June 3rd, 2013

To:
Securities and Exchange Commission
Office of Credit Rating Agencies

Submitted via www.sec.gov

Reference: public comment on File No 4-661 Credit Ratings Roundtable

Dear Sirs,

With great interest we followed via webcast the roundtable on Credit Rating Agencies your esteemed institution held on May 14th, 2013. We think that the three panels provided an excellent overview over some key topics associated with credit ratings, as speakers representing issuers, investors, CRAs, supervisors, academics were able to contribute their perspectives.

We hereby take the opportunity to submit the views of our association to this important debate. Our letter first summarizes some key take-away from this roundtable and then provides a review over the latest legislation on Credit Rating Agencies in Europe. In a third part, we submit an alternative approach regarding the assignment of Credit Rating contracts in the Structured Finance market, which takes into account the European approach and the concerns voiced. Our last 2 sections briefly tackle reference on ratings and the recognition of CRAs. Attached to this letter is also the short profile of our 15 members from 11 European countries.

Key points raised during the roundtable

While there was initially a consensus in the Senat for the Credit Rating Assignment System in the Structured Finance market back in 2010, this proposal was watered down to a study in the final legislative text. Since the Dodd-Frank act has been passed, three years have elapsed during which the structure of the rating market has not fundamentally changed.

The first panel of your roundtable discussed the idea of establishing an independent board responsible for assigning credit rating contracts. A constitutional lawyer said that the proposed system was not opposing the freedom of speech provision (as issuers could still engage further CRAs), more problematic is how to assess the quality of CRAs. The discussion about possible metrics to measure the quality of ratings showed that at the end investors would judge whether the quality of the ratings is acceptable or not. The discussion then examined what would happen if the quality of one CRA is not acceptable but others don't have the capacity to do the job? Several speakers mentioned that a rotation of CRAs may be an alternative route to examine. Rule 17g5 could also be improved to allow more opinions in the market.

The second Panel 2 on rule 17g5 showed that this legislation did not reach the envisaged target, as non-hired CRAs are providing only opinions and no unsolicited ratings. We clearly think that the requirement to issue ratings on 10% of the transaction accessed constitutes a barrier-to-entry into this segment, as the issuance and monitoring of ratings at the quality expected by legislation and by investors entails high costs not even large CRAs are willing to assume. Investors are generally interested in having more opinions. Rating-shopping by issuers for the best possible rating is a practice assumed by investors.

Panel 3 showed the diversity of business models by rating agencies. Mr. Gellert from Rapid Ratings mentioned that his organization is not envisaging registering as NRSRO as requirements are far too high compared the possible benefits. We agree with Mr. Gellert on this perspective, as registration process in Europe is quite a burdensome work while some players still remain unregistered. Regulation should allow for a gradual market entry and size requirements to the type of business model followed. Mr. Kroll from Kroll Bond Ratings mentioned that developing new methodologies needs about a year and the rollout of such a methodology requires sufficient capital and capacity – the biggest barrier-to-entry into the market being that reference to ratings in private contracts usually refer to specific agencies and that investors are yet reluctant to modify these clauses.

The European approach

In the European Union, new legislation regarding Credit Rating Agencies ("CRAs") has been recently adopted by the two legislative branches. This legislation ("CRA III") should be published in the official Journal of the European Union any time soon, entry into force is expected by end of June 2013 or early July 2013.

After lengthy and thorough negotiations of the CRA III legislation, European policy makers have agreed on a number of important changes regarding Credit Rating Agencies and their operations. With regard the Structured Finance market, the following elements have been decided:

1. Minimum of 2 solicited ratings, otherwise the issue is considered unrated
2. Disclosure of underlying information on a specific website maintained by ESMA
3. Rotation of large rating agencies every 4 years in the re-securitisation market, with a cooling off period of 4 years. No rotation of rating agencies if 4 agencies have been mandated. A revision clause calls on the European Commission to evaluate the effectiveness of this clause with the option to extend it to further market segments by 2016.

Additionally, CRA III includes the following provisions applicable to all market segments:

4. In case the issuer wants to mandate 2 CRAs, the issuer should consider engaging one small CRA (defined as having less than 10% market share)
5. CRAs shall disclose on their website information about all entities or financial instruments submitted to it for their initial review or for preliminary Rating ("Rating-shopping clause")
6. All issuer-pays ratings to be published on an European Rating Platform (2 years after entry into force)

Please allow for some comments on the above solution from our side:

Ad 1 "minimum of 2 ratings" in the Structured Finance market: this requirement was undisputed by all legislative branches from the beginning. Given that CRAs use different rating methodologies, we think that additional ratings are beneficial to investors as they may provide an additional perspective or focus on different elements.

Ad 2 "**disclosure of underlying information**": the Financial Stability Board calls on investors to make their own assessments and not to rely solely and mechanistically on external credit ratings. This website should contain all relevant information on the credit quality and performance of the underlying assets. **No restrictions in terms of access** to this information shall exist.

