June 2, 2005

Jonathan G. Katz, Secretary
United States Securities and Exchange Commission
450 Fifth Street, NW
Washington , DC 20549-0609

VIA E-MAIL (rule-comments@sec.gov)

Re: Definition of Nationally Recognized Statistical Rating Organization

File No.: S7-04-05
Release Nos.: 33-8570; 34-51572; IC-26834

Dear Mr. Katz:

The Society of Corporate Secretaries & Governance Professionals (the Society) is a professional association founded in 1946, serving more than 3,000 issuers. Job responsibilities of our members include working with corporate boards of directors and senior management regarding corporate governance; assuring issuer compliance with securities regulations and listing requirements; and coordinating activities with shareholders such as proxy voting for the annual meeting of shareholders and negotiation of shareholder proposals. The majority of Society members are attorneys. This letter is submitted in response to the Commission's request for comment in connection with the Proposal for the Definition of National Recognized Statistical Rating Organization (NRSRO).

We agree that credit ratings should continue to be used for regulatory purposes under the federal securities laws, and we are satisfied that the three-pronged approach, as outlined in the proposal, appropriately balances the need for a definition with the flexibility needed to ensure that all appropriate organizations will fall within that definition. However, we note the three-pronged approach requires no subjective review of the policies or procedures employed by rating agencies. We understand that it would be extremely difficult to ensure compliance with minimum standards, but we believe that our concern can generally be satisfied with the requirement that a NRSRO publicly disclose detailed information about its internal operations, including the experience of its analysts and its organizational structure.

We offer the following comments for your consideration, each of which relates to the third prong of the proposed definition of NRSRO.

A. Analyst Experience and Training

We agree with the commenters to the 2003 Concept Release that indicated that the competency of a credit rating agency's staff should be a relevant consideration in qualifying a rating agency as a NRSRO, and that the experience and training of a credit rating agency's staff are of particular importance. However, we understand the Staff's position that minimum training standards for NRSROs would be difficult to oversee. Further, we agree with the Staff's position that the evaluation of an analyst's experience, while it would provide important information, would involve a degree of subjectivity.

We believe these issues can be addressed by two new requirements. First, these issues would be addressed by requiring that credit rating agencies have procedures designed to ensure that its analysts are competent. Second, these issues can be addressed by requiring additional transparent disclosures. We urge you to require that NRSROs make available to the public, through a website or other appropriate means, the general requirements it has for its analysts and the experience of each analyst. Similarly, we urge you to require that the qualifications and experience of the director of each rating group be made publicly available.

The availability of this transparent information would enable users of securities ratings to take the experience and qualifications of an NRSRO's staff into account in determining how much weight to give each rating. This requirement also would provide the financial markets with important information to support the general acceptance of a rating agency as required by prong number two. Further, if a credit rating agency employs a large number of analysts with little experience, it could illustrate that the credit rating agency does not use systematic procedures designed to ensure credible and reliable ratings as required by prong number three.

B. Number of Ratings Per Analyst

We believe that the NRSROs should be required to disclose the number of credit analysts that are employed by it and the average number of issuers rated or otherwise followed by those analysts. This information would give users of the ratings some insight into how much time and attention each analyst is able to devote to an individual company. Many of our member companies have indicated that they have reason to believe that one or more of their analysts have responsibility for a significant number of companies and that perhaps such analysts have difficulty giving each company an appropriate amount of time and attention. In some cases, this could suggest that the credit rating agency does not use systematic procedures designed to ensure credible and reliable ratings. In addition, this requirement would provide the financial markets with additional information to support the general acceptance of a rating agency as required by prong number two.

C. Organizational Structure

We believe that information on an NRSRO's organizational structure would be useful to users of securities ratings. Specifically, understanding the different levels of analysis and

review, and whether the agency is organized by industry or by some other method, would enable users to get a better understanding of the experience of each reviewer. Disclosure of such information may also provide insight as to whether an agency might be susceptible to conflicts of interest.

D. Misuse of Information

Proposed prong three of the definition would require that NRSROs have systematic procedures that are designed, in part, to prevent the misuse of nonpublic information. We believe it is imperative that NRSROs be specifically required to have policies and procedures that are designed to effectively protect non-public information provided by issuers and that they publicly disclose these policies.

Further, we urge you to require NRSROs to allow an issuer to review all publications about the issuer prior to release to ensure that the publications do not contain any non-public information about the issuer. The NRSROs do not have consistent policies relating to advance review of publications and we understand that these policies may even vary by industry group within an NRSRO. We know of one NRSRO (Standard & Poor's) that does not permit such advance review by issuers with respect to one or more industry groups. This puts issuers in a difficult position: an issuer can either withhold non-public information, even if such information would be relevant to the evaluation of the issuer's securities, or it can provide such information recognizing that it may inadvertently be publicly disclosed by the rating agency.

E. Statistical Models

We encourage the SEC to require NRSROs to use information other than statistical models in developing their ratings. Further, NRSROs should disclose whether they are using other information and, if so, what types of other information they use. While computerized statistical models may be helpful in the credit rating process, such models have limitations that restrict their usefulness. Management expertise, corporate governance policies and other relevant information about an issuer should be factors in determining the ratings for a company's securities.

F. Other

In order to ensure that NRSROs maintain compliance with the requirements set forth in the proposed definition, we encourage you to consider requiring such agencies to provide an annual affirmation that they have met the definitional requirements.

In this letter, we have recommended a number of items that we believe the NRSROs should disclose, either on their websites or through other appropriate means. We also recommend that such disclosures be updated at least annually. We understand that it may not be feasible to update such disclosures in real-time as the agency's organizational structure and staff change, but we believe that the disclosures should be kept reasonably current so that they provide relevant information to the users.

Thank you for the opportunity to comment on this proposal. Please do not hesitate to contact us if you have any questions.

Cordially,

Securities Law Committee
of the Society of Corporate Secretaries and Governance Professionals

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