



Via Email

February 2, 2010

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

Re: Proposed Rules for Nationally Recognized Statistical Rating Organizations  
(File Number: S7-28-09)

Dear Ms. Murphy:

I am writing on behalf of the Council of Institutional Investors, a nonprofit association of corporate, public and union pension funds with combined assets that exceed \$3 trillion. Member funds are major shareowners with a duty to protect the retirement assets of millions of American workers. As a leading voice for long-term, patient capital, the Council applauds the Securities and Exchange Commission's (SEC) continuing efforts to address serious concerns about the integrity of Nationally Recognized Statistical Rating Organizations (NRSROs). We welcome the opportunity to comment on the proposed rules referenced above.

The Council believes that effective reform of the credit ratings industry hinges on enhanced SEC oversight, strengthened internal controls of NRSROs, expanded transparency of credit ratings, heightened standards of accountability for NRSROs and reduced reliance on ratings by all market participants. These recommendations stem from both the Council's general statement on financial gatekeepers<sup>1</sup> and the relevant recommendations of the Investors' Working Group (IWG) in its July 2009 report, *U.S. Financial Regulatory Reform: The Investors' Perspective*, which the Council has endorsed.<sup>2</sup> We are pleased that the proposed rules currently under consideration by the Commission are consistent with those recommendations.

Proposed Amendment to Rule 17g-3

We strongly support the proposed amendment to require each NRSRO to provide an annual unaudited report to the SEC describing the steps taken by the compliance officer during the year to fulfill his or her statutory responsibilities. The proposed annual report is an appropriate and much needed step in addressing NRSROs' failures to adequately manage conflicts of interest. The Council believes that the report, accompanied by a signed statement by the designated compliance

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<sup>1</sup> Council of Institutional Investors, Statement on Financial Gatekeepers (adopted May 16, 2008), <http://www.cii.org/UserFiles/file/council%20policies/Statement%20on%20Financial%20Gatekeepers%205-7-09.pdf>.

<sup>2</sup> Investors' Working Group, U.S. Financial Reform: The Investors' Perspective 21 (July 2009), [http://www.cii.org/UserFiles/file/resource%20center/investment%20issues/Investors'%20Working%20Group%20Report%20\(July%202009\).pdf](http://www.cii.org/UserFiles/file/resource%20center/investment%20issues/Investors'%20Working%20Group%20Report%20(July%202009).pdf) [hereinafter IWG Report]. The IWG is an independent blue ribbon panel of industry and market experts created by the CFA Institute Centre for Financial Market Integrity and the Council to study and report on financial regulatory reform from the viewpoint of investors.

officer, will not only promote the active engagement of the compliance officer, but also will enhance accountability at all levels of an NRSRO and generally improve the integrity of the ratings process.


Amendments to the Instructions to Form NRSRO and New Rule 17g-7—Credit Rating Reports on Revenues

Establishing a more robust system of internal controls must be buttressed by more complete, prominent and consistent disclosures of conflicts of interest. The Council and many other investors agree that NRSROs have generally allowed the quest for high profit margins to interfere with the quality of their ratings. Moreover, investors currently do not have access to the information that would allow them to understand fully the potential conflicts of interest faced by NRSROs and how those conflicts may influence ratings.

If armed with the information that would be disclosed under the Commission's proposed amendments to the instructions to Form NRSRO and the new rule, investors would be better able to assess the magnitude of conflicts of interest an NRSRO faces and the potential risk to the integrity of a particular security's rating. Moreover, the increased transparency would help deter NRSROs from putting profits ahead of objectivity. The Council, therefore, supports the Commission's proposals.

NRSROs' role in the global credit crisis underscores the need for significant change in the regulation of credit rating agencies. The Council continues to support the SEC as it takes steps to improve the transparency and independence of the ratings industry. We appreciate the opportunity to comment on these proposed rules. Please feel free to contact me with any questions at (202) 261-7086 or [laurel@cii.org](mailto:laurel@cii.org).

Respectfully,



Laurel Leitner  
Senior Analyst  
Council of Institutional Investors