STANFORD
GRADUATE SCHOOL OF BUSINESS

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April 3, 2007

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

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

Dear Ms. Morris:

I serve on Moodys Academic Advisory and Research Committee, a group of academics that meets semi-annually to discuss research issues with Moodys' staff. Among other topics, my research addresses the risk assessment and design of structured credit products, such as collateralized debt obligations (CDOs).

I have learned about Proposed Rule 17g-6(a)(4). I am struck by its potential for unintended adverse consequences. As you know, this rule could find a rating agency to be abusing its position if it threatens to lower a rating on a structured credit product on which a certain fraction of the underlying pool of collateral has not been rated by that agency. The intent of limiting potential abuses is good, but I worry about the implementation of such a rule.

If, in a rating agency's best judgment, a CDO deserves a particular rating, and if that rating is lower than that which would arise from taking another NRSRO's collateral ratings as though they are the agency's own, then the agency has opened itself up to potentially adverse complaints or actions through the application of this rule. In some cases, the intent of threatening a lower rating absent additional collateral ratings could be abusive, and in other cases the intent, as above, could be to provide accurate information and to preserve the agency's reputation for accuracy. In application, can the Rule make the distinction reasonably well?

First, I am concerned that the rule 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. If an agency finds, acting in good faith with its best efforts, that a structured note deserves a rating that is low enough to generate potential trouble for itself under this rule, the agency will have an incentive to provide an inaccurately high rating. As a result, investors may not get accurate ratings. The agency, the SEC, and other parties could find themselves involved in significant trench warfare over the best application of the

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statistical information available. Could not other available rules that address abuse of market power be applied?

Second, I am concerned about the language of the rule, which seems rather broad. How does the language of the rule distinguish between an agency that "threatens" to provide accurate information associated with a lower rating and an agency that "threatens" to provide inaccurate information associated with a lower rating? Once complaints occur, what methodology will be used to judge the distinction? This is a particularly complex area of quantitative analysis. In my opinion, there is no "standard model" that is widely accepted as reliable, and research in this area continues to make rapid but sporadic advances. Is 85% a threshold that makes sense for all sorts of structured credit products and all sorts of collateral pools, no matter how diverse? Is there a reasonably precise boundary for the sorts of collateral pools and the sorts of structured credit products that would fall under the umbrella of such a rule? Innovation in this market is also extremely rapid.

In my view, such a Rule is likely to be problematic (at best) to implement, and is likely to result in ratings that are less informative to investors.

Please let me know if you would like me to clarify any of these reactions, or to discuss this further.

Sincerely,

Darrell Duffie