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BEFORE THE COMMITTEE ON BANKING,
HOUSING AND URBAN AFFAIRS

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Mr. Chairman, Members of the Committee, good morning. I am Vickie A. Tillman, Executive Vice President of Standard & Poor's Credit Market Services, which includes Standard & Poor's Ratings Services ("S&P"), the unit responsible for assigning and publishing credit ratings of issuers and securities. Last year, our President, Kathleen A. Corbet, appeared at a hearing before this Committee and, on behalf of S&P, I welcome the opportunity to appear again to discuss the important role of credit rating agencies in the capital markets, and to address questions that have been raised about that role by Members of this Committee and others in Congress. In this testimony, I will address four broad topics:

- The origins and role of the NRSRO system;
- Steps that can be taken to increase the level of competition among credit rating agencies in the marketplace;
- Perceived conflicts of interest, such as those said to arise from the "issuer pays" model, and how they are effectively managed and disclosed; and
- the absence of need, as S&P sees it, for increased regulatory oversight of rating agencies and the credit rating process.

We have conferred extensively with Congress, the SEC, and global regulators on these issues and I look forward to sharing our thoughts on them with you today. Our overall view is that steps should be taken promptly to increase competition in this area — steps already identified by the SEC — and that recently enacted positive initiatives, as described

below, should otherwise be given a reasonable time to work. This position reflects the views expressed by market participants in comment letters, surveys and other forums. Before turning to these topics, however, I would first like to provide some background information about S&P and our credit rating business.

Background on S&P and the Nature of Credit Ratings

S&P, which is a part of The McGraw-Hill Companies, Inc., began its credit rating activities ninety years ago, in 1916, and today is a global leader in the field of credit ratings and risk analysis, with credit rating opinions outstanding on approximately 190,000 issues of obligors in over 100 countries. Over that time, S&P has established an excellent track record of providing the market with independent, objective and rigorous analytical information in the form of credit rating opinions. A rating from S&P represents our opinion, as of a specific date, of the creditworthiness (*i.e.*, the likelihood of default) of either an obligor in general or a particular financial obligation. Once published, we monitor ratings on an ongoing basis. Our credit rating opinions, however, are neither recommendations to buy, sell, or hold a particular security; comments on the suitability of an investment for a particular investor or group of investors; personal recommendations to any particular user; nor investment advisory in nature.

At S&P, independence, transparency, credibility and quality are the cornerstone principles of our business and have driven our long-standing track record of analytical excellence. Studies on rating trends have repeatedly shown that there is a clear correlation between the initial rating assigned by S&P and the likelihood of default: the higher the initial

rating, the lower the probability of default and vice versa. In our most recent study of defaults, which we published just last month, we found that during the five-year period from 2001 through 2005, of those companies worldwide that were rated investment grade by S&P, only 1.95% defaulted. The comparable rate for non-investment grade companies was 24.36%. Moreover, of the 67 rated companies that defaulted in the last two years, no investment grade issuers defaulted in calendar year 2004 and only one issuer that had an investment grade rating at the beginning of the year defaulted in 2005.

In order to prepare and publish our ratings, we review a substantial amount of business and financial information about issuers and issues. The primary informational component is the public information available about an issuer, including the issuer's audited financial statements. S&P also takes into account additional information that may be provided by the issuer, as well as other economic, financial and industry information that our analysts deem appropriate. We are not auditors, however, and are not in a position to verify information provided by a rated company or its auditors. Instead, S&P expressly and necessarily relies on rated issuers to provide timely and accurate information. If an issuer refuses to provide requested information, S&P may, depending on the circumstances, issue a lower rating, refuse to issue a rating, or withdraw entirely an existing rating.

