FINANCIAL SERVICES AGENCY
Government of Japan

November 12, 2010

Ms. Elizabeth M. Murphy
Secretary
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC
20549-1090

RE: Rules for Nationally Recognized Statistical Rating Organizations; Application of SEC Rule 17g-5(a)(3) to the foreign markets

Dear Ms. Murphy,

We strongly appreciate the opportunity to communicate the views of the Financial Services Agency of Japan ("JFSA") in response to the request for comments by the United States Securities and Exchange Commission ("SEC") regarding further application of Rule 17g-5 (a)(3) ("Rule") under the Securities Exchange Act of 1934 (Release No. 34-62120; File No. S7-04-09).

JFSA has welcomed the decision of the SEC to install a temporary conditional exemption for overseas operations of Nationally Recognized Statistical Rating Organizations ("NRSROs") from the requirements of the Rule until December 2, 2010. We understand that the intended purpose of the Rule is to address potential conflicts of interest and improve the quality of credit ratings for structured finance products by making it possible for more NRSROs to rate structured finance products. However, for the following reasons, we believe that the application of this Rule should be confined to the US securitization market and that the temporary exemption should be made permanent:

First, the application of the Rule to overseas operations of NRSROs does not appear

to be effective nor necessary for the purpose of investor protection in the U.S. market. There appear to be no compelling reason why the current exemption needs to be temporary. The order granting a temporary exemption provides that an NRSRO is not required to comply with the Rule with respect to credit ratings where: (1) the issuer of the structured finance product is a non-U.S. person, and (2) the transaction of the structured finance product occurs only outside the U.S. We consider that these conditions continue to apply so that the Rule covers only operations that are relevant to investor protection in the U.S. market.

Second, as a consequence of its extra-territorial application, the Rule would put an unnecessary burden on foreign credit rating agencies ("CRAs") (such as NRSROs registered with JFSA) and arrangers of structured finance products. Computer system requirements to establish and maintain a password-protected Internet website are significant burdens on those foreign companies. As we have stated above, the transactions regarding credit ratings currently exempted from the Rule is not relevant to investor protection in the U.S. market, and therefore, such costs do not appear proportionate to the expected outcome of the application of the Rule. Especially, in Japan, since information will primarily be available only in Japanese, we do not believe that the costs resulting from the application of the Rule to the Japanese market could be justified.

Finally, foreign CRAs would face the burden of dual regulation to meet both the U.S. and foreign regulations. JFSA has already introduced a rule requiring CRAs to request the disclosure of information regarding structured finance products by issuers themselves, which is fully consistent with the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies ("Code"). More broadly, the Japanese rule requires CRAs to: i) itemize information that may be deemed valuable in an assessment by a third party of the appropriateness of the credit rating and publish such information; ii) encourage stakeholders to implement measures to enable a third party to verify the appropriateness of the credit rating; and iii) announce the details and results of the encouragement by the CRAs pursuant to sub-item (ii)[1]. If the SEC rule is applied to Japanese CRAs on top of the already-applied Japanese rule, it would appear to result in a dual and unnecessary regulatory burden which could cause a significant

[1] Article 306(1)(ix) of Cabinet Office Ordinance on Financial Instruments Business, etc. related to Regulation on Credit Rating Agencies,
http://www.fsa.go.jp/en/news/2010/20100331-4/03.pdf

disruption in the securitization market in Japan, despite the best intentions of U.S. and Japanese regulators.

For these reasons, we respectfully request that the application of the Rule be confined within the U.S. market, and the current temporary exemption be converted to a permanent one. We would like you to note that, under the Japanese framework for CRA regulation, i) credit ratings by a CRA that is a foreign corporation, which are determined at an overseas location, and which are not intended for use in Japan, are beyond the scope of Japanese regulation, and, ii) a foreign CRA may be exempted from the application of aforementioned requirements relating to the development of operational control systems: (a) in cases where it is recognized that the CRA can conduct its business fairly and appropriately by implementing alternative measures, and (b) if it is recognized that it is being appropriately supervised by the authorities in its home country with respect to the fair and appropriate conduct of business as a result of implementing the said alternative measures.

We hope that our opinion above will be reflected in your ultimate decision regarding the temporary exemption, and will result in a permanent exemption. Please feel free to contact us if you need further information.

Yours sincerely,

[SIGNED]

Masamichi Kono
Vice Commissioner for International Affairs
Financial Services Agency
Government of Japan