



Japan Credit Rating Agency, Ltd.

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May 31, 2005

*Re: Definition of Nationally Recognized Statistical Rating Organization
File No. S7-04-05*

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

Dear Mr. Katz,

*We are pleased to submit our answers to your questions contained in Release Nos.
33-8570; 34-51572; IC-26834; File No. S7-04-05.*

Very truly yours,

*Takefumi Emori
Director*

III. DISCUSSION

B. Proposed Definition of the Term “NRSRO”

1. The First Component

a. Publicly Available Credit Ratings

JCR believes that an internet posting alone would be sufficient.

b. Issue-Specific Credit Opinions

Applying a single “issuer” rating to all of an issuer’s outstanding debt instruments could be misleading, in the context of the regulatory use of NRSRO ratings. For regulatory purposes, assigning a rating to each debt instrument would be appropriate, to reflect the credit risk exposure associated with the specific debt.

c. Current Credit Opinions

If the ratings are to be reviewed on a periodic basis only, their users may not be able to benefit from timely updates. Credit rating agencies should monitor ratings on an ongoing basis. JCR updates ratings in annual reviews, and in reviews of issuers’ status when factors arise that might materially affect their creditworthiness.

2. The Second Component

a. General Acceptance in Financial Markets

The ratings coverage of a specific credit rating agency’s scope of business (such as for a particular sector) is an appropriate measure. Letters from prominent investors, indicating their reliance on the ratings by specific credit rating agencies, would also be useful. The number of subscribers would not be appropriate, since some credit rating agencies may choose to provide their opinions without charge.

b. Limited Coverage NRSROs

The Commission may initially regard a credit rating agency recognized by financial markets within a limited sector or geographic area as a NRSRO in that specific area of its expertise. However, in case such credit rating agencies should accumulate experience in other sectors or geographic areas, they should later be regarded as meeting the NRSRO definition in those areas.

3. The Third Component

a. Analyst Experience and Training

JCR does not believe that there is any credential that would guarantee the competency of an analyst other than the experience of each analyst. In the case with JCR, we selectively hire personnel with such experience as credit analysis at a financial institution. Analysts are provided with regular internal training and outside seminars, to help them remain current on analytical issues.

b. Number of Ratings per Analyst

JCR is prepared to provide information to the Commission for monitoring purposes, but disclosing the number of ratings per analyst to the users of such ratings could be misleading, since the tasks assigned to analysts may differ from one credit rating agency to another.

c. Information Sources Used in the Rating Process

A credit rating agency should make efforts to evaluate the integrity of information, by interviewing an issuer's management and cross-checking the information provided by the entities to be rated and by third-party vendors.

d. Contacts with Management

Yes. Interviewing the senior management of an issuer is vital to more accurately evaluating its strategy and its ability to implement that strategy.

e. Organizational Structure

Yes. Disclosing a credit rating agency's parent company and affiliates should enable related parties to identify underlying conflicts of interest.

f. Conflicts of Interest

Since credit rating agencies have a substantial influence over financial markets, the Commission should set specific guidelines for avoiding conflicts of interest. For instance, it should monitor the potential conflicts of interest associated with consulting services provided by a credit rating agency, its parent company, or affiliates, and when one of its analysts is on an issuer's board of directors. It is also appropriate for a credit rating agency to abide by the code of conduct fundamentals addressed by IOSCO.

g. Misuse of Information

JCR believes that a credit rating agency should specify its personnel responsible for monitoring compliance with rules and regulations, including guidelines for the use of information. A credit rating agency should prepare an internal policy for the use of information. A reporting process should also be established for when the misuse of information is found. JCR trains its employees to abide by guidelines for the use of information, and asks for their attestation every year.

h. Financial Resources

No. It is not appropriate for audited financial statements to be presented to the users of securities ratings, although they should be presented to and examined by the Commission. JCR believes that disclosing the number of rated entities and the fee scheme, not the percentage of revenue received from particular issuers, should be sufficient to satisfy users' needs.

i. Standardized Rating Symbols

JCR does not see any reason to change the standardized rating symbols.

C. Statistical Models

The NRSRO definition should include the performance of both statistical and qualitative analyses.

D. Provisional NRSRO Status

JCR agrees with the Commission's view in that a provisional approach for NRSROs is not necessary. JCR believes that a credit rating agency should be able to maintain its expertise within the sector or geographic area in which it is considered to be an NRSRO, by maintaining ongoing business.