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December 31, 2013

VIA EMAIL

Attn: Commissioner Luis Aguilar
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: Request for Exemption under 17 C.F.R. 240.17g-5(c)(1)

Dear Commissioner Aguilar:

I am writing on behalf of Morningstar Credit Ratings, LLC ("Morningstar") a nationally recognized statistical rating organization ("NRSRO") in connection with its request for a temporary, limited, conditional two-year exemption from 17 C.F.R. 240.17g-5(c)(1) ("Rule 17g-5(c)(1)"), which prohibits NRSROs from issuing or maintaining a credit rating solicited by a person that, in the most recently ended fiscal year provided the NRSRO with equaling or exceeding 10% of the NRSRO's net revenue for that fiscal year.

Morningstar believes that this exemptive relief will provide it with the time to diversify its product offerings, and therefore its client base, over the next two years. As part of this diversification process, Morningstar expects to continue to expand its presence in other areas of asset-backed securities over the next year, as it has recently done with the single-family rental securities market. Morningstar continues to examine other opportunities to diversify its client base through providing rating products on other asset classes. The granting of exemptive relief allows Morningstar additional time and resources to build the appropriate infrastructure to support these product lines and is consistent with the objective of the Credit Rating Agency Reform Act of 2006 to improve ratings quality for the protection of investors and in the public interest by fostering competition in the credit rating industry by allowing smaller NRSROs, like Morningstar, an opportunity to compete in the new issue markets and provide investors with a greater number of opinions.

The success of Morningstar's plans to diversify are subject to market and regulatory forces that may be out of its control, including, but not limited to, overall issuance and the concentration of issuer or arrangers in the markets it operates; the market for personnel with the appropriate experience to execute its business plans; the success of our competitors; the impact of future laws or regulations; and the investment policies and guidelines of institutional investors. Due to these variables, Morningstar cannot guarantee that it will have executed its plans to diversify, or that these plans, even if executed, will be sufficient to guarantee that this conflict of interest may not arise in the future.

* * * *

The contents of this letter may be provided in any private or public statement made by Commissioner Aguilar in connection with the approval of Morningstar's request for exemptive relief from Rule 17g-5(c)(1).

Very truly yours,

/s/ Vickie Tillman
Vickie Tillman,
President
Morningstar Credit Ratings, LLC



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December 4, 2013

VIA EMAIL

Attn: Harriet Orol
Branch Chief
Monitoring, Policy and Rulemaking Group
Office of Credit Ratings
U.S. Securities and Exchange Commission
Three World Financial Center, Suite 400
New York, NY 10281-10022

RE: Request for Exemption under 17 C.F.R. 240.17g-5(c)(1)

Dear Ms. Orol:

I am writing on behalf of Morningstar Credit Ratings, LLC ("Morningstar"), a nationally recognized statistical rating organization ("NRSRO") to request a temporary, limited, conditional two-year exemption from 17 C.F.R. 240.17g-5(c)(1) ("Rule 17g-5(c)(1)"), which prohibits NRSROs from issuing or maintaining a credit rating solicited by a person that, in the most recently ended fiscal year provided the NRSRO with equaling or exceeding 10% of the NRSRO's net revenue for that fiscal year, with regard to its issuer-paid ratings. We request confidential treatment for this request and the contents of this letter.

Background for Request

Morningstar initially operated as solely a subscription based NRSRO rating only commercial mortgage-backed securities (CMBS) transactions. We estimate that Morningstar currently has approximately of the subscription-based market available for CMBS. In 2010, Morningstar initiated an issuer-paid ratings business for initial ratings on CMBS transactions, while continuing to operate its surveillance of credit ratings on an investor-paid subscription basis. Morningstar is not currently registered to provide NRSRO ratings on any other asset class other than asset-backed securities (ABS), and has only recently begun to issue ratings in other types of ABS.

Since 2010, Morningstar has experienced significant growth in its issuer-paid new issue business. The year-to-date new issue engagements exceed its 2010 levels by 580%. Its year-over-year growth in new issue engagements has been 160%, 46.15%, and 78.95% for 2011, 2012, and the year-to-date 2013, respectively.