Once a rating is determined, S&P disseminates it to the public for free by, among other ways, posting it on our Web site, www.standardandpoors.com. Along with the rating, we frequently publish a narrative rationale authored by the lead analyst. The purpose of this narrative is to make the key bases for S&P's analysis transparent to the marketplace. When a rating change is anticipated or occurs, our analysts similarly report on the change and

the rationale for it. At S&P we have a long-standing policy of making our public credit ratings and the basis for those ratings broadly available to the investing public as soon as possible and without cost. Public credit ratings (which constitute 99% of our credit ratings in the United States) are disseminated via real-time posts on our Web site and through a wire feed to the news media as well as through our subscription services.

The corporate scandals of the last few years, many of which arose from the criminal behavior of senior management at large corporate entities, have demonstrated the importance of issuers providing accurate and reliable financial information to the marketplace and to rating agencies. Like many other market participants, S&P was misled by the conduct of some of these entities that set out to deceive it and other rating agencies.[1] We believe that the initiatives enacted by Congress and the SEC to improve the quality, transparency, and timeliness of disclosures by public companies as well as recent accounting standard initiatives, will enhance our ability to provide the market with credible and independent analysis.

We have also conducted our own review of the events of the past few years, a process consistent with our tradition of self-evaluation and our continuing efforts to ensure the independence and rigor of our ratings process. In order to meet the evolving needs of the

[1] In the Enron case, for example, key executives have admitted their part in a deliberate effort to mislead the rating agencies, including S&P. S&P's primary contact at Enron, Timothy Despain, has stated in his guilty plea that "[f]rom 1999 through the fall of 2001, in my capacity as Assistant Treasurer, I was directed by my superiors to engage in, and I did engage in, conduct that I recognized was intended to manipulate fraudulently Enron's credit rating, which rating I knew was relied on by the holders and prospective purchasers of Enron's publicly traded stocks and bonds." Similarly, Enron's former Chief Financial Officer, Andrew Fastow, has declared in a sworn statement that "[o]ur purpose was to mislead investors and others about the true financial position of Enron and, consequently, to inflate artificially the price of Enron's stock and maintain fraudulently Enron's credit rating."

capital markets, we have undertaken a variety of initiatives, including measures to enhance our analytic process, strengthen the training of our analysts and increase the effectiveness of our communications with the marketplace. For example, last year, in addition to a number of specialized analytical enhancements, we initiated a process for gathering formal market feedback on certain criteria and policy actions, allowing us to incorporate the market's input into our decision-making on those fronts. We have increased our mandatory training requirements to include training targeted towards our Code of Conduct and our policies regarding roles and responsibilities. In addition, last month we published a report describing the ways that we implement and monitor compliance with our Code of Conduct.

The marketplace has expressed support for these and similar constructive steps. For example, in a recent survey of fixed income investors by *Institutional Investor*, 83% of those surveyed said their confidence in rating agencies was the same as or greater than it was in the period before Enron's collapse. Similarly, Standard & Poor's Global Fixed Income Investor Survey, completed just last month by an independent third party firm, concluded that approximately 92% of investors feel that the rating agencies as a whole are doing the same or a better job today than they were three years ago. A recent survey by the Bond Market Association likewise found that more than half of the issuers and investors surveyed feel that rating agency transparency has improved in recent years and that over two-thirds of investors are satisfied with the quality of ratings.

S&P has also actively participated with the SEC and other regulatory and quasi-regulatory bodies around the world in their reviews of credit rating agencies and the ratings process. Because the value of credit rating opinions ultimately depends on their utility to

the market, we have repeatedly expressed, in our work with the SEC and others, the continuing importance of a regulatory framework that recognizes the market — *i.e.*, the users of credit rating opinions — as the best judge of a credit rating agency's integrity, independence, objectivity, credibility and quality. It is in that same spirit, and for the purpose of advancing those same goals of independence, objectivity, credibility and quality, that S&P welcomes the opportunity to appear before the Committee today.

