To:
Elizabeth M Murphy, Secretary,
SECURITIES AND EXCHANGE COMMISSION
(rulecomment@sec.gov)
Subject: [Release No. 34–63573; File No. 4–622]
Credit Rating Standardization Study Request for comment

Andrew Davidson & Co., Inc. welcomes the opportunity to respond to the SEC request for public comment on the topic of **"Feasibility and Desirability of Standardizing Credit Ratings Terminology" (File 4-622).** We are an analytics firm focused on MBS and other structured products with over 100 model licensee clients and an extensive risk-management consulting practice and have been in this business since 1992.

As a preface to our response, we would first like to focus on the broad questions laid out (standardization, mapping of ratings to analytical measures) as well as the relationship of these questions to the recent banking regulator ANPR on removing the reliance on ratings of RBC; responses to specific sub-questions on timing and mechanisms to impose consistency will be subsumed by our views on the broader questions and consequently will be brief.

Based on our review of the history of ratings dating back to the ratings of railroad bonds published by John Moody (in 1909) we believe that one of the key tensions in the concept of ratings has been that of credit ratings as an independent third-party opinion, protected by First Amendment free speech protections in the US constitution (the original sense of ratings), versus ratings as "official", government-sanctioned labels. We believe that the transition between the first conception of ratings and the second began in the 1930s, with the OCC restriction on ownership of "below investment grade" bonds, but that the most important transition was the creation by the SEC in the 1970s of the "Nationally Recognized Statistical Ratings Organization."

Under the first and original conception, ratings are one of many potential tools at the hands of the informed investor, and help foster a greater level of investor due diligence. In the second view, the government stamp of approval potentially produces such a strong sense of legitimacy that all but the most skeptical and seasoned investors abandon their own due diligence, relying solely on the ratings. In addition, the mere existence of such government approved raters allows for the entry of less-informed investment managers into the business, who outsource their due-diligence to the NRSRO. We believe that this second view and its effects was one significant contributor to the recent financial crisis, especially for structured finance products like RMBS, CDOs and SIVs.

An additional tension we would like to focus on is between two opposing views of ratings in terms of qualitative nature. In the first, ratings represent judgments made by a committee, potentially informed by numerical measures, but also influenced by numerous other qualitative factors. In the second view, ratings reflect something quite precise (across time and asset classes) and can be mapped directly to specific numerical measures. We believe that the first view of ratings, as a qualitative and complex judgment is more consistent with the first view of ratings (from the previous paragraph) as an opinion free of government-sanctioned legitimacy whereas the second view of ratings as very specific standardized metrics is more likely to result in the propagation of the second view of ratings, as something conveying very strong government approval.

We believe that the solution to this problem is not to further regulate ratings, thus increasing their Federal government-granted legitimacy, but to return the concept of credit ratings to an opinion (hopefully a well-informed one). The more ratings are regulated, the more investors will rely upon them to the potential exclusion of due diligence.

On the other hand, there are areas in which standardized analytical measures are desirable. One such area is risk based capital (RBC). Indeed, we believe that the thrust of standardization and mapping of ratings to specific analytical metrics such as default and loss rates contradicts the recent move by the banking regulators to remove the link between risk-based capital (RBC) and credit ratings. We believe that analytical measures and especially RBC calculations should use standardized terms, definitions, and similar stresses across institutions and asset classes. However, credit ratings, as qualitative judgments coming from committees, defy standardization and require many different forms of expertise. Because of their qualitative inputs, they will necessarily differ from purely analytical measures from time to time.

Because we believe that standardization or regulation of ratings definitions would not be helpful to investors, and in fact we believe that such standardization would be counterproductive, our response to the specific timelines and methodologies sub-questions in the ANPR are unnecessary.

Instead, we believe that specific analytical measures (such as those required for mapping to RBC) should utilize uniform definitions, standard calculations and stresses as part of a process incorporating insight from rating agencies, investors, analytics providers and researchers. But ultimately these measures should be developed at the discretion of regulators of the financial institutions utilizing the measures. Regulators must deal with a wide range of types of firms and financial instruments. Ultimately no single measure, or rating, will satisfy all of their requirements. Thus regulators must devise methods that fit the circumstances of the firms they oversee as well as the particular application (RBC, fair value, etc.).

For example, probability of default and distance to distress might be useful measures for screening or portfolio sorting purposes where the intent may be to determine a smaller subset of securities to focus additional attention on. Without knowing the expected severity and price, these are by themselves insufficient for most applications. Expected loss, on the other hand, incorporates expected severity as well, and might be useful for an initial gauge of relative value among securities. However, without some measures of variability of losses, such as volatility and expected shortfall, other measures such as RBC cannot be computed. Therefore, it should be clear that a range of analytical measures are needed for investment decision-making, risk management and regulatory purposes.

We believe that the development of such analytical measures should utilize the resources of a wide range of firms that specialize in each of the many asset classes that regulators must evaluate rather than delegating that responsibility to the NRSROs (for examples of analytical measures developed specifically for RBC, we include a link to our response to the banking regulator ANPR here: http://www.ad-co.com/pubs_docs/Public%20Letters/DAVIDSON_R-1391.pdf

Over time, some rating agencies may wish to incorporate some of these independent analytics into their ratings opinions or comment on similarities or differences between judgments implied by the ratings process and these analytical measures. Others may desire to keep their ratings quite distinct from analytical measures while potentially partnering with analytics providers to provide both types of views to investor clients on a common platform. We believe that such a diversity of opinions and views in the market place is more likely to result in well-informed investors who perform their own due diligence, thus truly satisfying their fiduciary responsibilities as money managers.

Sincerely,

Andrew Davidson,

President

Andrew Davidson & Co., Inc. 65 Bleecker Street, Fifth Floor, New York, NY 10012 Tel 212.274.9075 Fax 212.274.0545 www.ad-co.com