Ad 3 "**rotation**": whereas the European Commission's initial proposal had foreseen the rotation of CRAs **to apply to all market segments** (except the Sovereign market) in order to reduce conflict of interest with the issuer-pays model and aiming at increasing competition in the rating market, the scope was reduced to the Structured Finance segment by the European Parliament and **restricted to the re-securitisation market** by the Council of Ministers, which is only a very small share of all ratings. Given the number of exemptions to the general 4 year rotation rule, the effect of this clause on the competition in the rating market will most probably be neglectable.

One important exemption to the rotation rule applies to smaller rating agencies: policy makers in Europe agreed that these smaller players usually focus on a specific market (either by geography or by market segment) and that these players could therefore not “rotate” away their client base.

Whereas the European policy makers have included a so-called **revision clause**, EACRA strongly supported the phasing in of any new provision, eg in 3 to 5 years time. The advantage of a **phasing in** approach is the legal certainty that it provides to all market participants. Credit Rating Agencies would be able to invest into the structured finance market and built up rating methodologies, expertise and track record during this period. Issuers and investors would have the time to get familiar with all credit rating agencies. Instead, the European policy makers have postponed a solution to a later stage.

Ad 4 **mandating of one small CRA**: policy makers have retained a “**comply-or-explain**” provision requiring issuers to mandate at least one small CRA. This clause incentivizes issuers to get familiar with the offering of “smaller CRAs” and to reduce reliance on the large 3 CRAs. Given that 14 CRAs in Europe qualify as “small CRAs”, issuers have a wide choice available.

While negotiating this clause, a key question related to the definition of a “small CRA”, retained was the **10% threshold of market share** measured against revenues, which EACRA supports due to its transparency (ss ESMA needs to disclose which CRAs fall under this category). It should not be measured against the number of ratings issued as some agencies may issue unsolicited ratings (some CRAs are issuing exclusively unsolicited ratings, whereas some are providing both unsolicited and solicited ratings). An **alternative** route would have been to use as a criterion whether a CRA is considered to be of **systemic importance** to the financial system or not.

Ad 6 **European Rating Platform**: the European Commission’s target was here to increase the transparency in the rating market and to allow for more comparability of ratings, a move EACRA supported. But, in order to allow CRAs to operate under the investor-pays model (with its key feature that ratings are not public but must be acquired), policy makers have agreed on an exemption for this type of ratings. EACRA is neutral regarding business models of CRAs, as each CRA should be able to define its business model – legislation should allow for all types of business models and should not be tailored according to the practice of the larger, systemic, issuer-pays CRAs.

Given the global nature of the rating market, we regret that Europe has opted for a local solution, excluding all non-EU registered/certified CRAs from this website. Additionally, in some jurisdictions supervisors and/or central banks provide similar websites of ratings – information widely unknown beyond the national borders. A wider global approach would have been by far more beneficial.

Proposal for a new approach

Based on the discussions during your roundtable as well as the European legislative experience, we hereby submit the following proposal to your kind consideration:

- Set minimum of 2 solicited ratings. The number of solicited ratings may be increased depending the asset class and the bond volume.
- No more than half of CRAs should be systemic agencies. Your esteemed institution would need to disclose which CRAs fall in which basket;
- Mandatory rotation of systemic CRAs after 4 years ,Partial renewal of the CRAs at the mid-term of the rotation period;

- No cooling off period, CRAs still able to rate after the end of the contract – but these CRA are excluded from the minimum amount of solicited ratings for a period equaling their first assignment;
- Phasing in of this provision in 3 to 5 years;

This proposal takes into account many of the concerns voiced, while providing several important advantages:

1. No new institution is being set up to administer the market: this avoids administrative costs and excludes any implicit governmental backing of the selected rating agency.
2. No problem with "freedom of speech" provision as CRAs can always be contracted – these agencies may be excluded only from the minimum number of ratings requirement
3. Rules out any questions on the measurement of the CRAs performances.
4. No random assignment of the rating contract as issuers and investors will be able to select the credit rating agency.
5. Phasing in of the provision ensures that CRAs have legal certainty and can invest into new methodologies, built up capacity and track record.
6. The minimum of 2 ratings could be increased depending on the asset class and the bond volume assessed. It is current market practice that the number of engaged rating agencies increases with the volume,;
7. Contributes to more competition in the rating market over time;
8. Reduces systemic risk as more non-systemic agencies are engaged;
9. The partial renewal of rating agencies at the mid of the contract period ensures that ratings do not suddenly change due to a change of CRA (which may apply different methodologies and therefore assign a different rating).

