



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

DIVISION OF
MARKET REGULATION

August 19, 2005

Mr. Kevin O'Brien
Sovereign Advisers
4901 E. Sunrise Drive, Suite 711
Tucson, Arizona 85718

Dear Mr. O'Brien:

We have received your letters dated August 4, 2005 to Chairman Cox and August 1, 2005 to Annette Nazareth. You refer to a letter sent to the Division of Market Regulation on March 31, 2005 on behalf of the American Bondholders Foundation ("ABF")¹ alleging that three credit rating agencies assigned inappropriate and misleading sovereign credit ratings to the long-term foreign currency debt of the People's Republic of China. The March 31 letter refers to bonds issued before 1949 that, according to the ABF, are now in default. The ABF asserts that these bonds, by their terms, are binding upon the government of China and its successors, but that the People's Republic of China has stated that it has no obligation to repay them.

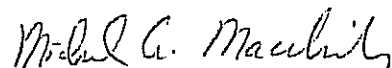
The ABF states that three of the Nationally Recognized Statistical Rating Organizations ("NRSROs"), Moody's Investors Service Inc., the Standard & Poor's Division of the McGraw Hill Companies, Inc., and Fitch, Inc., have failed to conduct objective analyses of the pertinent facts and circumstances related to the long-term foreign currency debt issued by the People's Republic of China. According to the ABF, this failure resulted in the assignment of inappropriate and misleading sovereign credit ratings to this long-term foreign currency debt. The ABF also complains that misleading statements appear in the prospectus supplement for the People's Republic of China's issuance of sovereign debt in 2003.

¹ According to the ABF, it is the incorporated national organization representing the consolidated claims of thousands of United States bondholders who are holders of full faith and credit sovereign bonds issued by the Government of China.

The Commission has no express authority to regulate NRSROs as such.² As was described in a recent rule proposal, the Commission has the authority to define the term NRSRO for purposes of Commission regulations.³ The goal of the NRSRO rule proposal is to provide greater clarity and transparency to the process of determining whether a credit rating agency's ratings should be relied on as an NRSRO rating for purposes of Commission rules and regulations. The proposed definition and interpretations are intended to provide credit rating agencies with a better understanding of whether they qualify as NRSROs. The Commission does not, however, have the authority to require an NRSRO to revise a debt rating classification. The NRSROs in fact have asserted that such authority could infringe upon their First Amendment rights.

The ABF discusses various areas in which it believes the disclosure in offering documents was inadequate. Commission staff will use this information as we seek to ensure that issuers whose securities are registered with the Commission fulfill their responsibility to provide investors with full and fair information that is material to an investment decision.

Sincerely,



Michael A. Macchiaroli
Associate Director

² While Moody's, Standard & Poor's, and Fitch are registered investment advisers under the Investment Advisers Act of 1940 ("Advisers Act"), the ABF does not raise allegations of undisclosed conflicts of interest that could potentially violate the Advisers Act.

³ See Definition of Nationally Recognized Statistical Rating Organization, Release Nos. 33-8570; 34-51572; IC-26834 (April 19, 2005), 17 CFR Part 240 (April 25, 2005).