PIMCO

840 Newport Center Drive
Newport Beach, CA 92660
Tel: 949.720.6000
Fax: 949.720.1376

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

Ref: File Number S7-04-07

Dear Ms. Morris:

We write to comment on Proposed Rule 17g-6 implementing certain provisions of the Credit Rating Agency Reform Act of 2006 (the "Act") concerning prohibited unfair, coercive, or abusive practices.

We agree with the Commission's preliminary determination that it is unfair, coercive, or abusive for a NRSRO to issue or threaten to issue a lower credit rating, lower or threaten to lower an existing credit rating, refuse to issue a credit rating, or to withdraw a credit rating with respect to a structured finance product unless a portion of the assets underlying the structured product also are rated by the NRSRO. Prohibiting such practices will increase competition within the credit ratings market. Investors in structured finance products will also benefit from increased choice among investment opportunities.

We understand that Proposed Rule 17g-6 is intended to further Congress' goal of fostering accountability, transparency, and competition in the credit rating agency industry by banning all forms of the practice commonly known as "notching" within the structured finance industry. We fully support this objective.

It is imperative, however, to recognize that there are two distinct components to the practice of "notching". As a condition of rating the portfolio of an investment vehicle (such as a collateralized debt obligation (CDO) or Structured Investment Vehicle (SIV)), rating agencies that engage in notching require that they rate a minimum percentage of the securities in the portfolio (typically, 80% or more of the portfolio and in certain cases 100%). When rating the portfolio of an investment vehicle, these same rating agencies also insist on arbitrarily reducing or "notching" the ratings assigned to that portion of the securities in the portfolio not rated by them by as much as three to four "notches" or rating categories (for example, reducing an investment grade "BBB" rating on a security to "BB" or below investment grade).

This two-pronged practice severely restricts the competition for ratings on securities that CDOs, SIVs, money market mutual funds or other investment vehicles typically buy. There is a significant expense to an investment vehicle when a rating by one rating agency on one or more of the securities in its portfolio is reduced or "notched" by another rating agency. Consequently, CDOs, SIVs, money market mutual funds and other investment vehicles generally will buy securities only if they are rated by the rating agencies that engage in notching. Issuers of securities typically bought by the investment vehicles are thus compelled to purchase ratings only from the agencies that engage in notching.

While we believe that the prohibition set out in paragraph (a)(4) of Proposed Rule 17g-6 is meant to prohibit both components of notching, we understand that certain rating agencies are arguing that the exception set out in paragraph (a)(4) of Proposed Rule 17g-6 can be construed only to limit the first component of "notching" without limiting the second. Under the exception, a NRSRO may refuse to issue a credit rating to, or withdraw a credit rating of, a structured product if the NRSRO has rated less than 85% of the market value of the assets underlying the structured product. The required minimum percentage that a NRSRO may demand to rate is thus capped at 85%. There is, however, no express prohibition on arbitrarily reducing ratings assigned by other agencies or, through some other indirect means, effectively requiring that more than 85% of the underlying securities be rated by the NRSRO. If NRSROs can construe the proposed exception to permit them to continue to arbitrarily reduce other agencies' ratings, or to allow them through other indirect means to force bond issuers to buy their ratings, Proposed Rule 17g-6 will have minimal, if any, affect on abusive credit ratings practices within the structured finance market. We therefore urge the Commission to modify the proposed rule expressly to prohibit NRSRSOs from arbitrarily reducing or "notching" other agencies' ratings, and from using any other direct or indirect means to require that more than the maximum threshold of an investment vehicles' portfolio be rated by them.

While we support the prohibition of "notching" practices contemplated under the Proposed Rule 17g-6, we are concerned by the proposed exception to the prohibition set out in paragraph (a)(4) of Proposed Rule 17g-6. Under the exception, a NRSRO may refuse to issue a credit rating to, or withdraw a credit rating of, a structured product if the NRSRO has rated less than 85% of the market value of the assets underlying the structured product. We believe the threshold provided under the exception needs to be lowered in order for abusive practices within the credit ratings market to be effectively constrained.

Our concerns with the proposed exception are two-fold:

First, the proposed exception imposes a continued barrier to entry inconsistent with the Act. The 85% threshold allows the largest credit agencies to continue to suppress competition by compelling structured finance products to buy securities that carry their ratings; otherwise they may not be able to obtain a rating. Congress demanded an end to such abusive practices, recognizing that increased competition within the credit ratings market leads to increased responsiveness of the rating agencies to the needs of financial market participants, and to greater accuracy and comprehensiveness of available information.

Second, there is no analytic justification for the proposed 85% threshold. A rating agency should not be able to impose an arbitrary requirement that structured finance securities purchased by asset pools or as part of any asset- or mortgage-backed securities transaction bear that agency's rating. That is unfair to the market.

The proposed exception means that credit ratings will continue to drive asset selection, rather than simply assess credit quality, causing market participants to miss out on investment opportunities. Market participants benefit from real choice among credit rating agencies. We therefore urge you to modify the exception to the prohibition set out in Proposed Rule 17g-6 by reducing the 85% threshold to no higher than 66% to allow the increased competition that Congress demanded.

We would be happy to discuss out comments with you in greater detail at your convenience.

Sincerely,

Daniel Ivascyn
Managing Director