate, or consistent with Congress's intent, for the Commission to require a company in a U.S. industry under its supervision to certify as to its compliance with supra-national or foreign standards. Moreover, the bodies overseeing these supra-national and foreign standards generally do not themselves require rating agencies to certify their compliance. For example, the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies ("IOSCO Code"), gives credit rating agencies the option to "comply or explain." Other regulatory bodies, such as the British Financial Services Authority, require no certification of compliance with their standards. Second, there are numerous "international principles and codes" that touch upon rating agencies' businesses. Without specifying the principles and codes to which it refers, any such requirement would be vague and overbroad. Finally, the key "principles" contained in, say, the IOSCO Code, that Congress and the Commission believe are critical are already contained in the Proposed Rules. Requiring additional certifications that NRSROs have enacted and adhered to policies dealing with matters that a foreign regulator or organization deems important for its own particular circumstances would serve no added U.S. regulatory purpose.

3. Exhibit 6 – Failure to Define "Regulatory Purpose"

The Commission has generally requested comment on Exhibit 6 to Form NRSRO, which would require, among other things, the disclosure of "any affiliated entity that

acts as an underwriter *or uses credit ratings for regulatory purposes*." PR 52 (emphasis added). In addition to our concerns over the breadth of the term "affiliated entity" (discussed above), this proposal is troublesome in that it does not define the term "regulatory purposes" and even if it did, it would be extremely difficult, if not impossible, to track such information. The definition of a "regulatory purpose" in this context is entirely unclear. For example, would any corporate issuer in the United States seeking to issue investment grade debt on Form S-3 be a user of ratings for a "regulatory purpose"? Would an issuer who is required under a Trust Indenture Act-qualified indenture to invest excess cash in highly rated money-market instruments be a user of ratings for a "regulatory purpose"?

Based on a literal reading, this proposed provision could require disclosure of numerous uses of credit ratings by businesses under a larger corporate umbrella. For instance, in Ratings Services's case, McGraw-Hill and some of its affiliates arguably use credit ratings for a regulatory purpose when they invest corporate money in mutual funds, or purchase shares in the McGraw-Hill pension funds. Such uses plainly do not trigger the concern expressed in the proposing release that "the affiliate could exercise undue influence on the credit rating agency to issue a credit rating . . . that provides a regulatory benefit" and therefore should not be the subject of regulatory disclosures.

4. Exhibit 8 - Disclosure Of Personal Data Related To NRSRO Employees

Another area of concern relates to Exhibit 8 to Form NRSRO, which would require, among other things, the disclosure of information "about the responsibilities, experience and employment history of [an NRSRO's] credit analysts and supervisors." As a threshold matter, Ratings Services has more than 1,000 rating analysts and supervisors, many of whom are located in foreign countries. Making (and periodically amending) the proposed disclosures would involve a significant burden and would not be necessary to accomplish the stated purpose of this provision, namely, to allow users of credit ratings and the Commission to evaluate the strength of an NRSRO's team. A more narrowly tailored alternative would be to require the disclosure of aggregate information about an NRSRO's analysts. For example, an NRSRO could be required to disclose aggregate information about undergraduate and post-graduate degrees of its analysts and supervisors and aggregate information about its employees' average years experience in the industry.

Additionally, many of these analysts work in countries other than the United States and privacy (and other) laws and regulations of those countries would make it extremely difficult and burdensome, if not impossible, to disclose the requested information, even if specifically required under U.S. law. In some countries, in fact, Ratings Services may be prohibited from obtaining and disclosing the data necessary to comply. These privacy concerns may well be resolved if NRSROs were instead permitted to submit aggregate data as suggested above.

5. Exhibit 9 - Disclosures Regarding Compliance Staff

Exhibit 9 of Form NRSRO would require disclosure of similar information related to an NRSRO's Chief Compliance Officer and staff. Again, we feel that such specific information is not necessary to achieve the regulatory aims at issue and thus this proposal is not narrowly tailored. As with analysts, a general description of the compliance staff and their qualifications is sufficient to evaluate the rigor of a compliance program without running afoul of privacy concerns and imposing unnecessary burdens on NRSROs.

6. Exhibit 10 - Disclosure of Net Revenue By Customer

Exhibit 10 calls for the disclosure on an annual basis of net revenue information regarding the 20 largest issuer and subscriber customers as well as large obligor and underwriter customers. As discussed above, the inclusion of revenues from "affiliates" of the NRSRO into the calculation is inappropriate where, as with Ratings Services, those affiliates have no involvement in credit rating activities and are firewalled off. Right now, Ratings Services's analysts have no access to financial information about customers at *BusinessWeek* or any other McGraw-Hill business unit. There is, therefore, no risk of a compromise in the ratings process because an issuer, say, happens to subscribe to or advertise in *BusinessWeek*. To require McGraw-Hill to analyze, total and sort the revenues from each of its customers in each of its business units would serve no regulatory purpose and would present an undue burden. Additionally, as noted above, inclusion of revenue information from affiliates could actually skew the meaning of the numbers since an issuer's place in the calculation might be unduly influenced by the amount of unrelated non-ratings business conducted by that issuer.

Accordingly, in addition to the "safe harbor" discussed above for credit rating agencies that maintain firewalls, we believe the final rules should define "net revenue" narrowly to mean: "All net fees invoiced by a rating organization globally for services directly related to credit ratings."

7. Exhibit 12 - NRSRO Revenue Disclosures

The proposed requirement that NRSROs disclose a detailed breakdown of their revenue in connection with Exhibit 12 to Form NRSRO is also troublesome. PR 61-62. Such a requirement is not narrowly tailored to achieve the stated purpose of this provision — namely, assisting the Commission's evaluation of an NRSRO's financial resources. The requested information is highly sensitive, has never been compiled or reported in the past and, we believe, would serve no purpose in being reported now.

The proposing release states that these revenue disclosures would "augment" the audited financial statements required by Exhibit 11. A critical difference between Exhibits 11 and 12 however, is that Exhibit 11 would expressly permit an NRSRO such as Ratings Services to submit the audited financial statements of its parent company, McGraw-Hill. The commentary in the proposing release related to that Exhibit states in relevant part:

> In addition, the Commission also anticipates that some applicants would be subsidiaries of holding companies. In this case, the applicant would be able to provide consolidated and consolidating financial statements of the parent company. This would diminish the burden on applicants that have a holding company audit but not an audit of the subsidiary credit rating agency. Consolidated and consolidating financial statements would provide sufficient information about the subsidiary credit rating agency for the Commission to evaluate whether its financial resources [are sufficient]. PR 61.

Ratings Services agrees that the audited financial statements of an NRSRO's parent company would be sufficient for the Commission and the market to evaluate the financial stability of the NRSRO. This is particularly true in the case of McGraw-Hill, which is a public company required to file regular reports certified by its Chief Executive Officer and Chief Financial Officer. If, as the Commission states, a parent company's audited financial statements provide sufficient basis to evaluate the resources of its NRSRO division, we see no reason why separate NRSRO-only revenue reports should also be required. It is important to note that permitting a rating agency to provide the audited financial statements of its parent company in connection with its NRSRO application would not represent a departure from past practice.

B. Proposed Rule 17g-2 - Recordkeeping

The Proposed Rules also include extensive recordkeeping requirements that in many respects contravene Congress's narrow tailoring requirement. Among other things, Paragraph (b)(2) of Proposed Rule 17g-2 would "require an NRSRO to retain internal records, including non-public information and work papers, used to determine a credit rating." PR 70. Similarly, Paragraph (b)(3) of Proposed Rule 17g-2 would "require an NRSRO to retain credit analysis reports, credit estimate reports and private rating reports and internal records, including non-public information and work papers, used to form the basis of those reports." Read broadly, these provisions could require NRSROs to retain copies of everything that a rating analyst reviews which has any effect on his or her rating opinion, including public filings, newspaper and magazine articles and information posted on the Internet. We do not believe the Commission intended this provision to be construed in that manner. Accordingly, the final rules should specify that the term "internal records" only refers to documents created internally by the NRSRO, and does not include publicly available materials or any other documents received from or created by issuers or other third parties.

