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Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Re: *Solicitation of Comment to Assist in Study on Assigned Credit Ratings Release No. 34-64456: File No. 4-629*

Ladies and Gentlemen:

Fitch Ratings ("Fitch") appreciates the opportunity to respond to the Securities and Exchange Commission's ("SEC") request for comment regarding its "Study on Assigned Credit Ratings." Fitch remains supportive of the stated goals of the Credit Rating Agency Reform Act of 2006 which are "fostering accountability, transparency and competition in the credit rating agency industry."[1] Further, Fitch continues to support the goals of the Dodd-Frank Act aimed at increasing transparency in the rating process; minimizing and managing conflicts of interest; and reducing excessive reliance on ratings by market participants, particularly investors.

The SEC proposes in its *Solicitation of Comment to Assist in Study on Assigned Credit Ratings* to use the GAO Framework described in the GAO's September 2010 report to Congressional Committees *"Securities and Exchange Commission – Action Needed to Improve Rating Agency Registration Program and Performance-Related Disclosures"* to evaluate alternative NRSRO compensation and selection models. This framework contains seven factors that the GAO felt were important to address in considering various alternatives: independence, accountability, competition, transparency, feasibility, market acceptance and choice and oversight.

Fitch believes that it is in a particularly unique position to comment on this issue. Fitch is currently one of the three major nationally recognized statistical rating organizations ("NRSROs"), albeit the smallest of the three, while representing a consolidation of four smaller NRSROs (Fitch Investors Service, Duff & Phelps, IBCA and Thompson BankWatch) combined under the current Fitch Ratings banner starting in the late 1990's.

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[1] Credit Rating Agency Reform Act of 2006 ("Rating Agency Act"), Public Law 109–291 available at http://sec.gov/divisions/marketreg/tmcompliance/nrsro-secg.htm

This corporate history means that Fitch and its predecessor agencies have a unique perspective on competition since they competed against each other as well as against the two dominant rating agencies, Standard & Poor's and Moody's, over a period of more than 20 years. The extended time period over which Fitch and its smaller predecessor rating agencies built their franchises is particularly relevant to the discussion of alternative NRSRO selection models. No other NRSRO can claim the same level of insight in developing investor and market support for alternative and additional credit opinions.

It is this experience, combined with the factors described below, which lead us to the following conclusions and recommendations:

1. No rating agency compensation or selection framework, even those suggested by regulators and Congress, is free from potential conflict. Rather those potential conflicts need to be recognized and managed in a careful and transparent manner.

2. Market and regulatory forces have already driven, and are still driving, major, positive changes in the way that NRSROs manage conflicts of interest and in the level of disclosure available to investors regarding the NRSRO selection process. It would, therefore, be premature to force an alternative NRSRO selection process upon the industry during this period of change.

3. Of the five alternatives proposed to the 15E(w) System, Fitch believes that the SEC's Rule 17g-5 Program (the "17g-5 Program") represents the most effective option for managing conflicts in the NRSRO selection process given that it is already producing results, minimizes competitive distortions, builds on existing initiatives and is cost effective. Furthermore, the 17g-5 Program could be enhanced to provide investors with additional disclosure regarding the NRSRO selection process.

4. The 17g-5 Program, particularly if strengthened as recommended by Fitch, makes the alternative NRSRO selection and/or compensation models suggested by the Study, including 15E(w), unnecessary. Further, the implementation of these alternatives, in addition to creating huge practical challenges, will likely generate new, unanticipated conflicts and increase the costs associated with securitization.

To support the above conclusions, Fitch offers the following observations:

1. NRSROs of various size and with a variety of compensation models have existed for decades influenced by a number of market forces, the most dominant of which is investor preference. No rating agency selection method is free from potential conflicts of interest.

It is important to recognize that smaller credit rating agencies (including NRSROs) have existed for decades. Most investors prefer credit rating agencies that have broad and deep coverage, hence the focus on the "Big 3." Nevertheless, smaller and specialist agencies have always existed and should continue to do so based on investor preference and market support – not on government subsidies, i.e. by virtue of 'preferential' selection. Further, the varieties of credit rating agencies that exist, both domestically and internationally, operate under a variety of compensation models: issuer paid, investor paid, subscription, hybrid, etc. The success or failure of these compensation models should be determined and judged by market forces not government regulation.

Furthermore, no NRSRO compensation or selection process is free from potential conflicts of interest. Rather, actual and potential conflicts need to be recognized, fully disclosed and managed carefully. As you know, Fitch operates under a hybrid model in which Fitch is compensated by both issuers through ratings fees and by subscribers through subscription to our research, which we believe provides for the greatest breadth and depth of market coverage and the widest availability of rating information to the public. Fitch has always had procedures in place to manage the potential conflicts offered by this model and these procedures have been enhanced substantially over the past few years in response to regulatory and market directives including the Rating Agency Act that mandated the separation of business and credit. Other rating agency selection alternatives being explored by the SEC including investor owned, user-pay and SEC selection board will not eliminate or even reduce such conflicts. Indeed, they may even create additional conflicts to those presented by the issuer-pay model.

