

Statement by  
Association of Financial Guaranty Insurers  
Securities and Exchange Commission  
Roundtable on Oversight of Credit Rating Agencies  
(File No. 4-579)

**1. Transparency of Credit Rating Methodologies**

Current Rule: Transparency rules apply to ratings provided by NRSROs.

Concern: It is unclear whether the transparency rules apply to “shadow” ratings on insured obligations. “Shadow” ratings are ratings on the basis of the underlying credit of the obligor absent the benefit of the insurance. Shadow rating information is important to investors in insured obligations, who increasingly make investment decisions on both the creditworthiness of the insurer and the creditworthiness of the underlying obligation.

Proposal for Consideration. Shadow ratings should be prepared on a basis consistent with primary ratings, and subject to the transparency, publication and other requirements applicable to primary ratings.

**2. Conflicts of Interest**

Current Rule: Rule 17g-5(c)(5) provides that a conflict of interest arises if “[T]he nationally recognized statistical rating organization issues or maintains a credit rating with respect to an obligor or security where the nationally recognized statistical rating organization made recommendations to the obligor or the issuer, underwriter, or sponsor of the security about the corporate or legal structure, assets, liabilities, or activities of the obligor or issuer of the security.”

Concern: Rating agency input is required by insurers in connection with maintaining their own ratings and developing new insured products. The prohibition limiting rating agencies from providing advice on their rating criteria is impractical, and attempts to distinguish between rating criteria and “recommendations”. In so doing, the rule inhibits the dialogue necessary to address changing circumstances or new products. The adopting release perceives a conflict when an NRSRO is “rating its own work.” If an NRSRO establishes its own rating criteria (as it must do), the NRSRO will inevitably be “rating its own work”. AFGI submits that concerns regarding rating integrity should be addressed in a manner that does not inhibit rating transparency.

Proposal for Consideration: The rule should be eliminated as impractical.

### 3. Disclosure

Concern: Rating criteria are frequently based on credit and legal conclusions that contain an element of subjectivity. For example, while ratings may be formulated on the basis of objective historical data, judgment is required to determine the extent to which historical data may be predictive of future performance. Parties disagreeing with established rating criteria may be inhibited from questioning rating criteria, particularly when rating criteria are more lenient than others consider appropriate.

Proposal for Consideration: An avenue should be established for the anonymous submission and publication of criticisms of rating criteria, akin to a “whistleblower” hotline.