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March 26, 2007

Nancy M. Morris, Secretary
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Proposed Rules To Implement Provisions Of The Credit Rating Agency Reform Act of 2006 (File No.: S7-04-07)

Dear Ms. Morris:

This letter is submitted by Standard & Poor's Ratings Services ("Ratings Services"), as a follow-up to our letter of March 12, 2007 to respond briefly to comments that have been filed with the Commission by Fitch, Inc. ("Fitch") and others, which have raised important issues regarding the content and potential consequences of the Proposed Rules to implement provisions of the Credit Rating Agency Reform Act of 2006 (the "Act").

"Notching" and Analytical Independence

We begin with the proposed prohibition of "notching," about which Fitch devoted an entire letter to the Commission. In relevant part, Proposed Rule 17g-6(a)(5) would prohibit NRSROs from:

> Issuing or threatening to issue a lower credit rating, or lowering or threatening to lower an existing credit rating, or refusing to issue a credit rating or withdrawing a credit rating, with respect to securities or money market instruments issued by an asset pool or as part of any asset-backed or mortgage-backed securities transaction, unless a portion of the assets which comprise the asset pool or the asset-backed or mortgaged-backed securities also are rated by the rating organization. The prohibitions on refusing to issue a credit rating or withdrawing a credit rating shall not apply if the rating organization has rated less than 85% of the market value of the assets underlying the asset pool or the asset-backed or mortgage-backed securities.

The practice of notching is occasionally utilized when a rating agency is asked to rate structured products that are backed by underlying assets the rating agency has not previously rated. As explained in our March 12, 2007 comment letter, notching is not anti-competitive, coercive or abusive, particularly as practiced by Ratings Services. Instead, the practice enables Ratings Services to respond on an analytical basis to market demand for asset pool ratings in cases where we have not already rated all the underlying assets, and therefore are not in a position to vouch for the procedures and methodologies used to develop the underlying ratings.

The comments submitted to the Commission reflect a deep division among market participants over the wisdom of, and need for, a prohibition on notching. Some commenters, including Ratings Services, have urged the Commission to delete the provision entirely since any prohibition of notching (i) is unsupported by any substantive data that the practice is unfair, abusive or coercive and (ii) would contravene Congress's express mandate that the rules be narrowly tailored and not regulate the substance of credit ratings or the procedures and methodologies by which any NRSRO determines credit ratings. March 12, 2007 Letter of Vickie A. Tillman ("Ratings Services Comments"), at 3-6. Ratings Services has urged that if the Commission is nevertheless committed to prohibiting "notching" as a practice, the final rules should be crafted narrowly, in accordance with Congress's mandate, so as not to take away from NRSROs the very attribute that marks their value in the market: their ability and right to engage in independent analysis of the matters on which they offer opinions. That is, if the Commission determines that notching as a practice is, in fact, coercive or abusive (and it is not), the only rule that makes sense to respond to that determination would be one prohibiting notching, and nothing more.

Fitch's Proposal Directly Violates the Cornerstone Principle of Analytical Independence

Fitch (and certain supporters of its position), however, seek much more than that. Indeed, not only does Fitch support a flat ban on notching, but it also, in the clearest possible terms, urges the Commission to ***require*** NRSROs to adopt each other's rating opinions at face value and, remarkably, to make ***illegal*** the exercise of independent analytical judgments in connection with their ratings. Specifically, in the March 12, 2007 letter of Charles D. Brown concerning Proposed Rule 17g-6(a)(4) (the "Fitch Notching Letter"), Fitch urges that the Commission's final rules "should expressly prohibit NRSROs from refusing to recognize other NRSROs' ratings" (p. 7), and that the Commission should adopt an unprecedented new "mutual recognition" system, under which a rating agency would be "entitled to recognition by other NRSROs without penalty" once it is designated as an NRSRO. (p. 12).

To call Fitch's proposal radical is an understatement. It would flatly prohibit NRSROs from incorporating their own analyses into ratings on structured products (and, if Fitch has its way, other products as well) where they have not rated all the underlying assets. It would also leave NRSROs no choice but to accept blindly the rating opinions of not only Fitch, but any other rating agency that meets the threshold for designation under the Act. Fitch's proposal is thus directly at odds with the very nature of analytical independence. Indeed, under Fitch's regime, an NRSRO would be required to accept another firm's ratings and issue an opinion based on those ratings (and be held accountable for that opinion) ***even if***

it believed the opinion to be insupportable. As explained in Ratings Services's initial comments and in other comments filed with the Commission on March 12, 2007, Fitch's proposal also runs directly afoul of one important purpose of the Act, which is to "provide investors with more choices." *See* S. Rep. No. 109-326, at 7 (2006).

