

**Statement of David Teicher
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**before the National Association of Insurance Commissioners
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I. Introduction

The following statement is submitted by Moody's Investors Service ("Moody's") to the National Association of Insurance Commissioners ("NAIC") Rating Agency Working Group in connection with its public meeting scheduled for September 24, 2009 on the role of credit rating agencies ("CRAs") in state insurance regulation. Moody's believes in the importance of the NAIC's ongoing dialogue with CRAs, insurance companies and other market participants about the nature of credit ratings and possible approaches to encourage more informed and careful use of ratings. We welcome this opportunity to contribute further to the discussion that is already underway both at the NAIC and more generally regarding the CRA industry.

The current economic downturn has exposed vulnerabilities in the infrastructure of the financial system. Important lessons for market participants have emerged from the rapid and dramatic market changes. While we remain proud of our 100-year track record, Moody's is well aware of the loss of confidence in the credit ratings industry, driven in large measure by the performance of credit ratings for certain vintages of U.S. RMBS and related securities. To address these concerns, we have undertaken a number of initiatives to enhance the quality, independence and transparency of our ratings.¹ These enhancements build on Moody's existing practices and processes through which we continually seek to ensure the credibility of our ratings.

While we believe that we have made good progress on these initiatives, more can be done. We expect to continue developing and modifying our approach in step with market needs, as well as regulatory expectations. In an effort to respond to and comply with regulatory requirements and changes in the regulatory landscape, we communicate regularly with regulators and other policymakers around the world. We welcome reform efforts that are likely to reinforce high quality ratings, improve market transparency and enhance accountability without intruding on the independence of rating opinion content.

This statement is organized as follows. In Part II below, I briefly provide some background information on Moody's, the nature of our credit ratings and our role in the capital markets. In Part III, I describe Moody's analysis and actions with respect to developments in U.S. sub-prime RMBS markets, focusing on the period 2003-2007. I then describe the steps we have taken since then to help restore confidence in our credit ratings. In Part IV, I discuss Moody's views on two issues relating to ratings comparability across sectors, *i.e.*, whether there should be greater comparability between U.S. public finance ratings and other ratings, and/or whether structured finance ratings should be differentiated in some way from other ratings. Finally, in Part V, I discuss Moody's views on whether ratings should continue being used for regulatory purposes.

II. BACKGROUND ON MOODY'S INVESTORS SERVICE AND THE ROLE OF CREDIT RATINGS

The credit rating business has its roots in the American tradition of the marketplace of ideas. In 1909, American entrepreneur John Moody published a manual,

¹ Please see our updates on *Strengthening Analytical Quality and Transparency*, which we began publishing in August 2008 and continue to update periodically.

Analyses of Railroad Instruments, which introduced a system of opinions about the creditworthiness of railroad bonds. Today, we are one of the world's most widely used sources for credit ratings, research and analysis.

Moody's occupies an important but narrow niche in the information industry. Our role is to disseminate opinions about the relative future creditworthiness of, among other things, bonds issued by corporations, banks and governmental entities, as well as pools of assets collected in securitized or "structured finance" obligations. We sift through the vast amounts of available information, analyze the relative credit risks associated with debt securities and/or debt issuers, and provide our analysis to the investing public for free. By making these opinions broadly and publicly available, we help to level the playing field between borrowers (debt issuers) and lenders (debt investors) by reducing information asymmetry.

We believe it is essential for investors and others to understand the role of CRAs and what credit ratings can and cannot do. Moody's has always been clear that our ratings should be used primarily as a gauge of relative default probabilities and expected credit loss. We inform the market that our ratings should not be used as indicators of market value, as measures of liquidity, or as recommendations to buy, sell or hold securities – all of which are influenced by factors other than credit. Moody's ratings are not designed to address any risk other than credit risk and should not be assigned any other purpose.

Moody's success depends on our reputation for issuing objective and predictive ratings. The strong performance of our ratings is demonstrated, over many credit cycles on the hundreds of thousands of securities we have rated, in our default studies and periodic ratings performance reports, which we post on our website, www.moodys.com. These default studies show that both our corporate and structured finance ratings have been reliable predictors of default over many years and across many economic cycles.²

Nonetheless, there always will be unanticipated developments in the markets that affect the credit risk of securities – and we have seen this starkly over the past two years. Indeed, because of events that occur at different times in different sectors and that will never be perfectly predictable, default rates by rating category vary widely from year to year across regions and industries within the corporate sector, as well as within various structured finance sectors.