The NRSRO System

The NRSRO concept was first introduced by the SEC in 1975. Although S&P did not affirmatively seek it, S&P was among the initial designees and has retained that status ever since. The initial designation reflected the broad market recognition that S&P had built up over the years for independent, objective and credible ratings. Contrary to the suggestions of some, the NRSRO designation alone did not confer on S&P a prominent place in the capital markets, but rather recognized that S&P had, through its own efforts, already achieved that position.

Today, the NRSRO system is an integral part of the capital markets and regulatory landscape in the United States. In designating NRSROs, a primary factor considered by the SEC has been the acceptance of a rating agency's ratings in the marketplace. Over the years, Congress, state legislatures and other regulators have come to incorporate NRSRO ratings into a variety of regulations, including ones limiting the types of securities in which certain investors are permitted to invest. For example, in response to the savings and loan scandal of the late 1980's, Congress turned to the NRSRO system with respect to investors who

had deposited funds in savings and loans. In amending the Federal Deposit Insurance Act, Congress generally proscribed savings and loans from holding non "investment grade" securities. *See e.g.*, 12 U.S.C. § 1831e(d)(1) (in relation to state savings associations). "Investment grade" securities, in turn, are defined as securities rated in one of the four highest categories by at least one NRSRO. *See* 12 U.S.C. § 1831e(d)(4)(A). Similarly, a number of states have adopted regulations regarding the retirement funds of state workers that limit the types of investments pension funds can make to those of a certain quality or risk profile. The benchmark often used in these types of regulations is whether the securities, or the entities issuing them, have investment grade ratings from an NRSRO.

The NRSRO system therefore serves an important function in the regulatory landscape that is not otherwise available. Doing away with that system without a suitable replacement, or substituting for the NRSRO system one in which savings and loans, pension funds and the like are freed from the limitations imposed on them by Congress and the states, would leave a regulatory vacuum that could expose investors to unwarranted risks. Accordingly, we at S&P believe that, while the NRSRO designation process should be more open and streamlined, abandoning the NRSRO system would be a disservice to the very people and markets Congress and other regulators have sought to protect.

Moreover, this position reflects the market's views. For example, when market participants were asked, in connection with the SEC's 2003 Concept Release, whether the NRSRO framework should be retained, a vast majority said it should. According to the SEC, investors, trade associations, ratings agencies, and other market participants, "generally represented that, among other things, eliminating the NRSRO concept would be disruptive to the

capital markets, and would be costly and complicated to replace." Indeed, only four out of 46 commenters supported elimination of the NRSRO system.

Competition Among Rating Agencies

While the NRSRO system is an integral part of the capital markets, it can be improved. For instance, some have recently expressed concern about the level of competition in the credit rating industry and the process by which NRSROs are designated by the SEC. Broadly speaking, these concerns center around the fact that there are currently five NRSROs; that the NRSRO designation process is perceived to be opaque; and that barriers to entry are considered too high. S&P shares these concerns. We have repeatedly and publicly supported a more transparent NRSRO designation process, the lowering of barriers to entry into our industry, and the designation, under clear standards, of new NRSROs — all of which will engender increased competition.

The question is how to achieve those goals. In our view, the most sensible and least disruptive approach is to improve on the NRSRO system by having the SEC adopt a more inclusive, transparent, and streamlined NRSRO designation process — not to tear down a system that has worked well for decades. The groundwork for this process already exists and S&P encourages the Committee, the SEC, and others to help spur the effort towards successful closure.

Specifically, the SEC has already published and received comments on a proposed rule (the "Proposed Rule") that, with certain modifications, we believe would address many of the concerns raised about competition in our industry. Among other things, adoption

of the Proposed Rule — which grew out of a 2003 Concept Release by the SEC — could increase competition among rating agencies and streamline the NRSRO designation process by:

- clarifying the criteria considered by the SEC for designation;
- formalizing the process for application and designation, including fixing a time period for the SEC to issue a decision on a rating agency's application for NRSRO status;
- allowing for designation of rating agencies that specialize in a particular industry or have prominence in a particular geographic area, thereby expanding the pool of possible designees; and
- providing a market-based means for applicants to meet the "general acceptance" criteria in instances when users attest to the reliability of a firm's ratings.