In our March 12, 2007 comment letter, Ratings Services offered a hypothetical scenario in which an NRSRO has an existing rating on 85% of the assets in a particular pool for a structured transaction with the other 15% rated by another rating agency. Under Fitch's proposal, the NRSRO would be forbidden from forming and utilizing its own opinions on the remaining 15% of assets. It would be compelled to issue an opinion relying on the ratings of other agencies even if, at the end of the day, it ***disagreed*** with that opinion. Such an approach would not only be inconsistent with the notion of analytical independence, but with the concept, at the heart of the Act, of increasing competition. That concept was not based upon the view that all NRSROs should assess the risk of default identically but that more competition would lead to more and different views. Rating agencies, in the view of Congress, were not to be treated as interchangeable commodities, as Fitch appears to believe. After all, if all ratings were the same what point would there be in fostering more competition? For its own ends, though, Fitch now asks the Commission to require that all NRSROs sing from the same hymn book in a significant segment of the market.

Ratings Services is not alone in the view that Fitch's proposals represent a fundamental departure from the core principles of competition and analytical independence underlying the Act. The Financial Services Roundtable, a consortium representing 100 leading financial services companies, explained in its March 12, 2007 comment letter that:

> Rule 17g-6(a)(4) . . . is ambiguously drafted and can be interpreted as mandating that NRSROs use the ratings of other NRSROs interchangeably with their own. This would contradict the Reform Act and undermine rating agency independence to the detriment of the financial markets. This rule should be clarified to plainly state the legislative objective – that such practices be prohibited only if they are due to coercive or anti-competitive intent and not if they represent legitimate approaches to forming an independent rating opinion.

Business school professors Herwig and Patricia Langohr similarly warned against requiring NRSROs to accept each other's ratings at face value and offered a suitable analogy:

> [W]hat the provision requires, as a principle, is very serious. It requests an NRSRO to blindly endorse the ratings of competitors and to assume the subjective tradeoffs of their competitors as one's own. In other words, the provision requires an NRSRO to put its own reputation at risk on behalf of the commercial interests of a competitor.
>
> This is not only a completely unreasonable request on the grounds of fair competition, this provision also contradicts the independence of CRAs in making risk assessment judgments and destroys the legitimacy of a CRA's

concern about its reputation. The rule is like forcing a doctor to prescribe treatment for a patient based on another doctor's diagnostics that remain locked in a black-box.

Fitch's Statistics Are Both Wrong and Irrelevant

In defense of its assault on analytical independence, Fitch spends several pages of its March 12, 2007 letter arguing that "there is no statistical or other legitimate basis for a NRSRO to refuse to recognize another NRSRO's ratings without penalty." Fitch Notching Letter at 8-11. Fitch claims that default and transition studies, the so-called "Gini curve," and other data show that Fitch ratings are "highly comparable" to Ratings Services's and Moody's ratings. *Id.* Fitch misses the point.

- Ratings are not fungible, despite what Fitch claims, and there is significant evidence to demonstrate that NRSROs have often differed (and differed significantly) with respect to their views of credit quality. Indeed, the Act's very purpose — the opening of NRSRO status to new rating agencies — is premised on the fact that credit ratings are opinions reflecting a firm's independent analysis of numerous factors and its application of procedures and methodologies that are often radically different from firm to firm.

- Even if historical default probabilities among Ratings Services, Moody's and Fitch could be said to bear a relationship, that fact would have no relevance under the Act's ***new*** NRSRO regime which, under Fitch's proposal, would require Ratings Services to accept blindly ratings from any number of NRSROs, including NRSROs with markedly different and shorter track-records than the three cited in Fitch's letter.

Whatever weight one gives to the statistics cited by Fitch — some of which are derived from Fitch's own "global comparability study" — there are credible, ***independent*** statistics to the contrary. For example, a recent independent analysis prepared by ING Bank concluded, among other things, that "there is more disagreement than agreement between agency scores of credit risk for [corporate ratings]," and that differences between such ratings "range from one to as much as six notches for Moody's versus S&P and as much as four notches for Moody's versus Fitch ratings." *See Fitch, Moody's or S&P*, attached hereto as Exhibit A, at 2-3.