As a result in this growth in issuer-paid initial ratings business, we expect that revenues from one arranger and its affiliates (the "Client") will likely exceed 10% of our net revenues for the 2013 fiscal year. As of October 31, 2013, this Client accounted for of our year-to-date net revenues for 2013. We are currently forecasting that the Client will account for of Morningstar's net revenues as of its

December 31, 2013 fiscal year-end. While it is possible that these levels could decrease before the end of the year, we believe that it is unlikely that we would receive additional revenues in an amount sufficient to reduce this percentage to less than 10%. This Client was the [redacted] U.S. CMBS bookrunner by issuance amount, or [redacted] of the U.S. CMBS market as of June 30, 2013.¹ For both 2011 and 2012, the Client was [redacted] U.S. CMBS bookrunner by deal count and the [redacted] US CMBS bookrunner by issuance amount.² U.S. CMBS new issuance in the first six months of 2013 has more than doubled over the same period last year, and likewise, this Client's issuance has increased [redacted] during the same period.³

The revenues from this Client include two securitization transactions, for which it is our understanding that the issuer requires that arrangers utilize a quasi-rotational system for their engagements of rating agencies for the issuer's transactions within certain confidential, discretionary parameters. Therefore, the engagement of Morningstar on these deals is not entirely a discretionary decision of the Client. If the fees paid for our initial ratings for these transactions were not included, our revenues from this Client would only account for 5.06% of our net revenues as of October 30, 2013. If surveillance related fees for our investor-paid subscription service were also excluded from the analysis, our fees from this Client would only account for 4.07% of our net revenues.

Morningstar does not have any other client that accounts for 10% or more of its year-to-date net revenues, or any client that is forecasted to account for 10% or more of Morningstar's net revenues as of December 31, 2013.

If Morningstar continues to experience this type of growth, the limitation provided by Rule 17g-5(c)(1) could continue to be problematic until Morningstar has diversified its business. Therefore, we respectfully request the Commission extend to Morningstar a temporary, limited, conditional two-year exemption from Rule 17g-5(c)(1) for the revenues it receives from its issuer paid initial ratings business.

The Basis for this Request

Section 36 of the Securities Exchange Act of 1934 ("Exchange Act") authorizes the Commission by order to conditionally or unconditionally exempt any person from any rule under the Exchange Act.⁴ The Commission, when adopting Rule 17g-5(c)(1), noted that it intended to monitor how the prohibition operated in practice, particularly with respect to ABS, and to examine whether exemptions may be appropriate.⁵ In the past, when granting these exemptions, the Commission has considered the furtherance of the primary purpose of the Credit Rating Agency Reform Act of 2006 (the "CRA"), which is to "improve ratings quality for the protection of investors and in the public interest by fostering

¹ Commercial Mortgage Alert, www.CMAAlert.com/ranks.php (June 30, 2013).

² Commercial Mortgage Alert, www.CMAAlert.com/ranks.php (December 31, 2012).

³ Commercial Mortgage Alert, www.CMAAlert.com/ranks.php (June 30, 2013).

⁴ 15 U.S.C. § 78mm.

⁵ SEC Release No. 34-55857 (June 5, 2007), 72 FR 33564, 33598.

accountability, transparency, and competition in the credit rating industry.”⁶ We believe that the exemption requested fosters the goals of the CRA.

The exemption requested promotes competition by providing Morningstar the time to diversify its business and establish a reputation in these markets as an alternative to the largest NRSROs.

We plan to diversify Morningstar’s revenues over the next several years by entering into other credit rating markets and providing other non-credit related products, such as operational risk assessments of service providers, for which Morningstar initiated rankings in September 2011. This includes expanding its credit rating business into other classes of ABS over the next several years. Providing the exemption proposed will promote and foster competition, particularly in the ABS market, by providing Morningstar the time to develop these businesses and the infrastructure to become a viable alternative for investors in these markets.

Morningstar has issued its first non-CMBS rating on October 31, 2013 with its ratings on the first single-family rental securitization. Additionally, Morningstar has developed a business plan for its entrance into other sub-sets of ABS in 2014. Morningstar also has begun to identify potential candidates to develop the models and criteria for these potential products.