III. MOODY'S EFFORTS TO ADVANCE THE QUALITY AND TRANSPARENCY OF CREDIT RATINGS

The various contributors to the recent market crisis are by now well-chronicled, starting with the performance of U.S. sub-prime home mortgages and then of mortgage-backed and related securities originated primarily in 2006 and early 2007. Moreover, it is now clear that significant, latent vulnerabilities had been developing in the infrastructure of the global financial markets, and that once exposed, these weaknesses could, and

² See, e.g., *Moody's Special Comment: Turning the Corner? Ratings Suggest an Upturn*, Sept. 21, 2009, in which we show that, during the deepest trough in the economic cycle since the Great Depression, Moody's ratings of non-financial corporations in the Americas have remained stable indicators of relative credit risk, with ratings volatility and accuracy holding to long-term patterns.

would, have severe and reverberating consequences.³

A. Moody's Analysis and Actions Relating to Sub-Prime Mortgage Portfolios

Between 2003 and 2006, Moody's observed an increase in the risk profile of sub-prime residential mortgages that we were asked to rate. In response Moody's undertook several actions that identified the growing risks, although they did not fully capture the magnitude or potential severity of those risks:

- 1) **We began commenting about risk in the housing market starting in 2003:** Our commentary included warnings about the deterioration in origination standards and inflated housing prices. We began publishing these warnings in 2003 and continued in 2004, 2005 and 2006.⁴ In January 2007, we published a special report highlighting the rising defaults in the 2006 vintage subprime mortgages⁵ and thereafter we continued to publish on their increasingly deteriorating performance.
- 2) **We tightened our ratings criteria:** We steadily increased our loss expectations on pools of subprime loans and the levels of credit protection required for a given rating level. Our loss expectations and enhancement levels rose by about 30% between 2003 and 2006. As a result, RMBS issued in 2006 that were backed by subprime mortgages and rated by Moody's had more credit protection than bonds issued in earlier years. In practical terms, this meant that by 2006 more than half the mortgages in a pool could default and suffer a 50% loss in foreclosure without the Aaa tranches defaulting.
- 3) **We took rating actions as soon as the data warranted it:** The earliest loan delinquency data for the 2006 mortgage loan vintage were largely in line with the performance observed for the 2000 and 2001 vintages, during the last U.S. recession. The 2006 Aaa-rated RMBS had sufficient credit protection to withstand such performance. As soon as the more significant loan performance deterioration in the 2006 vintage became evident, we took prompt and deliberate action on those transactions showing evidence of significantly heightened risk. Several rating actions were taken in November 2006, with broader actions beginning in April 2007.
- 4) **We conducted loan modification surveys:** Finally, in an effort to gauge the potential impact that loan modifications might have on reducing losses on defaulted loans, especially in light of interest rate resets when monthly payments increased, Moody's began conducting surveys of the modification practices of

³ Some of these weaknesses include exceptional leverage and business models that relied on secondary markets for liquidity of complex instruments in periods of stress; the interaction of asset valuation and capital; insufficient risk management practices; interlinked market participants; and limited transparency.

⁴ See, e.g., *2004 Review and 2004 Outlook, Home Equity ABS*, January 20, 2004; *The Importance of Representations and Warranties in RMBS Transactions*, January 14, 2005; *An Update to Moody's Analysis of Payment Shock Risk in Sub-Prime Hybrid ARM Products*, May 16, 2005; *The Blurring Lines between Traditional Alternative-A and Traditional Subprime US Residential Mortgage Markets*, October 31, 2006.

⁵ *Moody's Special Report: Early Defaults Rise in Mortgage Securitization*, January 18, 2007.

sixteen subprime mortgage servicers. These servicers together constituted roughly 80% of the total subprime servicing market. The results of our first survey, published in September 2007,⁶ suggested that, on average, subprime servicers were not focused on modifying loans and had only modified approximately 1% of their serviced loans that had experienced an interest rate reset (increase) in the months of January, April and July 2007. We published follow-up surveys in December 2007 and July 2008.⁷

In summary, Moody's took steps to watch, warn and react. Like many other market participants, however, we did not anticipate the magnitude and speed of the deterioration in mortgage quality or the suddenness of the transition to restrictive lending. We were far from alone in that regard, but we believe that we should be the leading edge for predictive opinions about future credit risks, and we have learned important lessons from that experience.

