



THE CHAIRMAN

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

July 29, 2005

The Honorable Bob Beauprez
U.S. House of Representatives
504 Cannon House Office Building
Washington, DC 20515

Dear Congressman Beauprez,

I am writing in response to your letter dated June 7, 2005, regarding a complaint sent to the Division of Market Regulation on March 31, 2005, on behalf of the American Bondholders Foundation ("ABF"). You request that the Commission review the ABF's allegations 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. Attached is a staff memorandum relating to your inquiry.

We have forwarded your letter to Moody's, S&P and Fitch for their attention. Please let me know if we can provide further information.

Sincerely,

A handwritten signature in cursive script that reads "Cynthia A. Glassman".

Cynthia A. Glassman
Acting Chairman

COPY

MEMORANDUM

TO: Cynthia A. Glassman, Acting Chairman

FROM: Annette Nazareth, Director *Annette Nazareth*
Division of Market Regulation

RE: Summary of the American Bondholders Foundation's complaint

DATE: July 29, 2005

We received a letter dated March 31, 2005, from Sovereign Advisers 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 complaint relates 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.

In its complaint, 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. Moreover, the ABF contends that the actions it describes with respect to credit rating agencies are pertinent to the supervisory and regulatory mandate of the Division of Market Regulation with respect to the operation of the nation's securities markets generally and, specifically, the diligent enforcement of regulations governing the operation of the NRSROs.

The Commission has no express authority to regulate NRSROs as such. As was described in a recent rule proposal, the Commission has the authority to define the term NRSRO for purposes of Commission regulations.² 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

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.

² 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).

qualify as NRSROs. The Commission does not, however, have the authority to require an NRSRO to revise a debt rating classification. The NRSROs have asserted that such authority could infringe upon their First Amendment rights.

The ABF letter 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.