In addition, and perhaps more importantly, any historical correlation in default probabilities among three ***designated*** NRSROs is no justification for commoditizing (under Fitch's "mutual recognition" regime) future ratings among many more rating agencies ***registered*** under the Act. Indeed, the Act's very purpose is to lower barriers to entry and increase competition, thus expanding the number of NRSROs well beyond the three that are the subject of Fitch's studies. Under the new regime, the Commission is required to grant the request of a rating agency to become an NRSRO if the rating agency makes all necessary disclosures, submits a complete application and has sufficient financial backing. Indeed, the Senate Report issued in conjunction with the Act observed that under the Act "the Commission will grant registration unless it finds that 'the applicant does not have adequate financial and managerial resources to consistently produce credit ratings with integrity and to materially comply with the procedures and methodologies'" disclosed in its application. *See* S. Rep. No. 109-326, at 10 (2006).

Under the new NRSRO designation process it is impossible to know which rating agencies will apply to become NRSROs and there is a likelihood that many will have a limited track record and no national recognition as providers of credible rating opinions. That alone makes Fitch's proposal unworkable. It is not only Fitch's ratings that NRSROs would be required to accept at face value, but the ratings of every other new NRSRO. While Fitch's proposal would have been objectionable enough under the former regulatory regime, under the new statutory regime, in which the number of NRSROs is expected to increase, the proposal is especially misguided.[1]

Fitch's response to this point demonstrates conclusively the impossibility (and self-serving nature) of its position. Indeed, Fitch's only argument is to assert that "[a]s a practical matter, it is highly unlikely that the market will accept securities rated by an unestablished new entrant without such securities also bearing a rating from one or more existing NRSROs." Fitch Notching Letter at 15. There are several fundamental failings with this argument:

- First, Fitch cites no evidence in support of its assertion, and provides no analysis as to why it is correct. The omission is glaring, and also directly contrary to the new NRSRO regime. Indeed, the fundamental point of the Act was to make it so that the "market" has more options from more voices when it comes to NRSRO ratings. Fitch's position, on the other hand, is an attempt to turn the Act away from one designed to foster more independent views and into one that promotes at whatever cost Fitch's anti-notching agenda.
- Second, Fitch's argument ignores entirely the actual content of the rule that Fitch advocates. Under Fitch's proposal, in rating a structured vehicle, an NRSRO would be required to take at face-value ratings on underlying assets from ***any and every other*** (not just pre-existing) NRSRO. Thus, an issuer looking to receive a rating from Ratings Services on its structured vehicle would have every incentive to go to a different

1 Fitch claims in its letter that there is support for a "mutual recognition" approach in the Basel II Framework. The argument is a red herring. The Basel II Framework focuses on how banks calculate capital and provides that they cannot use the external ratings of any rating agency that is not a designated ECAI. Nothing in the Basel II Framework even begins to set standards on how a rating agency forms a rating opinion; it merely informs banks what ratings they can utilize *if* they choose a standardized approach. Put simply, even if the Basel Committee chooses not to differentiate among the ratings of Ratings Services, Moody's and Fitch for regulatory capital purposes (as Fitch states on page 13 of its letter), that does not mean that the ratings of the three agencies are somehow interchangeable.

(and perhaps less rigorous or less tested) NRSRO for ratings on the underlying assets and then compel Ratings Services to attach its good name — and the market benefits to the issuer that come with it — to the securities of the structured vehicle. We have already examined in detail the problems with that scenario and will not do so again here other than to point out that Fitch cannot, as it attempts to do, brush aside this fundamental defect in its position.

- Third, Fitch has the issue backwards. The problem is not that "the market" would or would not accept ratings from XYZ rating agency, but rather that Ratings Services, and others, would be legally required to accept those ratings, ***even if they did not agree with them or sufficiently understand XYZ's methods to form a meaningful view***. Again, Fitch's "defense" of its position fails entirely to address this point.

* * * * *

In short, there is no evidence that notching is abusive or coercive to justify its prohibition, particularly as this analytical practice is followed by Ratings Services. Even if clear evidence did exist, however, the only sensible response would be a rule that actually addresses the purported problem — that is, notching itself — not, as Fitch would have it, a rule that undermines the basic principle of analytical independence by requiring NRSROs to accept blindly, and at their peril, any and all ratings from any and all other NRSROs. The proposal is unjustified and unworkable on its face, and it should be rejected.

<u>Other Comments</u>

We turn next to several other comments submitted to the Commission on March 12, 2007. We note that there was widespread agreement among many commenters, including rating agencies, market participants and professors, that the recordkeeping requirements in the Proposed Rule are in many respects overbroad and unduly burdensome; that standardized metrics for ratings performance are unwarranted; and that the Commission should not involve itself in determining appropriate fees paid to rating agencies. Several commenters also agreed that conflicts of interest should be subject to "manage and disclose" requirements rather than outright prohibition; that Proposed Rule 17g-6(a)(5) (regarding unsolicited ratings) is not narrowly tailored to accomplish the purposes of the Act; and that the terms "associated persons" and "affiliates" are potentially overbroad without the inclusion of some limiting language.

