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BY ELECTRONIC MAIL

European Commission
Directorate-General Internal Market and Services
Rue du Spa 2 03/079
B-1049 Brussels
Belgium

Re: *European Commission Working Document:
Tackling the problem of excessive reliance on ratings*

Ladies and Gentlemen:

Fitch Ratings ("Fitch") submits this letter in response to the request for comments on the European Commission's ("Commission") working document "*Tackling the problem of excessive reliance on ratings*" relating to the three proposals regarding references made to credit ratings within existing EU legislation. Set forth below are our comments, which address the three proposals.

In direct response to the Commission's three proposals, we are broadly supportive of Proposal 1 and Proposal 3, but note substantive concerns with Proposal 2.

On Proposal 1, we support the Commission's aims in clarifying the requirement for investors to undertake their own analysis, especially since investments carry several risks which credit ratings are not designed to address. With this in mind, we would suggest that the scope of the proposal be amended from requiring investors to "rely more" on their own risk analysis, to emphasizing that investors and investment firms bear the full responsibility, using the terms of Directive 2004/39/EC, "of making [their] own investment decisions and understanding the risks involved."

We also note that the proposal appears to refer only to regulated and sophisticated investors. The public debate has identified smaller and relatively less sophisticated investors as among the groups where the risk of potential over-reliance on credit ratings is greatest. Consequently, we would propose that the Commission consider refining the scope to address all investment firms, perhaps with reference to Directive 2004/39/EC.

On Proposal 2, we note that the proposal that rating agencies “include ‘health warnings’ informing [investors] of the specific risks associated with investment in these assets” appears inconsistent with the Commission’s expressed aim of limiting the use of ratings to “a reference point for in-house due diligence.” Proposal 2 seems to imply that going forward it would become the responsibility of a rating agency to advise the public of all of the potential risks that they may face in a rated fixed income investment. These risks include interest rate risk, currency risk, liquidity risk, volatility, pricing risk, settlement risk, loss severity, unexpected loss at the portfolio level and many other risks explicitly excluded from agencies’ opinions on rated investments. It is difficult to see how this would do anything other than increase reliance upon rating opinions, implicitly supplanting an investor’s obligation to consider the risks relevant to his or her own objectives.

Consequently, we believe that there are better approaches to achieving what we interpret as the objective of Proposal 2, which is to reduce over-reliance on ratings. In our view, the Commission would best meet this objective by promoting Provision 3.5c of the revised IOSCO Code of Conduct Fundamentals for rating agencies that “a CRA should clearly indicate the attributes and limitations of each credit opinion, and the limits to which the CRA verifies information provided to it by the issuer or originator of a rated security.” Such a disclosure provides investors with ample ‘warning’ of the limitations of credit ratings, without imposing upon rating agencies an obligation to opine on risks extending beyond the scope of the credit ratings process and its core competence.

On Proposal 3, we agree in principle with the Commission’s stated objective that market participants not place “excessive reliance” on credit ratings in performing analysis that underlies investment and risk management decisions. We nonetheless feel it is important to ensure that any review of rating usage flows from a premise of enhancing investors’ risk management practices and transparency regarding the limitations of credit ratings, rather than a premise that credit ratings will fail to provide analytical value to the financial community.

It is interesting to note that the market’s use of Fitch ratings has grown substantially in the past seven years, as evidenced today by broad acceptance amongst European institutional fixed income investors (e.g., 90% of the fifty largest European investors subscribe to Fitch’s credit ratings and research) and by the inclusion of our ratings in major fixed income indices. This growth has not coincided with the period of the recognition of Fitch’s ratings for regulatory purposes (which in some contexts goes back several decades), but rather with Fitch’s expansion in geographic and sector coverage following a series of mergers. It is thus apparent that usage of a given rating agency relates at least as much to the agency’s analytical resources, performance and product offering as to any regulatory status conferred upon it.

Thank you for giving us the opportunity to provide our comments. We hope you find them useful and that you will give them due consideration. Please call me at +1 212-908-0530 with any questions that you might have on this response. You also should feel free to call Charlie Brown, our General Counsel (+1 212-908-0626), Richard Hunter, Managing Director – Credit Policy (+44 20 7417 4362) or Susan Launi, Senior European Counsel (+44 20 7682 7470), my colleagues who helped me prepare this response.

Very truly yours,

A handwritten signature in black ink, appearing to read "Stephen W. Joynt". The signature is written in a cursive, flowing style with a large initial 'S' and 'J'.

Stephen W. Joynt
President and Chief Executive Officer