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VIA E-MAIL: rule-comments@sec.gov

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: Release No. 34-69433; File No. 4-661

Ladies and Gentlemen:

Fitch thanks the Securities and Exchange Commission (the "Commission") for the opportunities to participate in the Credit Ratings Roundtable held on May 14, 2013 and to submit a related comment letter.

As we noted in our opening comments at the round table, Fitch has a perspective that is unique among all the credit rating agencies (CRA), new or incumbent. Fitch has been competing against much larger, entrenched CRAs for nearly 25 years. Importantly, Fitch is not just a small rating agency compared to S&P and Moody's. Our organization is a combination of four even smaller agencies – Fitch Investors Service, Duff and Phelps, IBCA and Thompson BankWatch. We hope that this unique perspective will make our positions and recommendations particularly useful to the Commission.

Fitch's position concerning alternative CRA payment and selection models is encapsulated in four simple statements:

1. The proposed 15E(w) system is unnecessary, cumbersome, bureaucratic and ultimately unworkable.

2. The combination of self-directed and regulatory driven changes in the CRA industry, including Rule 17g-5, is having the intended positive impact on transparency and information availability.

3. The Commission could, and should, enhance the 17g-5 program to facilitate even greater transparency and further minimize potential conflicts of interest.

4. If additional rules beyond 17g-5 are to be adopted, simplicity is key; a focused rotation system tailored to specific asset classes or a regime that allows investors to designate an additional agency could be constructive ways forward.

<u>The 15E(w) system is not the solution</u>

It is clear from the panel discussion as well as the wide variety of comment letters referenced in the Commission's December 2012 "Report to Congress on Assigned Credit Ratings" that the 15E(w) system is not a reasonable solution to concerns about the CRA selection or compensation process.

As conceived, 15E(w) effectively would provide a government subsidy to certain NRSROs, provide tacit government endorsement to credit ratings and create a new set of conflicts that would be difficult to manage. Further, it is far from certain that 15E(w) will achieve its intended aims. Moreover, establishing the new board, hiring support staff and developing technical operations sufficient to support the existing large and efficient structured finance market is certain to be extraordinarily expensive and cumbersome.

<u>Progress has been made and is continuing</u>

In assessing 15E(w) and other proposals to change the CRA payment and selection model, it is important to consider the scope and breadth of the regulatory changes introduced since 2006. Equally important to consider is the relative infancy and stage of development of many of the new rules and regulations.

The Credit Rating Agency Reform Act of 2006 introduced a series of significant reforms aimed at "fostering accountability, transparency and competition" within the credit rating services industry. The NRSRO designation was borne, and with it a regime of periodic examinations and significant oversight and rule-making. Enacted in 2010 the Dodd-Frank Wall Street Reform and Consumer Protection Act has continued to reform the CRA industry, introducing numerous changes, some of which are still being implemented.

Notably, rules promulgated by the Commission under the 2006 CRA Act came into effect just as the subprime crisis was emerging. The larger financial crisis soon followed. The proximity of these events, and the continued long economic recovery, means that the true measure of the 2006 reforms is not yet fully apparent.

What is clear, however, is that the 2006 reforms have led to greater competition, increased transparency and improved rating quality. The changes introduced by Dodd Frank have deepened these reforms.

Rule 17g-5, in particular, is having a significant positive impact on the credit rating process and the quality of information available to investors. Among its positive impacts:

- It creates a central repository for all information necessary to undertake a rating or commentary.
- It ensures that all CRAs receive identical information. Information arbitrage among the CRAs has been eliminated.
- It helps provide advance notification of transactions, which in turn helps to facilitate timely commentary.

- It results in disintermediation of the banker's role: since the completeness of the 17g-5 information is the responsibility of the issuer, there is greater direct contact between the issuer and the CRA.
- It encourages issuers to identify in their offering documents all of the CRAs that conducted an initial review of the transaction, allowing for comparison with the CRAs selected by the issuer to assign a final rating.
- It has resulted in a growing level of unsolicited commentary.

Although 17g-5 has not resulted in any formal unsolicited ratings, Fitch believes that the current emphasis on the number of unsolicited ratings (or more specifically the lack of unsolicited ratings) is misplaced. There are other better measures to evaluate the extent to which 17g5 and other CRA and securitization-related rules and regulations have achieved their aims. Progress in fostering accountability, transparency and competition is, for example, shown by:

- Improved transparency across the board in the CRA industry.
- Improved management of conflicts of interest.
- Investors' greater access to more information regarding structured finance transactions and their reduced reliance on ratings.
- The increase in the number of CRAs actively rating asset-backed and mortgage-backed securities.
- The increase in unsolicited commentary.

These factors – not the number or lack of unsolicited ratings – tell us the 2006 CRA Act and Dodd-Frank are having a measurable and meaningful impact.