Morningstar is requesting this exemption, in part, due to circumstances beyond its control.

As noted by the Commission and others, the fees paid for an initial rating tend to be much higher than those paid by a single subscriber.⁷ Thereby, increasing the chances that when a smaller NRSRO, like Morningstar, enters into the initial ratings business, it will potentially violate Rule 17g-5(c)(1).

Additionally, issuance in the ABS market remains below pre-credit crisis levels⁸, which leaves NRSROs competing for a smaller number of deals structured by a concentrated pool of arrangers. Because Morningstar operates primarily in the CMBS market at this time, these risks are exacerbated since the CMBS initial ratings market is concentrated, with nine arrangers structuring 94.8% of the CMBS transactions as of September 30, 2013.⁹ Furthermore, because Morningstar has virtually saturated the CMBS investor-paid surveillance market and many CMBS investors have liquidated their portfolios, it cannot offset its issuer-paid revenues by obtaining new CMBS subscription revenue. Therefore, we must

⁶ See, Report of the Senate Committee on Banking, Housing, and Urban Affairs to Accompany S. 3850, Credit Rating Agency Reform Act of 2006, S. Report No. 109-326, 109th Cong., 2d Sess. (September 6, 2006).

⁷ E.g., SEC Exchange Act Release 34-65339 (September 14, 2011); 76 FR 58319-58321 (September 20, 2011).

⁸ SEC Annual Report on Nationally Recognized Statistical Rating Organizations (January 2011); see also Appendix A to this request letter for information with respect to CMBS issuance.

⁹ Commercial Mortgage Alert, www.CMAAlert.com/ranks.php (September 30, 2013).

rely on Morningstar's penetration into additional markets to reduce this concentration, which will take additional time to accomplish. Developing products and technologies to diversify our business and promote competition for the benefit of investors will be difficult if we are required to decline business from certain arrangers due to Rule 17g-5(c)(1) at a time where we are planning to expand and diversify.

The Commission should continue to support initiatives to improve competition among NRSROs consistent with the purpose of the CRA.

Despite the recent credit crisis and the information access provided under Rule 17g-5, Standard & Poor's Ratings Services (S&P), Moody's Investors Service, Inc. (Moody's), and Fitch, Inc. (Fitch) accounted for 96.42% of all outstanding ratings and 90.91% of all outstanding ABS ratings as of December 31, 2011.¹⁰ Furthermore, in light of the increasing costs of regulations, the number of viable alternatives to the largest three NRSROs for issuer paid ABS initial ratings is declining, with the Japan Credit Rating Agency, Ltd.¹¹ and Rating and Investment Information, Inc.¹² both electing to withdrawal from NRSRO registration with respect to ABS. Therefore, the grant of an exemption to Morningstar is consistent with CRA's goal to support competition between NRSROs, particularly those registered to offer ABS.

Morningstar has been focused on increasing investor demand for its ratings products, but this effort can be long and difficult, even in the post-credit crisis environment. For example, a 2013 query of Morningstar, Inc.'s open-ended mutual fund database found that in aggregate 42% of the funds' investment policies provide that the ratings used must be from S&P, Moody's, and/or Fitch or from a "major" rating agency^{13, 14}. Because Morningstar is only actively rating on sub-set of classes that have NRSRO ratings, it can be challenging to convince funds to take the action required to amend these policies to include other NRSROs, like Morningstar. This exemption would allow Morningstar to obtain revenues that will be critical to diversifying its product offerings that will increase the visibility of its ratings with investors. Without this exemption, it will take Morningstar longer to grow its business and may make it more likely that this conflict of interest will continue to emerge in the future.

An exemption granted to Morningstar will not affect its accountability for its credit ratings and the conflicts presented by such an exemption will be transparent to users of our credit ratings.

¹⁰ SEC Annual Report on Nationally Recognized Statistical Rating Organizations (December 2012).

¹¹ Notice of the Effectiveness of the Withdrawal of Japan Credit Rating Agency, Ltd. (JCR) from Registration as a Nationally Recognized Statistical Rating Organization (NRSRO) With Respect to Issuers of Asset-Backed Securities (December 2, 2010).