Paragraph (b)(7) of Proposed Rule 17g-2 — which requires NRSROs to retain "all external and internal communications . . . received and sent by the rating organization and its employees relating to initiating, determining, maintaining, changing, or withdrawing a credit rating" — is also potentially overbroad. The final rules should make clear that this provision will only require NRSROs to maintain communications that are actually utilized by NRSROs in reaching their final rating opinions, and that it does not require NRSROs to retain materials not used in the final rating analysis such as early drafts of offering documents and the like that were superseded prior to the issuance of a rating.

Similarly, Rule 17g-2(b)(8) is potentially overbroad insofar as it would require NRSROs to retain records related to decisions *not* to issue a rating on structured products. PR 72. We believe that such a requirement would serve little, if any, regulatory purpose. If, however, the Commission is intent on requiring the retention of such records, there should be some limits imposed on the type of records that are required to be retained. NRSROs such as Rating Services receive numerous inquiries from issuers of structured products and often decline to rate those products for numerous reasons. One way to make this requirement more manageable would be to incorporate a regime similar to the recordkeeping requirements in the guidelines regulating Complex Structured Finance Transactions ("CSFTs"). When the CSFT guidelines were first proposed, they included a requirement that banks retain records related to transactions brought to their attention even if the banks decided not to pursue the transactions. After numerous banks and other market participants expressed serious concerns about the breadth of that proposed requirement, the Commission (and other agencies) issued a far narrower final version of the CSFT guidelines that only required banks to retain records of transactions that were rejected by senior management, as opposed to those rejected by lower level personnel. The final guidelines appropriately recognized that whatever marginal regulatory purpose might be served by requiring the retention of such documents would be outweighed by the extraordinary burdens of compliance. The same is true in this case. With respect to structured transactions for which the NRSRO ultimately decides not to issue a rating, we believe the final rules, similar to the final CSFT guidelines, should at most require NRSROs to retain records that are brought before rating committees, or, for NRSROs that do not utilize rating committees, the analyst who determines ratings.

The record retention requirements in Proposed Rule 17g-2(c) raise similarly serious overbreadth concerns. This provision would, in many cases, require NRSROs to retain records forever, thus going far beyond what is necessary to effectuate the purposes of the Act. For example, Proposed Rule 17g-2(c)(1) would require that records made under paragraphs (a)(1), (a)(2) and (a)(5) be retained "for three years after the date the record is replaced with an updated record." Many of these records, however, would never be "replaced with an updated record," including, for example, "records of original entry into the rating organization's accounting system."

In the same vein, Proposed Rule 17g-2(c)(2) would require an NRSRO to retain the records required pursuant to paragraphs (a)(3) and (a)(4) for "three years after the date of the last receipt by the person in the record of a service or product of the rating organization." Proposed Rule 17g-2(a)(3), in turn, would require NRSROs to create and maintain identifying details and ratings information for "each person" that solicits a rating. A rating agency may have relationships with customers that span many decades. In those circumstances, Proposed Rule 17g-2(c)(2), as written, would require the rating agency to maintain indefinitely the records it creates with these identifying details and other information, many years after the records themselves lose any regulatory value. A more workable rule would be to require only a flat three year retention period from the time of creation or receipt.

Finally, as a general matter, Proposed Rule 17g-2 should be revised to make clear that while an NRSRO may be required to keep a wide range of materials, the Proposed Rule's recordkeeping requirements do not require an NRSRO to make available to the Commission documents that are otherwise protected from disclosure by applicable legal privileges and protections.

C. Proposed Rule 17g-3 — Annual Audit

Proposed Rule 17g-3 would require NRSROs to furnish audited financial statements and specific schedules to the Commission on an annual basis. The Commission should clarify, as it has regarding Exhibit 11 to Form NRSRO, that an applicant such as Ratings Services that is a division or unit of a parent company "would be able to provide consolidated and consolidating financial statements of the parent company." PR 61.

D. Proposed Rule 17g-4 - Prevention of Misuse of Material Non-public Information

Proposed Rule 17g-4 would require NRSROs to adopt a series of procedures to prevent the misuse of material non-public information. Ratings Services is committed to the safekeeping and proper use of material non-public information and, as reflected in our Code of Conduct, takes that commitment seriously. Accordingly, we have no quarrel with the purpose of Proposed Rule 17g-4. In one respect, however, we believe it goes too far. Specifically, Proposed Rule 17g-4(1)(b) would require NRSROs to adopt, among other things, procedures to prevent any member of an "associated person's household" from benefiting from the sale of securities while possessing material, non-public information. This specific requirement is overly broad and not necessary to achieve the objectives of the Act.

A rule regulating "any member of the household" would extend beyond an individual's immediate family for little regulatory purpose. Many individuals might share the same household (for example, roommates or domestic employees), but that does not mean that they, unlike immediate family members, are in each other's natural sphere of influence. These situations are especially common in foreign countries where extended families, though having separate financial affairs, may happen to live in the same "household." The risks associated with these situations are significantly less than with immediate family. The burden of crafting policies to address the myriad different situations that could arise, and to enforce those policies, far exceeds any regulatory benefit. Moreover, the "otherwise benefiting from any transaction" clause of subparagraph (b) is sufficiently broad to address any concerns in this area. A separate requirement regarding household members is therefore unnecessary and burdensome and, we submit, should be stricken from the Proposed Rules.

We also believe the final rules should make clear that NRSROs will be permitted to use material, non-public information in aggregate form where the source of the information and the company to which it relates, is not disclosed. Ratings Services currently uses confidential information received from issuers, such as non-public corporate ratios, in various models and for benchmarking unrated entities Because the identity of the relevant

issuer is not revealed, there is no regulatory basis for prohibiting this aggregate usage of material, non-public information.

E. Proposed Rule 17g-5 - Conflicts of Interest

1. Proposed Rule 17g-5(b) - Conflicts to be Disclosed and Managed

Proposed Rule 17g-5(b), concerning potential conflicts of interest, includes several provisions (clauses (3) through (6)) that would require NRSROs to implement policies governing situations in which a "subscriber . . . uses the credit ratings of the rating organization for regulatory purposes." As noted above, the concept of using a rating for a "regulatory purpose" is undefined and entirely too vague for an NRSRO to apply even in the case of an NRSRO's own affiliates. To go beyond that and require NRSROs to determine which of their *customers* use ratings for "regulatory purposes" would be an impossible exercise.

Proposed Rule 17g-5(b)(2) could be read to apply to analysts who own mutual funds that happen to own securities of rated entities. For NRSROs such as Ratings Services that rate nearly all public companies, this rule would be harsh and unduly burdensome, and not narrowly tailored to the purposes of the Act. As such, Ratings Services believes this proposal should be revised to exclude the ownership of mutual funds.

In addition, Proposed Rules 17g-5(b)(3) and (4) also seem particularly inapplicable to NRSROs, such as Ratings Services, that employ an "issuer pays" model rather than a subscription model. For instance, it is difficult to see how Proposed Rule 17g-5(b)(3) serves any purpose for an "issuer pays" NRSRO that is not already covered by Proposed Rule 17g-5(b)(1), although it certainly creates additional burdens. Accordingly, Ratings Services believes that references to subscribers "that use the credit ratings of the rating organization for regulatory purposes" should not appear in the final rule, or, at a minimum, the final rules should make clear that those references do not apply to an NRSRO that employs an "issuer pays" model.

2. Proposed Rule 17g-5(C) - Prohibited Conflicts of Interest

Proposed Rule 17g-5(c) would flatly prohibit four perceived conflicts of interest. Ratings Services believes that the sweeping prohibitions contemplated by this proposal go too far and are not narrowly tailored to meet the asserted regulatory purpose.

The concept of flat prohibitions is the exception, not the rule, in the regulation of capital markets in the United States. For decades, the preferred approach has been disclosure and management. This model has been a key component of the success of our capital markets and we continue to believe in its virtues as well as the ability of the market to judge for itself. Accordingly, we believe that each of the purported conflicts identified in

Proposed Rule 17g-5(c) can, and should, be subject to a disclosure and management regime rather than a flat prohibition.