During the comment period in mid-2005, investors, issuers and rating agencies alike expressed broad support for the Proposed Rule. We at S&P were encouraged by the proposal because it addressed concerns about transparency and competition but stopped short of calling for intrusive government oversight over the formation of rating opinions. Specifically, as we stated in our comment letter to the SEC, while we have some concerns over particular provisions in the Proposed Rule, our overall view was then, and remains today, that the Proposed Rule is an important step toward "increasing the transparency of the NRSRO designation process and reducing regulatory barriers to entry while, at the same time, ensuring that the capital markets remain the ultimate arbiter of the credibility of the ratings process." Notwithstanding support for the Proposed Rule from all corners of the capital markets and the fact that the Proposed Rule was drafted by the SEC itself, the SEC has taken no steps since the close of comments last June toward finalizing it.

The SEC's inaction is unfortunate because we believe the market would benefit from finalization and adoption of the Proposed Rule. Accordingly, we urge Congress to press the SEC to move forward on the Proposed Rule, rather than to adopt a legislative over-

haul of the NRSRO system. While we support a more transparent and streamlined NRSRO system, any legislative or regulatory scheme that compromised the quality protections provided by the NRSRO system merely for an increase in the quantity of designated rating agencies would be a disservice to investors as well as the market. That is why we support an approach that would work within the current framework, but would promptly open that framework up to more qualified rating agencies in a manner that is both transparent and effective. The finalization and adoption of a modified version of the SEC's Proposed Rule in our view would do just that.

Perceived Conflicts Of Interest

The market has accepted the long-standing, global practices of S&P and others to charge issuers or the agents rating fees. Despite this broad acceptance, some have raised concerns about potential conflicts of interest with regard to the effect of this model on the independence and objectivity of ratings. We believe these concerns to be unfounded. First, the current issuer-pays model provides a number of benefits not available under other models. Additionally, numerous studies have found that any potential conflicts of interest attendant to that model either have not materialized or have been effectively managed.

The benefits of the issuer-pays model should not be underestimated. The most salient and important of these benefits is that the issuer-pays model allows S&P and other rating agencies to publish their ratings and analysis free of charge to investors and others around the world in real time. In other words, it promotes the broad and free dissemination of important information to the marketplace quickly. Rating agencies can do this because the substan-

tial costs inherent in gathering relevant information, reviewing it, analyzing it, forming opinions about it, and preparing and publishing ratings are covered by the fees charged to issuers. In the same vein, the issuer-pays model allows S&P and other rating agencies to perform ongoing surveillance (*i.e.*, continued monitoring of rated issuers after the publication of a rating).

While the issuer-pays model may not be the only workable model, it is worth noting that these benefits may not be available under other models. For example, rating agencies whose only source of revenue is subscription fees generally limit access to their ratings to their subscribers. The free flow of ratings analysis to the marketplace is thus necessarily more limited under a subscription-only model than under the issuer-pays model.

Another major benefit of the issuer-pays model is that it promotes market scrutiny of a rating agency's performance and credibility. This is a natural consequence of the open-ended nature of that model. Today, anyone anywhere in the world can access, evaluate, and, yes, criticize our ratings opinions on the approximately 190,000 issues of securities in more than 100 countries, including approximately 99 percent of debt obligations and preferred stock issues publicly traded in the United States, that are available for free on our Web site. The market has no similar basis for evaluating the broad performance of rating agencies that use a subscription-only model because those rating agencies do not typically make their ratings public. Accordingly, we believe that constant market scrutiny is a key component of our drive to meet, and our success over the decades in meeting, the highest standards of objectivity, credibility, and independence.

