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 **The Credit Roundtable**
In association with the Fixed Income Forum

The Honorable Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549



Dear Secretary Murphy,

Please find attached a letter on the Credit Rating Agencies (CRAs) from The Credit Roundtable (www.creditroundtable.org).

The Credit Roundtable is a group of large institutional investors managing fixed income assets on behalf of millions of individuals, via mutual funds, pension plans, insurance companies, and endowments. In that capacity, we are among the biggest users of credit ratings from the CRAs. We share the concerns of many regarding the CRAs' role in contributing to the meltdown in the financial markets and resulting severe downturn in the economy.

With the numerous proposals for regulatory and legislative reform being circulated, The Credit Roundtable thought it important to share with you its views on the proposed reforms, with particular focus on 4 key areas: Oversight and Accountability; Competition; Conflicts of Interest; Transparency.

We hope you find this helpful and appreciate the opportunity to help shape the outcome of Credit Rating Agency reform.

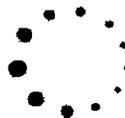
Should you have questions or wish to discuss this issue further, please let me know.

On behalf of The Credit Roundtable,

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The Credit Roundtable

In association with the Fixed Income Forum

Credit Roundtable Comments on Credit Rating Agency Reform

The Credit Roundtable ("CRT"), organized in association with the Fixed Income Forum, is a group of large institutional fixed income managers including investment advisors, insurance companies, pension funds, and mutual fund firms¹. As end users of Credit Rating Agency ("CRA") services and in light of the meaningful impact that ratings have on the markets in which we invest on behalf of our clients, the CRT believes that rating agency reform is necessary and vital and appreciates the opportunity to opine on this important topic. We identify below several common arguments and provide a view as to how they may be addressed. When appropriate, we also comment on solutions proposed by various legislative and regulatory bodies in the U.S. and Europe².

1. Oversight & Accountability

Common Argument: CRAs are subject to inadequate oversight and are not held accountable for poor performance, resulting in, among other things, flawed ratings outcomes.

The CRT supports calls for increased regulatory oversight and the establishment of objective standards against which all CRAs would be held. The CRT would clearly define a Credit Rating Agency as an organization whose ratings are widely available and used as a measure of objective risk by financial regulators, the general public, or within market indices. Our support for enhanced regulation is not directed at firms whose sole interest is to provide credit research and make investment recommendations for sophisticated clients. We believe that further regulation of these firms would limit the availability of such research, which can be an important source of independent viewpoints.

The regulator must be well-funded and staffed with experienced industry practitioners. An important enhancement to the regulatory process, which the CRT strongly supports, is the creation of a User Advisory Board. This group of industry experts should work closely with the regulator in the development and ongoing monitoring of compliance with minimum performance standards for CRAs.

Penalties for non-compliance with minimum standards should result in sanctions, including loss of NRSRO status. The User Advisory Board will also serve as a sounding board for the development of new and existing rating agency methodologies, and provide feedback on new product types, ratings performance, and regulatory proposals to both the CRAs and the appropriate regulators.

The CRT also notes calls for legal liability for CRAs. Ratings reflect opinions made in an uncertain environment; we believe that imposing legal liability on the CRAs for ratings issued in good faith while in compliance with minimum performance standards would likely result in reduced candor, increased caution, and, ultimately, less valuable ratings.

¹ Please refer to <http://www.creditroundtable.org/> for a detailed description of the CRT, its makeup, and its mission.

² Specifically, the Securities and Exchange Commission's Roundtable on Oversight of Credit Rating Agencies, H.R. 1445 in the U.S. House of Representatives, U.S. Senate Bill S. 1073, The U.S. Department of the Treasury's Financial Regulatory Reform proposal, and European Parliament COD/2008/0217

2. Competition

Common Argument: The NRSRO status creates entry barriers, perpetuates the oligopolistic nature of the industry, and limits CRAs' incentives to compete on the basis of quality.

The CRT acknowledges the potential shortcomings of NRSRO status and supports the concept of enhanced competition to improve quality in the provision of credit ratings. However, we also believe there is a downside to competition when issuers engage in "ratings shopping" for the highest rating, which has been a problem in the structured finance market in particular. We further note that competition alone is unlikely to solve the problems made clear by the financial crisis and point out that 1) the existence of numerous entities with NRSRO status did not prevent the crisis from occurring and 2) non-regulatory entry barriers (such as inclusion rules employed by widely-referenced fixed income indices) also serve to limit competition and are unlikely to be impacted by legislation. The CRT recognizes a practical limit on the number of agencies and believes the focus of industry changes should remain on improved oversight, which should in turn promote competition on the basis of quality and support a level playing field for each NRSRO with a well-resourced, diligently -developed ratings opinion. Proposals that serve to promote competition by imposing requirements that dilute the dollars spent on the ratings process will run the risk of having the unintended result of lowering the quality of existing ratings.