Additionally, the substance of certain of the proposals goes too far. For example, by extending its reach to a rating organization "and its affiliates," Proposed Rule 17g-5(c)(1) could preclude an NRSRO from rating an entity just because that entity is a customer of another business unit under common control with the NRSRO, even if that business unit and the NRSRO have no contact and are separated by effective firewalls. The proposal, then, could end up taking voices and opinions *out of the market*, a result directly contrary to the purpose of the Act.

Proposed Rule 17g-5(c)(2) is similarly too broad in scope. Read literally, it would preclude an analyst from borrowing money from a rated entity for, say, a home mortgage or student loan or from taking out a car insurance policy issued by a rated entity. For NRSROs (such as Ratings Services) that rate nearly all public financial institutions and insurance companies, such a prohibition could render it difficult for analysts to engage in normal, ordinary course financial dealings. The effect on the ability of those NRSROs to attract qualified analysts is plain. Accordingly, this proposal should be modified to exclude "ordinary course financial relationships, such as, without limitation, ordinary banking and insurance arrangements."

Proposed Rule 17g-5(c), as written, would also prohibit some analysts from holding government securities such as savings bonds, which are not market sensitive and are widely-used as equivalents to ordinary banking accounts. Allowing local employees to hold such government securities is an important factor in attracting qualified analysts. Therefore, for similar reasons, this requirement should be modified to exempt direct obligations of the Government of the United States, or for employees in offices outside of the United States, direct obligations of the national or federal government in the country in which their office is located.

F. Proposed Rule 17g-6 - Prohibited Practices

The Proposed Rules would prohibit NRSROs from "issuing an unsolicited rating and communicating with the rated person to induce or attempt to induce the rated person to pay for the credit rating[.]" PR 173. Although we believe this provision is designed to regulate unfair, coercive, or abusive practices, we are concerned that, in practice, it will have a more far reaching — and unintended — effect. It is not uncommon for issuers to provide critical information to rating agencies even in the context of an unsolicited rating. Our concern is that analysts may be "chilled" from communicating with such issuers to avoid even the appearance of violating this provision. Such a result would hinder the ratings process and ultimately harm the market, which benefits from the free flow of information between issuers and rating agencies. The final rules should make clear that rating agencies may still communicate freely and otherwise do business with issuers for whom unsolicited ratings have been issued, and are only prohibited from attempting to coerce issuers to pay for ratings.

To avoid unnecessary confusion, the final rules should also employ a consistent definition of the term "unsolicited rating." Page 43 of the Proposing Release defines the term to mean a rating "the credit rating agency decides to *initiate* without being requested to do so by an issuer, obligor, underwriter, or other interested party." (emphasis added) However, in the instructions to Form NRSRO (PR 189), the term is defined to mean "a credit rating that the credit rating agency *determines* without being requested to do so by the issuer or underwriter of the rated securities or money market instruments or the rated obligor." (emphasis added). Because the term "initiate" is susceptible to multiple interpretations, we believe the latter definition is more appropriate and less likely to be misinterpreted.

Again, we at Ratings Services appreciate the opportunity to comment on the Proposed Rules and look forward to working with the Commission in moving towards final rulemaking. Please feel free to contact me with any questions regarding our comments.

Sincerely yours,

Vickie A. Tillman

Vickie A. Tillman
Executive Vice President
Standard & Poor's

cc: The Honorable Christopher Cox, Chairman
The Honorable Paul S. Atkins, Commissioner
The Honorable Roel C. Campos, Commissioner
The Honorable Annette L. Nazareth, Commissioner
The Honorable Kathleen L. Casey, Commissioner
Erik R. Sirri, Director, Division of Market Regulation
Michael A. Macchiaroli, Associate Director, Division of Market Regulation

SCHEDULE A

§ 240.17g-1 Application for registration as a nationally recognized statistical rating agency.

(a) Form of registration. A credit rating agency applying to the Commission to be registered under section 15E of the Act (15 U.S.C. 78o-7) as a nationally recognized statistical rating organization with respect to one or more of the categories of credit ratings described in section 3(a)(62)(B) of the Act (15 U.S.C. 78c(a)(62)(B)) must furnish the Commission with an initial application on Form NRSRO (§249b.300 of this chapter) that follows all applicable instructions for the form.

(b) Furnishing and withdrawing initial application.

(1) An initial application will be considered furnished to the Commission on the date the Commission receives a complete and properly executed initial application on Form NRSRO that follows all instructions for the form. Information submitted on a confidential basis will be accorded confidential treatment to the extent permitted by law.

(2) The applicant may withdraw an application prior to the date of a Commission order granting or denying the application. To withdraw the application, the applicant must furnish the Commission with a written notice of withdrawal executed by a duly authorized person.

(c) Updating application prior to final action by the Commission. The applicant must promptly furnish the Commission with a written notice if information submitted to the Commission on Form NRSRO, including exhibits and attachments, is found to be or becomes materially inaccurate prior to the date of a Commission order granting or denying the application. The notice must describe the circumstances in which the information was found to be inaccurate. The applicant must also update the application with accurate and complete information by promptly furnishing the Commission with an amended initial application on Form NRSRO that follows all applicable instructions for the form.

(d) Public availability of Form NRSRO. A credit rating agency registered as a nationally recognized statistical rating organization ("rating organization") must make the current Form NRSRO and non-confidential exhibits publicly available by posting them on its Web site or by another comparable and readily accessible means within 5 business days of the date of the Commission order granting the application and, subsequently, within 5 business days of furnishing an amendment or an annual certification on Form NRSRO.

(e) Amending scope of registration. A rating organization that is registered for fewer than the five categories of credit ratings described in section 3(a)(62)(B) of the Act (15 U.S.C. 78c(a)(62)(B)) may apply to be registered for an additional category by furnishing the Commission with an amendment on Form NRSRO indicating where appropriate on the Form the additional class for which registration is sought and following all applicable instructions for the Form. The application to amend the scope of the registration will be subject to the requirements of this section and section 15E(a)(2) of the Act (15 U.S.C. 78o-7(a)(2)) applicable

to an initial application for registration, including with respect to the time periods and requirements for the Commission to grant or deny the application.

(f) Updating Form NRSRO after registration. A rating organization amending its application for registration pursuant to the requirements of section 15E(b)(1) of the Act (15 U.S.C. 78o-7(b)(1)) must promptly furnish the Commission with the amendment on Form NRSRO that follows all applicable instructions for the Form.

(g) Annual certification. A rating organization submitting its annual certification pursuant to the requirements of section 15E(b)(2) of the Act (15 U.S.C. 78o-7(b)(2)) must furnish the Commission with the annual certification on Form NRSRO that follows all applicable instructions for the Form not later than 90 days after the end of each calendar year.

(h) Withdrawal of registration. A rating organization withdrawing its registration must furnish the Commission with a written notice of withdrawal executed by a duly authorized person.

§ 240.17g-2 Records to be made and retained by nationally recognized statistical rating organizations.

(a) Records required to be made and retained. ~~Every~~To the extent permissible under applicable law, every credit rating agency registered with the Commission as a nationally recognized statistical rating organization ("rating organization") must make and retain the following books and records, which must be complete and current:

(1) Records of original entry into the rating organization's accounting system and records reflecting entries to and balances in all general ledger accounts of the rating organization for each fiscal year.

(2) Records with respect to each of the rating organization's current credit ratings indicating (as applicable):

(i) The identity of any credit analyst(s) that determined the rating;

(ii) The identity of the person(s) who approved the rating before it was issued;

(iii) The procedures and methodologies used to determine the rating;

(iv) The method by which the credit rating was made readily accessible;

(v) Whether the credit rating was solicited or unsolicited; and

(vi) The date the credit rating action was taken.

(3) A record for each person (for example, an obligor, issuer, underwriter, or other user) that solicits the rating organization to determine or maintain a credit rating indicating:

(i) The identity and principal business address of the person; and

(ii) The credit rating(s) determined for the person.

(4) A record for each subscriber to the credit ratings and/or credit analysis of the rating organization indicating the identity and principal business address of the subscriber and the compensation received from the subscriber.

(5) A record describing each type of service and product offered by the rating organization.

