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August 31, 2010

By Electronic Mail

Ms Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Proposed Amendments to Regulation AB, File No. S7-08-10 (the "Release")

Dear Ms Murphy:

I. Introduction

Moody's Investors Service ("**Moody's**") appreciates the opportunity to provide comments to the Securities and Exchange Commission ("**Commission**") on the proposed amendments ("**Proposed Amendments**") to Regulation AB. In general, Moody's is very supportive of the Commission's proposals to repeal the references to ratings in the shelf eligibility criteria for issuers of asset-backed securities ("**ABS**"), enhance the disclosure regime for public offerings and certain private placements of ABS, and revise the filing deadlines for shelf offerings of ABS to provide investors with more time to analyze transaction-specific information prior to making an investment decision. Moody's believes that changes along the lines proposed by the Commission could help reduce the risks of investor over-reliance on credit ratings and of issuers engaging in rating shopping.

II. Ratings-Based Shelf Eligibility Criteria for Issuers of ABS Should Be Repealed

Moody's supports the Commission's proposal to repeal the current references to ratings of nationally recognized statistical rating organizations ("**NRSROs**") in the shelf eligibility criteria for issuers of ABS. Consistent with our historic views about the regulatory use of credit ratings,[1] we continue to believe that it is healthy for the markets for ratings-based criteria in regulation to be discontinued or limited.

We believe that the views expressed by credit rating agencies ("**CRAs**") should not be characterized differently from the credit opinions of other market commentators. CRAs appropriately should be treated as offering opinions for market participants, in their discretion, to consider or ignore and the relevance of those opinions should depend on the quality of the CRA's analysis. Thus, we do not favor the practice of leveraging the market's use of ratings by incorporating them into regulation and thereby using them for purposes for which they are not designed. Similarly, we concur with the Commission's view that official

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[1] See, e.g., *Moody's Comment Letter re Proposed Rule on Asset-Backed Securities – File S7-21-04* (July 12, 2004), *Moody's Comment Letter re References to Ratings of Nationally Recognized Statistical Rating Organizations – Files S7-17-08, S7-18-08 and S7-19-08* (Sept. 5, 2008) and *Moody's Comment Letter re Money Market Fund Reform – File S7-11-09* (Sept. 8, 2009).

recognition of ratings weakens incentives for investors to conduct their own credit analysis and use ratings as just one of several inputs in their decision-making process.

Consequently, we support the healthy dialogue the Commission has facilitated through its proposals to repeal various references to ratings in Commission rules and forms. In particular, we agree with the Commission that ratings-based shelf eligibility criteria for issuers of ABS should be eliminated. We have refrained, however, from commenting on the Commission's proposed alternative eligibility criteria because we believe that other market participants, such as investors and issuers, as well as the Commission itself are in a better position to judge whether these criteria are appropriate to meet the Commission's objectives.

III. Issuer Disclosure Requirements for ABS Should Be Enhanced

As it is with corporate securities, analyzing and monitoring ABS is a data-intensive process. Consequently, Moody's believes that one of the most significant steps that can be taken to restore confidence in the structured finance market and promote the appropriate use of credit ratings is to improve the availability and quantity of underlying information for ABS. Therefore, we strongly support the Commission's efforts to enhance the initial and ongoing disclosure regimes for issuers of ABS.

Unlike in the corporate market, where investors and other market participants can reasonably develop their own informed opinions based on publicly available information, in the structured finance market there is insufficient public information to do so. Disclosure requirements for publicly offered securities do not require the public dissemination of sufficient information about the structure or underlying assets of a securitization to make reliable analysis possible. Indeed, under this limited information disclosure model, CRAs, for example, typically ask for additional information to analyze and rate securities.

In the absence of sufficient, publicly available data, investors are unable to conduct their own analysis and develop their own independent views about potential or existing investments. This creates an environment in which investors may be motivated to over-emphasize ratings and/or use them for purposes other than as gauges of relative credit risk. In addition, issuers, sponsors and underwriters (collectively, "**Arrangers**") may believe that they can shop for a CRA on the basis of factors other than ratings quality and credibility. Furthermore, since they are not subject to a similar degree of public scrutiny as corporate issuers, structured finance Arrangers may feel less responsibility for the quality of information related to their securitized products.