Ratings Services supported each of the above suggestions in its own comment letter and believes the Commission should adopt them. Additionally, some commenters have raised other points that Ratings Services supports. Among other things, we agree with commenters who have suggested that the Proposed Rules include a phase-in period of one year to permit rating agencies to come into full compliance with all requirements. In addition, we support the views of those commenters who have proposed that a "knowledge" and "materiality" standard be included in the annual certification requirement of Form NRSRO, which currently requires an unqualified assertion that the Form is "accurate."

Thank you again for the opportunity to comment on the Proposed Rules. If we can be of any assistance, please do not hesitate to let us know.

Sincerely yours,

Vickie A. Tillman

Vickie A. Tillman
Executive Vice President
Standard & Poor's

cc: The Honorable Christopher Cox, Chairman
The Honorable Paul S. Atkins, Commissioner
The Honorable Roel C. Campos, Commissioner
The Honorable Annette L. Nazareth, Commissioner
The Honorable Kathleen L. Casey, Commissioner
Erik R. Sirri, Director, Division of Market Regulation
Michael A. Macchiaroli, Associate Director, Division of Market Regulation

EXHIBIT A

Debt Markets

EM Debt Strategy

ING WHOLESALE BANKING

Emerging Markets

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Fitch, Moody's or S&P

Which agency do investors agree with more?

7 March 2007

We revisit our November 2005 study on spread-to-ratings trends in order to assess which agency's ratings assignments are more closely tracked by investors, separately among corporates and sovereigns.

In our analysis, we examine 643 EM corporate issues, amounting to US$206bn, that are rated by at least one ratings agency. Collectively, our sample represents around 63% of outstanding EM corporate debt.

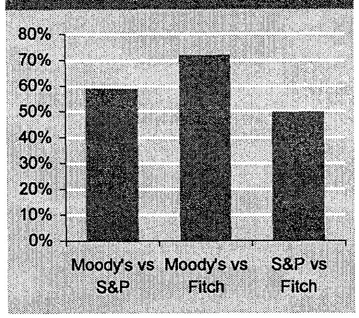
We note that, for the most part, there is more disagreement than agreement between agency scores of credit risk for corporates. On the corporate side, the ratings differences range from one to as much as six notches for Moody's versus S&P and as much as four notches for Moody's versus Fitch ratings. This compares with the sovereign side, where agency disagreement does not amount to a greater than a two notch differential in all cases.

Through to single-B credits, Moody's-rated bonds generally see higher spreads demanded by investors in the secondary market. Meanwhile, Fitch and S&P ratings-based bond spreads trade at similar levels and their differential is negligible.

When segregating our analysis by agency, the statistical fit among EM corporate spreads is generally tighter when based on S&P ratings alone. S&P R-Square statistics across tenors display the most consistently stronger fit than for other agency ratings.

While the statistical spread-to-ratings fit remained strong across tenors for corporates, for sovereigns the relationship unravels when moving down the duration spectrum. Seemingly, investors focus on other valuation factors outside of ratings for shorter-dated sovereigns whereas for corporates, investors utilise ratings across the board.

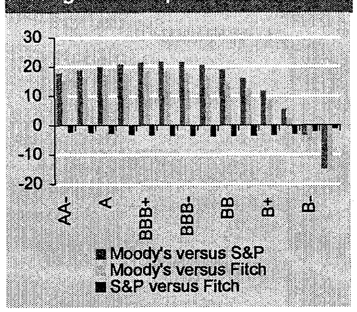
Cross-agency ratings disagreement



Percent of total issuer ratings where agencies disagree.