2. Regulatory and market actions are already leading to the desired results of reduced conflicts of interest and greater disclosure regarding rating agency selection. A number of rules and regulations are still being written or instituted.

Regulation and market forces have combined over the past three years to drive dramatic changes in the structured finance markets and the NRSROs that operate in them. The changes have already resulted in a significant increase in transparency, competition and accountability among the NRSROs. In addition, many of these changes have only begun to yield results given the tenuous state of the global credit markets and the protracted recovery of the securitization market in particular.

One of the most fundamental changes to the rating agency selection process began in June 2010 with the implementation of the 17g-5 Program. Under Rule 17g-5, issuers of structured finance transactions are required to post all relevant transaction information to websites that are commonly accessible by both hired and non-hired NRSROs. Although Rule 17g-5 is barely a year old, it has encouraged and facilitated the major NRSROs to issue unsolicited commentary assessing the creditworthiness of a variety of RMBS, CMBS, ABS and Covered Bond transactions. This unsolicited commentary is clearly in the spirit of the SEC's NRSRO related rulemaking demonstrating that rating agencies continue to evolve and are focused on increasing the breadth of opinions available to investors.

Rule 17g-5 has caused an increase not only in the amount of unsolicited commentary available from the NRSROs, but also in the level of disclosure from issuers and investment bankers regarding their rating agency selection process. Fitch has noted numerous instances over the past 12 months where transaction prospectuses have described which NRSROs were shown the transaction, which were selected and why. The following example is typical of the type of language used:

> *"In the case of Class A and Class B Certificates, Fitch indicated preliminarily that it would require significantly higher subordination in order to assign a ratings of "AAA" and "A" to the classes respectively. If Fitch elects to assign ratings to these Classes such ratings may be significantly lower than the ratings assigned by XYZ rating agency."*

Again, this type of disclosure is clearly in the spirit of the Dodd-Frank Act and the SEC's rulemaking.

3. Fitch believes that Rule 17g-5, particularly if strengthened further, is the most effective and efficient way to provide investors with greater disclosure and transparency regarding NRSRO selection.

As indicated above, Rule 17g-5 has already been put into effect across the U.S. structured finance market. While the Rule has only been in effect for a relatively short period, Fitch believes that it has proven beneficial by spurring greater disclosure by issuers and encouraging NRSROs to issue unsolicited commentary on non-mandated transactions. Rule 17g-5, however, could be enhanced further. Specifically, each NRSRO's list of 17g-5 related transactions is only viewable by other NRSROs. Fitch believes that an effective enhancement would be to require that all NRSRO's list publicly on their websites the 17g-5 related transactions for which they have been engaged, regardless of whether they provide final ratings. In this way, an investor would be able to directly compare which NRSROs reviewed the transaction versus which NRSROs ultimately rated the transaction. Such a modification would significantly increase the amount of transparency surrounding the NRSRO selection process. In addition, by enabling investors to readily identify the status of an NRSRO with regards to a particular transaction, the 17g-5 Program would more effectively act as a mechanism for investors to assess the NRSRO ratings on a transaction they are considering purchasing or have purchased; a feature of the 17g-5 Program noted by the Commission.

4. Rule 17g-5, particularly if enhanced as suggested, would make the proposed alternative NRSRO selection and compensation models unnecessary thus avoiding both the huge practical challenges some of them raise and the potential for significant unintended consequences. These results could include reduced NRSRO competition, securitization market disruption, greater transaction expenses and, ultimately, an increase in the fiscal burden faced by taxpayers.

The proposed 15E(w) System will effectively provide government subsidies to NRSROs and could distort, and ultimately reduce, competition within the industry. Historically, NRSROs have competed on the basis of performance, innovation, sustainability, transparency and accessibility – qualities that needed to be demonstrated over an extended period of time before investors and other market participants – including regulators – would recognize their capability and utilize their ratings. Any alternative rating agency selection approach that attempts to “short-cut” this process by giving an NRSRO instant recognition or implied credibility without an extended period of investor and market evaluation seems imprudent and contradictory to the goal of the SEC and the Dodd-Frank Act of decreasing the role of ratings in regulations.

In summary, Fitch believes that a variety of factors influence the rating agency selection process including: depth and breadth of coverage, quality of ratings and research, investor preference and level of service. Different NRSRO compensation models can and do exist. Each of these models has benefits to offer the market but none are free from the necessity to manage conflicts of interest. A government sanctioned NRSRO selection system dramatically devalues investor influence over the selection of a NRSRO (and its applicable business model) that best meets their needs and fosters the very government sanctioning of rating agencies that Dodd-Frank seeks to end. Furthermore, substantial change has occurred and continues to occur at a rapid rate among all securitization market participants, particularly NRSROs. Many of these changes have already resulted in improvements to the quality of ratings, the transparency of the rating selection process and the level of disclosure to investors. As these changes have all occurred within a very short period and within a securitization market that is still fragile, Fitch believes that the most effective and efficient method for reducing potential conflicts of interest within the NRSRO selection process is to maintain the existing 17g-5 Program and to consider additional enhancements to Rule 17g-5.

Very truly yours,

Charles D. Brown

Charles D. Brown
General Counsel