B. Efforts to Restore Confidence

The past two years have reminded all market participants how rapidly and dramatically markets can change. Throughout this period, Moody's has – in an effort to enhance accountability – reached out to market participants and policymakers globally for feedback regarding the utility of our ratings and ratings system. Based on the feedback we have received and our own deliberations, Moody's has adopted, or is in the process of adopting, a wide range of measures to enhance the quality, independence and transparency of our credit ratings, including the following:

- 1) **Strengthening the analytical quality of our ratings:** including creating permanent, internal methodology review and model verification and validation processes; continuing the separation of original rating and surveillance analysts; reinforcing the independence of the Credit Policy function; implementing methodological modifications; enhancing our existing professional training program; and formalizing model error discovery procedures.
- 2) **Enhancing consistency across rating groups:** including incorporating common macro-economic scenarios in rating committees, broadening cross-disciplinary rating committee participation; and improving surveillance coordination across rating groups.
- 3) **Bolstering measures to avoid conflicts of interest:** including codifying the existing prohibition against analysts providing recommendations or advice on structuring securities; prohibiting fee discussions by ratings managers as well as analysts (who were already subject to such a prohibition); changing rating committee composition to enhance independence and objectivity; conducting “look-back” reviews when analysts leave to join organizations with potential conflicts; revising our Securities Trading Policy; retaining and reviewing complaints about analysts made by third parties; reinforcing independence and

⁶ *Special Report: Moody's Subprime Mortgage Servicer Survey on Loan Modifications*, September 21, 2007.

⁷ *Special Report: US Subprime Market Update: November 2007*, December 17, 2007; and *Special Report: Moody's Subprime ARM Loan Modification Update*, July 14, 2008.

objectivity through analyst compensation policies; and adopting a stricter prohibition on Moody's analysts receiving gifts (to supplement our existing Moody's Corporation policy on this matter).

- 4) **Improving transparency of ratings and the ratings process:** including enhancing disclosures on incremental changes to methodologies; publishing detailed summaries of our methodologies for rating U.S. RMBS and CDOs; enhancing the review of loan originators in U.S. RMBS transactions and asking issuers for stronger representations and warranties relating to those transactions; providing additional information on structured finance ratings (V Scores, Parameter Sensitivity analysis, loss expectation and cash flow analysis, and key statistics and assumptions); enhancing disclosures regarding attributes and limitations of credit ratings in each rating announcement; and pursuing efforts to discourage rating shopping.

We believe we have made good progress with respect to augmenting the analytical framework and credibility of our ratings, and we continue striving to enhance our policies and procedures even further.

IV. RATINGS COMPARABILITY ACROSS SECTORS

Recent market events have led policymakers and market participants (including CRAs) to consider issues of ratings comparability across fixed income capital market sectors. In particular, questions have been raised about whether there should be greater comparability between U.S. public finance ratings and other ratings, and/or whether structured finance ratings should be differentiated in some way from other ratings. I discuss these two specific issues below before discussing the more general question of whether the market would benefit from rules that mandate ratings comparability or differentiation across sectors.

A. Comparability between Municipal and Non-Municipal Ratings

Moody's first began rating municipal bonds in 1918. Today, Moody's publishes ratings and research on a highly diverse group of issuers and securities, including bonds issued by states, cities, counties, school districts, special government entities and pooled groups of issuers. Bonds may be backed by, among other things, taxes, leases, appropriations and/or land development fees. Many, but far from all, of these rated bonds are backed by a government issuer's "general obligation" pledge, meaning that all of the government issuer's pledged, tax revenue-producing powers are promised to satisfy the debt, including the government issuer's ability to levy taxes sufficient to pay such debt. These bonds are sometimes called "General Obligation" or "G.O." bonds.

We also assign ratings to another large and diverse group of bonds issued by public authorities and non-profit organizations, which we collectively refer to as enterprises. These issuers back their debt with a combination of tax revenues and user fees to, for example, finance colleges and universities, hospitals, housing agencies and a wide range of public infrastructure projects such as airports, ports, public power utilities, transportation facilities and water-sewer systems.

Throughout our history, Moody's has sought municipal market investors' and issuers' views on which attributes would make our municipal bond ratings most useful, and we have adjusted our rating system to respond to the changing needs of market participants over time. For many years, investors and issuers in this market indicated that they wanted our ratings to draw finer distinctions among municipal bonds, which generally have had lower credit risk when compared to Moody's-rated corporate or structured finance obligations.⁸

It was not until 2008 that a larger portion of the market indicated to Moody's that they sought comparability between municipal and non-municipal ratings. Taking into account these views, Moody's announced in early September 2008 our intention to recalibrate our long-term municipal bond ratings to our global ratings in order to enhance comparability between municipal and non-municipal ratings. In mid-September 2008, an extraordinarily severe market dislocation was triggered by events unrelated to our announcement. Because of the severe turmoil that resulted from that dislocation, we determined it would be prudent to suspend the recalibration process until the market stabilized. We were concerned that pursuing our plans during such turbulence could unintentionally lead to confusion and/or further market disruption. The temporary suspension of the recalibration process remains in effect today because of ongoing volatility in credit markets. We remain committed, however, to implementing our plans and are monitoring market conditions closely as we look for an appropriate time to begin the recalibration process.