The NRSRO designation should be limited to CRAs that accept greater regulatory oversight, have widespread acceptance of market participants, and meet regular performance benchmarks. The ability to remove the NRSRO designation is the most effective tool to improve credit ratings for CRAs that have the greatest influence on the market.

The NRSRO designation process has not prevented independent credit research providers from competing effectively with 'issuer pays' business models. A number of successful such 'subscriber pays' research providers already exist. Investors will continue to pay for services that add value to their own investment process.

3. Conflicts of Interest

Common Arguments: CRAs are compensated by issuers of rated debt instruments and rely on them for information necessary for the completion of their duties. CRA analysts often cover specific industries and rate individual issuers for many years, embedding them with issuers and creating conflicts of interest.

The CRT acknowledges the potential conflicts that arise in a model in which issuers pay for ratings but also believes that certain forms of an alternative model, such as subscriber-pay, would be difficult to implement, have potential conflicts of their own given sometimes competing interests of different groups of investors, and could result in "free riding." Alternative methods of paying for ratings such as an investor-pay model, e.g. with the Rating Agency fee paid out of the bond coupon, or issuer paid but investor -directed, are worth considering. (It should also be noted that investors do, in fact, pay meaningful amounts for rating agency data and research.) We believe that the issuer-pay model can persist in an environment of increased CRA accountability, enhanced user and regulatory oversight, and improved disclosure of compensation arrangements and any ancillary services provided. We support other specific proposals included in S. 1073, including:

- Internal control policies and procedures to manage conflicts of interest, the establishment of a Compliance Officer to monitor adherence with them, and the publishing of compliance reports on an annual basis;
- Required disclosure of historical ratings services provided for, and fees received from, issuers;

- Imposition of a look-back examination of potential conflicts any time a CRA analyst goes to work for an issuer. The CRT suggests a requirement that CRAs implement processes, to be monitored and reported upon by the Compliance Officer, by which “whistleblower” accusations might be properly reviewed.

In acknowledgement of the time investment necessary in becoming a competent analyst, the CRT does not support mandatory rotating of analyst responsibility subject to strict timetables. We believe that conflicts can be avoided or at least managed through enhanced regulatory and industry oversight (and their associated penalty mechanisms).

4. Transparency

Common Arguments: Opaque processes and flawed model assumptions failed to capture the full spectrum of risks inherent in structured finance securities. As inputs changed due to market movements, significant ratings downgrades undermined faith in credit ratings and contributed to the depth and duration of the financial crisis.

The CRT encourages the notion of transparency but respects the proprietary nature of certain types of information, including material non-public information relevant to individual corporate issuers and proprietary elements of models used to rate structured finance securities. Specific guidelines for what constitutes proprietary information should be determined by the regulator but informed by the CRAs and User Advisory Board. The CRT supports full and timely disclosure of:

- Information about structured finance products submitted for initial review, whether or not a final rating was provided;
- Decisions to withdraw a corporate or structured finance issuer’s ratings, along with the key reasons for removal;
- Clear disclosure of when ratings are unsolicited and when ratings are/are not based on material non-public information;
- Key assumptions underlying, and parameters used to determine, the rating outcome;
- The extent to which the agency has relied upon 3rd party information in the assignment of the rating and the procedures in place to ensure its accuracy;
- Historical performance data, including ratings transition frequency, covering all asset classes rated by the organization;

The CRT is less concerned with purely cosmetic requirements, such as compulsory use of symbols to distinguish structured finance or municipal bond ratings from corporate ratings.

The Credit Roundtable recognizes the Credit Rating Agencies’ important role in global capital markets, acknowledges the need for high-quality, independent, objective credit risk assessment, and supports calls for change in response to the global financial crisis. We believe that reforms, once fully analyzed and implemented, represent a major step towards restoring confidence in the CRAs and their role in the debt origination and monitoring process. The CRT appreciates the opportunity to help shape the CRA reform process.