



June 1, 2009

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

Subject: File Number 4-579 and S7-04-09

Dear Ms. Murphy:

Financial Executives International (FEI) enthusiastically welcomes the opportunity to comment and share our views on credit rating agencies and their regulatory oversight. FEI is a professional association representing the interests of 15,000 chief financial officers, treasurers, controllers, tax directors, and other senior financial executives from over 8,000 major companies throughout the United States and Canada. FEI represents both the providers and users of financial information.

Our members and their companies are broadly impacted by the assessments of credit rating agencies (CRAs), and therefore would like to see every effort made to continue to ensure fair, unbiased, transparent and accurate credit ratings. As corporate financial executives, credit rating actions can impact our member's companies as both issuers and buyers of corporate debt.

As part of their corporate finance plans, our members from large companies regularly issue debt (long-term and short-term) and manage multi-billion dollar debt portfolios. Credit rating actions directly and significantly impact these efforts by influencing the interest rate paid to debt investors.

In addition to managing their company's financing plans, many of our members are also responsible for their respective company's pension plans and investment accounts. Credit rating actions impact the valuations of these plans and accounts and can thereby influence and change cash flow directly in the short and long term. In certain examples, credit rating actions could create problematic liquidity issues.

FEI recognizes the continuing efforts of the Securities and Exchange Commission (SEC) in enhancing the regulation of CRAs including the Credit Rating Agency Reform Act of 2006 and related amendments, and most recently in hosting a Roundtable on April 15 to focus on the oversight of CRAs. We appreciate the steps taken thus far by the Commission to improve how CRAs function, but the current economic environment and challenges only emphasize the fact that additional improvements are still needed. Rating agencies have been the focus of scrutiny at many times in history, but especially most recently as their potential role in the current crisis is questioned.

Our letter will address several potential areas for improvement including the need for increased competition amongst CRAs, continued concern relative to conflict of interests inherent in the system including the model for CRA payment of services, as well as suggested changes to the letter grading system. The ultimate goal of these improvements is to restore trust and credibility in CRAs via a more transparent system.

The Need for Greater Competition Among Credit Rating Agencies

Many of the April 15 roundtable participants mentioned the need for increased competition between CRAs. We agree and recommend that when the Commission formulates further actions to oversee CRAs, it should take steps to consider policies that would facilitate greater competition in the CRA industry. Many CRAs face great obstacles in receiving the NRSRO distinction. We are not asserting that standards should be lowered to allow for more CRAs to be recognized, but instead that greater transparency within the process of becoming an NRSRO will promote competition and increase investor confidence.

We argue for the importance of competition for the marketplace because we believe it is necessary for investors and for our members who use the ratings to make important business decisions. We believe that if there are more CRAs with the NRSRO distinction, this will likely lead to more competitive pricing for those paying for the service. Competition may prove problematic in certain cases however. One might perceive certain CRAs as higher quality and hence price off that quality. In this case more may not be better, but more oversight may prove to be needed.

CRAs have been blamed for not recognizing the severe problems early enough for Enron and even today some blame CRAs for not identifying issues to the public and investors about the mortgage crisis. We recognize that while there should be accountability for the CRAs, at the same time, investors should value a company's rating as only one piece of the full financial picture they have of a company.

Another concern about CRAs is that they did not account for the auction rate market drying up and rendering these securities illiquid. This has been a complaint of investors, that they were not adequately warned about this issue before they made their investments.

Conflicts of Interest

The issue of conflicts of interest between CRAs and the companies they rate was also a topic that was discussed at length at the SEC April 15 roundtable. We wish to emphasize the importance of this issue as well. Potential conflict of interest is inherent in the relationship between the agency and its client and may influence ratings. We acknowledge the SEC's efforts in this specific area and we agree with the SEC's February 2, 2009 issuance of further amendments to Rule 17g-2 and Rule 17g-5 concerning further disclosure of requirements to conflict of interest scenarios.

More specifically, we agree with the SEC in its decision to amend Rule 17g-5(c) to prohibit further conflicts of interest including prohibiting CRAs from issuing a credit rating if a person associated with the CRA has made recommendations previously. We also agree with the amended rule which prohibits a CRA from issuing a credit rating where the fee paid for the rating was negotiated with the same person that was involved with issuing the credit rating.

FEI has previously noted the importance of minimizing conflicts of interest. FEI's past President and CEO, Colleen Cunningham, discussed the importance of this issue in her testimony before the U.S. Senate Committee on Banking, Housing and Urban Affairs on March 7, 2006.

We recommend that the SEC continue to monitor the various conflicts of interest that can arise with CRAs and continue to enforce rules that limit conflicts of interest and increase transparency in the ratings process.

We would also recommend that CRAs be required to meet at least once with the entity's board of directors or the company's relevant committee to review the entity's rating and the rating of issued debt. This will serve to keep the CRAs accountable for their ratings.

Long Term Payment

Another recommendation we have that we believe would help in improving CRAs is to institute a long term payment plan for CRAs. More specifically, under this scenario, rather than receive payment for their services all at once, the agency would instead be paid slowly over the course of a set amount of time. This form of payment would give CRAs greater long term incentive to be more thorough in their analysis as opposed to the potential "rubber stamping" that was prevalent related to the ratings of mortgage backed securities. Using this form of payment plan would likely focus the CRAs on the long term result of their letter grade vs. short term gain.

Conducting Rating Assessments

A final recommendation for improving the current CRA system is to eliminate the traditional letter grade system for CRAs. For example, an idea that has been discussed within the business community is to have agencies give estimates of the probability of default (PD) and loss given default (LGD) rather than letter grades. Using the numbers would result in more objective meaning than letter grades. With this system, we would also recommend that there should be a national standard for ratings that CRAs would adhere to. This would eliminate rating agencies from developing their own rating scheme.

More specifically, the Commission should consider a process for the oversight of NRSROs in a similar way to the Public Company Accounting Oversight Board's (PCAOB) oversight of the accounting firms. As you are aware, the PCAOB is required to conduct regular inspections of registered public accounting firms. These inspections are conducted annually for firms with over 100 issuers and at least triennially for firms that provide audit reports for fewer than 100 issuers. The Board then prepares a report about each inspection to the Commission with parts of the reports available to the public. The Commission could consider a similar review process for CRAs as a way of increasing oversight.

Restoring Trust and Credibility in the Credit Rating Agencies Via a More Transparent System

As discussed at the SEC April 15 Roundtable, the general public and investors have experienced a loss of trust in CRAs due to what many believe to be unreliable ratings leading up to the current economic crisis. In order to ameliorate this, we recommend that the SEC continue to improve the process for oversight over CRAs and that there be greater transparency in the reporting process. Investors and companies should be fully aware of the methodology and means by which the ratings are achieved. Also, as discussed above, we suggest a more formal program for annual reviews of CRAs.

In closing, we ask that the Commission continue its efforts in reforming the credit rating agency process. We believe that additional reform is necessary which has been highlighted by the challenges of the current economic environment. Our members would like to see every effort made to ensure fair, unbiased, transparent and accurate ratings. We hope that the recommendations and ideas we made in this comment letter are useful as the SEC considers how to further address the oversight of CRAs.

We appreciate the opportunity to comment on CRAs and appreciate the SEC's attention to this important matter. We look forward to continuing to work with you on this and on other issues. If you have any questions please contact Serena Dávila at sdavila@financialexecutives.org or at 202-626-7809.

Sincerely,

A handwritten signature in cursive script that reads "Christine DiFabio". The signature is written in black ink on a white background.

Christine DiFabio
Vice President, Advocacy and Accounting Policy
Financial Executives International