Source: ING

Ratings-based spread differences



Source: ING

Fig 1 Cross-agency corporate ratings discrepancy details

	30-yr	10-yr	8-yr	7-yr	5-yr	4-yr	2.5-yr	<2-yr	Total	% total
Number of bond issues examined	**47**	**67**	**67**	**71**	**79**	**95**	**98**	**119**	**643**	
Number unrated by Moody's	2	12	10	7	11	12	12	93	**159**	25%
Number unrated by S&P	0	7	5	11	15	22	29	92	**181**	28%
Number unrated by Fitch	12	24	23	19	40	37	40	59	**254**	40%
Among credits on which two agencies assign a rating										
Number of Moody's vs S&P agreement	17	27	26	25	31	55	32	21	**234**	41%
Number of Moody's vs S&P differences	27	37	38	43	45	37	59	50	**336**	59%
Maximum credit notch diff (Moody's vs S&P)	3	6	6	4	4	5	4	4		
Average credit notch diff (Moody's vs S&P)	0.86	1.13	1.12	1.10	0.88	0.67	1.00	1.20		
Number of S&P vs Fitch agreement	18	17	16	24	16	30	29	25	**175**	50%
Number of S&P vs Fitch differences	14	23	25	24	20	25	22	21	**174**	50%
Maximum credit notch diff (S&P vs Fitch)	1	3	3	2	3	2	1	2		
Average credit notch diff (S&P vs Fitch)	0.4375	0.75	0.93	0.60	0.67	0.55	0.44	0.48		
Number of Moody's vs Fitch agreement	11	11	11	11	9	16	14	17	**100**	28%
Number of Moody's vs Fitch differences	21	29	30	37	27	39	37	36	**256**	72%
Maximum credit notch diff (Moody's vs Fitch)	3	4	4	3	3	3	3	3		
Average credit notch diff (Moody's vs Fitch)	1.06	1.23	1.36	1.33	1.00	0.93	1.30	1.21		

Analysis is based on 643 EM corporate debt securities.
Source: Moody's, S&P, Fitch and ING

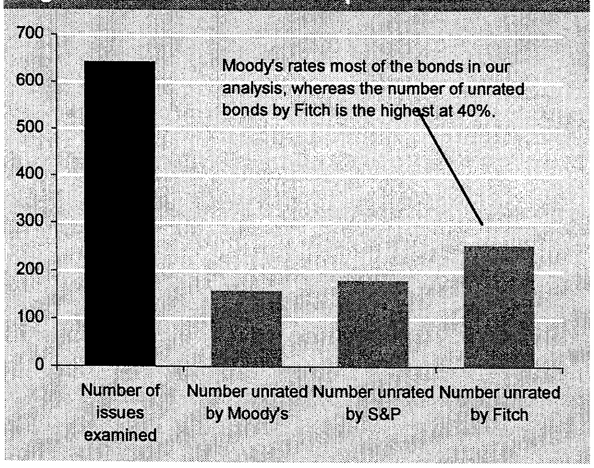
In our analysis, we examined 643 EM corporate issues rated by at least one ratings agency. The amount outstanding of these issues is about US$206bn, or around 63% of outstanding EM corporate debt. Among these, Moody's rates the greatest number, with only 25% of outstanding issues unrated by the agency. Fitch rates just 60% of the sample with 254 bonds unrated (Figure 2).

Level and scale of ratings disagreement

The amount of cross-agency ratings disagreement is similar to that among sovereigns...

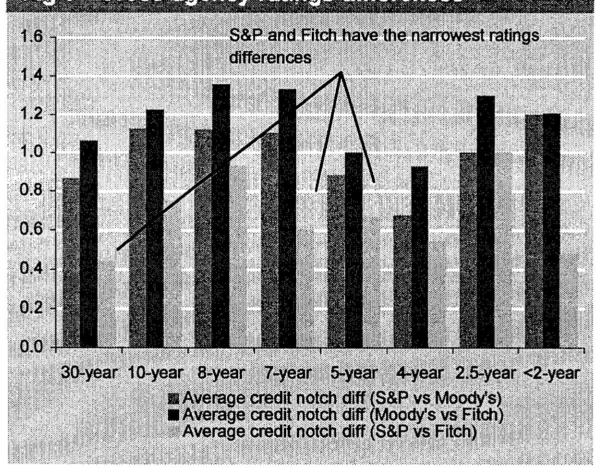
As the data in Figure 1 reveals, there is more disagreement than agreement between agency scores of credit risk for corporates. This is actually no different for corporate ratings than it is for sovereigns (Figure 4). An exception would be for S&P and Fitch ratings where there is greater agreement among sovereign ratings (69%) than there is for corporates (50%). Still, these two agencies are generally in closer agreement with each other than they are with Moody's.

Fig 2 Number of unrated corporate issues



Source: Moody's, S&P, Fitch and ING

Fig 3 Cross-agency ratings differences



1 = one ratings notch
Source: Moody's, S&P, Fitch and ING

Fig 4 Cross-agency sovereign ratings discrepancy details

	Moody's vs S&P	%	Moody's vs Fitch	%	S&P vs Fitch	%
Agreement	28	44%	26	48%	40	69%
Disagreement	36	56%	28	52%	18	31%
Maximum credit notch diff	2		2		2	
Average credit notch diff	0.672		0.630		0.328	

Source: Moody's, S&P, Fitch and ING

...but there are marked differences in terms of the scale of these disagreements

However, the scale of disagreements for cross-agency sovereign ratings and those for corporates is significantly different. On the corporate side, the ratings differences range from one to as much as six notches for Moody's versus S&P and as much as four notches for Moody's versus Fitch ratings. This compares with the sovereign side, where agency disagreement does not amount to a greater than a two-notch differential in all cases.