B. Differentiation of Structured Finance Ratings

Moody's has been engaged in dialogue with market participants and policymakers about whether additional analysis and greater transparency around our structured finance ratings and/or the use of a different symbols (or suffixes) for structured finance securities could help draw investors' attention to differences in the risk characteristics of structured finance products. Based on market participants' feedback indicating a strong interest in having Moody's provide additional analysis and greater transparency around our structured finance ratings, in late 2008 Moody's introduced two new risk measures for structured finance securities: V Scores and Parameter Sensitivities.

- V Scores address the degree of uncertainty around the assumptions that underlie our structured ratings. Although Moody's ratings already express our opinion about expected lifetime credit losses, V Scores are designed to signal to users of Moody's ratings which types of structured finance securities have greater exposure to data limitations and modeling assumptions.

⁸ Investors in corporate or structured bonds typically have looked to Moody's ratings for an opinion on whether a bond or issuer will meet its payment obligations. Our opinion takes into account our forecasts of both the probability of default and the loss if a default occurs. Historically, this analysis has not been as helpful to municipal investors. This is because, if municipal bonds had global ratings, the great majority of our ratings likely would fall within just two rating categories: Aaa and Aa. This would make it more difficult to differentiate among various municipal bonds, which is something that many investors indicated to us that they wanted our rating system to do. Accordingly, Moody's municipal bond ratings developed so that they distinguished more finely among the various municipal bonds and ranked one against the other on the basis of intrinsic financial strength. Because the risk of default and potential severity of loss historically have been relatively low for governmental issuers, Moody's municipal ratings principally have focused on the risk that an issuer will face financial stress.

- Parameter Sensitivities address the sensitivity of Moody’s ratings to changes in our key assumptions, and are designed to measure how the initial rating of a security might have differed if key rating input parameters were varied, as opposed to how a rating might migrate over time.⁹

We continue to monitor market developments as well as the policymakers’ ongoing debate about the appropriateness of using a single rating scale for both structured and non-structured securities. Differentiation of structured finance ratings from other ratings, possibly through the use of a different symbol system or a suffix, has been mandated in the European Union and it is possible that similar requirements will be adopted in some other countries, including in the U.S. Moody’s is assessing how best to implement the new EU requirements and monitoring regulatory developments in other jurisdictions.

C. Should Rules Mandate Greater or Lesser Ratings Comparability across Sectors?

From Moody’s perspective, it is of paramount importance that we can express our opinions about the creditworthiness of securities and obligors in a manner that users of our credit ratings find informative. Since insurance companies are one of the largest groups of users of our ratings, we are very interested in their, and the NAIC’s views, on this subject.

We also believe that the market benefits from diversity of independent opinions and methodological approaches. Legislation or rules, therefore, that mandate ratings comparability across sectors (*e.g.*, between municipal sectors and other securities) or conversely, that require differentiation of ratings (*e.g.*, differentiation of structured finance ratings from non-structured finance ratings) raise a number of issues. Below, we have briefly outlined some of these issues for consideration, among others:

- Legislation or rules that mandate a particular approach to ratings comparability may have the effect of freezing current preferences in time. This, in turn, could make it more difficult in the future for CRAs to innovate and compete on the basis of providing ratings that meet the evolving needs of investors, issuers and other users of credit ratings.
- Legislation or rules that mandate a particular approach to ratings comparability would involve substantive regulation of the content of credit opinions and rating methodologies, which could adversely affect CRAs’ ability to make diverse, independent opinions available to the market.
- Differences in approach from one jurisdiction to another could make it more difficult for CRAs to adopt a globally consistent approach to ratings. Global comparability of ratings is one of the key attributes of ratings that market participants have valued.

⁹ Parameter Sensitivities only reflect the ratings of each scenario from a quantitative/model-indicated standpoint. The results generated by quantitative models are one of many inputs to the rating process. Qualitative factors are also taken into consideration in the rating process, so the information presented in the Parameter Sensitivity analysis is not necessarily indicative of the ratings that actually would be assigned in each case.