(b) Records required to be retained. A rating organization must retain the following books and records:

(1) All significant records (for example, bank statements, invoices, and trial balances) underlying the information included in the rating organization's annual audited financial statements and schedules furnished to the Commission pursuant to §240.17g-3.

(2) ~~Internal records~~Documents created internally, including non-public information and work papers, used to determine a credit rating.

(3) Credit analysis reports, credit assessment reports, and private rating reports and ~~internal~~ records created internally, including non-public information and work papers, used to form the basis for the opinions expressed in these reports.

(4) All compliance reports and compliance exception reports that relate to its business as a credit rating agency.

(5) All internal audit plans, internal audit reports, documents relating to internal audit follow-up measures that relate ~~to its business as a credit rating agency, and all records identified by the rating organization's internal auditors as necessary to perform the audit of an activity that relates~~ to its business as a credit rating agency.

(6) All marketing materials that relate to its business as a credit rating agency.

(7) All external and internal communications, including electronic communications, received and sent by the rating organization and its employees ~~relating to~~that are relied upon by a rating organization in initiating, determining, maintaining, changing, or withdrawing a credit rating.

(8) All ~~records made pursuant to paragraph (b) of §240.17g-6. (9) All~~ Form NRSROs (including information and documents in the exhibits thereto) furnished to the Commission.

(c) Record retention periods.

~~(1)~~ The records required to be retained pursuant to paragraphs (a)~~(1), (a)(2), and (a)(5) of this section must be retained for three years after the date the record is replaced with an updated record.~~

~~(2) The records required to be retained pursuant to paragraphs (a)(3) and (a)(4) of this section must be retained for three years after the date of the last receipt by the person in the record of a service or product of the rating organization. (3) The records required to be retained pursuant to paragraphs (b)(1) through (b)(9~~ and (b) of this section must be retained for three years after the date the record is made or received by the NRSRO.

(d) Manner of retention. An original or true and complete copy of the original of each record required to be retained pursuant to paragraphs (a) and (b) of this section must be maintained in a manner that, for the applicable retention period specified in paragraph (c) of this section, makes the original record or copy easily accessible to the rating organization's principal office and to any other office that conducted activities causing the record to be made or received.

(e) Third-party record custodian. The records required to be retained pursuant to paragraphs (a) and (b) of this section may be made or retained by a third-party record custodian, provided the rating organization furnishes the Commission at its principal office in Washington, DC with a written undertaking of the custodian executed by a duly authorized person. The undertaking must acknowledge that the records are the property of the rating organization and, to the extent permissible under applicable law, will be surrendered promptly on request of the rating organization~~,~~ and ~~that~~ the custodian will permit the Commission or its representatives to examine the records following such request. The undertaking must be in substantially the following form:

The undersigned acknowledges that books and records it has made or is retaining for [the rating organization] are the exclusive property of [the rating organization] and the undersigned undertakes that upon the request of [the rating organization] it will promptly provide the books and records to [the rating organization] or the U.S. Securities and Exchange Commission ("Commission") and its representatives and ~~that upon the~~, following a request ~~of the Commission~~to do so by [the rating organization], it will promptly permit examination by the Commission and its representatives of the records at any time or from time to time during business hours, and, to the extent permitted by applicable law, promptly furnish to the Commission and its representatives a true and complete copy of any or all or any part of such books and records.

A rating organization that agrees with a third-party custodian to have the custodian make or retain any record specified in paragraphs (a) and (b) of this section remains responsible for complying with every provision in this section, notwithstanding the agreement.

(f) Non-resident undertaking. A non-resident rating organization, as defined in paragraph (h) of this section, must undertake to provide books and records required by section (a) and (b) to the Commission upon demand. The undertaking must be attached to the rating organization's initial application for registration as a nationally recognized statistical rating organization, signed by a duly authorized person, marked "Non-Resident Books and Records Undertaking," and in substantially the following form:

Upon a request by the U.S. Securities and Exchange Commission ("Commission") and its representatives, [the rating organization] will furnish at its own expense to the Commission and its representatives, at its principal office in Washington, DC, an accurate copy of any book(s) and record(s) which [the rating organization] is required to make, keep current, retain, or produce to the Commission pursuant to any provision of the Securities Exchange Act of 1934 or any regulation under that Act. [The rating organization] will produce the requested copy of the book(s) or record(s), ~~in a form acceptable to~~and the Commission and its representatives~~, including~~ may request translation into English, within 14 days of receiving the request or within a longer period of time if the Commission consents to that longer time period.

(g) A rating organization must promptly furnish the Commission and its representatives with legible, complete, and current copies of those records of the rating organization required to be retained under this section, or any other records of the rating organization subject to examination under section 17(b) of the Act (15 U.S.C. 78q(b)) that are requested by the Commission and its representatives.

(h) Where used in this section non-resident rating organization means a rating organization that:

(i) If a corporation, is incorporated or has its principal office in a location outside the United States, its territories, or possessions; or

(ii) If a partnership or other unincorporated organization or association, is organized under the laws of a jurisdiction or has its principal office in a location outside the United States, its territories, or possessions.

(j) Nothing in this section shall require an NRSRO to produce to the Commission any documents or other materials that are protected from disclosure by applicable legal privileges and protections.

§ 240.17g-3 Annual audited financial statements to be furnished by nationally recognized statistical rating organizations.

(a) A credit rating agency registered with the Commission as a nationally recognized statistical rating organization ("rating organization") annually must furnish the Commission, at its principal office in Washington, DC, with audited financial statements of the rating organization or (if the rating organization is a division, unit or subsidiary of a parent company) its corporate parent. The audited financial statements must be prepared in accordance with generally accepted accounting principles, must comply with applicable provisions of Regulation S-X (§210.1-01 - §210.12-29, of this chapter), must be as of the fiscal year end indicated on the rating organization's current Form NRSRO, and must be furnished not more than 90 calendar days after the end of the fiscal year.

(b) The audited financial statements required by paragraph (a) of this section must include the following supporting schedules:

(1) A schedule ~~separately itemizing the following aggregate revenues (as applicable):~~
~~(i) Revenue from determining and maintaining credit ratings;~~
~~(ii) Revenue from subscribers;~~
~~(iii) Revenue from granting licenses or rights to publish credit ratings;~~
~~(iv) Revenue from determining credit ratings that are not made readily accessible (private ratings); and~~
~~(v) Revenue from all other services and products offered by the rating organization (include descriptions of any major sources of revenue); (2) A schedule~~ providing the total aggregate and median annual compensation of the rating organization's credit analysts; and

(~~3~~2) A schedule listing the 20 largest issuers and subscribers that used credit rating services provided by the rating organization by amount of net revenue received by the rating organization and its affiliates from the issuer or subscriber during the fiscal year. In addition, add to the list any obligor or underwriter that used credit rating services provided by the rating organization if the net revenue received by the rating organization and its affiliates from the obligor or underwriter during the fiscal year equaled or exceeded the net revenue received from the 20th largest issuer or subscriber. Include the net revenue amount for each customer.

Note to paragraph (b)(~~3~~2): A customer would have used the "credit rating services" of the rating organization if the customer was any of the following: an obligor that is rated by the rating organization (regardless of whether the obligor paid for the credit rating); an issuer that has securities or money market instruments rated by the rating organization (regardless of whether the issuer paid for the credit rating); any other person that has paid the rating organization to determine a credit rating with respect to a specific obligor, security, or money market instrument; or a subscriber to the credit ratings of the rating organization. In calculating net revenue received from a customer, the rating organization should include all ~~fees, sales proceeds, commissions, and other~~

~~revenue received by the rating organization and its affiliates for any type of service or product, regardless of whether related to credit rating services, and net of any fees, sales proceeds, rebates, and monies paid to the customer~~net fees invoiced by the rating organization ~~and its affiliates.~~ globally for services directly related to credit ratings. A rating organization need not include net revenue received by its affiliates provided that the rating organization maintains firewalls precluding such affiliates from engaging in credit rating-related activity.