¹² Notice of the Effectiveness of Rating and Investment Information, Inc.'s ("RII") Withdrawal from Registration as a National Recognized Statistical Rating Organization ("NRSRO") in Issuers of Asset-Backed Securities Ratings Class (June 29, 2010).

¹³ Although there is no specific definition of "major" NRSRO or rating agency. We believe that investors and issuers have inferred that this means S&P, Moody's, and Fitch. This inference is consistent with the Commission's reports on NRSROs, which often refer to these three NRSROs as the "larger" NRSROs. *See, e.g.*, 2012 Section 15E Examinations Summary Report (November 2012).

¹⁴ *See*, Appendix B to this request letter for a chart of this survey.

Morningstar will remain accountable for the quality of its ratings and the conflict presented by any Rule 17g-5(c)(1) exemption will be made transparent to users of our credit ratings by disclosure of the conflict on Exhibit 6 of our Form NRSRO. Additionally, Morningstar maintains policies, procedures, and internal controls associated with the conflicts of interest presented by this exemption.¹⁵

Morningstar complied with the terms of both of the previous orders granting it an exemption under Rule 17g-5(c)(1)¹⁶ and the failure to provide Morningstar with a similar exemption could place it at a serious competitive disadvantage, since the inability to obtain this exemption may require Morningstar to turn away business that could help it diversify its future revenues to avoid similar conflicts of interest in the future and reduce other competitive disadvantages related to its smaller size.

* * * *

We appreciate your consideration of the above Rule 17g-5(c)(1) request. If you have any questions or need further information with respect this request please contact me at (267) 960-0536, or Dana M. Eddis at (267) 960-6001.

Very truly yours,

/s/ Vickie Tillman
Vickie Tillman,
President
Morningstar Credit Ratings, LLC

cc: Dana M. Eddis, Designated Compliance Officer

¹⁵ See, Appendix C to this request letter for these policies, procedures and internal controls. These policies, procedures, and internal controls would be updated, as necessary, to reflect any terms or conditions associated with any new exemptive order.

¹⁶ SEC Exchange Act Release No. 34-66514 (March 5, 2012), 77 FR 14580 (March 12, 2012); SEC Exchange Act Release No. 34-58001 (June 23, 2008), 73 FR 36362 (June 26, 2008).