It is worthy to point out that corporate ratings differences between S&P and Fitch are generally lower and do not exceed three notches. Also, the average credit notch differential among sovereigns both agencies rate is just one-third of a notch and is less than one notch across tenors among corporates. Versus Moody's, these agencies average greater differences among both sovereign and corporates.

The greatest discrepancies are notable among 8 and 10-year corporate bonds

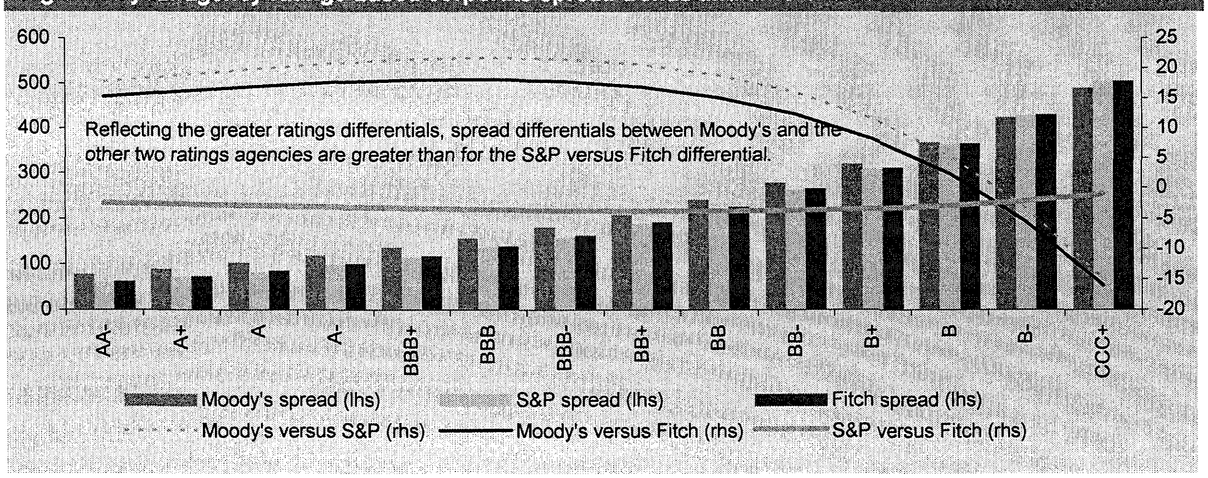
Among corporates, the greatest discrepancies are concentrated among 8-year to 10-year instruments. This holds true even for S&P versus Fitch ratings. In this segment, both the maximum ratings difference and average credit-notch difference is highest than elsewhere along the duration spectrum. This is not related to the relative number of securities analysed (see Figure 1). The greater uncertainties related to credit risk in this segment might be expected to see greater secondary market spread volatility for related instruments.

Whose ratings do investors follow more?

On average, investors demand higher spreads of Moody's-rated bonds

Through to single-B credits, Moody's-rated bonds generally see higher spreads demanded by investors in the secondary market. Meanwhile, Fitch and S&P ratings-based bond spreads trade at similar levels and their differential is negligible, although a slight bias in favour of S&P-rated credits (ie, lower spreads) can be noted across the board (Figure 5).

Fig 5 10-year agency ratings-based corporate spread trends and differentials



Source: ING

The statistical fit of secondary market spreads and ratings should also be reviewed

However, spread levels alone are not necessarily the best indicator of which agency's credit risk assessment investors prefer. This should be paired with an analysis of the statistical fit between secondary market spreads and underlying credit ratings by agency.

Spread fit is tighter with S&P ratings than other agency credit risk assignments

On this basis, as seen in Figure 6, when segregating our analysis by agency, the statistical fit among EM corporate spreads is generally tighter when based on S&P ratings alone. S&P R-Square statistics across tenors display the most consistently stronger fit than for other agency ratings. Fitch does score slightly higher for 7-year bonds and almost the same for 2-3 year bonds. Meanwhile, for Moody's, with the exception of the longest-tenored instruments, where the agency's statistical fit is higher than for Fitch, the agency consistently ranks the lowest.