(c) The audited financial statements required by paragraph (a) of this section must be furnished in accordance with the following:

(1) They must be certified by an accountant who is qualified and independent in accordance with paragraphs (a) through (c) of §210.2-01 of this chapter, and the accountant must give an opinion on the financial statements and schedules in accordance with paragraphs (a) through (d) of §210.2-02 of this chapter; and

(2) The rating organization must attach to the financial statements a signed statement by a duly authorized person at the rating organization or (if the rating organization is a division, unit or subsidiary of a parent company) its corporate parent that the person has responsibility for the financial statements and, to the best knowledge of the person, the financial statements fairly present, in all material respects, the financial condition, results of operations, and cash flows of the rating organization or its corporate parent for the period presented.

(d) The Commission may grant an extension of time from any requirements in this section either unconditionally or on specified terms and conditions on the written request of a rating organization if the Commission finds that such exemption is necessary or appropriate in the public interest, and is consistent with the protection of investors.

§ 240.17g-4 Prevention of misuse of material nonpublic information.

The written policies and procedures a nationally recognized statistical rating organization ("rating organization") establishes, maintains, and enforces to prevent the misuse of material nonpublic information in accordance with section 15E(g)(1) of the Act (15 U.S.C. 78o-7(g)(1)) must include:

(a) Procedures designed to prevent the inappropriate dissemination by the rating organization within and outside the rating organization of material nonpublic information obtained in connection with the performance of credit rating services;

(b) Procedures designed to prevent a person associated with the rating organization or any member of an associated person's ~~household~~immediate family from purchasing, selling, or otherwise benefiting from any transaction in securities or money market instruments when the person possesses or has access to material nonpublic information obtained in connection with the performance of credit rating services that affects the securities or money market instruments; and

(c) Procedures designed to prevent the inappropriate dissemination by the rating organization within and outside the rating organization of a pending credit rating action prior to making the action readily accessible.

(d) The requirements of this section shall not apply with respect to (i) persons associated with a rating organization, provided that the rating organization maintains firewalls precluding such associated persons from engaging in credit rating-related activity; and (ii) the use of material non-public information in aggregate form, provided that the source of the information and the company to which it relates, are not disclosed.

§ 240.17g-5 Conflicts of interest.

(a) It shall be unlawful for a nationally recognized statistical rating organization ("rating organization") or a person associated with the rating organization to have a conflict of interest relating to the issuance of a credit rating identified in paragraph (b) of this section, unless:

(1) The rating organization has disclosed the type of conflict of interest on Form NRSRO in accordance with section 15E(a)(1)(B)(vi) of the Act (15 U.S.C. 78o-7(a)(1)(B)(vi)); and

(2) The rating organization has implemented policies and procedures to address and manage conflicts of interest in accordance with section 15E(h) of the Act (15 U.S.C. 78o-7(h)).

(b) Conflicts of interest. For purposes of this section, each of the following is a conflict of interest:

(1) Receiving compensation for any type of service or product from a person that is subject to a pending or issued credit rating of the rating organization.

(2) Owning securities (except government-issued securities or securities owned by virtue of holdings in a mutual fund or similar investment vehicle) or money market instruments of a person that is subject to a pending or issued credit rating of the rating organization.

(3) ~~Receiving compensation from a subscriber that uses the credit ratings of the rating organization for regulatory purposes.~~

~~(4) Owning securities or money market instruments of, or having any other form of ownership interest in, a subscriber that uses the credit ratings of the rating organization for regulatory purposes.~~

~~(5) Having any other business, personal, or ownership relationship or affiliation with a person that is subject to a credit rating of the rating organization, an underwriter of securities or money market instruments rated by the rating organization, or a subscriber that uses the credit ratings of the rating organization for regulatory purposes. (6)~~ Being an officer or director of a person that is subject to a credit rating of the rating organization, or an underwriter of securities or money market instruments rated by the rating organization~~, or a subscriber that uses the credit ratings of the rating organization for regulatory purposes~~.

(~~7~~4) Any other type of conflict of interest identified by the rating organization on Form NRSRO in accordance with section 15E(a)(1)(B)(vi) of the Act (15 U.S.C. 78o-7(a)(1)(B)(vi)).

~~(c) Prohibited conflicts. It shall be unlawful for a rating organization to have a conflict of interest relating to the issuance of a credit rating in the following circumstances: (1~~5) The rating organization issues or maintains a credit rating solicited by a person that, in the most recently ended fiscal year, provided the rating organization and its affiliates with net revenue (as determined under §240.17g-3) equaling or exceeding 10% of the total net revenue of the rating organization and its affiliates for the year;

(~~2~~6) The rating organization issues or maintains a credit rating with respect to a person where the rating organization, a credit analyst who participated in determining the credit rating, or a person associated with the rating organization responsible for approving the credit rating, owns securities of, or has any other ownership interest in, the rated person or is a borrower or lender with respect to the rated person (excluding ordinary course financial relationships such as, without limitation, ordinary course banking and insurance relationships);

(~~3~~7) The rating organization issues or maintains a credit rating with respect to a person associated with the rating organization; or

(~~4~~8) The rating organization issues or maintains a credit rating where a credit analyst who participated in determining the credit rating, or a person associated with the rating organization responsible for approving the credit rating, is also an officer or director of the person that is subject to the credit rating.

(c) Notwithstanding any portion of paragraph (b), the activities of an affiliate of, or person associated with, a rating organization, shall not constitute a conflict of interest provided that the rating organization maintains firewalls precluding such affiliates and associated persons from engaging in credit rating-related activity.

§ 240.17g-6 Prohibited acts and practices.

(a) Prohibitions. It shall be unlawful for a nationally recognized statistical rating organization ("rating organization") to engage in any of the following unfair, coercive, or abusive practices:

(1) Conditioning or threatening to condition the issuance of a credit rating on the purchase by an obligor or issuer, or an affiliate of the obligor or issuer, of any other services or products, including pre-credit rating assessment products, of the rating organization or any person associated with the rating organization.

(2) Issuing, or offering or threatening to issue, a credit rating that is not determined in accordance with the rating organization's established procedures and methodologies for determining credit ratings, based on whether the rated person, or an affiliate of the rated person, purchases or will purchase the credit rating or any other service or product of the rating organization or any person associated with the rating organization.

(3) Modifying, or offering or threatening to modify, a credit rating in a manner that is contrary to the rating organization's established procedures and methodologies for modifying credit ratings based on whether the rated person, or an affiliate of the rated person, purchases or will purchase the credit rating or any other service or product of the rating organization or any person associated with the rating organization.

~~(4) Issuing or threatening to issue a lower credit rating, or lowering or threatening to lower an existing credit rating, or refusing to issue a credit rating or withdrawing a credit rating, with respect to securities or money market instruments issued by an asset pool or as part of any asset-backed or mortgage-backed securities transaction, unless a portion of the assets which comprise the asset pool or the asset-backed or mortgaged-backed securities also are rated by the rating organization. The prohibitions on refusing to issue a credit rating or withdrawing a credit rating shall not apply if the rating organization has rated less than 85% of the market value of the assets underlying the asset pool or the asset-backed or mortgage-backed securities.~~

~~(5) Issuing an unsolicited credit rating and communicating with the rated person to induce or attempt to induce the rated person to pay for the credit rating or any other service or product of the rating organization or a person associated with the rating organization.~~

~~(b) A rating organization refusing to issue a credit rating or withdrawing a credit rating with respect to an asset pool or the asset-backed or mortgaged-backed security must document in writing the reason for the refusal or withdrawal.~~

(4) Attempting to coerce a rated person to pay for an unsolicited rating; except that nothing in this section shall prohibit a rating organization or its employees from otherwise communicating freely or engaging in business relations with issuers, underwriters, or obligors that have been the subject of an unsolicited rating.

* * * * *

FORM NRSRO INSTRUCTIONS

A. GENERAL INSTRUCTIONS.

1. Form NRSRO is the Application for Registration as a Nationally Recognized Statistical Rating Organization ("NRSRO") under Section 15E of the Securities Exchange Act of 1934 ("Exchange Act"). Exchange Act Rule 17g-1 requires credit rating agencies to use Form NRSRO to submit an INITIAL APPLICATION to apply to register with the U.S. Securities and Exchange Commission ("Commission") as an NRSRO, to submit updated information as required by Section 15E(b)(1) of the Exchange Act as an AMENDMENT to Form NRSRO, and to submit the ANNUAL CERTIFICATION required by Section 15E(b)(2) of the Exchange Act.

