Moody's Investors Service

99 Church Street
New York, New York 10007

March 26, 2007

Board of Governors of the Federal Reserve System 20th Street & Constitution Avenue, N.W. Washington, D.C. 20551 Attention: Jennifer J. Johnson, Secretary (Docket No. R-1238)	Office of the Comptroller of the Currency 250 E. Street, S.W., Mail Stop 1-5 Washington D.C. 20219 Attention: Docket No. 06-15
Federal Deposit Insurance Corporation 550 17th Street, N.W. Washington, D.C. 20429 Attention: Comments/Legal ESS	Office of Thrift Supervision 1700 G Street, N.W. Washington, D.C. 20552 Attention: Regulation Comments, Chief Counsel's Office (No. 2006-49)

Re: Notice of Proposed Rulemaking – Basel IA

Moody's Investors Service ("Moody's") appreciates the opportunity to comment on the notice of proposed rulemaking (the "Basel IA NPR") issued jointly on December 5, 2006 by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Office of Thrift Supervision (collectively, the "Agencies"), proposing to modify the existing risk-based capital framework for banking organizations that will not be subject to the proposed Basel II Advanced Capital Adequacy Framework addressed in a September 25, 2006 notice of proposed rulemaking (the "Basel II NPR"). We have limited our comments to the use of credit ratings in the Basel IA framework.

Moody's is a leading provider of credit ratings, research, and risk analysis. Moody's independence and integrity have earned us the trust of capital market participants worldwide. Our ratings and analysis track debt covering more than 100 sovereign nations, 12,000 corporate issuers, 29,000 public finance issuers, and 96,000 structured finance obligations. Moody's default studies validate our predictive ratings. In addition to our ratings services, Moody's publishes investor-oriented credit research, including in-depth research on major debt issuers, industry studies, special comments and credit opinion handbooks, serving more than 9,300 customer accounts at some 2,400 institutions around the globe. Moody's maintains offices in most of the world's major financial centers and employs approximately 3,000 people worldwide, including more than 1,000 analysts.

The Agencies' existing risk-based capital rules permit the use of external credit ratings issued by a nationally recognized statistical rating organization

("NRSRO") for assigning risk weights to recourse obligations, direct credit substitutes, residual interests, and asset- and mortgage-backed securities, and the Basel IA NPR would extend such use to additional types of exposures. In Footnote 10 of the Basel IA NPR the Agencies define an NRSRO as:

> *"… an entity recognized by the Division of Market Regulation of the Securities and Exchange Commission (SEC) as a nationally recognized statistical rating organization for various purposes… On September 29, 2006, the President signed the Credit Rating Agency Reform Act of 2006 (Reform Act) … into law. The Reform Act requires a credit rating agency that wants to represent itself as an NRSRO to register with the SEC. The Agencies may review their risk based capital rules, guidance and proposals from time to time in order to determine whether any modifications of the Agencies' definition of an NRSRO is appropriate."*[1]

Moody's recognizes that it is more efficient for the Agencies to leverage off of the existing NRSRO system rather than to establish new standards for recognizing rating agencies whose ratings can be used in the Basel IA and Basel II frameworks. We also believe that it is appropriate for the Agencies to identify and use only those NRSROs that the Agencies have determined are suitable for purposes of these frameworks. Moody's has long advocated that in deciding which rating agencies to use, both market-based users and regulatory users of ratings should consider the following factors:

- those attributes of ratings they believe make them suitable for the intended use (in this case, adequately assessing credit risk of the various exposures of banking organizations for capital allocation purposes);
- those rating agencies that have such attributes as performance objectives; and
- the actual performance of such rating agencies' ratings as compared to their identified performance objectives.

However, we are concerned that in *"[determining] whether any modifications of the Agencies' definition of an NRSRO are appropriate,"* the Agencies may inadvertently contradict the statutory and regulatory framework provided by the Reform Act. The Reform Act defines an NRSRO as a credit rating agency that:

> *"(A) has been in business as a credit rating agency for at least 3 consecutive years immediately preceding the date of its application for registration under section 15E;*
>
> *"(B) issues credit ratings certified by qualified institutional buyers, in accordance with Section 15E(a)(1)(B)(ix)…and*
>
> *"(C) is registered under section 15E."*

The Reform Act has delegated to the Securities and Exchange Commission ("SEC" or "Commission") the sole and exclusive authority to implement the provisions of Section 15E and the SEC's rules promulgated thereunder:

> *"(1) Authority. – The Commission shall have exclusive authority to enforce the provisions of this section in accordance with this title with respect to any nationally recognized statistical rating organization, if such nationally recognizes statistical rating organization issues credit ratings in material contravention of these procedures relating to such nationally recognized statistical rating organization, including procedures relating to the prevention of*

[1] Federal Register, vol. 71 No 247, pg. 77450.

misuse of nonpublic information and conflicts of interest, that such nationally recognized statistical rating organization ...”[2]

While we believe that it is appropriate for the Agencies to assess which of the SEC registered NRSROs they will recognize for use in the Basel IA and Basel II frameworks, we do not believe that the Agencies should redefine the term NRSRO. Further, we recommend that in deciding to use NRSRO ratings, the Agencies should refrain from introducing additional oversight measures with respect to NRSROs. Such additional oversight would be redundant, given that NRSROs will voluntarily submit to the SEC regulatory regime, and would unnecessarily expose NRSROs to multiple and potentially conflicting regulatory regimes.

We recognize that the Agencies may from time to time determine that further review of the ratings of particular NRSROs may be necessary in order to assess their continued suitability for use in the Basel IA and Basel II frameworks. Thus, in order to promote consistency and efficiency, we recommend that the Agencies establish clear coordination and communication mechanisms with the Commission.

Moody’s would be happy to respond to any questions on our comments. Thank you in advance for your consideration.

Yours Sincerely,

Jeanne M Dering

Jeanne Dering
Executive Vice President
Regulatory Affairs and Compliance

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2 Securities and Exchange Act 15E(c)(l).