APPENDIX A: HISTORICAL CMBS ISSUANCE¹⁷**Summary of CMBS Issuance**

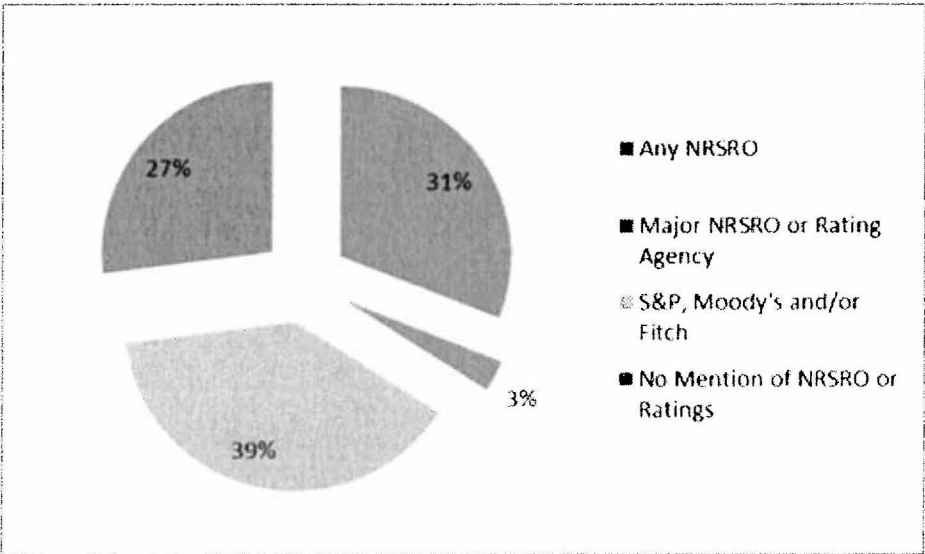
	U.S. (\$Mil.)	Non-U.S. (\$Mil.)	Global (\$Mil.)	Agency (\$Mil.)	CDO (\$Mil.)
First Half					
2004	\$43,183.3	\$15,834.3	\$59,017.6	\$3,259.9	\$2,964.3
2005	70,483.4	33,972.7	104,456.1	2,374.2	9,581.7
2006	87,271.0	31,920.2	119,191.2	2,621.9	14,154.4
2007	134,757.8	55,069.0	189,826.8	1,789.3	24,882.5
2008	12,145.9	4,967.8	17,113.7	2,513.0	8,718.8
2009	558.7	2,663.0	3,221.7	3,320.2	714.6
2010	2,421.1	2,457.1	4,878.2	11,904.1	4,082.6
2011	17,086.5	2,446.6	19,533.1	17,971.0	2,325.1
2012	18,339.0	1,861.4	20,200.4	22,823.8	738.8
2013	43,861.0	7,410.2	51,271.2	32,465.7	886.2
Full Year					
1995	\$15,749.7	\$1,050.9	\$16,800.6	\$2,011.8	\$87.3
1996	26,365.3	930.3	27,295.6	1,980.0	418.7
1997	36,797.7	3,557.0	40,354.7	2,635.3	1,008.8
1998	74,331.7	628.8	74,960.5	2,721.0	1,470.9
1999	56,556.0	9,085.0	65,641.0	1,678.9	548.3
2000	46,934.7	12,097.1	59,031.8	1,328.0	1,148.1
2001	67,314.1	22,713.8	90,027.9	4,930.8	4,503.7
2002	52,073.6	28,705.9	80,779.5	6,850.2	12,832.0
2003	77,848.1	20,802.0	98,650.1	7,982.9	5,591.3
2004	92,594.6	35,188.4	127,783.0	6,219.6	8,829.1
2005	166,502.2	69,822.4	236,324.6	4,624.7	22,354.9
2006	198,382.9	96,058.8	294,441.7	7,414.4	39,824.0
2007	228,555.9	85,492.1	314,048.0	3,165.8	41,782.3
2008	12,145.9	6,728.2	18,874.1	3,673.0	8,718.8
2009	2,743.7	4,576.2	7,319.9	8,704.7	4,119.0
2010	11,632.7	2,983.4	14,616.1	26,924.3	7,504.4
2011	32,706.3	3,340.3	36,046.6	33,900.1	2,692.1
2012	48,369.2	4,252.3	52,621.5	50,887.9	3,595.7

¹⁷ Commercial Mortgage Alert, <http://www.cmalert.com/ranking.php?rid=409>, (September 30, 2013).

APPENDIX B

Morningstar, Inc. 2013 Survey of U.S. Open-Ended Mutual Fund Database

A query of Morningstar Inc.'s mutual fund database was run and it found 1,300 open-end mutual funds that made references to ratings in their fund prospectuses. The investment policies for these funds permitted the use of NRSRO credit ratings as follows:



APPENDIX C

**POLICIES, PROCEDURES AND INTERNAL CONTROLS WITH RESPECT TO RULE 17G-5(C)(1)
EXEMPTION**



POLICIES, PROCEDURES AND INTERNAL CONTROLS WITH RESPECT TO RULE 17G-5(C)(1) EXEMPTION

On March 5, 2012, the U.S. Securities and Exchange Commission issued an order granting Morningstar Credit Ratings, LLC ("Morningstar") a temporary, conditional exemption from Rule 17g-5(c)(1) of the Securities Exchange Act of 1934 (the "Order"), which prohibits NRSROs from having 10% or more of their revenues in a fiscal year from a single person or entity. The duration of the exemption is until January 1, 2013 with respect to any revenue derived from issuer-paid ratings.

In addition, the Order is conditioned upon: (1) the public disclosure by Morningstar in Exhibit 6 of its Form NRSRO, as applicable, that it received 10% or more of its total net revenue in fiscal year 2011, and if applicable, in the fiscal year 2012, from a single client; (2) Morningstar establishing policies, procedures, and internal controls with respect to the conflict of interest created by exceeding the 10% threshold set forth in Rule 17g-5(c)(1); and (3) Morningstar not receiving revenues equal to 25% or more of its total net revenues in either 2011 or 2012 from a single client.

