U.S. Securities and Exchange Commission
Credit Ratings Roundtable: May 14, 2013 – Comments

prepared by: Cathy Santoro
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I received the SEC alert and related agenda for the upcoming Credit Ratings Roundtable; and today (5/2/13), I am providing comments for this Roundtable. In addition, I also prepared one chart that I have attached to this e-mail to provide a high-level visual of not only the elements of the global financial markets, which include rating agencies (NRSRO's), but also the interconnectivities and interdependencies of these markets with the global economy. My views and opinions are the result of my experience attained when I served in the following capacities: Wells Fargo Bank, N.A. – Vice President; MGM MIRAGE – Senior Vice President and Treasurer; and Walmart Stores, Inc. – Vice President Finance, Capital Markets & Assistant Treasurer.

In regards to Panel 1 – Credit Rating Assignment System, it has been my experience that the rating agency process has a high degree of objectivity simply as a function of the methodologies which are used by the rating agencies in the rating assessment process. These methodologies place significant emphasis on objective financial metrics, which often are similar to those metrics and covenants used by banks in arranging credit facilities (debt/EBITDA; interest coverage) and underwriters in structuring debt instruments (capital expenditure limits, sale/leaseback prohibitions). Knowing the role that these metrics can play in both bank credit facilities and debt instruments and with ratings, access to capital (bank credit and debt capital markets) and the price of said capital strongly intertwined, it has been my experience that strengthening the structure is often best served when both objective financial metrics and well-defined, affirmative and negative covenants (material adverse change , or "MAC", clauses) are in place coupled with both internal and external issuer reporting requirements. Thus, as opposed to the creation of a credit rating assignment system, it would be interesting to understand if consideration has been paid to how both the structure and criteria of the rating methodology itself can play a role through the application and integration of both additional financial metrics and covenants, including increasing the percentage weighting given to the objective financial metrics and covenants in relation to the overall rating, and the role of the issuer requesting the rating via its internal and external responsibilities to self-monitor and report its adherence to said rating agency financial metrics and covenants. Knowing that these methodologies are global, applied to global companies and that certain global financial markets are not as developed as those in the U.S., there could be an opportunity to strengthen not only the U.S. markets by both objective and structural global methodology modification and increased issuer accountability but also the global financial markets, as issuers access the global financial markets with their own distinct investor bases. If addressed at the same time in which broad global financial market regulatory reform is in play, there could be potential to align the important regulatory reforms (i.e. Basel III, Dodd-Frank Act, Volcker Rule) in such a manner without further increases in costs and regulatory requirements of a credit rating assignment system on the financial market system, as a whole. In addition, this would help to preserve the importance of objectivity of the sovereign rating process given the role of systemically important financial institutions, as outlined in the sovereign government rating methodologies, and the risk that a regulated credit rating assignment system could serve to increase the correlation between these institutions and the respective sovereign.

Specific to the questions raised in Panel 3 – Alternative Compensation Models, it has been my experience that banks can and do possess rating agency knowledge given the correlation between and among credit ratings, bank capital reserve requirements, and capital market transactions, in general, among other factors. As such, I would be interested to understand if consideration has been paid to incorporating this knowledge base as one of the potential alternatives as opposed to rotating rating agencies. Although there can be merit to rotating assigned analysts within a rating agency, much like banks can and do re-align credit portfolios among bankers or accounting firms rotate partner assignments within the firm, unilaterally rotating rating agencies could have the potential to weaken the rating process given the complexities inherent with this process. Instead, by incorporating the role that banks can play in this process could serve to not only add an additional layer of independence but, at the same time, provide indirect benefit to the financial market system and the respective sovereign nation in which the system operates, as a whole. It is my opinion that obtaining additional ratings, stipulating credit enhancement requirements or imposing regulatory constraints and/or obligations, in general, needs to be balanced given the importance in maintaining objectivity of the sovereign rating process.

Thank you for the opportunity to present my comments.

Best regards,

Cathy Santoro

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Rating agencies, companies, banks, capital markets and investors have interconnectivities and interdependencies to varying degrees. These interconnectivities and interdependencies can often cross sovereign borders, depending upon the company (global companies), their growth patterns and their related financial market transactions (globally syndicated credit facilities). As such, these micro elements comprised within one sovereign nation have the ability to ripple outward and impact not only the global financial market flow of funds but the global patterns of trade and the global economy, as a whole. With regulatory reform serving to transcend sovereign borders by regulating the movement and flow of funds within the global financial markets, this chart highlights these interconnectivities and interdependencies, which I noted at the onset, and the broader macro equation of the individual micro elements.