V. THE USE OF CREDIT RATINGS FOR REGULATORY PURPOSES

Policymakers at both the national and international level are examining the use of ratings in regulation. As we discuss in more detail below, Moody's supports efforts to discontinue or limit the use of ratings in regulation since we have long held – and expressed – concerns about the potential negative effects that such use can unintentionally produce. We also recognize, however, that in light of current market conditions, eliminating or reducing ratings-based criteria should be pursued judiciously as financial markets continue to show signs of weakness and volatility.

I discuss below how ratings historically were used by market participants, why regulatory use of ratings may have developed and how the use of ratings as a regulatory tool can affect the way ratings are used by regulated entities, such as insurance companies, the factors that influence how issuers choose CRAs and the ways CRAs compete with each other.

A. Market Use Model

Historically, under the “market use” model, two important groups of market participants were interested in ratings.

- Initially, investors (who were primarily institutional, rather than individual, investors) used credit ratings as an objective, “second opinion” against which to gauge their own views. In other words, credit ratings constituted an additional source of information that either supported or refuted, but did not supplant, the investors’ own research, analysis and opinions. In general terms, the attributes of ratings that these investors found useful were as follows:
 - **Independence:** While investors might disagree with CRAs’ opinions, they believed that these opinions were not biased toward a particular set of interests.
 - **Reliable, predictive content:** Over time, the ratings performance of certain CRAs demonstrated that their ratings generally served as reliable predictors of relative credit risk.
 - **Breadth of coverage:** Globally active CRAs published ratings on a large and diverse group of entities and obligations. This breadth of coverage enabled investors to compare and rank credit quality across issuers, industry sectors, asset classes and jurisdictions.
 - **Rating stability:** As they began incorporating ratings-based criteria into their investment and portfolio composition guidelines, most investors also came to value not only rating accuracy (*i.e.*, predictive content) but also rating stability for the securities they owned.
 - **Simplicity:** Rating symbols condensed a great deal of analysis, research, judgment and opinion into easy-to-use symbols.
- Issuers sought ratings to increase their investor base and marketability of their debt. Because of the rating attributes identified above, credible ratings could facilitate issuers’ access to capital markets. Issuers naturally wanted to obtain the highest possible rating and exercise maximum control over the rating process. Since,

however, investors demanded credible ratings, issuers were motivated to seek ratings from CRAs that had the best reputations among investors since such ratings would facilitate better access to capital markets. This was a form of “rating shopping” since issuers had a range of CRAs to choose from and could “shop” for the CRA that best served their objectives.¹⁰

Likewise, CRAs competed to deliver credible (*i.e.*, objective, reliable and relatively stable) ratings. This is because, under the market use model, the credibility that they built with investors provided them with a competitive edge.¹¹

B. Regulatory Use of Ratings – and Potential Negative Effects

The attributes of ratings described above developed over a century of evolution in line with market-based needs. These attributes, however, have also led to the use of ratings for a variety of additional regulatory and market-based purposes. For example, leveraging the market’s use of ratings, regulators in the U.S. and globally have incorporated ratings into regulations and rules. This is sometimes called the “regulatory use” model. Some market commentators have the impression that regulatory use of ratings and the establishment by the U.S. Securities and Exchange Commission (“SEC”) of the Nationally Recognized Statistical Rating Organization regime caused the development and success of the CRA industry. That impression, however, misconstrues the history of the use of ratings in federal securities laws, which occurred *because* CRAs already were providing a well-known and valuable product to market participants.

The appropriation of credit ratings for prudential and other standards is understandable from a public policy standpoint. As noted above, rating symbols are easy-to-use, and rating opinions are independent and relatively stable. Importantly, ratings have also demonstrated predictive ability to distinguish relative creditworthiness among securities and issuers. Moreover, ratings provided by the major CRAs are published for the equal benefit of all market participants, not just a select group of subscribers.

Notwithstanding these benefits, Moody’s has long been concerned about the regulatory use of ratings. In various public communications, we have reiterated our concerns about the use of ratings in regulation.¹² Specifically, we have discussed how the use of ratings as a regulatory tool for the oversight of regulated entities can adversely affect the behavior of market participants as well as regulators. Summarizing some of the views we have expressed in other publications:

¹⁰ In recent decades, the term “rating shopping” has developed a negative connotation because, typically, the term has come to describe the practice where issuers “shop” for a CRA that will provide the highest rating, even if that rating is unlikely to be the most accurate rating. Shopping for a rating, however, occurs because there is competition among CRAs, and it is often suggested that more competition in the CRA industry would be beneficial. Neither rating shopping nor greater competition among CRAs, however, is intrinsically harmful or beneficial to investors and the markets generally. As discussed in more detail below, it all depends on which attributes of ratings are shopped for or along which CRAs compete.

