

United States Senate

WASHINGTON, DC 20510

May 3, 2007

The Honorable Christopher Cox
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Dear Chairman Cox:

We commend you and your staff for your careful consideration of important issues while drafting proposed rules to the Credit Rating Agency Reform Act of 2006 ("Reform Act"), the objectives of which are to improve ratings quality by increasing competition, transparency and accountability in the credit rating agency industry. We are writing to express our concern; however, about one of the proposed rules (Rule 17g-6(a)(4)) that may mandate that a nationally recognized statistical rating organization (NRSRO) use the ratings of other current and future credit rating agencies interchangeably with its own.

As you know, credit rating agencies play an important role in the global debt capital market by providing objective and independent opinions on the creditworthiness of securities and issuers. As we crafted the Reform Act last year, we were careful to ensure that rating agencies retain their integrity and objectivity, and to encourage competition based on the quality and usefulness of their opinions. In particular, the Reform Act preserves the independence of rating agency opinions by prohibiting the SEC from regulating "the substance of credit ratings or the procedures and methodologies by which any nationally recognized statistical rating organization ["NRSRO"] determines credit ratings".

We are therefore concerned that one of the proposed rules (Rule 17g-6(a)(4)) might be interpreted as mandating an NRSRO to use the ratings of other current and future credit rating agencies interchangeably with its own. Any interpretation by the SEC -- or any third party -- along these lines would contravene our intentions as embodied in the Reform Act. As you know, we directed the SEC to promulgate rules in this area only if the Commission first determines that a particular practice was "unfair, coercive or abusive." If the SEC makes such a determination, we then specified that its rules be "narrowly tailored" to only prohibit those practices which are intended to be anticompetitive.

One of the goals of the Reform Act was to ensure on-going investor confidence in the ratings process. Investors must be able to rely on those ratings and requiring a credit rating agency to rely on the rating of another does not serve that goal. We also believe that, as presently drafted, the proposed rule is overly broad and could unintentionally prohibit legitimate NRSRO practices. Accordingly, we would strongly encourage you and the Commission to consider using an "intent-based" test and prohibit only practices motivated by unfair, coercive or abusive intent as envisioned by the Act. We believe that an "intent-based" approach will allow rating agencies to independently form their credit opinions while protecting the marketplace from abusive practices.

We appreciate your consideration of our views on this important issue and look forward to seeing the rules in final form. Please do not hesitate to contact our offices if you have any questions or concerns.



Charles E. Schumer
United States Senator

Sincerely,



Robert Menendez
United States Senator



John E. Sununu
United States Senator



Mike Enzi
United States Senator

cc: Commissioners