Against these demonstrable benefits of the issuer-pays model stand the assertions of some that the model compromises the objectivity of published ratings. Respectfully, that is just not so. Market participants have made overwhelmingly clear that in their view no such compromises have occurred and effective safeguards against them are in place. For example, the SEC's January 2003 "Report on the Role and Function of Credit Rating Agencies in the Operation of the Securities Markets," found that a wide-range of participants in two public hearings generally "did not believe that reliance by rating agencies on issuer fees leads to significant conflicts of interest, or otherwise calls into question the overall objectivity of credit ratings." The SEC reported that most hearing participants were of the view that any potential conflicts from the issuer-fee model are "manageable and, for the most part, have been effectively addressed by the credit rating agencies[.]" Some of these commenters pointed to the internal policies and procedures of rating agencies for guarding against conflicts of interest, while others believed that rating agencies such as S&P rate so many issuers and securities that they are not dependent on, and thus not beholden to, any one issuer. These types of comments from market participants have been repeated again and again, including in the *Institutional Investor* survey mentioned earlier in which 87% of those surveyed felt that any conflicts of interest arising from the issuer-pays model were either manageable or not a conflict at all.

The fact that rating agencies such as S&P have been able to protect against conflicts of interest should come as no real surprise. The hallmark of S&P's success in the markets and of our prospects for future success is our reputation for independence and objectivity. Without that reputation, S&P could hardly have achieved its place as one of the

world's most respected credit rating agencies and we have every incentive to preserve it. If the market perceived that the opinions of S&P or any other rating agency were compromised by the influence of issuers or some other conflict of interest, the agency's reputation (and thus its bottom line) would inevitably suffer to a far greater degree than any benefits that come from the fees from specific issuers. This is particularly so given that no single issuer accounts for more than a negligible percentage of S&P's ratings-related fees. This fundamental dynamic has been widely noted by market participants and academics alike. In a December 2003 study, two Federal Reserve Board economists concluded after intensive study that S&P and other rating agencies consider their reputations in the marketplace to be of "paramount importance" and, in fact, are "motivated primarily by reputation-related incentives."[2] These conclusions comport with our experience that most issuers feel their ratings are too *low*, not too high, and thus, at least to them, the issuer pays model certainly does not slant a rating agency's analysis.

To further ensure that credit rating opinions are not influenced by the fact that S&P is paid fees by issuers, we have in place a broad infrastructure of policies, procedures and structural safeguards. For example, rating opinions are assigned by rating committees, not by individual analysts. We also have policies restricting analysts from participating in the marketing or solicitation of ratings services. Nor is analyst compensation based upon the ratings assigned to issuers they cover. Additionally, we have an Analytical Policy Board,

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[2] *See* Daniel M. Covitz and Paul Harrison, *Testing Conflicts of Interest at Bond Ratings Agencies with Market Anticipation: Evidence that Reputation Incentives Dominate*, The Federal Reserve Board Finance and Economics Discussion Series (December 2003), at 1, 3.

chaired by S&P's Chief Credit Officer, which operates to monitor and ensure consistent application of S&P's criteria and methodologies and reviews and approves new criteria and methodology. We also disclose the fact that we receive compensation for our ratings in our publications and on our Web site.

S&P employees are also subject to our Code of Conduct as well as McGraw-Hill's Code of Business Ethics. These publicly-available Codes establish strong standards to promote, among other things: (i) independence and objectivity in the credit rating process; (ii) honest and ethical conduct including minimization of potential or perceived conflicts of personal and professional interest; (iii) compliance with applicable governmental rules and regulations; (iv) protection of confidential information; and (v) the prevention of insider trading. These Codes also contain restrictions on personal securities ownership and trading designed to minimize any conflicts of interest in the conduct of the credit rating process and continued adherence to them is a condition of employment for our analysts. S&P also monitors the securities trading activities of its analysts. S&P believes that these measures, and others like them, have contributed, and will continue to contribute, to S&P's long-standing objectivity and independence and the market's perception of S&P as a credible provider of rigorous analytical information.