Fig 6 Statistical fit: agency ratings and corporate spreads

	30-year	10-year	8-year	7-year	5-year	4-year	2.5-year
Moody's R-square	0.634	0.528	0.594	0.595	0.652	0.690	0.555
Moody's Standard Dev	*90.6*	*140.9*	*135.1*	*133.3*	*151.0*	*129.2*	*119.7*
S&P R-square	0.653	0.731	0.781	0.690	0.780	0.727	0.658
S&P Standard Dev	*90.9*	*141.2*	*135.3*	*133.5*	*151.2*	*129.4*	*119.9*
Fitch R-square	0.540	0.693	0.712	0.702	0.741	0.728	0.655
Fitch Standard Dev	*92.2*	*141.2*	*141.4*	*139.3*	*151.1*	*129.3*	*119.9*

Source: Moody's, S&P, Fitch and ING

The statistical fit is looser for sovereigns than it is for corporates suggesting less reliance on agency ratings

As we have highlighted in many past analyses comparing sovereign and corporate bonds, the statistical fit is looser for sovereigns than it is for corporates (see Figure 7). This likely reflects the greater reliance on agency credit risk assignments by investors given the relatively lower analyst coverage and information opacity of corporates versus sovereigns. However, as with corporates, it also reveals that the spread-to-ratings fit is tightest for S&P ratings.

The data suggests that LT-FC ratings are more relevant for long-term sovereign bonds

It is further interesting to note, that the reliability of the relationship for all agencies declines as we move further down the duration spectrum. The data suggests that LT-Foreign Currency ratings are indeed perceived as long-term credit risk indicators among sovereigns, where the strongest fit is among 30-year bonds. This compares with corporates, where there is some break-down of the fit beyond 10-year bond spreads, but for the most part, the statistical fit remains strong across the board. (Admittedly, the long-end brake-down may be related to the smaller sample there.)

Seemingly, investors focus on other valuation factors outside of ratings for shorter-dated sovereigns (eg, liquidity, scarcity value, political risk, ST rollover risks, domestic investor demand) whereas for corporates, investors utilise ratings across the board. It is possible that as the corporate market becomes more sophisticated, we may see shorter-dated corporates go the way of sovereigns.

Fig 7 Statistical fit: agency ratings and sovereign spreads

	30-year	10-year	7-year	5-year	2.5-year
Moody's R-square	0.459	0.427	0.365	0.297	0.261
Moody's Standard Dev	*120.4*	*112.2*	*109.6*	*116.3*	*44.8*
S&P R-square	0.492	0.448	0.405	0.329	0.292
S&P Standard Dev	*120.3*	*111.4*	*109.5*	*116.3*	*44.8*
Fitch R-square	0.478	0.420	0.369	0.305	0.290
Fitch Standard Dev	*122.6*	*114.6*	*111.8*	*118.8*	*45.6*

Source: Moody's, S&P, Fitch and ING

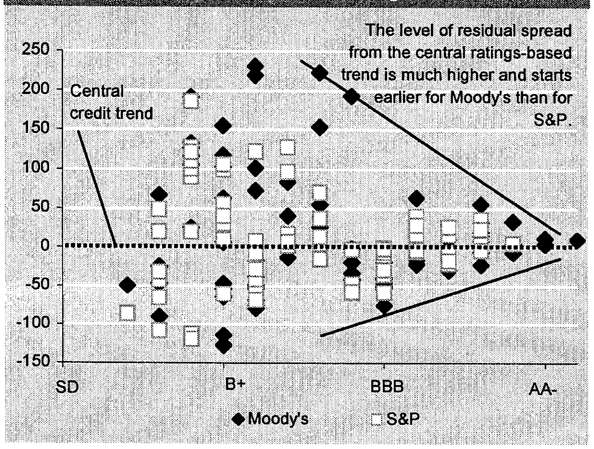
When does the relationship appear to break down?

As might be expected, across security tenors, spread deviance away from the corporate credit trend rises as credit quality declines. This occurs for ratings-based spreads among all agencies.

