

# THE FINANCIAL SERVICES ROUNDTABLE

*Financing America's Economy*



1001 PENNSYLVANIA AVE., NW  
SUITE 500 SOUTH  
WASHINGTON, DC 20004  
TEL 202-289-4322  
FAX 202-628-2507

**RICHARD M. WHITING**  
EXECUTIVE DIRECTOR AND  
GENERAL COUNSEL

By Electronic Mail (<http://comments.sec.gov>)

February 7, 2011

Ms. Elizabeth M. Murphy

Secretary

Securities and Exchange Commission

100 F Street, NE.

Washington, DC 20549-1090

**Regarding: Release No. 34-63573; File No. 4-622**

**Credit Rating Standardization Study**

Dear Ms. Murphy:

The Financial Services Roundtable<sup>1</sup> respectfully submits these comments in response to the request for comments by the Securities and Exchange Commission (the “Commission”) with respect to its Credit Rating Standardization Study, Release No. 34-63573; File No. 4-622 (the “Study”).<sup>2</sup> The Roundtable and its members, who interact with credit rating agencies both as issuers of and investors in rated securities, support increased transparency and comparability with respect to credit ratings, credit rating agencies and the ratings process. At the same time, we believe that the diversity of rating

---

<sup>1</sup> The Financial Services Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for \$ \$92.7 trillion in managed assets, \$1.2 trillion in revenue, and 2.3 million jobs.

<sup>2</sup> 75 Fed. Reg. 80866 (December 23, 2010).

methodologies among the different credit rating agencies adds a depth to the analysis of securities risks that would be lost if such methodologies were to become too homogenized.

With respect to rating designations, some of our members feel that ratings for all securities within a particular category or asset class should have comparable meanings. Types of categories or asset classes might include senior secured bonds, unsecured commercial paper, asset-backed commercial paper, credit card-backed securities or residential mortgage-backed securities. Ratings would not, however, have to have comparable meanings across categories or asset classes.

Other members have expressed doubts about the feasibility of standardizing rating agencies' output to conform to a uniform ratings designation with standardized meanings, particularly when the underlying methodologies differ. This approach would assume that the rating agencies' outputs could fit neatly within the specified group of factors that define a particular ratings designation. If not, rating agencies may be forced to assign a uniform ratings designation that may not necessarily match their output, thereby compromising the accuracy of a rating assigned to a security. These members have also expressed concern about how the standardized ratings scale would be determined, and who would ultimately decide what ratings *should* mean. Also, a standardized approach that reflects one agency's scale more than another's may also have significant competitive effects.

If the Commission does decide to recommend a change in rating designations, the change may create less market confusion if such changes were represented by scales using wholly different terms than those currently employed. If such scales were specific to categories or asset classes, they could include a marker that clearly denotes the relevant category or asset class. For example, the scales might have an alphabetic marker that indicates the type of security, such as SenSec (for senior secured) or ABCP (for asset-backed commercial paper), and a numeric marker that represented the ranking on the scale, perhaps ranging from 1 to 10 with plus and minus designations to indicate gradations.

Any approach to changing rating designations leads to the question of what happens to those securities already rated. Our members believe that, to enhance transparency, the ratings of affected securities would have to migrate over time to the new ratings. There are several potential consequences of such a change, including the risk of creating market volatility as a result of unstable ratings during a transition period, and potential problems for market participants who have loan agreements, investment guidelines, derivatives contracts, risk management platforms or other aspects of their business tied to existing rating scales. One possible approach to mitigating these issues would be to permit rating agencies to maintain dual rating scales. For example, if a rating agency had rated a residential mortgage-backed security AA on its old scale but concludes that it would have a rating of RMBS-2+ on the new scale, the agency could list the security as having a dual rating of AA/RMBS-2+ . Only the RMBS-2+ rating would have to be consistent with equivalent ratings of other agencies; the AA rating could continue to be based on the rating agency's proprietary standards.

If the Commission were to pursue the establishment of standardized meanings of ratings designation, the Roundtable's members believe that the Commission should consider the following possible of a ratings scale:

1. Probability of default
2. Expected degree of loss given default
3. Probability of timely payment of interest
4. For certain short-term instruments, probability of timely payment of principal.<sup>3</sup>

Even among our members who believe it would be a positive development to have ratings that are comparable across rating agencies in terms of the degree and nature of risk they denote, there is a strong view that the methodologies, including the level of stresses applied, for determining those ratings should continue to be left to the discretion

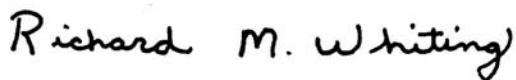
---

<sup>3</sup> We note, as well, that given the mandate of the Commission and other federal regulatory agencies to eliminate references to credit ratings from their rules, these components might be factors in an alternative test—whether evaluated by issuers, investors, regulators or rating agencies—as a benchmark of quality without the need to refer to ratings.

of the relevant rating agencies. Credit rating agencies are not considered fungible in the marketplace. They have different strengths and weaknesses, arising from the nature, adaptability and effectiveness of their models to the experience and skill of their analysts. Ratings determined through different methodologies provides greater depth and color to risk analysis, and enhances the ability of investors to use multiple ratings to achieve a more complex understanding of rated securities. Equivalence of ratings scales does not require uniformity of methodologies, and we believe that any effort to change ratings methodologies rather than merely making them more transparent, including by mandating applicable levels of stress, would be inappropriate.

We appreciate the opportunity to express our views on these complex issues. If you have any questions about this letter, or any of the issues raised by our comments, please do not hesitate to call me or Brad Ipema, the Roundtable's Senior Regulatory Counsel at (202) 589-2424.

Sincerely,

A handwritten signature in black ink that reads "Richard M. Whiting". The script is cursive and fluid, with the first letters of each word being capitalized and prominent.

Richard M. Whiting

Executive Director and General Counsel  
Financial Services Roundtable