Another concern raised by some relates to the potential for conflicts of interest arising out of evaluation services by rating agencies, such as S&P's Ratings Evaluation Service ("RES"). An RES allows an issuer contemplating a particular transaction to present certain hypothetical scenarios to S&P for our review of the effects of those scenarios on that issuer's creditworthiness. Some have suggested that an RES is a consulting service and argue

that a conflict of interest can result. This is not the case. S&P does not provide an issuer with advice as part of RES, but rather offers its opinion regarding creditworthiness under a hypothetical scenario. It is not a separate stand-alone activity, but part and parcel of the ratings process itself. For example, an issuer may request S&P to review the credit implications of a proposed acquisition before consummating the deal. While the final ratings decision for any RES-reviewed hypothetical that becomes reality is expressly reserved to the rating committee, S&P's receipt, in connection with the RES, of information about the proposed transaction beforehand (and our ability to conduct an informed analysis of it) not only provides valuable information to the issuer, but it also puts us in a better position to respond when the deal is actually announced. This enables us to provide the market with a more rapid analysis of the transaction, and allows the market to factor that analysis in more quickly. In light of these considerations, we believe that the concerns expressed by some regarding a potential conflict of interest related to these services are misplaced.

The Absence Of Need For Government Regulation

Another topic that has received increased attention recently is whether Congress should pass legislation providing for greater oversight of rating agencies by the SEC. As you are aware, a bill was introduced in the House recently that would require, among other things, for all rating agencies to register with the SEC and submit to formal oversight. At S&P, we believe the historical absence of governmental regulation of our industry has fostered and promoted the independence of rating agencies that has served the market so well. The importance of that independence cannot be overstated. Ratings are opinions and analysts and rating committees must be free to form those opinions without fear of being second-

guessed or subjected to rebuke for ratings that others might feel are either too high or low. Regulation calling for the SEC or some other government entity to assess that analytical process would necessarily involve such second-guessing and, we believe, cause analysts to be more tentative or conservative in their analysis so as to avoid later criticism. A tentative rating is not necessarily the same as the best rating and we are therefore concerned that increased regulation could actually lower, rather than raise, the quality of ratings analysis available.

Recognizing these considerations, the European Commission ("EC"), following a comprehensive study of the issue by the Committee of European Securities Regulators that included extensive input from marketplace participants, recently concluded that formal, government regulation of rating agencies was unwarranted. Instead, the EC determined that the markets would best be served by oversight of rating agencies based on their adherence to codes of conduct and the judgments of the market. This approach comports with the flexible oversight contemplated by the International Organization of Securities Commissions ("IOSCO") in the model Code of Conduct Fundamentals for Rating Agencies it published in December 2004 after months of deliberation and an extensive market comment period. SEC Commissioner Campos, who also served as Chairman of the IOSCO Task Force, said that IOSCO's flexible approach would be "more effectively enforced" than a "universal code for all credit rating agencies to sign on to." Commissioner Campos explained that a degree of flexibility was appropriate because rating agencies vary considerably in size, business model and rating methods. S&P agrees that the market-based approach adopted by the EC and contemplated by IOSCO is the preferable oversight path as it is less likely to chill analysts from putting forth their best analysis and will not create regulatory barriers to entry for new partici-

pants. Such an approach is also consistent with marketplace views. For instance, when investors and issuers were specifically asked, as part of the recent BMA survey, if they felt additional regulatory intervention is required or desirable, only one in five investors and one in four issuers responded in the affirmative.

Over the last two years, we have been active in putting this market-based approach into action. For example, while S&P has had in place for many years a significant number of policies, procedures and structural safeguards, in September 2004, these policies and procedures were updated, aggregated into one document and released publicly in S&P Ratings Services' Code of Practices and Procedures, which itself was then updated in late 2005 into S&P Ratings Services' Code of Conduct. The Code of Conduct sets forth policies and procedures designed, among other things, to prevent any compromise in the ratings process from potential conflicts of interest, as discussed above. I have attached our Code of Conduct to my testimony as Exhibit 1. As previously mentioned, consistent with the IOSCO Code of Conduct, S&P has also published an implementation report in order to provide the market with greater detail about how S&P has implemented its Code of Conduct and our efforts at promoting compliance with that Code.

