



## Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-Ku

Tokyo 104-0061, Japan

TEL: (81-3)3544-7014 FAX: (81-3)3544-7027

March 18, 2009

*U. S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090.  
Attention: Office of the Secretary*

***File No.: S7-04-09; Release No. 34-57967***

***Re: Comment of Japan Credit Rating Agency, Ltd. ("JCR") on Re-Proposed Rules for Nationally Recognized Statistical Rating Organizations ("NRSROs")***

*Dear Madam Secretary:*

*We are pleased to submit for the Commission's consideration our comment on the Re-Proposed Rules for Nationally Recognized Statistical Rating Organizations, which were published in the Federal Register on February 29, 2009. We hope the Committee will find our comment useful.*

*Respectfully submitted,*

---

*Takefumi Emori /s/  
Managing Director*

cc: Yoshi Saito, Esq. (Manelli Denison & Selter PLLC)

**Comment :**

1. Regarding the proposed amendments to paragraph (d) of Rule 17g-2, JCR believes that the proposed delay of twelve (12) months for public disclosure of a previous rating action is not sufficiently long to protect our subscription fees. JCR does not conduct periodic reviews of previous ratings precisely in 12-month intervals; rather, it sometimes conducts annual reviews with delays of a few months. Thus, on an anniversary day of a previous rating action existing rating data are often identical with those previously fed to subscribers. For JCR, subscriptions are a vital, growing source of income. They are a stable source of income and, as such, support JCR's core financial needs. JCR's needs for subscriptions income will increase as the rating agency becomes more circumspect, as it must, about its traditional dependence on income from rating activities. We submit that mandated disclosure of latest rating action within 24 months, or even 30 months, will severely damage the merchantability of our subscription products, denying an opportunity for JCR to diversify its sources of income. We, therefore, request that the Commission adopt thirty-six (36) months as the shortest permissible delay for the public disclosure.
2. Regarding the re-proposed amendments to Rule 17g-5, JCR respectfully takes an exception to the Commission's assumption that the best way to promote rating accuracy with respect to structured financing instruments is through encouraging bid competition among NRSROs for available new rating projects. There are at least two serious problems with this approach. First, unsolicited rating, as promoted by paragraph (a)(3) of Rule 17g-5, would give rise to a new type of rate shopping by arrangers of structured instruments. The average arranger would prefer a more favorable rating by an unsolicited NRSRO than a less favorable preliminary rating determined by the hired NRSRO. Thus, he would switch, in most cases, from the hired NRSRO to the unsolicited NRSRO for a "sweeter" final rating. These dynamics would motivate NRSROs in general to offer the most favorable preliminary rating to an arranger that the disclosed data would permit in order to prevail in a bidding contest, real or imagined. In these circumstances, the reliability of the rating could suffer.

Second, paragraph (a)(3) would favor large NRSROs with market power at the expense of smaller NRSROs, such as JCR. Large NRSROs can devote more human and financial resources to monitoring the Internet data and offering unsolicited ratings to arrangers of structured instruments. The enhanced opportunities for offering unsolicited ratings would mean taking clients away from smaller NRSROs, because the supply of potential rating clients is inelastic to an increase in available rating services. Smaller NRSROs are likely to end up holding the short end of the stick because large NRSROs are better able to cross-subsidize their rating business with non-rating business, in addition to their advantage in scale. We respectfully submit that such a result is the opposite of the goal promoted by the 2006 Credit Agency Reform Act.

We strongly believe that the better approach for ensuring rating accuracy would be the strengthening of the disclosure regime for arrangers under the Securities Act. Exposing smaller NRSROs to potentially unfair competition, which would be the likely outcome of the proposed paragraph (a)(3) of Rule 17g-5, would fly in the face of the 2006 Act.

*(end)*