¹¹ CRAs also may have competed for business on the basis of factors such as price, accessibility and service but we believe that credibility with investors was the preeminent, market-based attribute along which CRAs competed.

¹² See generally *Moody’s Investors Service Comment Letter re Files S7-17-08, S7-18-08 and S7-19-08: References to Ratings of Nationally Recognized Statistical Rating Organizations* (September 5, 2008) and *Moody’s Investors Service Comment Letter re File S7-11-09*, available on moodys.com and SEC’s website.

- Entities that are required to, or receive regulatory benefits from, holding securities that have an “approved” credit rating may have less of an incentive to conduct their own credit analysis and may be encouraged to over-rely on credit ratings.
- Issuers may be encouraged to “shop” for the highest rating among the officially recognized CRAs because, at least in the short term, credibility with investors is supported by official recognition of certain CRAs.
- The incentives for officially recognized CRAs to compete on the basis of ratings quality and performance may be diluted.
- The regulators’ interest in comparable ratings can pressure CRAs to produce homogenous opinions and undermine their ability to provide diverse, independent opinions.
- Market participants may mistakenly perceive that ratings have a “government seal of approval” and inappropriately rely on them as a proxy for risks not measured by credit ratings (such as market value and/or liquidity risk).

As noted above, Moody’s recognizes that there are benefits from identifying and using objective, widely accepted standards for financial markets because this can facilitate efficient regulation. Credit ratings can be useful in this regard because they are easy to use, broadly disseminated, independent and reliably predictive opinions about relative creditworthiness. Nevertheless, we continue to believe that widespread regulatory use of ratings can unintentionally produce negative effects and create harmful incentives.

We believe that these views are consistent with current global efforts, including those of the NAIC, to identify ways to rely less on ratings and explore how they can be removed from regulation in the least disruptive and most effective and efficient manner.¹³ Moody’s fully supports these efforts.

C. Moody’s Recommendations

We encourage the Working Group and the NAIC to analyze carefully the potential, direct and indirect consequences of continuing, modifying or ceasing the regulatory use of ratings in insurance regulation. We support the healthy dialogue that meetings such as this one can foster and believe such dialogue can help to encourage all users of ratings, whether they are market participants or regulators, to consider carefully: (1) what are the desirable attributes of a CRA’s ratings that make them useful in the first place; (2) what are the risks that the user is seeking to measure and manage in using the CRA’s ratings; and (3) whether the CRA’s ratings performance merits such ratings’ continued used for regulatory and other purposes. In our view, this type of analysis should be conducted periodically, since new risks can emerge, the relative importance of

¹³ Of course, introducing a new use for ratings does not necessarily exclude other existing uses. Ratings continue to be sought for other reasons. Accordingly, the incentives for issuers to seek ratings that are credible with investors and for CRAs to meet high performance standards have continued to operate and exert market discipline on the industry. If, however, these dynamics change, the incentive effects generated by the regulatory use of ratings may have a greater impact on the behavior of investors, issuers and CRAs. The effects of these incentives can be detrimental, if, for example, the regulatory use of ratings commoditizes ratings, puts pressure on CRAs to homogenize their rating methodologies the CRA that will demand the least amount of information.

risks can change, new assessment tools are developed, and the needs of market participants and regulators can evolve.

Ultimately, ratings are simply one tool that is available to market participants and regulators. We do not believe, and never have recommended, that they should be used as anything but an opinion on credit risk. We expect that the reassessment of the use of ratings by the Working Group and the NAIC will help reinforce this concept.

VI. CONCLUSION

Moody's has always believed that critical examination of the CRA industry and its role in the broader market is a healthy process that can encourage best practices, support the integrity of our products and services, and allow our industry to adapt to the evolving expectations of market participants. Many necessary actions can and have been taken at both the firm and industry level, and policymakers at the domestic and international levels have proposed a host of constructive reform measures for our industry and credit markets generally. Moody's wholeheartedly supports constructive reform measures and we are firmly committed to meeting the highest standards of integrity in our rating practices, quality in our rating methodologies and analysis, and transparency in our rating actions and rating performance metrics.

I am happy to respond to any questions.