DATA CONVERSION SPECIALISTS, INC.

July 21st, 2003

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OFFICE OF THE SECRETARY

Mr. Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, D.C. 20549-0609

Re: File No. S7-12-03

Dear Mr. Katz,

The Securities and Exchange Commission (SEC) has asked for a response to questions that it posed in order to help determine what actions it should take in regards to "nationally recognized statistical ratings organizations" or "NRSROs". This letter addresses some of the points that the SEC has requested views on.

I am the founder of Data Conversion Specialists, Inc. (DCS), a privately held company that has serviced the ratings industry for the past 15 years with consultation and information products. One product, "Credit Analysis Reference Disc" (CARD), was created by DCS for Standard & Poor's (S&P) to disseminate ratings information electronically. For over 10 years DCS regularly received and prepared the data before distribution to the market. While there are some general overall comments presented in this letter, because of our expertise the majority of this letter addresses issues related to information flow.

The SEC should not eliminate the NRSRO designation. The NRSRO designation is part of the legislative fabric and it is too inherent in the way that the bond market functions. Dropping the NRSRO designation would have a negative impact upon the market and add confusion at a time when clarity is what is needed.

The SEC needs to clearly define the requirements that an entity must meet to receive the NRSRO designation. The SEC currently does not have clear guidelines, processes—including appeal processes—or response mechanisms to help in the application for NRSRO status.

Furthermore, the SEC needs to create more objective standards and rely less on the subjective €or NRSRO designation. For instance, it was clearly pointed out in testimony before the commission that: an entity becomes "Nationally Recognized" only after it gains the NRSRO designation. For the SEC to hold to a standard that national recognition must occur before the designation is given would ensure very few, if any, new NRSROs.

NRSROs should not be allowed to offer consulting or other advisory services. While the testimony from the current NRSROs stated that this is not a major portion of their business, it is a dangerous and slippery slope to allow the NRSROs to offer consulting or advisory services. It is understood, and believed, that the current upper management at the NRSROs is sensitive to this issue. Nevertheless, the demise of Arthur Anderson and the current: problems associated with the accounting industry serves as a clear warning as to what can happen and how rapidly it can happen when barriers are removed. The potential damage to investors, individuals, businesses, the marketplace and the economy is too great to allow this as a part of the NRSRO business model.

NRSROs should be prohibited from issuing unsolicited ratings. There is a trust that is placed on the NRSROs for their ratings. The potential damage and appearance of blackmail that unsolicited ratings bring greatly undermines this trust and therefore should be disallowed.

An issue that is of major concern is that of information flow. The NRSROs can and do limit access to data both to the public and to those who would create competing information products. Currently, the NRSROs release some of their ratings criteria to the public at no cost. But most of the detailed analysis and supporting data is only available to paid subscribers. Furthermore, the NRSROs claim First Amendment rights with regard to this information and at least one NRSRO refuses to allow their data to be purchased so that competing informational products can be created. By giving NRSRO status, the SEC is effectively creating a quasi-government agency. The NRSROs should not be allowed to reap the benefits of sequestering the data from the marketplace while retaining NRSRO status.

To allow investors to make better informed decisions and stop anticompetitive behavior by the NRSROs, the SEC needs to require the NRSROs to divulge more information, release all data to the public and

Divulge more information

Transparency needs to occur on the part of NRSROs as to the standards that they use for ratings and ratings movements. For investors to be able to make informed decisions, an understanding about why the NRSROs are rating the issuer or signaling a potential change or making a change to a rating must be understood. It has been pointed out that NRSROs rarely changed ratings before the Enron/WorldCom problems. Since then ratings have changed at a more rapid pace but without a clearly published criteria justifying the changes. Besides creating transparent standards, the following should also be required:

- NRSROs should divulge information that could affect ratings such as ratings triggers.

- NRSRQs should not be allowed to start a ratings process and then not publish the rating. If a process is not completed or if a rating is pulled then the reason for such action should be published.

- If an NRSRO turns down rating an issuer/issue then it should be published that an issuer/issue was turned down along with the reason why it was turned down.

- Underlying information that is not proprietary to the issuer but is used in the ratings process should be published. For instance, Compustat, a division of S&P, publishes standardized accounting data. If such data is used in the ratings process then it should become part of the published information.