To address these problems in the structured finance market, Moody's has been recommending for some time that policymakers consider requiring issuers of ABS and other structured finance products to disclose all of the information needed by investors to conduct a thorough analysis of the principal risks of the securities they are considering for purchase, holding or sale. Such information should be disclosed publicly in the case of a registered offering and, at a minimum, should be made available to potential and existing investors in respect of a private placement of ABS. In addition, we believe that investors need sufficient time to evaluate the information made available to them. Therefore, we generally support the Commission's proposals to:

- Require prospectuses for public offerings of ABS and ongoing Securities Exchange Act of 1934 ("**Exchange Act**") reports for publicly offered securities to contain specified asset-level information about each of the assets in the pool, in a standardized and tagged data format;
- Revise the filing deadlines for shelf offerings of ABS to provide potential investors with more time to consider transaction-specific information; and

- Require that certain information be made available to investors in respect of privately issued ABS.

We have refrained, however, from making comments on the specific proposals regarding disclosure and filing deadlines because we believe that investors are in the best position to inform the Commission about which types of information they believe they would find material to their investment decision and how much time they need to evaluate that information.

We believe that, if the mandatory disclosure regime for ABS is enhanced along the lines the Commission has proposed, there will be several benefits as follows:

- **Giving investors access to more information will help reduce the potential for over-reliance on credit ratings.** Giving investors access to more detailed information would enable investors to conduct their own analysis and develop their own, independent views on ABS. Such access also would have the effect of enhancing investors' ability to meaningfully assess the work of CRAs.
- **Embedding enhanced information requirements in offering documents and ongoing performance documents intended for investors likely will improve the information about structures and assets.** This approach, which is analogous to that taken in corporate debt markets, aligns responsibility for information quality with the party that has: (i) the greatest control over the information in the first place; and (ii) the greatest economic interest in accessing the securities markets.
- **Making more information available to investors will broaden the range of opinions and analysis available, including from all CRAs.** If sufficient information is made available to investors, then it necessarily is available to those rating agencies not selected to rate a securitization. As a result, all CRAs (as well as a host of other market commentators) would be in a position to offer ratings and research, which would broaden the range of information available to investors. As we discuss in more detail in section V below, we believe that, if the proposed reforms to Regulation AB are adopted, then paragraphs (a)(3) and (b)(9) of Commission Rule 17g-5 ("**Structured Finance Deal Disclosure Rule**") can and should be repealed.

IV. Repeal Ratings Disclosure Requirements in Items 1103 and 1120

Paragraph (a)(9) of Item 1103 and Item 1120 in Regulation AB require an issuer of ABS in a registered offering to disclose in the registration statement whether the issuance or sale of any class of offered securities is conditioned up on the assignment of a rating by one or more CRAs. If so, each CRA must be identified and the minimum, required rating must be disclosed.[2]

While the Commission has not posed any questions about these disclosure items in the release accompanying the Proposed Amendments, Moody's would like to take this opportunity to recommend that these two provisions be repealed. As we stated in our submission to the Commission in December 2009,[3] we believe that ratings-specific disclosure requirements perpetuate and exacerbate the artificial emphasis on credit ratings caused by their use in regulation. The fact that one or more credit ratings are obtained for offered securities does not mean that the credit rating, standing alone, is material to an investment decision.

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[2] We understand that the Commission recently issued a no action letter indicating that the Corporate Finance Division will not recommend enforcement action to the Commission if an issuer of ABS omits the ratings disclosure required by Items 1103(a)(9) and 1120 from a prospectus that is part of a registration statement relating to an offering of ABS for initial bona fide offers commencing before January 24, 2011.

[3] See *Moody's Comment Letter re Credit Ratings Disclosure* (File No. S7-24-09) (Dec. 14, 2009).

Moody's intends that its credit ratings be used as amplifying information on relative credit risk that institutional investors can use to the gauge the opinion they have formulated for themselves based on publicly available information. A credit rating, therefore, may convey (in the investor's opinion) useful information, but that information should not be deemed "material".

Permanently repealing these disclosure requirements while requiring issuers of ABS to make more information available to investors pursuant to the Proposed Amendments would further encourage investors to conduct their own credit analysis when deciding whether to buy, hold or sell ABS. This outcome would be consistent with Congress's intention, as reflected in the Dodd-Frank Wall Street Reform and Consumer Protection Act, that references to ratings in regulation be eliminated wherever possible.

