The University of Oklahoma

Michael F.
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College of Business

Michael F. Price Chair in Finance

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

Re: Proposed Rules Regarding Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations (Release No. 34-55231; File No. S7-04-07)

Dear Ms. Morris:

I am writing in regard to Proposed Rule 17g-6(a)(4). In the past I have conducted and published a number of studies on bond ratings and the bond rating process. Rule 17g-6(a) was brought to my attention by a friend at Moodys but I am not connected with them in any capacity and have never received any monetary or other compensation from them or any other rating agency.

I applaud the efforts of Congress and the SEC to lower barriers to entry for qualified rating agencies. Judging the risk of debt securities is an imperfect science and the market benefits from a variety of information sources, rating methodologies, and opinions.

Under the proposed rule 17g-6(a)(4) NRSROs are prohibited from:

> Issuing or threatening to issue a lower credit rating, or lowering or threatening to lower an existing credit rating, or refusing to issue a credit rating or withdrawing a credit rating, with respect to securities or money market instruments issued by an asset pool or as part of any asset-backed or mortgage-backed securities transaction, unless a portion of the assets which comprise the asset pool or the asset-backed or mortgaged-backed securities also are rated by the rating organization.

As described, the rule would prohibit " a practice,sometimes referred to as 'notching' where a credit rating agency refuses to rate...or discounts the rating for a structured product because it has not rated all the underlying assets."

In my opinion, requiring NRSROs to accept ratings of the underlying collateral issued by another NRSRO would be a mistake and would run counter to the stated goal of the legislation to promote competition in the rating industry. In my own research, we have found: (1) that rating methodologies differ among the rating agencies, (2) that rating standards differ, and (3) that the

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bond market values the ratings differently, and (4) that additional ratings bring useful, valued information to the bond market. While this research was on bond ratings but I would certainly expect it to apply to CDOs as well. If rating agencies are forced to accept the ratings on the underlying collateral issued by another agency, these different information sources, methodologies and opinions are lost. Consequently the market will be unable to recognize and reward accurate rating agencies and punish inaccurate ones when securities default.

The proposed rule would likely lead to rating shopping in which the issuer shops for the rating agency willing to assign the highest rating to the underlying assets and then obtains ratings for the CDOs by other rating agencies that investors trust more.

I endorse the opinions in the March 30, 2007 letter by Calomiris, et al that the proposed rule would:

1. Diminish the number of independent opinions in the market;
2. Obscure differences of opinions among rating agencies;
3. Prevent the market from distinguishing among the agencies by rating quality; and
4. Undermine the market's ability to offset the potential harm caused by rating shopping.

I would also add that it will lead to a lack of accountability. When a CDO defaults, the rater of the CDO will likely blame the rater of the underlying assets and the rater of the underlying assets will blame the rater of the CDO. Who is the market to blame in this case?

The commission proposes to moderate the effect of the rule by allowing the rating agencies to refuse to rate the CDO unless they rate at least 85% of the underlying assets. While I can understand the natural desire to strike a balance, I think this is a mistake. While the 85% rule likely reduces the problems stated above, it certainly does not eliminate them and likely exacerbates the incentive for rating shopping behavior. A situation in which the rating agency knows little about 15% of the underlying assets certainly confuses the market and is likely to lead to investors having little confidence in CDO ratings in general. I think it is best to allow the CDO rating agencies to apply their own own standards and requirements and therefore to be responsible for their own ratings.

Sincerely,

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