The spread-to-ratings relationship breaks down earliest for Moody's

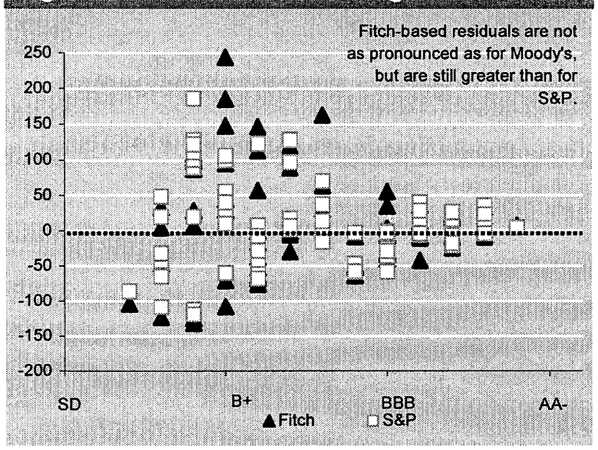
However, when observing residuals on an agency-by-agency basis, this trend develops earlier for Moody's, at around the A+ level (Figure 8 and 10) whereas for S&P ratings, corporate spreads do not notably deviate from the trend until the BBB level. This is fairly consistent among tenors. The pattern is similar for Fitch (Figure 9 and 11) ratings, although less pronounced than was the case for Moody's.

Fig 8 5Y residuals from the ratings trend



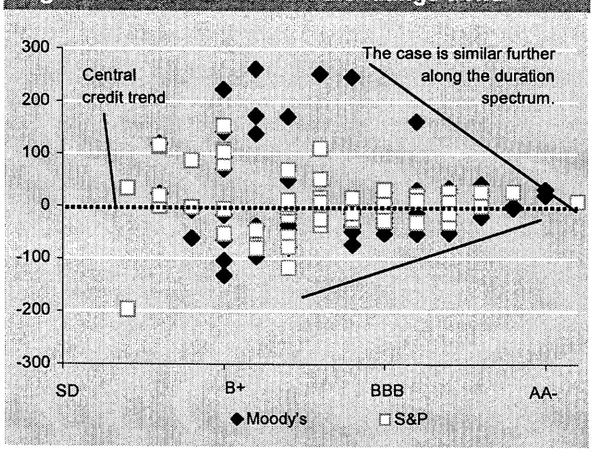
Source: Moody's, S&P, Fitch and ING

Fig 9 5Y residuals from the ratings trend



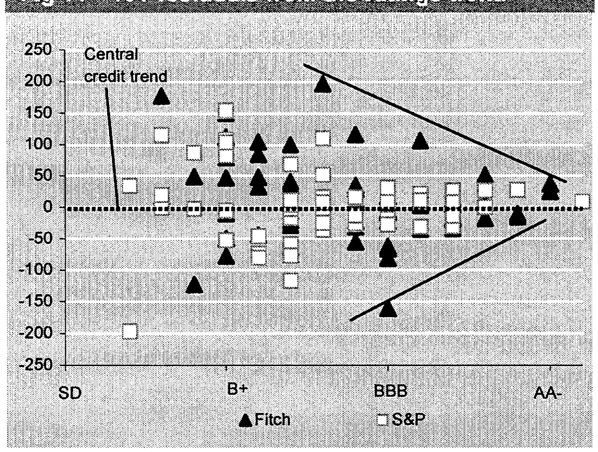
Source: Moody's, S&P, Fitch and ING

Fig 10 10Y residuals from the ratings trend



Source: ING

Fig 11 10Y residuals from the ratings trend



Source: ING

Are there regional-related differences?

Asian corporates display the greatest differences among the three agencies, in terms of statistical fit

As seen in Figure 12, across tenors, the spread-to-ratings fit among Latam credits is strongest with Fitch and S&P than with Moody's. In Asia, the picutre is more mixed. Meanwhile, in EMEA, with the exception of 30-year paper, the statistical fit is stronger between EMEA spreads and ratings as assigned by Fitch and S&P, with a bias in favour of the latter agency's credit risk assignments. It is interesting to note that R-Squares drop marketedly on the longest-dated bonds in the case of both S&P and Fitch for Asian and EMEA credits.

Fig 12 Regional R-Square stats: agency ratings and corporate spreads

	Moody's			S&P			Fitch		
	EMEA	Asia	Latam	EMEA	Asia	Latam	EMEA	Asia	Latam
30-year	0.656	0.539	0.647	0.300	0.488	0.694	0.342	0.439	0.639
10-year	0.681	0.728	0.756	0.874	0.724	0.829	0.866	0.703	0.830
8-year	0.622	0.679	0.722	0.790	0.712	0.780	0.834	0.839	0.772
7-year	0.332	0.739	0.635	0.688	0.687	0.669	0.563	0.730	0.657
5-year	0.654	0.626	0.803	0.864	0.704	0.817	0.826	0.649	0.806
4-year	0.671	0.789	0.651	0.745	0.776	0.617	0.815	0.786	0.619
2-3 year	0.580	0.677	0.607	0.748	0.549	0.659	0.749	0.557	0.666

Source: ING

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