2. Exchange Act Rule 17g-1(c) requires a credit rating agency to promptly furnish the Commission with a written notice if information submitted on an INITIAL APPLICATION, including exhibits and attachments, is found to be or becomes materially inaccurate before the Commission has granted or denied the application. The notice must describe the circumstances in which the information was found to be materially inaccurate, and the credit rating agency must promptly update the application with accurate information by furnishing the Commission with an amended INITIAL APPLICATION on Form NRSRO.

3. An INITIAL APPLICATION will be considered furnished to the Commission on the date the Commission receives a complete and properly executed Form NRSRO. Section 15E(a)(2) of the Exchange Act prescribes time periods and requirements for the Commission to grant or deny the application after it has been furnished to the Commission.

4. Type or clearly print all information. Provide the name of the credit rating agency and the date on each page. Use only the current version of Form NRSRO or a reproduction of it.

5. Mark each page of information that is submitted on a confidential basis "Confidential." The Commission will accord that information confidential treatment to the extent permitted by law.

6. Section 15E of the Exchange Act (15 U.S.C. 78o-7) authorizes the Commission to collect the Information on this form from Applicants and NRSROs. The principal purpose of this form is to determine whether an Applicant should be granted registration as an NRSRO and, once registration is granted, whether a credit rating agency continues to meet the criteria

for registration as an NRSRO. Intentional misstatements or omissions constitute federal criminal violations under 18 U.S.C. 1001.

The information collection is in accordance with the clearance requirements of Section 3507 of the Paperwork Reduction Act of 1995 (44 U.S.C. 3507). The Commission may not conduct or sponsor, and you are not required to respond to, a collection of information unless it displays a valid Office of Management and Budget (OMB) control number. The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is displayed on the facing page of this form. Send comments regarding this burden estimate or suggestions for reducing the burden to Director, Office of Information Technology, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The information contained in this form is part of a system of records subject to the Privacy Act of 1974, as amended (5 U.S.C. 552a). The Commission has published in the Federal Register the Privacy Act Systems of Records Notice for these records, and the Commission may make "routine use" disclosure of the information as outlined under the Notice.

7. Exchange Act Rule 17g-2(b)(9) requires a credit rating agency to retain copies of all information and documents submitted to the Commission with Form NRSRO These records must be made available for inspection upon a regulatory request.

8. ADDRESS -The mailing address for Form NRSRO is:

U. S. Securities and Exchange Commission Form NRSRO Mailbox Mail Stop 100 F Street, NE Washington, DC 20549-

B. INSTRUCTIONS FOR INITIAL APPLICATIONS

1. Check the appropriate box at the top of Form NRSRO;

2. All Items must be answered and all required responses must be complete. Enter "None" or "N/A" where appropriate;

3. Provide all required information and attachments, including undertakings, exhibits, certifications, and Disclosure Reporting Pages, as applicable;

4. If information submitted, including exhibits and attachments, is found to be or becomes materially inaccurate before the Commission approves the application, promptly furnish the Commission with accurate information, pursuant to Rule 17g-1(c); and

5. Execute the Form.

C. INSTRUCTIONS FOR AMENDMENTS

1. Submit an AMENDMENT to Form NRSRO in order to:

a. Promptly provide accurate information to the Commission in the event that information on the current Form NRSRO, on any Disclosure Reporting Page (NRSRO), or on

Exhibits 2 through 9 becomes materially inaccurate, pursuant to Section 15E(b)(1) of the Exchange Act; or

b. Change the scope of an existing registration to add a class of credit ratings.

2. To submit an AMENDMENT:

a. Check the appropriate box at the top of Form NRSRO and briefly describe the nature of the amendment;

b. Complete Items 1, 2, 4, 5, 7, 8 (with Disclosure Reporting Pages, as applicable), and update, as required, Exhibits 2 through 9, to provide accurate information. (Do not update or attach Exhibits 2 through 9 if the information in them remains materially accurate.) If applying to change the scope of an existing registration, complete Item 6. An NRSRO is not required to update certifications by qualified institutional buyers. (See instructions for Item 6 below.); and

c. Execute the Form.

D. INSTRUCTIONS FOR ANNUAL CERTIFICATIONS

1. Submit an ANNUAL CERTIFICATION on Form NRSRO within 90 days after the end of each calendar year, in accordance with Section 15E(b)(2) of the Exchange Act;

2. Check the appropriate box at the top of Form NRSRO;

3. Complete and update, as required, Items 1, 2, 4, 5, 7, 8 (with Disclosure Reporting Pages, as applicable), and update, as required, Exhibits 2 through 9, to provide accurate and complete information;

4. Update Exhibit 1;

5. Attach a list of all AMENDMENTs submitted during the previous calendar year; and

6. Execute the Form.

E. INSTRUCTIONS FOR SPECIFIC LINE ITEMS

Item 1E. The individual listed as the contact person must be authorized to receive all communications from the Commission and must be responsible for their dissemination within the credit rating agency's organization.

Item 3. Exchange Act Rule 17g-4(c) requires a non-resident rating organization to undertake to provide books and records upon Commission request. The undertaking must be signed by a person duly authorized by the credit rating agency, must be attached to the INITIAL APPLICATION, must be marked "Non-Resident Books and Records Undertaking," and must be in substantially the following form:

"Upon a request by the U.S. Securities and Exchange Commission ("Commission") and its representatives, [the rating organization] will furnish at its own expense to the Commission and its representatives, at its principal office in Washington, D.C., an accurate copy of any book(s) or record(s) which [the rating organization] is required to make, keep current, retain, or produce to the Commission pursuant to any provision of the Securities Exchange Act of 1934 or any regulation under that Act. [The rating organization] will produce the requested copy of the book(s) or record(s), ~~in a form acceptable to~~ and the Commission and its representatives, ~~including~~ may request translation into English, within 14 days of receiving the request or within a longer period of time if the Commission consents to that longer time period.
Signature"

Item 4. Section 15E(j) of the Exchange Act requires an NRSRO to designate a compliance officer responsible for administering the policies and procedures of the credit rating agency established pursuant to Sections 15E(g) and (h) of the Exchange Act (respectively, to prevent the misuse of material nonpublic information and address and manage conflicts of interest) and for ensuring compliance with applicable securities laws, rules, and regulations.

Item 5. Section 15E(a)(3) of the Exchange Act and Exchange Act Rule 17g-1(d) require a credit rating agency to make certain information and documents submitted to the Commission publicly available on its Web site or through another comparable, readily accessible means within 5 business days of the date of the Commission order granting the application for registration as an NRSRO, and, subsequently, within 5 business days of furnishing an amended Form NRSRO to the Commission. All information and documents submitted to the Commission in the completed INITIAL APPLICATION, any AMENDMENT, and the ANNUAL CERTIFICATION must be made publicly available except Exhibits 10 through 13, the certifications from qualified institutional buyers, and the non-resident undertaking. Describe in detail how that information will be made readily accessible. If the information and documents will be posted on the credit rating agency's Web site, for example, give the Internet address and link to the information and documents.

Item 6. Complete Item 6 only if submitting an INITIAL REGISTRATION or changing the scope of an existing registration to add a class of credit ratings.

Item 6A. Pursuant to Section 15E(a)(1)(B)(vii) of the Exchange Act, a credit rating agency applying for registration as an NRSRO must disclose in the application the classes of credit ratings for which the credit rating agency is applying to be registered. Indicate these classes by checking the appropriate box or boxes. Pursuant to the definition of "nationally recognized statistical rating agency" in Section 3(a)(62) of the Exchange Act, a credit rating agency must have been in business as a credit rating agency for at least the 3 consecutive years immediately preceding the date of its application for registration as an NRSRO. For each class of credit ratings, provide the approximate number of ratings the credit rating agency currently has outstanding and the number of consecutive years immediately preceding the date of the application that the credit rating agency has issued ratings as a credit rating agency, as defined in Section 3(a)(61) of the Exchange Act, with respect to that class.