Reference to ratings

Reference to ratings in private contracts is a key barrier-to-entry for new rating agencies. In its letter to the G20 dated April 15th, 2013, IOSCO mentions that "laws, regulations and private contracts referencing credit ratings sometimes recognize ratings issued by larger or regulated CRAs. This embedded use of ratings in laws and regulations could be a possible factor contributing to lower competition among CRAs"

The CRA III regulation in Europe mandates in Article 5a Paragraph 2 "over-reliance on credit rating by financial institutions" that "Sectoral competent authorities (...) assess the use of contractual references to credit ratings and, where appropriate, encourage them to mitigate the impact of such references, with a view to reducing sole and mechanistic reliance on credit ratings, in line with specific sectoral legislation".

We therefore propose that all references to ratings should refer to all registered players: some asset-management contracts include in their internal guidelines minimum rating levels by specific CRAs. Given the increasing number of registered agencies, such references should be replaced with the term "registered CRA" or "NRSRO" (and if required minimum rating levels should be replaced with corresponding credit quality steps). This proposal is in line with the Financial Stability Board's target to reduce mechanistic reliance on credit ratings.

Comment on recognition of CRAs

Next to the CRA III Regulation, the European Union has agreed on the Capital Requirements Directive ("CRD IV" package), which implements the Basel III legislation in Europe. From an CRA perspective, this package contains two important modifications regarding the External Credit Assessment Institutions framework ("ECAI" status), the fore-runner status to the 2009 established CRA framework:

- Whereas the ECAI status needed to be granted separately by each competent authority in each EU member status, the recognition is now automatic for ESMA registered or certified CRAs
- Whereas before the ECAI status was just a national one, with CRD IV, the status will now be an European wide one. The European Banking Authority needs to establish mapping of ratings of all CRAs by July 1st, 2014.

A similar provision is also foreseen under the Solvency II regime applicable to insurance companies in Europe. Ratings from all CRAs will therefore have a unique meaning within the specific sectoral.

We think that the European example is a best practice to follow as it widely opens the market to new rating agencies through more transparency. While ESMA has the sole competence to supervise the issuance of credit rating, other sectoral competent authorities (EBA or EIOPA) are responsible to supervise the use of these credit ratings.

We positively note that HR de Mexico has now been recognized as NRSRO by your institution as well as that Kroll Bond Rating Agency is now certified as CRA by ESMA in Europe. While the CRA regulation allows for a specific framework for non-EU based agencies to get certified in Europe, the opposite route is yet not available. In view of increasing the choice of possible CRAs to investors, we would welcome if the US (and all other jurisdictions) provide for a specific scheme for third country rating agencies.

We would like to thank you for the opportunity to provide our comments. We remain at your full disposal if you wish to clarify any of the above or if we can be of any other assistance to you,

Sincerely yours

Thomas Missong EACRA President	Thomas Morgenstern EACRA Secretary General

About EACRA

The European Association of Credit Rating Agencies ("EACRA"), registered in Paris, was established in November 2009. The Members of the Association currently originate from 10 European countries and include the following companies:

A.M. Best Europe - Rating services Limited (AMBERS) is a subsidiary of A.M. Best Inc who have been providing ratings to the Insurance Sector since 1899. AMBERS' rating coverage includes regional, national and global insurers located throughout Europe, the Middle East and Africa.

Assekurata Assekuranz Rating-Agentur is the first independent German rating agency that has specialized on the quality evaluation of insurance companies

Axesor: The first Spanish Rating agency registered with ESMA. Specialized in the middle market segment, with ample coverage of the Spanish corporate market.

Capital Intelligence (CI) offers independent rating opinions on financial institutions, corporates and governments in a wide range of countries, especially the emerging markets of Asia, Europe and the Middle East.

Cerved Group: Italian Credit Rating Agency recognized ECAI by Bank of Italy

Coface Services: French leader in business & marketing information and credit management solutions, providing a large range of tools to secure every step of companies' sales cycle and accompany their development

Creditreform Rating: based in Germany, a company of the Creditreform Group that is European market leader in the sector of business information was founded 2000 and is specialised in ratings of companies, bonds, funds and structured finance products across Europe..

CRIF: International Credit Rating Agency based in Italy providing both solicited and unsolicited Corporate ratings.

Fedafin AG : is registered with the Swiss Financial Markets Authority and acts as rating provider to the Swiss stock exchange

Informa D&B is the Marketing, Financial and Business Information leading company in Spain, offering currently more than 3.7 million online ratings on Spanish companies

Informa is the Marketing, Financial and Business Information leading company in Portugal, offering currently more than 820K online ratings on Portuguese companies

JCR Eurasia is an international credit rating institution based in Turkey.

National Rating Agency (NRA) is one of the leading independent rating agencies in Russia. As of today National Rating Agency has assigned ratings to over 750 leading Russian and international companies.

RusRating is a credit rating agency based in Moscow, with sister agencies in Armenia and Kazakhstan. It is accredited with the Ministry of Finance of the Russian Federation.

Scope was founded as an independent rating agency in Berlin, Germany, in 2002. The company is specialized in ratings and analysis of SMEs, bonds, certificates and funds across Europe.

The Members of the Association have very different business models while assigning ratings. All are deeply rooted in their respective markets; enjoy a high market share and a good reputation with local investors