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DBRS Tower
181 University Avenue
Suite 700
Toronto, ON M5H 3M7
TEL +1 416 593 5577
FAX +1 416 593 8432
www.dbrs.com

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Filed Electronically

Ms. Nancy Morris, Secretary
U.S. Securities and Exchange Commission
100 F St., N.E.
Washington, D.C. 20549

Re: *Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations, File No. S7-04-07*

Dear Ms. Morris:

This letter supplements our March 12, 2007 letter regarding the above-referenced proposal to establish a regulatory regime implementing the Credit Rating Agency Reform Act of 2006 (the "CRA Act"). In particular, we are modifying our comments regarding proposed rule 17g-6(a)(4) in light of the divergent views expressed by other commenters on the subject of notching.

The SEC's proposal addresses two aspects of this controversial practice: (1) an NRSRO's refusal to rate, or withdrawal of a rating on, a structured product (*i.e.*, an asset pool or a mortgage-backed or asset-backed securities transaction) because it has not also rated the underlying assets; and (2) an NRSRO's downgrading or discounting other NRSROs' ratings on underlying assets, resulting in a lower rating on the structured product than would otherwise be indicated. A majority of commenters -- including DBRS -- agree that notching is an unfair, coercive or abusive business practice that stifles competition in the credit rating industry. These commenters contend that a rating organization should be able to rely on the underlying ratings of other NRSROs in determining the rating on a structured product. Other commenters, however, argue that requiring an NRSRO to incorporate ratings issued by its competitors in this fashion would compromise analytical independence and contravene the CRA Act, which prohibits the SEC from regulating the procedures or methodologies by which an NRSRO determines credit ratings.

DBRS continues to believe that both forms of notching impose a substantial burden on competition. As explained in our earlier comment letter, the harmful effects of this practice are not limited to the structured finance market, but rather extend to the wider corporate bond universe. DBRS also continues to believe that given the demonstrated comparability among ratings issued by the current NRSROs and the transparency regarding ratings methodology and performance that will be required under the new regulatory regime, an NRSRO rating a structured product should be able to rely on the quality of the ratings other NRSROs have issued on the underlying assets.

Nevertheless, in view of the concerns expressed by some commenters, DBRS proposes that -- at least as an initial step -- the Commission permit certain practices to the extent that they are disclosed, documented and justified. This interim approach should eliminate the most flagrant anticompetitive practices associated with rating structured products. It also would permit the SEC and the marketplace to determine whether notching can ever be conducted in a fair, non-coercive and non-abusive fashion, as its proponents contend. This approach would have three components.

The first component relates to downgrading or discounting the ratings of other NRSROs. In its original comments, DBRS took the position that in assigning a rating to a structured product, an NRSRO should utilize the ratings of other NRSROs, without penalty, where it does not have its own ratings on underlying assets. In following this approach, the rater of the structured product would have the freedom to select the rating of an NRSRO whose methodologies and performance are close to its own, use an average or another type of blended rating, or select the lowest available NRSRO rating. What it could not do, however, is discount or downgrade the public ratings of its competitors. Commenters opposed to the idea of mutual recognition of ratings argued that such an approach would compromise NRSROs' analytical independence and dictate their rating methodologies in violation of the CRA Act. These commenters also opined that discounting the ratings issued by other NRSROs is sometimes justified and can be carried out in a non-abusive, non-coercive and fair manner.

As Fitch Ratings noted in its April 11, 2007 supplemental comments on this issue, NRSROs already rely on a range of professional opinions and information in assigning credit ratings. These include internal bank credit risk assessments, financial statements, legal opinions and auditors' opinions. Because of this historic reliance, DBRS continues to believe that NRSROs could rely on other NRSRO ratings without compromising their independence or the quality of their own credit opinions. Nevertheless, in order to allay concerns that the mutual recognition of NRSRO ratings would somehow dictate rating methodologies or have other harmful consequences, the Commission should consider adopting a more flexible approach. In this regard, DBRS suggests that proposed Rule 17g-6(a)(4) be amended to forbid an NRSRO, in the course of rating a structured product, to discount other NRSROs' ratings in an unfair, coercive or abusive fashion, and to require an NRSRO engaging in this notching practice to satisfy three conditions.

First, information about the NRSRO's policies, procedures and methodologies relating to notching must be publicly disclosed in the same manner that information about the organization's other ratings policies, procedures and methodologies is disclosed. Second, the NRSRO must maintain records of any instances in which it downgrades or discounts other NRSROs' ratings and the reasons therefor. These records must be sufficiently detailed to permit SEC examiners to determine whether the NRSRO's notching has been unfair, coercive or abusive. Finally, the NRSRO must publish an annual analysis of its notching practices on a segmented product basis, in order to demonstrate that its notching is analytically justified. The publication of such an analysis would allow the marketplace and the Commission staff to assess the propriety of a rating organization's notching practices. Variations on this flexible approach have been endorsed by other commenters, including the Commercial Mortgage Securities Association and the Securities Industry and Financial Markets Association.

With respect to the second component, an NRSRO would be prohibited from refusing to rate or withdrawing a rating on a structured product on the grounds that it had not rated the underlying assets, if at least two other NRSROs have assigned public ratings to the assets the NRSRO did not rate. This prohibition differs from the one DBRS originally proposed by requiring two, rather than one, public NRSRO ratings for all assets that have not been rated by the NRSRO who rates the structured product. Although, given the realities of the marketplace, DBRS believes it is highly likely that all the assets in a pool would be rated by at least one NRSRO with a demonstrated history of high-quality credit assessments, DBRS has modified its original position in order to address the risks that could arise where assets were rated only by a single new NRSRO with a limited track record.

The third component of DBRS' modified proposal concerns a practice not currently addressed in proposed rule 17g-6(a)(4) -- an NRSRO's use of "shadow" ratings or internal credit assessments to evaluate a pool's assets that it does not rate. Here, as with the ratings downgrades, DBRS would propose a flexible approach under which an NRSRO would be prohibited from engaging in such practice in an unfair, coercive or abusive fashion. An NRSRO wishing to employ shadow ratings or credit assessments also would be required to formulate and publicly disclose its policies regarding such evaluative techniques and to keep records regarding any instance in which it engaged in such practice, including the amounts it charged therefor. While not required to be published, these records would be available to SEC examiners.

As an interim approach to a difficult issue, DBRS submits that its modified proposal would preserve NRSROs' analytical independence and the quality of their ratings while discouraging the most egregious anti-competitive practices relating to rating structured products. In particular, DBRS submits that requiring rating agencies to disclose, document and justify the circumstances in which they discount their competitors' ratings or charge for shadow ratings provides a strong incentive for the NRSROs to avoid unfair, coercive or abusive conduct. Furthermore, the transparency built into this proposal will allow the marketplace to judge the fairness of various NRSRO practices and react accordingly. The transparency and recordkeeping requirements will also allow the Commission's staff to monitor NRSROs' structured finance practices, both to bring enforcement actions where necessary and to inform any future rulemaking in this area.

We appreciate the opportunity to supplement our comments on this important issue, and we would be happy to supply any additional information you may desire.

Very truly yours,

/s/

Kent Wideman
Group Managing Director
Policy & Rating Committee

Mary Keogh
Managing Director
Policy & Regulatory Affairs