



February 4, 2011

VIA E-MAIL: rule-comments@sec.gov

Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090
Attn: Elizabeth M. Murphy, Secretary

Re: Release No. 34-63573; File No. 4-622
Credit Rating Standardization Study Required by Section 939(h) of the Dodd-Frank
Wall Street Reform and Consumer Protection Act of 2010

Ladies and Gentlemen:

The American Securitization Forum (“ASF”)¹ appreciates the opportunity to submit this letter in response to the request of the Securities and Exchange Commission (the “Commission”) for comments regarding Release No. 34-63573; File No. 4-622, dated December 17, 2010 (the “Request for Comment”),² relating to the study the Commission is required to undertake pursuant to Section 939(h) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank”). ASF supports appropriate reforms within the asset-backed securities (“ABS”) market and we commend the Commission for seeking industry input in connection with its study of this important issue. Over the past decade, ASF has become the preeminent forum for securitization market participants to express their views and ideas. ASF was founded as a means to provide industry consensus on market and regulatory issues, and we have established an extensive track record of providing meaningful comment to the Commission and other agencies on issues affecting our market. Our views as expressed in this letter are based on feedback received from our broad membership within the context of the securitization markets.

¹ The American Securitization Forum is a broad-based professional forum through which participants in the U.S. securitization market advocate their common interests on important legal, regulatory and market practice issues. ASF members include over 330 firms, including issuers, investors, servicers, financial intermediaries, rating agencies, financial guarantors, legal and accounting firms, and other professional organizations involved in securitization transactions. ASF also provides information, education and training on a range of securitization market issues and topics through industry conferences, seminars and similar initiatives. For more information about ASF, its members and activities, please go to www.americansecuritization.com.

² See <http://www.sec.gov/rules/other/2010/34-63573.pdf>.

Section 939(h) of Dodd-Frank (“Section 939(h)”)³ requires the Commission to undertake a study on whether the standardization of credit rating agency terminology and streamlining of certain quantitative measurements would be feasible and desirable. Consistent with Section 939(h), the Request for Comment asks the following four main questions:

1. Is it feasible and desirable to standardize credit ratings terminology, so that all credit rating agencies issue credit ratings using identical terms?
2. Is it feasible and desirable to standardize the market stress conditions under which credit ratings are evaluated?
3. Is it feasible and desirable to require a quantitative correspondence between credit ratings and a range of default probabilities and loss expectations under standardized conditions of economic stress?
4. Is it feasible and desirable to standardize credit rating terminology across asset classes, so that named credit ratings correspond to a standard range of default probabilities and expected losses independent of asset class and issuing entity?

As a general proposition, we believe that standardization of methodology and terminology used by credit rating agencies (“CRAs”) would not be desirable as users of credit ratings, in particular investors, benefit from a diversity of experience and methodologies. Increased uniformity may have the counterproductive effect of restricting the use of new information and changing economic conditions by CRAs as well as discouraging competition among CRAs. As a result, we believe uniformity would compromise the quality, accuracy and usefulness of credit ratings in the securitization market.⁴ Measures required to be adopted in response to Dodd-Frank that foster transparency of methodology used to derive credit ratings for ABS will, in our view, better serve investors by providing qualitative information helpful to understand the relevant credit

³ **SEC. 939. REMOVAL OF STATUTORY REFERENCES TO CREDIT RATINGS.**

(h) **STUDY AND REPORT.**—

(1) **IN GENERAL.**—Commission shall undertake a study on the feasibility and desirability of—

(A) standardizing credit ratings terminology, so that all credit rating agencies issue credit ratings using identical terms;

(B) standardizing the market stress conditions under which ratings are evaluated;

(C) requiring a quantitative correspondence between credit ratings and a range of default probabilities and loss expectations under standardized conditions of economic stress; and

(D) standardizing credit rating terminology across asset classes, so that named ratings correspond to a standard range of default probabilities and expected losses independent of asset class and issuing entity.

(2) **REPORT.**—Not later than 1 year after the date of enactment of this Act, the Commission shall submit to Congress a report containing the findings of the study under paragraph (1) and the recommendations, if any, of the Commission with respect to the study.

⁴ This letter does not specifically address the feasibility of standardizing ratings criteria because we do not think such standardization is desirable. However, we believe that the exercise of standardizing ratings criteria for any asset class, across asset classes and for new asset classes is most likely unworkable given the wide variations in the approach to credit ratings by each CRA and differences among performance characteristics of different assets. In addition, the process of ongoing standardization could limit the ability of CRAs to adapt their credit ratings methodology in a timely manner to changing market and economic conditions.

ratings.⁵ We also believe that greater standardization would not have helped prevent the economic crisis we have just experienced. Even though different views and methodologies for credit ratings may not necessarily prevent a similar crisis in the future, we believe that a diversity of views and methodologies, with appropriate transparency, across a competitive market for credit ratings would be more likely to avert a similar crisis than would a prescribed set of criteria employed by all CRAs.

1. Is it feasible and desirable to standardize credit ratings terminology, so that all credit rating agencies issue credit ratings using identical terms?

We believe that different credit ratings terminology appropriately reflects the differences that exist among quantitative models and qualitative assessments among CRAs. The standardization of ratings terminology could suggest to investors that there is a uniformity of views that is neither intended nor desired.⁶ We believe that it may also discourage investors from further inquiry. For similar reasons, we do not support changes to the symbols used by CRAs to rate structured finance products.⁷ CRAs should be able to use different credit terminology and unique symbols.⁸ Use of standardized symbols may imply a uniformity of underlying ratings criteria that both does not exist and is not desired by investors and other users, and may negatively impact the interpretation of credit ratings assigned to ABS.

