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May 23, 2022

Ms. Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Submitted via email: rule-comments@sec.gov

**Re: Removal of References to Credit Ratings From Regulation M
Release No. 34-94499; File No. S7-11-22[1]**

Dear Ms. Countryman:

Bloomberg L.P.[2] respectfully submits this letter in response to the above-referenced proposal by the U.S. Securities and Exchange Commission ("SEC" or the "Commission") to remove references to credit ratings from Regulation M (the "Proposal").

1. The Importance of Preserving Market Integrity and Applying an Appropriate Standard for Creditworthiness

We share the Commission's recognition of the need for an appropriate quantitative and transparent standard for creditworthiness and recordkeeping under Rule 101 of Regulation M, consistent with the requirements of Section 939A of the Dodd-Frank Act of 2010. In particular, we believe that the proposed application of a structural credit risk model requirement, which is included in the Rule 101 exception, will provide additional transparency for investors and other market participants.

To comply with the current requirements of Regulation M, market participants use ratings from Nationally Recognized Statistical Ratings Organizations ("NRSROs" or "rating agencies") to meet the Rule 101 exception. Rating agencies generally assign ratings on a through-the-cycle basis, whereas banks internal evaluations are often based on a point-in-time evaluation, using current information including market factors as well as underlying assets, and other inputs. The point-in-time approach to credit risk evaluation tends to be more dynamic and responsive to changes in markets and firm-specific information.

[1] Removal of References to Credit Ratings From Regulation M, SEC Exch. Act Release No. 34-94499; File No. S7-11-22 (Mar. 23, 2022), *available at* https://www.sec.gov/rules/proposed/2022/34-94499.pdf (the "Proposal").

[2] Bloomberg is a global leader in business and financial information, delivering trusted data, news, and insights that bring transparency, efficiency, and fairness to markets. The company helps connect influential communities across the global financial ecosystem via reliable technology solutions that enable our customers to make more informed decisions and foster better collaboration.

2. The Universe and Sample Period Used Could Impact the Selection Basis

The Proposal notes that the probability of default threshold is derived from available Structural Credit Risk Models and constitutes an appropriate proxy for creditworthiness. In calibrating the proposed probability of default threshold of 0.055%, the Commission evaluated a sample that includes 2,710 total investment grade rated issues.[3] We appreciate the use of a wide range of securities for evaluation. In our own research, using the criteria of bonds issued in 2020, non-convertible, investment grade at issuance, and denominated in US Dollars, we evaluated a sample of 3,480 bonds and arrived at a similar probability of default threshold. Alternatively, one could select a specific index of bonds, such as the Bloomberg US Corporate Bond Index (LUACTRUU Index), which measures the investment grade, fixed-rate, taxable and non-convertible corporate bond market (currently 7,171 bonds).

It is worth noting that at any specific date, the composition and population of any selected sample could change, and when evaluating a specific cutoff, the bonds that would qualify for the exception under Rule 101 could also change. For example, in evaluating LUACTRUU, which contained 7,171 bonds as of April 25, 2022, 770 or 10.7% of the total population had a one-year probability of default of greater than 0.055% which would not have passed the exemption test at inception. This result appears to be mainly consistent with the Proposal's specified cut-off. By comparison, when we use an evaluation date of March 23, 2020 (around the time of the greatest impact to-date from COVID-19 volatility), we would have seen that 2,391 or 33.7% of the total population had a one-year probability of default of greater than 0.055% and would not have passed the exemption test at that point in time. We believe this highlights the importance of selecting an objective, data driven model that is consistently applied over time and documented by the distribution participant.

3. Considerations in the Use of Bright Line Cutoffs

The use of a bright line cutoff, as proposed at 0.055%, will provide clarity to all respondents as to what is expected in evaluation and documentation. As the Proposal notes, the application of this cutoff across multiple models may have some unintended consequences. For example, different point-in-time probability of default models may produce different results for the same issuance.

Despite any potential unintended consequences, we believe the Proposal articulates a framework for an alternative measure of creditworthiness and default probability threshold that is practical, appropriately objective, and can be consistently applied by market participants. We therefore support the Commission's proposed approach.

We appreciate your willingness to consider comments on this issue and would be pleased to discuss any questions that you may have with respect to this letter. Thank you.

Very truly yours,

Gregory Babyak
Global Head of Regulatory Affairs, Bloomberg L.P.

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[3] Proposal at 68.