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Providing timely, accurate credit ratings to Institutional Investors

March 12, 2007

Ms. Nancy M. Morris, Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: File Number S7-04-07, comments on the Proposed Rules for the Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations

Egan-Jones is an institutional-investor supported rating firm and therefore approaches its business differently than the current Nationally Recognized Ratings Firms (NRSRO's). We have distinguished ourselves by issuing timely accurate ratings, which was recognized in studies by the Federal Reserve Board and a joint study by Stanford University and the University of Michigan (see our website). Although we provided early warning for the various corporate failures such as Enron, WorldCom, Delphi, Collins & Aikman, and the California utilities, over the past four years, the majority of our ratings have been higher than the currently recognized NRSRO's and therefore can assist firms in obtaining capital at more reasonable cost. (The higher ratings reflect the strong credit cycle experienced over the past four years.) When issuing ratings, Egan-Jones does not know and does not wish to know whether an institutional investor is long or short a particular issuer, and therefore has no incentive for skewing its ratings.

Regarding comments on the proposed rules of the Credit Rating Reform Act of 2006, we wish to congratulate the Division of Market Regulation staff on the thorough and thoughtful effort in formulating the proposed rules. This area is extremely complex, and the staff has shown a deep understanding and appreciation for the many nuances of the area. There are just a few areas that might warrant additional review and should be consistent with the intention of Congress.

Tax Returns in lieu of Audited Statements – obtaining audits, particularly for prior periods, is likely to be difficult and expensive. A U.S. federal corporate tax return should suffice, provided the return is prepared by an accountant.

Notching – notching appears to be designed to restrict competition. (If a rating firm has proven that it has timely, accurate ratings, there should be no notching.) We recommend a prohibition against the practice whereby the major rating firm rates more than 50% of the underlying issues.

Sean J. Egan, President
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