As the Committee is also aware, S&P and the other NRSROs have been working actively with the SEC to adopt and implement a "Voluntary Framework for Rating Agency Oversight". The essence of this Framework is that each NRSRO would adopt, as S&P has already adopted, a Code of Conduct modeled on the IOSCO Code and would establish an independent internal audit mechanism by which it would test, on an annual basis, its

compliance with its Code. The results, as well as any remedial measures, would be shared and discussed with members of the SEC staff.

These flexible, market-based initiatives avoid running afoul of the significant and long-standing constitutional protections afforded rating agencies under the First Amendment. Courts have repeatedly held that rating agencies are entitled to similar constitutional protections as, say, *The Wall Street Journal* or *BusinessWeek*. This is so because the activities of rating agencies are fundamentally journalistic: they gather information, analyze it, form opinions about it, and disseminate (that is, publish) those opinions to the public as credit ratings. Last year, in response to the introduction of a rating agency bill in the House of Representatives, our outside counsel prepared a memorandum discussing these constitutional protections and analyzing the constitutionality of that bill. I have attached a copy of that memorandum as Exhibit 2 to my testimony.

The First Amendment confers legal protections that are essential to the ability of rating agencies to serve the markets broadly. Compromising these protections would not only have a chilling effect on the rendering of independent rating opinions, but, more fundamentally, would ultimately be to the market's detriment. Faced with the prospect of liability on the trillions of dollars worth of securities currently rated, the major rating agencies would necessarily have to scale back the scope of coverage provided as it would be impossible for them to continue to rate vast numbers of issuers and issues if they could be held liable whenever a rated issuer or issue defaulted. The capital markets would inevitably suffer as a result. This fundamental business reality, which underlies the First Amendment protections afforded rating agencies, has been recognized by courts, including the federal court overseeing the

multi-district Enron litigation in connection with its dismissal of an Enron-related lawsuit brought against S&P and other NRSROs.

A bill or regulatory regime that provided for stringent oversight, in our view, would also be counter-productive with respect to the quality of ratings. As it stands today, rating agencies may employ any number of approaches towards the evaluation of creditworthiness. Ratings are opinions and there is no "best" way to go about formulating them. A rigid oversight regime, with penalties for non-compliance, would incentivize firms to standardize their approaches, thereby deterring diversity and innovation in credit analysis. Such innovation is critical given that credit analysis methods must evolve over time in response to the growing complexity and variety of financial instruments that are rated.

These are some of the reasons why S&P opposes the legislation introduced in the House last summer and would likely oppose any legislation that called for a sweeping overhaul of our industry and regulatory oversight of the process by which ratings are generated and published. We believe that if such legislation were adopted, it would diminish the quality of ratings disseminated to the market and intrude on rating agencies' constitutionally protected editorial control.

CONCLUSION

We at S&P share the Committee's goals of increasing competition among rating agencies and lowering barriers to entry in our industry. We do not believe that a legislative approach to accomplish these goals is appropriate at this time. We do, however, urge the Committee to seek and, to the fullest extent possible, spur action from the SEC on its Proposed Rule. We also urge the Committee to take note of the many constructive steps that

have been taken by S&P and others in the industry (steps that have received a positive response from the market) and to consider the prevailing views of the marketplace on all of these issues, including the absence of evidence that potential conflicts of interest have had an effect on the objectivity of ratings. Legislation on this front is unnecessary; instead, the mechanisms that are already in progress both here and abroad should be given time to work. These mechanisms reflect the wisdom of the market and respect the constitutional protections afforded rating agencies that are vital to the important and successful role they play.

On behalf of S&P, I thank you again for the opportunity to participate in these hearings. I'd be happy to answer any questions you may have.