In order to mitigate the conflict of interest presented by the exemption granted, we note the following policies that provide for the creation of firewalls:

1. Morningstar is prohibited under Section III(A)(5) of its Code of Ethics from issuing or maintain a credit rating where the fee paid for the rating was negotiated, discussed, or arranged by a person within Morningstar who has responsibility for participating in determining credit ratings or for developing or approving procedures or methodologies use for determining credit ratings, including qualitative and quantitative models.
2. Morningstar employees are required under Section III(D)(3) of Morningstar's Code of Ethics to take all reasonable steps to safeguard all material non-public information or confidential information obtained through his or her employment in a manner designed to maintain the analytical firewalls set forth in Morningstar's Confidential Information and Analytical Firewalls Policies.
3. All analytical decisions with respect to credit ratings and developing procedures and methodologies with respect to determining credit ratings will be outside the presence of Sales & Marketing staff and by committee. All fee arrangements and engagement terms will be determined by the Sales & Marketing group.
4. Analytical employees are required to refer all inquires related to fees or other commercial terms to engagements for credit rating services to the relevant member of Sales & Marketing group or the Managing Director of Sales & Marketing.
5. Analytical employees may attend meetings, calls or other discussions with issuers, arrangers, subscribers, or other clients or potential clients for the purpose of discussing analytical components of a product, methodologies, criteria and credit considerations. At such meetings, calls or discussions, no fee discussions or negotiations of engagement terms or new business may occur while analytical employees are present. Therefore, analytical employees must excuse themselves from such meetings, calls or other discussions, if such discussions or negotiations are initiated. Sales & Marketing employees should not initiate fee discussions or negotiations of engagement terms or new business, with analytical employees present. Sales

& Marketing employees must ask such analytical employees to leave these meetings, calls or other discussions before initiating any such discussions or negotiations.

6. Morningstar's accounting staff may only provide information concerning individual fees for subscribers, issuers, transactions and other credit rating clients to members of the Sales & Marketing group and the Legal and Compliance Departments, as requested.
7. All credit ratings are issued pursuant to a committee, which excludes Sales & Marketing employees and results in no single analyst being responsible for a credit rating.

In order to mitigate the conflict of interest presented by the exemption granted, we note the following additional procedures designed to establish internal controls with respect to this process.

1. *Reporting.* Accounting staff will provide the Compliance Department with a monthly report showing client's whose revenues account for 10% or more of our year-to-date revenues; and whose revenues may account for 10% or more of our revenues as of the fiscal year end, based upon current revenue forecasts. The Compliance Department will use this report to monitor conflicts permitted by, and resulting from, the Order. The Managing Director of Sales & Marketing will supply the Compliance Department with any information that it requires to carry out its duties under this policy, including but not limited to notice of the engagement of certain clients.
2. *Disclosure.* Morningstar will disclose in Exhibit 6 of its Form NRSRO that it received 10% or more of its annual revenues from a single client for the fiscal year ended 2011, and if applicable, the fiscal year ended 2012.
3. *Ratings Committee Observation.* The Compliance Department regularly observes rating committee meetings. Observation of final New Issue Ratings Committee meetings by a representative of the Legal or Compliance Department will become mandatory when revenues from that issuer or arranger in the previous year accounted for 10% or more of Morningstar's revenues in that year.
4. *Managing Director Certification.* With the publication of a preliminary rating report, and prior to the publication of any final ratings (if different than the preliminary rating report), the Managing Director of the applicable New Issuance group will execute a certification that, among other things, to his or her knowledge, no analytical staff participating in the rating process negotiated, discussed or arranged the fee for the engagement.
5. *Oversight by Responsible Body under Section 15E(t) of the Exchange Act of 1934.* The oversight body lodged with the responsibilities under Section 15E(t) of the Exchange Act for Morningstar will receive and review information regarding issuers or arrangers that provided 10% or more of Morningstar's total revenue for the preceding year, and discuss any actual or potential conflicts of interest, which may result from this relationship.