THE STATE UNIVERSITY OF NEW JERSEY
RUTGERS

Department of Finance and Economics - Faculty of Management
Janice H. Levin Building, School of Business - New Brunswick
94 Rockafeller Road, Piscataway, New Jersey 08854-8054

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

May 12, 2007

Re: SEC Proposed Rules Implementing Provisions of the Credit Rating Agency Reform Act

Dear Ms. Morris:

I am writing to express my view on SEC proposed rules on the regulation of credit rating agencies (NSROs). In particular, I would like comment on Proposed Rule 17g-6(a)(4) which involves CDO rating practices – how a rating agency rating a CDO should regard collateral securities backing the CDO that have been rated by another agency but not by the agency rating the CDO. The intent of the Rule is to limit potential abuses by the rating agencies.

I share with Professor Darrell Duffie's point of view that, while the intent is good, it "could end up regulating the provision of information to investors in a way that could provide incentives for uniformity of ratings, rather than competition among NRSROs to develop a reputation for providing accurate information."

American companies have had a long tradition of self-regulation. Part of the reason is that American companies treasure their reputation and view that as their intangible assets. Little government interference (I know it as "Negative List Regulation") has helped cultivate this tradition. While there have been some scandals, the financial industry in general has advanced triumphantly and remained as the leader of the world. As Professor Duffie pointed out, the reputation effect is the key to prevent the rating agencies from abusing their power of rating.

In the case of CDOs, it is common for market participants to do "rating shopping". Indeed, ratings are much like audit opinions and quite subjective.[1] Hence, it would seem to make sense to promote the idea of uniform rating. However, such idea will greatly hinder an agency's true evaluation, much like if we were to ask all CPA firms to agree on one audit opinion on a firm.

---

[1] We have witnesses recently that the largest three rating agencies have adopted more objective rating methodologies. For example, Moody's acquired KMV (a company specializing in quantitative rating) in 2002 to improve its rating quality and transparency.

THE STATE UNIVERSITY OF NEW JERSEY
RUTGERS

Department of Finance and Economics - Faculty of Management
Janice H. Levin Building, School of Business - New Brunswick
94 Rockafeller Road, Piscataway, New Jersey 08854-8054

In my view, such a Rule is counter American's free market spirit and the great tradition of self-regulation. Many other countries envy such tradition and yet such a Rule shall move us backwards.

If you have any question, please do not hesitate to contact me via email (rchen@rci.rutgers.edu), telephone (732-445-4236), or letter mail. I thank you for considering my opinion in this matter.

Sincerely yours,

Ren-Raw Chen
Associate Professor of Finance
Rutgers, The State University of New Jersey