2. Is it feasible and desirable to standardize the market stress conditions under which credit ratings are evaluated?

3. Is it feasible and desirable to require a quantitative correspondence between credit ratings and a range of default probabilities and loss expectations under standardized conditions of economic stress?

We believe that the standardization of credit ratings methodologies could deprive investors of the ability to consider diverse perspectives provided by multiple CRAs, thus inhibiting independent

⁵ In particular, see Section 932 of Dodd-Frank.

⁶ We note that Section 15E(c)(2) of the Securities Exchange Act of 1934 expressly limits the authority of the Commission to make rules with respect to credit rating procedures and methodologies, as follows: “Notwithstanding any other provision of this section, or 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 nationally recognized statistical rating organization determines credit ratings.” Dodd-Frank amended this section, among other reasons, to clarify that other changes to this section affected by Dodd-Frank were not intended to reverse this limitation.

⁷ This is not to suggest that changes in symbols used for credit ratings for structured finance products (but not to other securities rated by CRAs) would be desirable. Use of ABS-specific identifiers may suggest that a credit rating is qualitatively different from a corresponding rating in a different ratings sector. ASF has commented on this issue in previous letters to the Commission. In particular, see

<http://www.americansecuritization.com/uploadedFiles/ASF%20CRA%20-%20ratings%20scale.pdf>

⁸ Separately, we note that Section 938(a) of Dodd-Frank requires the Commission to adopt rules that require nationally recognized statistical organizations “to establish, maintain, and enforce written policies and procedures” that, among other things, define and disclose the meaning of credit rating symbols used by CRAs and requires consistent application of such symbols. We note that Section 938(b) of Dodd-Frank expressly states that “[n]othing in [Section 938(b)] shall prohibit a nationally recognized statistical rating organization from using distinct sets of symbols to denote credit ratings for different types of securities or money market instruments.”

analysis. We also believe that investors are aware that CRAs employ different criteria in deriving credit ratings and value divergence of practices among CRAs. Different methodologies allow an investor to consider different perspectives on evaluating an investment. The availability of credit ratings based on a loss expectations model and a model measuring a range of default probabilities differences, for example, can help investors evaluate credit risk in a way that they determine is more appropriate.

Such diversity may also contribute to the quality and accuracy of credit ratings. The process of deriving a credit rating is necessarily qualitative in nature and takes into account differences among asset classes that are not readily quantifiable.⁹ Similarly, uniformity of market stress conditions under which ratings are evaluated may undermine the value that different CRAs bring to credit ratings through the application of differing economic views and models to differing asset classes or different qualities or characteristics within the same asset class.¹⁰

The application of different methodologies makes the standardization of quantitative correspondence between credit ratings and a range of default probabilities or loss expectations difficult, if not impossible, and, for the reasons stated in this letter with respect to the benefits of diverse views and encouraging additional inquiry, less desirable.

4. Is it feasible and desirable to standardize credit rating terminology across asset classes, so that named credit ratings correspond to a standard range of default probabilities and expected losses independent of asset class and issuing entity?

In addition to the considerations set forth above, requiring CRAs to apply a singular risk analysis to different asset classes may ignore or downplay asset-specific credit risks and may compromise the quality and accuracy of credit ratings applicable to an asset class.

Conclusion

ASF believes that Dodd-Frank appropriately requires a review of the credit ratings process. However, we believe that greater flexibility to incorporate new information and new conditions into credit analysis methodologies, more diversity of views with respect to how such information and conditions are applied, and transparency with respect to the underlying assumptions and methodologies employed by credit rating agencies are of greater benefit to investors than standardization of terminology or methodology. This flexibility is also important to ensure competition among credit rating agencies.¹¹ The introduction of standardized criteria and streamlined quantitative models would diminish the diversity of practices employed and number of variables considered by CRAs in formulating credit ratings. Standardization would in effect

⁹ It is questionable whether agreement could be reached on the nature and severity of general risks, and whether if such consensus were reached, it would be desirable.

¹⁰ Formulating product-specific criteria requires qualitative judgments about the nature of the asset class and related products. For example, not only would a CRA apply different criteria to auto ABS than they would RMBS, it may also employ different criteria within RMBS to the extent the collateral was prime, subprime, seasoned, etc.

¹¹ In its adopting release for rules promulgated under the Credit Rating Agency Reform Act of 2006, including Rule 17g-5, the Commission expressed an intention to follow Congress' stated goals of fostering competition and transparency among CRAs in crafting rules. Release No. 34-61050; File No. S7-04-09 (November 23, 2009).

lead to the expression of a single, unified view applied by separate CRAs, thereby limiting the quality and accuracy of credit ratings.

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ASF very much appreciates the opportunity to provide the foregoing views in connection with the Commission's study. Should you have any questions or desire any clarification concerning the matters addressed in this letter, please do not hesitate to contact me at 212.412.7107 or at tdeutsch@americansecuritization.com, Evan Siegert, ASF Associate Director, at 212.412.7109 or at esiegert@americansecuritization.com, or ASF's outside counsel on this matter, Carlos Rodriguez of Sidley Austin LLP at 212.839.5857 or at crodriguez@sidley.com.

Sincerely,

A handwritten signature in cursive script that reads "Tom Deutsch".

Tom Deutsch
Executive Director
American Securitization Forum