Item 6B. Pursuant to Section 3(a)(61)(A) of the Exchange Act, a "credit rating agency" issues "credit ratings on the Internet or through another readily accessible means, for free or for a

reasonable fee." Briefly describe how the credit rating agency makes the credit ratings in the classes indicated in Item 6A readily accessible for free or for a reasonable fee.

Item 6C. Section 15E(a)(1)(B)(ix) of the Exchange Act requires that an application for registration as an NRSRO include written certifications from qualified institutional buyers, as defined in paragraph Section 3(a)(64) of the Exchange Act, except that, under Section 15E (a)(1)(D), a credit rating agency is not required to submit these certifications if it has received or been the subject of a no-action letter from Commission staff prior to August 2, 2006 stating that the staff would not recommend enforcement action to the Commission against any broker or dealer that uses credit ratings issued by the credit rating agency to compute capital charges under Exchange Act Rule 15c3-1. If the credit rating agency is required to submit certifications, paragraph Section 15E(a)(1)(C) of the Exchange Act requires the credit rating agency to submit a minimum of 10 certifications from qualified institutional buyers, none of which is affiliated with the credit rating agency. Each certification may address more than one class of credit ratings. Of the submitted certifications, at least two must address each class of credit rating identified in Item 6A under "Applying for Registration." If this is an AMENDMENT to an existing registration to add one or more classes of credit ratings to the scope of its NRSRO registration, the NRSRO must submit at least two certifications that address each additional class of credit ratings. The required certifications must be signed by a person duly authorized by the certifying entity, must be notarized, must be marked "Certification from Qualified Institutional Buyer," and must be in substantially the following form:

"I, [Executing official], am authorized by [Certifying entity] to execute this certification on behalf of [Certifying entity]. I certify that all actions by stockholders, directors, general partners, and other bodies necessary to authorize me to execute this certification have been taken and that [Certifying entity]:

(i) Meets the definition of a 'qualified institutional buyer' as set forth in section 3(a)(64) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(64)) pursuant to following subsection(s) of 17 CFR 230.144A(a)(1) [insert applicable citations];

(ii) Has seriously considered the credit ratings of [the credit rating agency] in the course of making investment decisions for at least the three years immediately preceding the date of this certification, in the following classes of credit ratings: [Applicable classes of credit ratings]; and

(iii) Has not received compensation either directly or indirectly from [the credit rating agency] for executing this certification.

_____

Signature"

The certifications should be marked "Confidential," and the Commission will accord them confidential treatment to the extent permitted by law. A credit rating agency is not required to make them publicly available.

Item 7. Check the appropriate boxes indicating the classes of credit ratings for which the credit rating agency is currently registered as an NRSRO. Complete other parts of this Item according to the instructions for Item 6.

Item 8. Answer each question by checking the appropriate box. Information that relates to an affirmative answer must be provided on a Disclosure Reporting Page (NRSRO) and attached to Form NRSRO. The Disclosure Reporting Page (NRSRO) is attached to these instructions.

Item 9. Exhibits. Section 15E(a)(1)(B) of the Exchange Act requires an application for registration as an NRSRO to contain certain specific information and documents and, pursuant to Section 15E(a)(1)(B)(x), any other information and documents concerning the applicant and any person associated with the applicant that the Commission requires as necessary or appropriate in the public interest or for the protection of investors.

A. INITIAL APPLICATION. An INITIAL APPLICATION must include Exhibits 1 through 13.

B. AMENDMENT. Update Exhibits 2 through 9 promptly with new information and documents whenever the existing information or documents contained in the exhibit becomes materially inaccurate (see Section 15E(b)(1) of the Exchange Act). Do not update Exhibits 10 through 13 after registration is granted.

C. ANNUAL CERTIFICATION. Section 15E(b)(2) of the Exchange Act requires an NRSRO to certify annually that the information and documents attached to Form NRSRO are accurate and to list any material changes that occurred to the information and documents during the previous year. Section 15E(b)(1) of the Exchange Act requires that an NRSRO amend the information provided with Exhibit 1 in the ANNUAL CERTIFICATION.

D. If any information or document required to be included with any exhibit is maintained in a language other than English, provide both the original document (or a true and complete copy of the original document) and a version of the document translated into English. Attach a certification by an authorized person that the translated version is a true, accurate, and complete English translation of the information or document.

E. Attach exhibits to Form NRSRO in numerical order. Bind each exhibit separately, and mark each exhibit or bound volume of the exhibit with the appropriate exhibit number. The information provided in the exhibits must be sufficiently detailed to allow for verification. The information and documents required to be provided in Exhibits 1 through 9 must be made publicly available (see Item 5); the information and documents required to be provided in Exhibits 10 through 13 should be marked "Confidential." The Commission will accord them confidential treatment to the extent permitted by law. The credit rating agency is not required to make them publicly available.

Exhibit 1. This exhibit must include credit ratings performance measurement statistics over short-term, mid-term, and long-term periods (as applicable) of the credit rating agency through the most recent calendar year-end, including, as applicable: historical down-grade and default rates within each credit rating category (ranking) of the credit rating agency. As part of this exhibit, define the credit ratings used by the credit rating agency and explain the performance measurement statistics, including the metrics used to determine the statistics.

Exhibit 2. This exhibit must include the general procedures and methodologies that the credit rating agency uses to determine credit ratings, including unsolicited credit ratings. The

procedures and methodologies furnished in this exhibit should include, as applicable: policies for determining whether to initiate a credit rating; a description of the public and non-public sources of information used in determining credit ratings, including information and analysis provided by third-party vendors; a description of any quantitative and qualitative models and metrics used to determine credit ratings; procedures for interacting with the management of a rated obligor or issuer of rated securities or money market instruments; the structure and voting process of committees that review or approve credit ratings; procedures for informing rated obligors or issuers of rated securities or money market instruments about credit rating decisions and for appeals of final or pending credit rating decisions; procedures for monitoring, reviewing, and updating credit ratings; and procedures to withdraw, or suspend the maintenance of, a credit rating. Exhibit 2 need not include specific analytic criteria utilized by the rating organization in particular analyses.

For purposes of this exhibit: Unsolicited credit rating means a credit rating that the credit rating agency determines without being requested to do so by the issuer or underwriter of the rated securities or money market instruments or the rated obligor.

Exhibit 3. This exhibit must include policies or procedures established, maintained, and enforced by the credit rating agency to prevent the misuse of material, nonpublic information as required by Section 15E(g) of the Exchange Act and 17 CFR 240.17g-4.

Exhibit 4. This exhibit must include a description of the organizational structure of the credit rating agency, including, as applicable, an organizational chart that identifies the credit rating agency 's ultimate and sub-holding companies, subsidiaries, and material affiliates; an organizational chart showing the divisions, departments, and business units of the credit rating agency; and an organizational chart showing the managerial structure of the credit rating agency, including the designated compliance officer identified in Item 4.

Exhibit 5. This exhibit must include a copy of the written code of ethics in effect at the credit rating agency or a statement of the reasons why the credit rating agency does not have a written code of ethics.

Exhibit 6. This exhibit must identify in general terms the types of conflicts of interest relating to the issuance of credit ratings by the credit rating agency including, as applicable: whether the credit rating agency receives compensation from rated obligors, issuers of rated securities or money market instruments, and underwriters of rated securities or money market instruments to determine or maintain a credit rating and for other services (identify the services); whether an affiliate of the credit rating agency owns securities of, or has any other form of ownership interest in, ~~a~~ rated ~~obligor, issuer~~obligors, issuers of rated securities or money market instruments, ~~or underwriter of rated securities or money market instruments; whether the credit rating agency~~and underwriters of rated securities or money market instruments (but not including ownership of government-issued securities or securities held in a mutual fund or similar investment vehicle); whether the credit rating agency's employees are permitted to own securities of a rated obligor or issuer of rated securities or money market instruments~~; whether the credit rating agency receives compensation from entities that use its credit ratings for regulatory purposes and for other services (identify the services); whether the credit rating agency, or an affiliate, owns securities of, or has any other form of ownership interest in, an entity that uses credit ratings for regulatory purposes; whether the credit rating~~

~~agency's employees are permitted to own securities of an entity that uses credit ratings for regulatory purposes~~ (but not including ownership of government-issued securities or securities held in a mutual fund or similar investment vehicle); and whether the credit rating agency, its affiliates, or its employees have any other business relationship or affiliation with a rated obligor, issuer of rated securities or money market instruments~~,~~; or underwriter of rated securities ~~or money market instruments, or entity that uses credit ratings for regulatory purposes.~~(excluding ordinary course financial relationships such as, without limitation, ordinary course banking and insurance relationships). In addition, identify each entity that is an underwriter of rated securities or money market instruments ~~or that uses credit ratings for regulatory purposes~~ that is also a person associated with the credit rating agency.

