



February 2, 2010

**Via E-Mail**

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

**Re: S7-28-09 - Proposed Rules for Nationally Recognized Statistical Rating Organizations**

Dear Secretary Murphy,

We appreciate the opportunity to comment on the U.S. Securities and Exchange Commission's ("SEC" or "Commission") proposed rules governing Nationally Recognized Statistical Rating Organizations ("NRSROs") ("Proposed NRSRO Rules").<sup>1</sup> Rating and Investment Information, Inc. ("R&I") generally supports the Commission's efforts to address concerns about the integrity of NRSROs' credit rating procedures and methodologies and below responds to certain of the Commission's requests for comment on the Proposed NRSRO Rules.

A. Proposed Rule 17g-7

Proposed Rule 17g-7 would "require an NRSRO to make publicly available on its Internet Web site a consolidated [annual] report containing information about the revenues earned by the NRSRO and, if applicable, its affiliates as a result of providing services and products to persons that paid the NRSRO to issue or maintain a credit rating."<sup>2</sup>

*1. Sensitivity Analysis*

In conjunction with Proposed Rule 17g-7, the Commission requested comment on whether "an NRSRO [should] be required to disclose the degree to which the NRSRO has analyzed how sensitive a rating is to changes in [key] assumptions [if an NRSRO is required to disclose such key assumptions and asked] [w]hat . . . the benefits and costs associated with such a requirement [would be]."<sup>3</sup>

<sup>1</sup> See Securities Exchange Act Release No. 61051 (Nov. 23, 2009), 74 FR 63866 (Dec. 4, 2009) ("Proposed NRSRO Rules").

<sup>2</sup> *Id.* at 63876.

<sup>3</sup> *Id.* at 63879.

The credit ratings of corporate issuers and individual debt securities are based on several factors, including quantitative and qualitative factors. If there are future uncertain factors that are materially important for the determination of a credit rating, then certain assumptions of the most likely outcomes may be made; however, quantifiable factors may not underlie such assumptions. Further, because corporate issuers continuously try to address these uncertain factors and the ultimate outcomes, even if such uncertain factors have not turned out to be exactly as assumed, this may not lead to a change in a credit rating. Therefore, a calculation of the sensitivity of credit ratings to changes in certain assumptions could be very difficult. R&I respectfully requests that the Commission limit disclosure of the sensitivity analysis to credit ratings of structured finance products because such ratings are based majorly on quantitative factors.

## 2. *Description of Relevant Data*

In conjunction with Proposed Rule 17g-7, the Commission also requested comment on whether “an NRSRO [should] be required to disclose a description of [the] relevant data about the obligor, issuer, security, or money market instrument being rated that was used and relied on for the purpose of determining the credit rating [and asked] [w]hat . . . the benefits and costs associated with such a requirement [would be].”<sup>4</sup>

Through recent amendments to the Financial Instruments and Exchange Law and the regulations thereunder, the Japan Financial Services Agency (“JFSA”) has increased the amount of information required to be disclosed by credit rating agencies in credit rating action announcements. Such regulations take into account the business concerns of the originators of structured finance products in Japan (“Originators”) and permit credit rating agencies to disclose certain attribute information (industry, size and area of incorporation), rather than disclosing the name of the Originator, together with a reasonable explanation as to why the name of the Originator cannot be disclosed.

Historically, Originators do not disseminate, or make only limited dissemination of, information about structured finance products. Originators do not disseminate such information due to business concerns, such as competitors or clients learning the details and records of securitization of the Originators.

In order to prevent a conflict between the U.S. NRSRO rules and the Japanese laws and regulations, R&I respectfully proposes that the Commission exempt credit ratings from the provisions of any rule requiring disclosure of relevant data about the obligor, issuer, security, or money market instrument being rated that was used and relied on for the purpose of determining the credit rating if such credit ratings meet the following conditions: (i) the credit rating is issued by an NRSRO incorporated outside of the United States, (ii) the structured finance product that is assigned a credit rating by the NRSRO is not offered in the United States, and (iii) the main underlying assets of the structured finance product are not located in the United States.

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<sup>4</sup> *Id.* at 63880.

### 3. *Material Nonpublic Information*

In conjunction with Proposed Rule 17g-7, the Commission also requested comment on whether “an NRSRO [should] be required to disclose whether material nonpublic information was used in determining the credit rating[, if] an NRSRO [should] be required to disclose, in general terms, the type of confidential information used and the impact this information had on its rating action [and asked] [w]hat . . . the benefits and costs associated with such a requirement [would be].”<sup>5</sup>

When an NRSRO determines a credit rating it may receive confidential information during the course of the rating process. In order to protect such information, the provider of the confidential information often requires the NRSRO to enter into a confidentiality agreement. If an NRSRO is required to disclose the types of confidential information used in determining a particular credit rating, such disclosure could violate the terms of the confidentiality agreement entered into between the provider of such confidential information and the NRSRO. In certain instances, the disclosure of the type of confidential information could be confidential in and of itself. Further, even if the disclosure of the type of confidential information is not in contravention of the confidentiality agreement, the disclosure of the type of confidential information accompanied by the impact of such information could lead market participants to make certain inferences regarding the content of such information. This could lead to the inadvertent disclosure of the confidential information. For example, market participants could easily infer the content of the confidential information if it was disclosed that a certain issuer sold a material business or is involved in certain litigation.

Therefore, R&I respectfully proposes that the Commission not require disclosure of the type of confidential information used in determining a credit rating or the impact this information had on the credit rating action.

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Please do not hesitate to contact me (htanaka@r-i.co.jp) or Mr. Masahiro Kambe (mkambe@r-i.co.jp) with any questions you might have.

Thank you.

Sincerely yours,



Hidetaka Tanaka  
Senior Executive Managing Director  
Rating and Investment Information, Inc.

<sup>5</sup> See Proposed NRSRO Rules at 63880.

