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Submitted via E-mail to: rule-comments@sec.gov

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

Re: File No. 4-661; Credit Ratings Roundtable

Dear Ms. Murphy:
Let me begin by commending the Commission and Staff for holding a well-organized and highly productive Roundtable. As we consider what, if any, additional credit rating agency ("CRA") measures might be appropriate, it is critical that we first recognize the tremendous progress that has occurred in recent years. Going forward, I think it is important that we address further rulemakings regarding ratings agencies based on this progress and where we are today, not from the perspective of capital markets in 2006.

After two significant federal laws and related rule-makings (as well as regulations in Europe and other non-U.S. jurisdictions), regulatory changes have reinforced and strengthened the integrity of the ratings process through increased oversight, greater transparency and accountability, as well as through updated and improved quality in analyst training. The regulators have also begun to address over-reliance on ratings by the market, particularly by removing statutory requirements mandating the use of credit ratings as a sole indicator of credit quality – an effort S&P has long supported.

This process of change began in earnest with the enactment of the Credit Rating Agency Reform Act of 2006 ("CRARA"), which for the first time established a comprehensive regulatory scheme for credit rating agencies. The SEC was just beginning to implement the CRARA when the financial crisis took hold. The Commission has completed three rounds of rulemaking under CRARA. Many of these rules have been designed to limit perceived conflicts of interest in the ratings process.

CRARA also empowered the SEC to conduct detailed and lengthy examinations of Nationally Recognized Statistical Rating Organization's ("NRSRO") practices and procedures. In the case of S&P, these in-depth reviews have played a meaningful role in enhancing our staffing and resource levels, improving our policies and procedures, strengthening our ratings analysis, and reinforcing how we guard against potential conflicts of interest.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank") further increased the accountability, transparency and oversight of NRSROs. Dodd-Frank established corporate governance guidelines requiring NRSRO's to have a board of directors, including independent members, that is charged with overseeing the establishment, maintenance, and enforcement of S&P's policies and procedures regarding credit ratings and conflicts of interest, as well as overseeing the effectiveness of internal control systems with respect to ratings

policies and procedures. Other changes spurred by Dodd-Frank include the independence of compliance functions; the separation of marketing from analytical activities; and look-back reviews when employees leave NRSROs to work for rated entities.

Importantly, S&P has taken significant steps – independent of regulatory requirements – to strengthen the credit ratings process. Since 2007, when CRARA went into effect, S&P has invested approximately $400 million in the systems, governance, analytics and methodologies we use to rate issues and issuers. We have brought in new leadership, instituted new governance and enhanced risk management.

We have made significant investments in our Economics and Research team, which includes more than 50 economists, researchers, and quantitative analysts and focuses on macroeconomic forecasts, critical cross-sector research projects and ratings performance reporting. We have also established Credit Conditions Committees around the world to identify and monitor risks to the interconnected global credit systems across all asset classes and create a coordinated credit risk perspective across the company. These teams look out across the system for any credit bubbles developing and inform the company of such trends, much like the Financial Stability Oversight Council does for the U.S. government.

We have undertaken a variety of substantive actions to strengthen our independence from potential issuer influence, and have bolstered existing policies that separate the analytic and commercial activities of our business, including barring analysts from negotiating fees. Analysts are not, and have never been, compensated on the quantity or type of ratings they issue. We further strengthened analytical independence by implementing a system to rotate the analysts assigned to a particular issuer and enhancing analyst training on issuer interactions. We have sought to improve the integrity and quality of our methodologies and models by reassessing the principles underlying the way we rate debt. Through this process we have changed the way we rate almost every type of security affected by the financial crisis, including residential and commercial mortgage-backed securities, collateralized debt obligations, banks and bond insurers. Specifically, with regard to mortgage-related securities, we have significantly increased the credit enhancement required for a 'AAA' rating – our highest rating – and our criteria are generally more demanding at the higher rating levels than in the past. We have also strengthened our risk management procedures by instituting an improved Model Validation Process.

We have also enhanced our regulatory compliance and quality, significantly increasing our staffing in those areas, strengthening our documentation of procedures and ratings actions, and enhancing quality reviews of ratings.

With these and other added improvements to the ways we function, S&P and its 1,400 analysts worldwide operate in a meaningfully different way today than it did even just a few years ago.

The Section 939F Assignment System

The proposed government-run ratings assignment system would call for the establishment of a Credit Rating Agency Board within the Commission, which would be tasked with choosing which NRSROs are "qualified" to issue initial ratings of certain structured debt and debt instruments, and which would assign each issuer's security to a qualified rating agency on a case-by-case basis.

While we firmly believe market conditions have changed in a positive way, we support actions to promote more competition among credit rating agencies, including new entrants to the

market, which in turn would provide investors and other market participants with more and diverse views on creditworthiness. However, we have significant concerns that the proposed government-run credit ratings assignment system identified for study in Dodd-Frank would ultimately diminish the quality of credit ratings and reduce the amount of useful information provided to investors and market participants.