Exhibit 6 need not include disclosures related to affiliates of, or persons associated with, a rating agency, provided that the rating agency maintains firewalls precluding such affiliates and associated persons from engaging in credit rating-related activity.

Exhibit 7. This exhibit must include the written policies and procedures established, maintained, and enforced by the credit rating agency pursuant to Section 15E(h) of the Exchange Act to address and manage conflicts of interest.

Exhibit 8. This exhibit must include ~~the following~~ information, in aggregate or summary form, regarding ~~each of~~ the credit rating agency's credit analysts ~~and each officer and employee of the credit rating agency~~, officers and other employees responsible for supervising the credit rating agency's credit analysts, including:

* ~~Name.~~
~~* Title and brief description of responsibilities, including whether a supervisor. *~~
Employment ~~history.~~ experience.
* ~~Post~~Educational background, including information about undergraduate and post-secondary education.
* Whether ~~employed by~~ the credit rating agency employs full-time (at least 35 hours per week) or part-time.

For purposes of this exhibit: Credit analyst means an individual associated with the credit rating agency who is responsible for determining a credit rating using either a quantitative model, a qualitative model and analysis, or a combination of these methods.

Exhibit 9. This exhibit must include ~~the following~~ information, in aggregate or summary form, about the credit rating agency's designated compliance officer (identified in Item 4) and any other persons that assist the designated compliance officer in carrying out the responsibilities set forth in Section 15E(j) of the Exchange Act:

* ~~Name.~~
~~* Title and brief description of responsibilities. *~~ Employment ~~history.~~ experience.
* ~~Post~~ Educational background, including information about undergraduate and post-secondary education.
* Whether ~~employed by~~ the credit rating agency employs compliance personnel full-time (at least 35 hours per week) or part-time.

Exhibit 10. This exhibit must include a list of the largest customers that used credit rating services provided by the credit rating agency by the amount of net revenue received by the credit rating agency and its affiliates from the customer during the fiscal year ending immediately before the date the credit rating agency submits an INITIAL APPLICATION. In making this list, the credit rating agency should first determine the 20 largest issuer and subscriber customers in terms of net revenue received by the credit rating agency and its affiliates from the issuer or subscriber. Next, the credit rating agency should add to the list any obligor or underwriter that used credit rating services provided by the credit rating agency if the net revenue received by the credit rating agency and its affiliates from the obligor or underwriter during the fiscal year equaled or exceeded the net revenue received from the 20th largest issuer or subscriber. In making the list, rank the customers from largest to smallest and include the net revenue amount for each customer.

For purposes of this exhibit:

Net revenue means all ~~fees, sales proceeds, commissions, and other revenue received by the credit rating agency and its affiliates for any type of service or product, regardless of whether related to credit rating services, and net of any fees, sales proceeds, rebates, and other monies paid to the customer by the credit rating agency and its affiliates; and~~ net fees invoiced by a rating organization globally for services directly related to credit ratings.

Credit rating services means any of the following: rating an obligor (regardless of whether the obligor or any other person paid for the credit rating); rating an issuer's securities or money market instruments (regardless of whether the issuer, underwriter, or any other person paid for the credit rating); and providing credit ratings to a subscriber.

Exhibit 11. This exhibit must include financial statements of the credit rating agency, which must include a balance sheet, an income statement and statement of cash flows, and a statement of changes in owners' equity, audited by an independent public accountant, for each of the three fiscal or calendar years ending immediately before the date it submits an INITIAL APPLICATION to the Commission, subject to the following:

If the credit rating agency is a division, unit, or subsidiary of a parent company, the credit rating agency can provide audited consolidated and consolidating financial statements of the parent company. If the credit rating agency does not have audited financial statements for one or more of the three fiscal or calendar years ending immediately before the date it submits an INITIAL APPLICATION to the Commission, it can provide unaudited financial statements for the applicable year or years, but the credit rating agency must provide audited financial statements for the fiscal or calendar year ending immediately before the date it submits an INITIAL APPLICATION to the Commission. The credit rating agency must attach to the unaudited financial statements a certification by a person duly authorized by the credit rating agency to make the certification that the person has responsibility for the financial statements and that to the best knowledge of the person making the certification the financial statements fairly present, in all material respects, the financial condition, results of operations, and cash flows of the rating organization for the period presented.

Exhibit 12. ~~This exhibit must include the following information, as applicable, regarding the credit rating agency's aggregate revenues for the fiscal or calendar year ending immediately before the date it furnishes an INITIAL APPLICATION to the Commission:~~

~~* Revenue from determining and maintaining credit ratings;~~
~~* Revenue from subscribers;~~
~~* Revenue from granting licenses or rights to publish credit ratings;~~
~~* Revenue from determining credit ratings that are not made readily accessible (private ratings); and~~
~~* Revenue from all other services and products offered by the rating organization (include descriptions of any major sources of revenue).~~ **~~Exhibit 13.~~** This exhibit must include the total and median annual compensation of the credit rating agency's credit analysts.

F. EXPLANATION OF TERMS. For purposes of Form NRSRO, the following definitions and descriptions apply:

1. COMMISSION - The U. S. Securities and Exchange Commission.

2. CREDIT RATING - An assessment of the creditworthiness of an obligor as an entity or with respect to specific securities or money market instruments [Section 3(a)(60) of the Exchange Act].

3. CREDIT RATING AGENCY [Section 3(a)(61) of the Exchange Act] - Any person: engaged in the business of issuing credit ratings on the Internet or through another readily accessible means, for free or for a reasonable fee, but does not include a commercial credit reporting company; employing either a quantitative or qualitative model, or both to determine credit ratings; and receiving fees from either issuers, investors, and/or other market participants.

4. NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION [Section 3(a)(62) of the Exchange Act] - A credit rating agency that:

* has been in business as a credit rating agency for at least the 3 consecutive years immediately preceding the date of its application for registration as an NRSRO;

* issues credit ratings certified by qualified institutional buyers with respect to:

    * financial institutions, brokers, or dealers;
    * insurance companies;
    * corporate issuers;
    * issuers of asset-backed securities;
    * issuers of government securities, municipal securities, or securities issued by a foreign government; or
    * a combination of one or more of the above; and
    * is registered as an NRSRO.

5. NON-RESIDENT RATING ORGANIZATION [Exchange Act Rule 17g-4(a)] - A nationally recognized statistical rating organization that:

* If a corporation, is incorporated in or has its principal office in, a location outside the United States, its territories, or possessions;

* If a partnership or other unincorporated organization or association, has its principal office in a location outside the United States, its territories, or possessions.

6. PERSON - An individual, partnership, corporation, trust, limited liability company, or other organization.

7. PERSON ASSOCIATED WITH THE CREDIT RATING AGENCY - Any partner, officer, director, or branch manager of the credit rating agency (or any person occupying a similar status or performing similar functions), any person directly or indirectly controlling, controlled by, or under common control with a credit rating agency, or any employee of a an credit rating agency [Section 3(a)(63) of the Exchange Act].

Persons otherwise meeting the definition of PERSON ASSOCIATED WITH THE CREDIT RATING AGENCY shall not be considered as such if the rating agency maintains firewalls precluding such persons from engaging in credit rating-related activity.

8. QUALIFIED INSTITUTIONAL BUYER - An entity listed in 17 CFR 230.144A(a) that is not affiliated with the credit rating agency [Section 3(a)(64) of the Exchange Act].