- Information on how issues/issuers are rated in comparison to group/industries, where possible, should also be published.

Release information publicly

The SEC should require the NRSROs to release the data publicly because of the anticompetitive behavior shown by the NRSRQs and the special status that the NRSROs receive from the SEC. The same feeds that NRSROs use for their various information products should be made available so that other products can be created. The NRSROs should be required to:

- Release the complete data that is used to create products, including but not limited to news articles, summary information, complete analysis, commentary data, structured financial data, issuer information, subsidiary data, insurance pools/group sets, issue ratings, information detailing analysts associated with ratings, watch information, alerts, tables, graphics/images, flat files and any other data needed to create products or that is necessary in using the data.

- Release the complete historical data. Currently when an issuer gets a revamped rating, the analysis and summary information from the previous rating is removed. This data is maintained by the NRSROs but not republished. To get a complete picture of how a NRSRO or an analyst or set of analysts is performing over time, the historical data must be made available.

- Release detailed information regarding the structure of the data. Knowing how all the pieces fit together is important. As an example a commentary or news article can be linked to a variety of issuers. It is necessary to know how to lace the different pieces together. Such information should include the information that ties the data cohesively together, i.e. CUSIP's/ISIN's, organization identifiers, details as to primary and secondary CUSIP's/ISIN's, the organization of the rating, table information, membership rules, subsidiary and insurance pools and groups rules, rules used for segmentation (whether by industry, geography, financial instrument type or other rules) and any other information that details how the complete set of data is segmented to create various products.

- Remove all advertising data. For instance, S&P includes in their releases advertising for their online product. A summary analysis from S&P contains a paragraph that states, "Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com." This information is not an integral part of the rating and as such should be removed from released data.

- Release ratings data to all requestors equally with no preferential treatment. This might require that NRSROs retain two completely separate systems so that NRSROs information products do not receive data earlier than the public.

- The NRSRO name or logo should be allowed to denote where the data was derived from. This will allow users of the competitive products to understand which NRSRO data they are using.

Firewalls

By releasing the data publicly, competing products can be created. But in order to ensure that anticompetitive behavior by NRSROs is eliminated the SEC should require firewalls to be placed between the NRSROs information products side and the ratings side. The following firewalls should be required:

- There needs *to* be a firewall between the analytical staff and the information product staff to ensure information is not being unfairly exchanged. The SEC is already considering similar restrictions between the public and the NRSROs analytical staff.

- The NRSROs contain boards or committees that make directional changes to ratings policies. A separation and firewall should be required between the NRSRO staff that is responsible for creating information products and ratings boards/committees.

- The boards and committees should be required to solicit: and take into consideration outside comments to policy changes and address the affects of those changes on the existing competitor product base. Without this process, an NRSRO could make policy changes that unfairly favored their own products. The NRSROs should be required to go through the same solicitation and input process for their own products as others do thus insuring a level playing field.

- The NRSROs should be required to **use** realistic cost accounting in developing their "for fee" products and those costs should be represented in the price of their "for fee" products.

  This accounting should include costs for setting up repository systems for information, including database creation and maintenance, and other costs associated with receiving and modifying data from the analytical/ratings side of the NRSRO.

By moving the costs to the information product side the SEC is insuring that competitors are not being undercut by NRSROs creating products that are subsidized by their ratings revenues.

- Because of the NRSROs unique position, the NRSROs should not he allowed to create hybrid products with other NRSRO data. For instance, S&P should not be allowed to present Moody's data in their products. This restriction will allow others to create products that are useful for analysis and education without unfair competition from the NRSROs.

The above recommendations concerning information will require more oversight by the SEC. The SEC should set up oversight boards to oversee their implementation, appeal boards to hear and resolve problems and publish penalties associated with violating the SEC rules. The penalties should include downgrades, probation or even NRSRO status removal for severe or repetitive violations.

Thank you €or considering the above changes. By making these necessary changes, the SEC will strengthen the integrity of the ratings process and make a statement to all that diverse analysis, freedom of information and fair competition is the basis for the strength of NRSROs.

Regards,

Terry W. Lilly

Terry W. Lilly
President, DCS