Enhancing 17g-5 will further increase competition and transparency

As Fitch previously has suggested, the Commission could substantially enhance 17g-5 by requiring NRSROs to publicly disclose on their websites all transactions for which they provided feedback to an issuer or transaction party at any juncture, regardless of whether or not they assigned final ratings to the transaction. Investors would then readily be able to compare the universe of CRAs that reviewed the transaction with those ultimately engaged to rate the transaction, making the CRA selection process much more transparent. Allowing investors to identify the status of a CRA with regards to a particular transaction will also provide investors greater insight into the credit ratings assigned to securities they may be considering purchasing or have purchased, a feature of the 17g-5 Program noted by the Commission.

The Commission could also require information posted on an issuer's 17g-5 site to be made available to investors. This would ensure that investors have access to all the information they need in order to make their investment decisions. It would also further reduce investors' reliance on ratings. Both are important goals of Dodd-Frank.

Fitch also supports expanding the definition of "unsolicited ratings" to include credit commentaries other than ratings. Additionally, Fitch believes the Commission should eliminate the

10% rule. Although eliminating the rule may not immediately result in an uptick in publication of unsolicited ratings, it increases the prospect that more agencies will publish credit commentaries that are of interest to investors.

Simplicity and focus are key

The substantial regulatory regime that has developed since 2006, as further shaped by the proposed enhancements to 17g-5, should be sufficient to address concerns about the current CRA selection process. What is needed is time for the regime first introduced in 2006 to take hold and flourish. To the extent the Commission does not agree and is convinced that more is needed now, there are two approaches to reforming the CRA engagement process that Fitch believes could be explored that would be far simpler and more cost effective than 15E(w) and have a much greater likelihood of success.

First is a simple, focused rotation scheme tailored to certain asset classes. If the Commission takes that approach, Fitch encourages the Commission to:

- Aim for Simplicity - In order for any rotation system to be effective and efficient, it needs to remain simple. A complex rotation mechanism is likely to result in investor uncertainty, market disruption, excessive costs and unintended conflicts.
- Be Focused – A rotation system need not apply to all structured finance asset classes. Instead the Commission should focus on asset classes where there is a greater perception of conflict – RMBS, CDOs – and/or asset classes that, because of their size, might be viewed as systemically important – CLOs, CMBS.
- Recognize Existing Rotations – The Commission should recognize that in certain asset classes, rotation already exists among a stable of CRAs that have demonstrated a sufficient track record and meet investors' needs. In a number of sectors - Auto Loan and Equipment ABS for example – issuers commonly rotate among three or four agencies. The Commission should not force a new mandatory rotation mechanism upon issuers that are already recognizing the value of rotation.
- Acknowledge the Value of Three or More Ratings – Transactions that are already rated by three or more rating agencies should not be subject to an additional rotation mechanism. The value of three or more ratings is compelling – transactions need to be structured to meet the most conservative agency's view; three rating opinions and related research are available to investors; perceptions of 'rating shopping' are reduced.
- Avoid Subsidization – A rotation mechanism must not sacrifice competence and experience to competition. CRAs should have to demonstrate that they have the competence and resources to analyze and rate the relevant asset class before being deemed eligible to participate in a rotation.
- Start Small – To ensure that rotation has its intended benefits, a single asset class should be selected for a trial period that is sufficient to allow the Commission to evaluate the effectiveness of the program, including achievement against intended objectives and the impact of unforeseen consequences.

Alternatively, the Commission could consider simply adding an investor designated CRA to the current process. For each transaction issuers would continue to select one or more rating agencies in the current manner and an investor group would designate an additional CRA to also assign a rating. The rating fees of the additional investor-designated CRA would be paid from transaction proceeds. To allow sufficient time for diligence and analysis, this rating would likely need to be delivered post-closing. Even so, its existence would provide a very visible check and balance to the current issuer-pay system. As with the proposed rotation system discussed above, for such a system to succeed, it must be simple and focused.

In summary, Fitch strongly believes that regulations and rules introduced in the 2006 CRA Act and Dodd-Frank are already bearing fruit: there is much greater transparency in the credit rating process, greater availability of information for investors, and robust competition among established and new market players. In particular, Rule 17g-5 has transformed the credit rating process for structured finance by ensuring that information is centrally located and free from arbitrage. As Fitch suggests, the Rule can be enhanced further to provide investors with an even greater level of transparency and insight into the CRA selection process. To the extent that additional rules and regulations beyond Rule 17g-5 are considered necessary, a simple rotation system or an investor designation approach that is tailored to specified asset classes, and that fosters competition while recognizing experience, could be a positive way forward.

Thank you for giving us the opportunity to provide our comments. We hope that you find them useful and will give them due consideration. If you have any questions, or to discuss this matter further, please call Kevin Duignan, Managing Director, Global Head of Structured Finance at (212) 908-0630 or Charles D. Brown, Fitch's General Counsel at (212) 908-0626.

Very truly yours,

P. Taylor

Paul Taylor
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