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October 4, 2010

Via E-Mail: rule-comments@sec.gov

Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Dear Ms. Murphy and Commissioners:

**Re: Dodd-Frank Wall Street reform and Consumer Protection Act –
Title IX – Investor Protection and Improvements to the Regulation of Securities
Credit Rating Agency Review and Rulemaking – Sections 931-939H**

Thank you for the opportunity to provide our comments on the SEC initiatives under the Dodd-Frank Act. Specifically we would like to provide our comments as it relates to Section 931-939H regarding credit rating agencies review and rulemaking.

CalPERS is the largest public pension fund in the United States with approximately $213 billion in global assets and equity holdings in over 9,000 companies. CalPERS provides retirement benefits to more than 1.6 million public workers, retirees, their families and beneficiaries. As a significant institutional investor with a long-term investment time horizon, CalPERS has a vested interest in maintaining the integrity and efficiency of the capital markets. We rely on the quality and integrity of market information to allocate capital on behalf of our beneficiaries. Credit ratings provide a critical contribution to those decisions.

CalPERS testified before the House Committee on Oversight and Government Reform[1] regarding credit ratings and the review of credit rating agencies (CRAs) or formally known as Nationally Recognized Statistical Rating Organizations (NRSRO). The testimony proposed five specific reforms to credit rating agencies. Current legislation through the Dodd-Frank Act takes action on 4 of the 5 recommendations and appoints the Comptroller General through Section 939D, to study an alternative means to compensate the CRAs in order to create incentives for them to provide more accurate credit ratings, including statutory changes that would be required to facilitate the use of alternative means of compensation.

[1] Testimony of Eric Baggesen, Senior Investment Officer, CalPERS, before the House Committee on Oversight and Government Reform, September 30, 2009.

CalPERS believes an alternative payment model should include the following:

- Issuers still pay for services rendered to obtain a CRA ratings. CRA revenues should be pooled and allocated to CRAs based on periodic voting process by "customers" – investor constituents.

- The voting process will be administrated through a "proxy like" process and paid by CRAs.

- We believe this model should be transitioned over a 4-5 year period with increasing amounts of revenue at risk.

- Revenue at risk to CRAs will:
    - Create a market based results oriented feedback loop to CRAs;
    - Motivate CRAs to improve and maintain ratings process as opposed to relying on regulators edicts and audits;
    - Motivate CRAs to be more conservative in ratings new financial instruments or companies professing new business models;
    - Align the interests of CRAs with investors, who are true customers or user of information as opposed to issuers.

- Investors will utilize information gained from increased transparency and their customer experience to assess CRA relative skills, abilities and performance.

Additionally we believe it is important to point out that the Dodd-Frank Act addresses the other four recommendations as submitted through CalPERS testimony. These four recommendations are addressed through specific Sections as outlined below:

Congress and the Administration should bolster the SEC's position as a strong, independent overseer of credit rating agencies.

The Securities and Exchange Commission is the primary financial regulatory agency, as defined in section 2 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Section 932 (8) (A) states the Commission shall establish within the Commission an Office of Credit Ratings to administer rules of the Commission – subsections:

(i) with respect to practices of CRA in determining ratings, for the protection of users of credit ratings and in the public interest;
(ii) to promote accuracy in credit ratings issued by CRA and;
(iii) to ensure that ratings are not unduly influenced by conflict of interest.

Credit rating agencies should be required to manage and disclose conflicts of interest and create an executive level compliance officer position.

Section 932, Enhanced regulation, Accountability and Transparency of CRAs laid out numerous initiatives, rules and commission studies that are directed at mitigating conflict of interest risk. We support the attestation requirement that each CRA submit to the Commission on an annual basis an internal controls report.

Credit rating agencies should be held to a higher standard of accountability.

Section 931 (3) recognizes that credit rating agencies are gatekeepers and are fundamentally commercial in character and should be subject to the same standards of liability and oversight as apply to auditors, securities analysts, and investment bankers.

Credit rating agencies should not rate products for which they lack sufficient information and expertise to assess.

Section 932 (r) Credit Ratings Methodology states the Commission shall prescribe rules for the protection of investors and in the public interest with respect to the procedures and methodologies including qualitative and quantitative data and models used by the CRA that require the CRA to in section (s) Transparency of Credit Methodologies and information reviewed, requiring disclosures on rating assumptions and methodologies.

CalPERS believes along with the full disclosure of the methodology employed by CRAs, the CRAs should comment on all risks identified in the process of making a decision to rate or not to rate a security or product. CalPERS also believes that the Office of Credit Ratings within the Commission should consider additional transparency requirements which includes a "ratings scorecard" to assess the practices, accuracy and effectiveness of the rating process via historical rating outcomes.

Thank you for this opportunity to share our comments on Title IX, specifically as it relates to Section 931-939H, Credit Rating Agencies review and rulemaking. If you would like to discuss any of these points, please do not hesitate to contact me at 916-795-9672 or my colleague Mary Hartman Morris at 916-795-4129.

Sincerely,

ANNE SIMPSON
Senior Portfolio Manager
Global Equity

Attachment: September 30, 2009 Testimony before the House Committee on Oversight and Government Reform

cc: Joseph Dear, Chief Investment Officer – CalPERS
Eric Baggesen, Senior Investment Officer – CalPERS
Curtis Ishii, Senior Investment Officer - CalPERS
Lou Zahorak, Portfolio Manager - CalPERS
Mary Hartman Morris, Investment Officer – CalPERS