

**Comments on the Proposed Rule
"Definition of Nationally Recognized Statistical Rating Organization"
Securities and Exchange Commission
File Number S7-04-05**

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We appreciate the opportunity to forward our comments to the Commission. The proposed new Exchange Act Rule 3b-10 embodies important and useful elements that will advance the stability and security of the US financial system. The creation of more transparent qualifications for designation as a NRSRO and the use of enhanced disclosure by NRSROs will strengthen the credit rating agencies and the many parts of the financial markets that rely on ratings for regulatory and risk based purposes.

Page 21311 – Question:

How should it be determined whether an NRSRO is making its credit ratings readily available on a widespread basis? Should our rule specify the manner and methods that must be used to distribute ratings? Should internet posting itself be sufficient?

Since the 2003 Concept Release the NRSROs have developed good internet based no-charge systems for investors to obtain ratings on securities. These systems vary by the method of querying for a rating via the issuer name, CUSIP, equity ticker or other indexing value. Some provide additional information about the issue including the size of the issue and the date of the issue. All these internet-based systems make credit ratings available on a widespread basis and represent a minimal additional cost for NRSROs to maintain. We would not be in support of a requirement that the NRSROs provide their ratings in a printed basis at no charge. The distribution of ratings utilizing the internet provides information to investors that is current. We believe that providing ratings via the internet is sufficient and of value to retail investors.

Should a credit rating agency that does not rate specific securities or money market instruments be included in the definition of NRSRO? If so, under what circumstances?

Since the status of NRSRO denotes that an agency's ratings may be used for regulatory purposes, including the determination of net capital calculations for broker dealers, the definition of NRSRO should apply only to those agencies which rate individual securities. Applying an issuer rating to all the securities of a specific issuer could lead to an imprecise estimation of risk since issuers may have issued series of securities with varying levels of subordination and probability of default.

Page 21312 – Questions:

Should the Commission provide additional interpretation regarding what it means for a credit rating agency's ratings to be "current assessments"? Should the Commission specify the time period? Will the proposed rule's provisions provide sufficient assurance to the markets that ratings are current?

It would be useful for NRSROs to display the date a rating was assigned or reviewed. This would allow an investor to judge how recently the rating had been assessed. It would be very difficult to specify time periods that could define "current assessments" given the complexity of information sources and materiality of events for different issuers.

How could the Commission define the term "NRSRO" in order for users of credit rating agency's ratings to determine whether such ratings are credible and reasonably relied upon by the marketplace?

We support the linking of the evaluation of a credit agency's ratings to the views of predominant users of securities ratings including broker dealers, mutual funds, pension funds and insurance companies. These firms often have highly sophisticated internally developed rating systems in addition to subscribing to outside credit research for benchmarking purposes.

We offer no comments on the use of statistical data derived from price movements in response to an agency's rating change for the determination of credible and reliable ratings.

Page 21213 – Questions:

Should a credit rating agency that is recognized by the financial marketplace for issuing credible and reliable ratings within a limited sector or geographic area meet the NRSRO definition only for its ratings within such sector or geographic area or more broadly?

We support designation of NRSRO status for rating agencies that provide limited coverage within the debt markets. It would be useful for the Commission to specify the sectors of the fixed income markets for which NRSROs have credible and reliable ratings. These sectors could include sovereign, corporate, municipal, asset backed, money market, mortgage backed and structured finance and geographic areas could be defined including coverage for a specific state or states for municipals for example.

We would recommend that NRSROs be responsible to segregate ratings approved for regulatory purposes from ratings which the rating agency

creates for non-status purposes. This segregation could be accomplished by the use of different symbol sets for the NRSRO rating scale and non-status rating scale.

We understand the concerns of the commenter that cited the complexities of evaluating financial firms who have high levels of leverage and holdings of complex securities. The various forms of expertise required to properly evaluate different sectors of the fixed income markets argues for the need to have limited sector designations for NRSROs. Rating agencies would develop more precise guidelines and standardization of analysis for the firms and securities which they rate which have similar capital structures and industry conditions.

Page 21314 - Questions:

a. Analysts experience and training –

We have no comments

b. Number of ratings per analyst –

We support the disclosure of the number of credit analysts employed by an NRSRO and the number of issues rated on either a voluntary or regulated basis.

Page 21315 – Questions:

c. Information sources used in the rating process-

We would support the disclosure of the methods developed by the NRSRO to test the integrity of the data used by the NRSRO. Because each NRSRO will rely on data collected from different sources the method of determining data integrity will vary from agency to agency.

d. Contact with management –

We have no comment.

e. Organizational structure –

It would be useful to understand the organizational structure and the affiliated entities of a NRSRO. The guidelines used to manage conflicts of interest would also be of value to users of ratings.

Page 21316 – Questions:

f. Conflicts of interest –

We have no comments.

g. Misuse of information –

We have no comments.

Page 21317- Questions:

h. Financial resources –

The information related to the financial resources of a NRSRO help users of ratings understand the relative size of the firm. The concentration of revenue by issuer and sector is also useful for users to understand the focus of a NRSRO.

i. Standardized rating symbols -

As indicated in the proposed rule many of the Commission's rules embody broad based ratings categories that come from the ratings scales of NRSROs. For example the broker-dealer net capital rule requires that nonconvertible debt securities be rated "in one of the four highest categories" by at least two NRSROs.

There is generally a "market-based framework" for credit rating scales. This market-based standard specifies securities that are "investment grade" and less likely to default and have higher recoveries from "speculative grade" securities which have higher probabilities of default and generally lower recoveries. The "bright line" separating investment grade securities from speculative grade securities is of importance to retail investors.

We would encourage the Commission to consider adopting a standard for rating categories which codifies the distinction between investment grade and speculative grade securities in ratings systems. We would agree with the Commission's approach that the market-based standard be continued with the adoption of the investment grade-speculative grade classifications.

C. Statistical models –

We believe that the designation of rating agencies that rely on statistical models requires additional study and we encourage the Commission to appoint an academic and industry committee to study this issue and report its findings to the Commission.

Page 21318 Questions –

D. Provisional NRSRO Status –

We agree with the Commission's recommendation not to grant provisional NRSRO status to rating agencies. The limited sector designation will help promote competition for ratings.

We thank the Commission for an opportunity to forward our comments.