V. Repeal the Structured Finance Deal Disclosure Rule

The Commission's Structured Finance Deal Disclosure Rule, which recently came into effect, imposes certain requirements on any NRSRO that is paid by an Arranger to determine or monitor a credit rating on a security or money market instrument issued by an asset pool or as part of any asset-backed or mortgage-backed transaction ("**Structured Finance Instrument**"). In particular, the Structured Finance Deal Disclosure Rule prohibits an NRSRO that is paid by an Arranger (a "**Hired NRSRO**") from issuing or maintaining a credit rating on a Structured Finance Instrument unless:

(1) On a password-protected website maintained by or on behalf of the Arranger, the Arranger makes all of the information it provides to the Hired NRSRO for the purposes either of determining the initial credit rating on the Structured Finance Instruments or for surveillance available to any other NRSRO that wishes to rate the Structured Finance Instrument and satisfies certain conditions; and

(2) On a password-protected website maintained by or on behalf of the Hired NRSRO, the Hired NRSRO makes accessible to other NRSROs certain information about the Structured Finance Instrument and its engagement as the Hired NRSRO.

The Commission stated that this rule is intended to address conflicts of interest and improve the quality of structured finance credit ratings by making it possible for more NRSROs to rate Structured Finance Instruments.[4] The Commission also indicated that the Amended Rule was intended to reduce the ability of Arrangers to engage in rating shopping.[5]

We share the Commission's concern about rating shopping, which is a harmful practice engaged in by some Arrangers. Moody's has discussed this concern in public forums on numerous occasions[6] and we have noted that rating shopping stems from Arrangers' exclusive control over the dissemination of the information needed to analyze an obligation. It is particularly endemic in markets, such as structured finance markets, with limited disclosure obligations for issuers. Such opaque markets can facilitate rating shopping by hampering the ability of CRAs (regardless of whether they are paid by an Arranger), other analysts and, most importantly, investors to assess and form their own opinion on the creditworthiness of issuers or debt securities.

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[4] Commission Release re Amendments to Rules for Nationally Recognized Statistical Rating Organizations – Final Rules (File No. S7-04-09) (Dec. 4, 2009) at 63844.

[5] *Ibid.*

[6] See, *e.g. Moody's Comment Letter re Credit Ratings Disclosure* (File No. S7-24-09) (Dec. 14, 2009); and *Moody's Comment Letter re Re-proposed Rules for Nationally Recognized Statistical Rating Organizations (File No. S7-04-09)* (March 28, 2009).

As we previously stated in submissions to the Commission,[7] we believe the best way to deter rating shopping is to require issuers to make all the information reasonably considered relevant to an investment decision broadly available to the market and accessible to investors, other market participants, and CRAs alike. This approach also would be consistent with what we understand to be the Commission's ultimate goals: improving investors' ability to make well-informed investment decisions, reducing the risk of investor over-reliance on credit ratings in structured finance markets, and promoting fair and transparent markets.

The Commission's proposed amendments to Regulation AB, if adopted, are a more effective and cost-efficient means of providing the degree of transparency in structured finance markets that could deter rating shopping. If sufficient information is made available to investors, then it necessarily is available to those CRAs not selected to rate a securitization. As noted above, if the Proposed Amendments are adopted, all CRAs (as well as a host of other market commentators) would be in a position to offer ratings and research, which would broaden the range of information available to investors. This would render the Structured Finance Deal Disclosure Rule redundant.

In contrast with the Proposed Amendments, we believe that the Structured Finance Deal Disclosure Rule does not address the root cause of rating shopping, *i.e.*, the lack of transparency in structured finance markets. Moreover, we believe that the Structured Finance Deal Disclosure Rule has created incentives for Arrangers, investors and CRAs to act in a manner that is inconsistent with the goals described in the preceding paragraph. In particular, we believe that this rule is:

- leading to situations where Arrangers shop for the NRSRO that demands the least amount of information or that has the least stringent interpretation of Structured Finance Instrument or other core concepts in the Structured Finance Deal Disclosure Rule; and
- increasing the risk of over-reliance on NRSROs and their credit ratings by embedding NRSROs in the regulatory framework.

Accordingly, we believe that the Commission should adopt the proposed amendments to Regulation AB and repeal the Structured Finance Deal Disclosure Rule.

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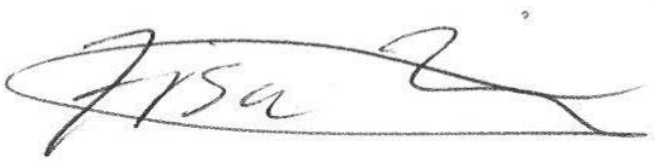
Once again, we appreciate the opportunity to comment on the Proposed Amendments and related matters. We would be pleased to discuss our comments further with the Commission or its staff.

Sincerely,



Farisa Zarin
Managing Director, Regulatory Affairs
Moody's Investors Service

[7] *Ibid.*