Before discussing the implications of this assignment system, it is important to describe the benefits of the current system. First and foremost, the so-called "issuer pay" model not only provides the greatest transparency to investors, both large and small, it allows S&P to publish ratings for free in real-time for all to see. The investor is the ultimate end user of ratings and therefore stands in the best position to evaluate the relative quality of credit ratings. Importantly, investors – including small community banks, towns or municipalities – are not charged fees in order to access our public ratings. Nor under the current system is there a need for an expensive and resource-heavy governmental entity to issue ratings assignments. Viewed as a whole, these benefits should not be taken lightly since they have, as a general matter, served the markets extremely well over the years.

Moreover, we believe an assignment system would contradict the legislative goal of policymakers, as outlined in Section 939A of Dodd-Frank, to remove the requirement for ratings as a sole indicator of creditworthiness in regulation. A government-run assignment system would further entrench the government in the business of ratings and create additional barriers to entry instead of allowing more informed viewpoints to emerge.

It is worth noting that concerns around a government-run assignment system are not limited to the views of credit rating agencies. Issuers, investors, and other market participants share the same concerns about quality and disruption to capital markets. Many of these same concerns also apply to the rotation system, an idea that has gained some traction in Europe, and was promoted by some participants at the Roundtable. Like the assignment system, a rotation system risks interfering with the free choices of issuers and investors and impairing the quality of ratings by removing the market incentive to compete. Similarly, this is an untested experiment on fragile markets at a time when economic recovery is extremely important to the funding and growth needs of American businesses and families.

The costs of a government-run assignment or rotation system would be significant and require the creation of expensive and cumbersome federal bureaucracies. These costs would inevitably be passed along to investors and taxpayers. Perhaps most importantly, ratings quality could suffer as the incentive for innovation declines and is replaced by a desire to only remain "qualified" in the estimation of the assignment board. The quasi-governmental board could create new conflicts of interest by linking the issuance of a sovereign rating to more opportunities for business. Finally, the proposed system has the potential to confuse market participants by fostering the misperception that the government has approved ratings, which could lead to undue reliance on ratings and the very misuse by investors that government agencies have concluded was a contributing factor to the recent financial crisis. Indeed, the perception of a government imprimatur is precisely what Dodd-Frank sought to erase by requiring that federal agencies remove references to credit ratings in their regulations.

The Rule 17g-5 Alternative

Rather than creating a new quasi-governmental agency that will require tremendous costs and resources, investors and other market participants tell us that there may be alternatives worthy of

exploration such as the expansion of an existing regulatory measure, SEC Rule 17g-5, would provide a more cost-effective and efficient way to minimize "ratings shopping" and get more views into the market. Rule 17g-5 makes it easier for credit rating agencies that are not hired by the arrangers of a particular debt issuance to conduct their own unsolicited ratings, with the objective of providing potential investors with a broader view of the creditworthiness of that debt issuance, and removing the perception of a conflict of interest resulting from the arranger paying the credit rating agency for a credit rating.

Rule 17g-5 requires that issuers of debt and hired NRSROs post information regarding those issuances on a secure Web site that can only be accessed by other NRSROs. As a result, at least in theory, any NRSRO can provide its own rating on an unpaid and unsolicited basis. To the extent they do so, it gives investors another view of the same security, a tool which, when taken together with solicited ratings, would provide an investor with an additional piece of information to evaluate in making an investment decision. It is also intended to promote competition and, ultimately, analytical quality since the performance of entities issuing solicited ratings now can – and will – be measured against those that issue unsolicited ratings. With modest regulatory enhancements to address challenges in accessing and using the information that is made available, we believe the current system could be made significantly more effective. More NRSROs would be likely to participate in the Rule 17g-5 system if the procedures for accessing the information contained on the secure Web sites were streamlined. Amendments to Rule 17g-5 could facilitate this by making the passwords more easily accessible to NRSROs.

In addition, the Rule 17g-5 system could be modified to require that sufficient information be made available for more NRSROs to conduct ratings according to their own methodologies. Another challenge is the 10 percent requirement. This has proved to be a deterrent for accessing the websites. If changes to SEC Rule 17g-5 were made in combination with a requirement that NRSROs conduct a specific number (not a percentage) of unsolicited ratings, I believe it would increase the number of high quality unsolicited ratings that are available to investors.

Conclusion

As a final note, it is important to highlight that there have been multiple regulatory and business changes in the credit rating industry over a very short period of time. While we are open to and would support changes in areas such as SEC Rule 17g-5, we believe that recent laws and regulations, improved industry practices, and structural market changes have all led to higher quality credit ratings and a stronger rating industry that today is equipped to better serve investors and markets.

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We at Standard & Poor's appreciate the opportunity to submit our statement and look forward to working with the Commission on this matter. Please feel free to contact me, Adam Schuman, Executive Managing Director and Chief Legal Officer, at (212) 438-5412, or Courtney Geduldig, Vice President, Global Regulatory Affairs, at (202) 383-2426, with any questions regarding our statement.

Sincerely,

Douglas Peterson
President
Standard & Poor's Ratings Services

cc: Mary Jo White, Chairman
Luis A. Aguilar, Commissioner
Troy A. Paredes, Commissioner
Elisse B. Walter, Commissioner
Daniel M. Gallagher, Commissioner