March 12, 2007

U.S. Securities and Exchange Commission
Washington, D.C.
Attention: Ms. Nancy M. Morris, Secretary

Re.: Oversight of Credit Rating Agencies, File No. S7-04-07

Dear Ms. Morris:

Thank you for the opportunity to comment on the SEC's proposed rules to implement provisions of the Credit Rating Agency Reform Act of 2006 ("the Act"). I respectfully submit the following comments and recommendations.

In General

In my opinion, the proposed rules fail to implement the instructions and the intent of the Act in three essential ways:

1. The proposal is not "narrowly tailored," as required by the Act, but rather its 195 pages appear to represent expansive and burdensome requirements.

2. A fundamental purpose of the Act is to increase competition in the credit rating agency sector. But many elements of the proposal would represent an anti-competitive barrier to entry by new or smaller rating agencies, thus favoring the existing dominant competitors. The proposal should have more focus on the pro-competitive goal of the Congress.

3. The Act prohibits the SEC from regulating the procedures or methodologies used in determining credit ratings. But I believe the proposal will cause the SEC to become involved in just such regulation with a probable anti-competitive outcome, contrary to the instructions and the purpose of the Act.

Specific Issues

1. Pricing

The SEC should not insert itself into the pricing of credit rating services paid by the users of credit ratings for regulatory purposes (p. 16 of the proposal). I would suggest that a "reasonable fee" is one paid by a willing buyer to a willing seller in a voluntary transaction. The SEC should not want to create the "Reg Q," so to speak, of the credit ratings business by trying to regulate fees.

2. Information on Credit Analysts

The proposal to require extensive reporting of the personal background of all credit analysts and supervisors (p. 54) appears unnecessarily burdensome; may raise privacy issues for the individuals involved, which would be a very large number of people for a major rating agency; and seems likely to involve the SEC in regulating the procedures and methodologies of forming credit ratings, by making rules about people and their qualifications and job assignments.

3. Compensation of Credit Analysts

The proposal to require reporting of aggregate and median compensation for credit analysts (p. 62) seems of very questionable value, given the different potential locations, sizes, strategies and methods of various rating agencies. Moreover, it appears likely to involve the SEC in regulating the procedures and methodologies of forming credit ratings, by making rules about compensation.

4. 10% of Revenue Threshold

The proposal to limit revenue from one customer to 10% of total revenue (p. 92) might be disadvantageous to small and newer competitors. It seems unclear whether the "person soliciting the credit rating" could be an investor in an investor-paid ratings business model. I recommend that for the investor-paid model there be no such threshold.

5. Revenues by Product

I do not believe that the proposed reporting of revenues by product (p. 62) are needed for the stated purpose of making judgments about financial resources. The financial statements elsewhere required will be sufficient for this purpose.

6. Recordkeeping/ Document Retention/ Procedures and Methodologies

The recordkeeping and document retention requirements of the proposal (pp. 63-73) appear unduly burdensome and costly, especially for new competitors. They would constitute, in my judgment, a significant anti-competitive barrier to entry.

Moreover, it is hard to imagine that their stated use, "to monitor whether an NRSRO was following its disclosed procedures and methodologies for determining credit ratings" (p.65), will not of necessity slide into the SEC's deciding how those procedures and methodologies should be interpreted and carried out—in other words, regulating the substance of creating credit ratings in opposition to Congressional direction.

7. Standard Performance Data

In the same way, it seems likely that mandating uniform performance reporting (p.41) would become de facto regulation of the ratings themselves. Each rating agency should therefore publish its ratings performance it the form it thinks best for the market to judge.

8. Foreign NRSROs

The proposed recordkeeping and retention requirements for potential foreign NRSROs (p. 30) appear particularly onerous and would constitute a special, and in my view unjustified, barrier to entry for such firms.

9. Financial Statements

To end on a positive point, the proposed requirement that rating agencies submit financial statements (p. 59) makes good sense. This would indeed allow the SEC to make a judgment about financial resources. More important from point of view of the credit rating agency sector, it would allow the SEC to see if the dominant agencies continue to generate extremely high financial returns reflecting a lack of competition, or if a more competitive regime can succeed in moving returns toward the market cost of capital.

Conclusion

It appears that a major revision of the proposal is required to make it narrowly tailored, less burdensome, pro-competitive rather than creating barriers to entry, and to insure that the SEC is not involved in the procedures, methodologies or substance of forming credit ratings-- all as directed by Congress in the Act.

Thank you for the opportunity to comment and for your consideration.

Yours truly,

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