

Comment of Japan Credit Rating Agency, Ltd.
on Proposed Regulations Implementing
The Credit Rating Agency Reform Act of 2006

File Number: S7-04-07

Dear Madam Secretary,

Below is a comment of Japan Credit Rating Agency, Ltd. ("JCR") on SEC's Proposed Rule on "Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations," which was published in the Federal Register on February 9, 2007 (72 Fed. Reg. 6378). JCR, a credit rating agency domiciled in Tokyo, Japan, has applied for a no-action letter for a NRSRO status under the agency's existing procedure; the application is currently pending.

Section 240.17g-3:

The proposed regulation would require NRSROs to submit annually audited financial statements which were prepared in accordance with generally accepted accounting principles ("GAAP") and which comply with the agency's Regulation S-X. JCR respectfully requests that this requirement be waived for foreign domiciled credit rating agencies, such as JCR, for the following reasons:

- (1) Generally, foreign domiciled (especially Japanese domiciled) accounting firms are inexperienced and/or unfamiliar with Regulation S-X. As a result, those few firms that have "expertise" in the regulation tend to charge exorbitant fees for preparing regulation-consistent financial statements. One Tokyo-based accounting firm, for example, quoted a fee of 30 million yen (approx. \$260,000) for preparing and auditing regulation-consistent financial statements, in response to JCR's recent inquiry. The quoted fee was well over a fee level indicated in the Proposed Rule, i.e., 400 hours (which would roughly translate as \$120,000-\$160,000).
- (2) Because applicable Japanese laws and regulations require JCR to submit audited financial statements which comply with Japanese regulatory requirements, also complying with Regulation S-X would require duplication of efforts, with additional costs to the reporting company, not to mention the time-cost of training employees on Regulation S-X.
- (3) Similarly, the S-X Regulation consistency requirement

for audited financial statements creates a special difficulty for foreign based credit rating agencies which do not use English in their normal course of business because these additional financial statements will have to be translated into English for filing, which makes meeting the 90-day deadline a real challenge..

For these reasons, JCR suggests that the Final Rule incorporate a waiver for foreign domiciled credit rating agencies from compliance with Regulation S-X with respect to their audited financial statements as long as the financial statements were prepared in accordance with the GAAP in the country of domicile and audited in accordance with the standard audit procedure practiced in that country which, in the case of Japan, would be the standard audit practice provided in the rules of the Certified Public Accountants Association of Japan. Japanese regulatory agencies give full faith and credit to such financial statements for their regulatory purposes.

Section 240.17g-1 (Exhibit 8)

This section would require disclosure of professional and educational backgrounds of "analysts responsible for determining a credit rating." JCR suggests that the "credit analysts" subject to this section be limited to supervisory credit analysts. Biographical information of a larger number of credit analysts would not be more informative for subscribers with respect to the credit agency's expertise, skills or judgments. On the contrary, a headcount or a beauty contest of analysts can be misleading to subscribers. Restricting the disclosure to supervisory analysts would make sense because turnovers are usually lower for very senior analysts than their more junior counterparts. Thus, the disclosed information would more likely indicate a trend than a snap shot of the credit agency's capabilities and quality of analysis.

JCR appreciate the opportunity for comment. Should your office have any questions regarding the within comment, please do not hesitate to let us know.

Respectfully submitted,

Makoto
Utsumi /s/

President & CEO

cc: Yoshi Saito, Esq. (Perkins Coie LLP)