INVESTMENT COMPANY INSTITUTE

1401 H Street, NW, Washington, DC 20005-2148, USA
202/326-5800 www.ici.org

February 7, 2011

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: Credit Rating Standardization Study (SEC File No. 4-622)

Dear Ms. Murphy:

The Investment Company Institute[1] welcomes the opportunity to comment on the Securities and Exchange Commission's ("Commission") request for comment to help inform its credit rating agency study on standardization pursuant to Section 939(h) of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act").[2] As users of ratings and ratings reports, funds are deeply concerned with the regulation of credit rating agencies and the quality and utility of credit ratings. We believe, however, that standardization and government intervention over the specific ratings methodology and components of ratings has the potential to undermine competition and decrease the value of ratings, thereby harming the market and investors, in contravention of the goals of the Dodd-Frank Act.

Instead of speaking to the individual questions in the Commission's Release, our letter addresses the broader question of standardization of credit ratings and ratings criteria. We have, and continue to be, strong advocates of reforms to the regulation and operation of credit rating agencies to

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[1] The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of $12.68 trillion and serve over 90 million shareholders.

[2] *See* SEC Release No. 34-63573, 75 FR 80866 (December 23, 2010) ("Release"), available at http://www.sec.gov/rules/other/2010/34-63573.pdf.

ensure the continued proper functioning of our securities markets.[3] The Dodd-Frank Act took a healthy step toward promoting the integrity and quality of the credit ratings process. In implementing the Act's provisions, we believe the Commission's focus should be on disclosure and transparency surrounding rating agencies' policies and procedures for issuing ratings and the accountability of rating agencies for their ratings. We do not think it is necessary or prudent to impose a one-size-fits-all model on the way in which ratings are determined or expressed, provided there is sufficient transparency regarding the ratings, the information on which the ratings are based, and the assessments performed in developing the ratings.

The standardization explored in the Release could lead to the commoditization of ratings and the transformation of credit rating agencies into government approved utilities. Admittedly, similar terminology and the standardization of ratings criteria and risk factors would further ratings comparability. This benefit, however, comes at the expense of innovation, originality and creativity in evaluating the risks associated with a security. While we strongly support fulsome and meaningful disclosure related to a rating, we believe that a large part of the value of a rating comes from the additional analysis, information and unique methodology employed by the particular rating agency.[4]

Indeed, the purpose and value of rating agencies and credit ratings is to provide opinions on the creditworthiness of financial instruments. Looking at various factors and weighing certain criteria, credit rating agencies develop their own models for evaluating such creditworthiness. Investors then assess the integrity and quality of the rating by examining the rating agency's independence, objectivity, capability, and operations. The distinction between ratings would be compromised if all rating agencies must utilize the same terminology, abide by the same underlying process, and review the same criteria in the same manner. Ratings are likely to become fungible, which would hinder innovation and competition among rating agencies, in turn leading to fewer credit rating agencies and less pressure to ensure the quality of ratings.

The potential result is ratings that reflect the bare minimum of what is required under the law. Investors will be deprived of the granularity and unique analysis that should go into a particular rating, setting it apart from the ratings of other credit rating agencies. These qualitative factors are just as important as economic and financial measures when analyzing credit quality. Moreover, many retail

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[3] *See e.g.,* Letter from Karrie McMillan, General Counsel, Investment Company Institute, to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, dated March 26, 2009. *See also* Statement of Paul Schott Stevens, President and CEO, Investment Company Institute, at the SEC Roundtable on Oversight of Credit Rating Agencies (April 15, 2009) .

[4] Many legal restrictions were devised under the framework of the existing ratings structures. It is unclear whether the proposed standardizations, and any future efforts to further standardization, would impact eligibility for investment restrictions. We caution the Commission to review this possibility carefully before making any recommendations in its study.

investors do not, and arguably cannot, accurately assess, monitor, and price the risks associated with many types of rated securities. While sophisticated market participants will be able to distinguish between issuers' credit profiles using their own analysts and models, even if the ratings are of lesser quality, retail investors may not be able to do so, and will be left to rely on these less valuable ratings.

In addition, a utility model for ratings and rating agencies would stifle innovation and hamper development of ratings in new categories of debt. For example, would a rating agency have to go to the Commission each time it sought to develop products or analysis beyond the existing standardized product lines (*i.e.*, evaluate a new type of debt instrument)? If a rating agency identified an anomaly in an existing security type under review, would it be able to incorporate this into its rating if it did not fall within one of the standardized categories of ratings criteria?

Overall, this result is the opposite of Congressional intent to encourage advances in analysis, competition, and high quality ratings. It would diminish the value of ratings to all parties, issuers and investors alike. There is significant value in having multiple rating agencies with ratings developed through different methodologies and models. As long as there is transparency about the rating process and credit rating decisions, investors can evaluate the value of a rating, and make their investment decisions accordingly.

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If you have any questions on our comment letter, please feel free to contact me directly at (202) 326-5815, Heather Traeger at (202) 326-5920, or Ari Burstein at (202) 371-5408.

Sincerely,

/s/ Karrie McMillan

Karrie McMillan
General Counsel

cc: The Honorable Mary L. Schapiro
The Honorable Kathleen L. Casey
The Honorable Elisse B. Walter
The Honorable Luis A. Aguilar
The Honorable Troy A. Paredes

Robert W. Cook, Director
James Brigagliano, Deputy Director
Division of Trading and Markets