FOIA CONFIDENTIAL TREATMENT REQUESTED Dougherty, M

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August 11, 2008

Via Facsimile and Federal Express

Lori Richards
Director
Office of Compliance Inspections and Examinations
United States Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-8041

Re: Examination of Moody's Investors Service, Inc.

Dear Ms. Richards:

I write on behalf of Moody's Investors Service, Inc. ("Moody's" or the "Company") in response to your letter dated July 11, 2008 (the "Examination Letter"). The Examination Letter sets forth the findings and recommendations of the staff of the Office of Compliance Inspections and Examinations (the "Staff") resulting from its examination of Moody's ratings of subprime residential mortgage-backed securities ("RMBS") and collateralized debt obligations ("CDOs") linked to subprime RMBS. Moody's takes very seriously the findings and recommendations of the Staff and is committed to implementing new measures as well as improvements to existing policies and procedures to address the issues identified.

The responses below describe the steps that Moody's is taking to address the Staff's findings and recommendations. To the extent that the Staff has recommended that Moody's perform a review of existing policies, procedures, and resource levels, Moody's will provide the Staff with a report of its progress on the recommended reviews by October 31, 2008.

1. Staffing Levels

The Staff found that CDO staffing levels did not keep pace with increases in the volume of transactions being rated. The Staff recommends that Moody's evaluate both at this time and on a periodic basis whether it has sufficient staff and resources to manage its volume of business and meet its obligations under the Exchange Act.

Moody's understands the Staff's concern and agrees that adequate staffing resources are important. Moody's Code of Professional Conduct ("Moody's Code") states that Moody's "will invest resources sufficient to carry out high-quality credit assessments" and "will assess whether it is able to devote sufficient personnel with appropriate skills to make a proper rating assessment."[1]

Moody's is initiating a review of staffing levels across the Company. The head of each business line will review current staffing needs in his or her group. This review includes consideration of pertinent factors including, among others, transaction volume, staff turnover, professional training, the skill set of current staff, and the overall quality of the team. Senior management will consider the findings of the reviews conducted by each business line as described below. All business lines are expected to complete this review by December 31, 2008. Moody's will conduct this review on an annual basis going forward.

The results of the annual review will be integrated into Moody's existing process for reviewing staffing levels. As part of this existing process, Moody's senior management team reviews, on an annual basis, the level and type of staff and other resources required in order to consistently produce credit rating opinions with integrity and demonstrable aggregate predictive power. This firm-wide review process considers many different factors, including anticipated business needs, complexity and volume of structured finance transactions, and availability of talent and technology solutions. Based upon this review, senior management determines whether and to what extent different groups within Moody's need to hire additional staff.[2] These staffing decisions are reflected in Moody's final annual operating plan which is presented to Moody's Corporation's Board of Directors in February for its review.

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1 Section 1.7.

2 Moody's hiring practices are designed to serve the long-term needs of the Company. Temporary increases in structured finance transaction flow may also be addressed through measures other than permanent hires, including short term transfers of analysts from other areas and re-prioritization of non-rating work such as speaking engagements and non-critical publications.

2. Disclosure of the Rating Process

> *The Staff had difficulty locating the disclosure of certain aspects of Moody's rating process and found that Moody's does not publish, or publish prior to implementation, all incremental changes to its methodologies. The Staff recommends that Moody's conduct a review of its disclosures of its processes and methodologies for rating RMBS and CDOs and its policies governing the timing of disclosure of a significant change to processes and methodologies to determine whether they comply with the requirements of the Exchange Act.*

Moody's understands the Staff's concerns and agrees that published methodologies should be readily accessible and that Moody's process for disclosing incremental changes to methodologies can be improved. Moody's currently publishes on its website the methodologies and procedures that inform its credit rating process for structured finance transactions.[3] Material modifications to rating methodologies and procedures are announced via press release and published on Moody's website.[4] Where feasible, Moody's publishes "requests for comment" when considering significant changes to methodologies or procedures or introducing new methodologies or procedures. This process allows Moody's to arrive at a more fully informed methodology and promote transparency, one of the Company's primary objectives.[5]

In response to the issues raised by the Staff, Moody's is implementing two initiatives to improve disclosure. First, beginning in December 2008, Moody's will issue a press release on a quarterly basis that identifies incremental changes to procedures and methodologies in the Structured Finance Group that have not been previously published. This press release will allow Moody's to notify the market of incremental changes without the delay necessarily associated with updating a published methodology. Moody's will update each published methodology to reflect these incremental changes on an annual basis.

Second, Moody's is consolidating methodologies for rating RMBS and CDOs. Moody's methodologies have been developed over many years and are subject to constant reevaluation in response to market innovation. As a result, for many asset classes within Structured Finance, the methodology may be spread across multiple

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3 *See* Section 3.6 of Moody's Code.

4 *See* Section 3.13 of Moody's Code.

5 *See* Section 3.13 of Moody's Code. On occasion, rapidly changing market conditions may necessitate the implementation of significant changes prior to publication or the opportunity for a request for comment.

documents written over the course of several years. In order to provide the market with a single point of reference, Moody's will publish for each broad asset class a single master methodology describing the key rating factors and analytical approach, which will be updated annually with any incremental changes as described above.[6] Where necessary, the master methodology will reference more specialized methodologies. The scale of this undertaking makes it difficult to project a timeline for completion. Moody's will apprise the Staff of its progress by October 31, 2008.

3. Written Policies and Procedures for Rating RMBS and CDOs

> *The Staff found that although several documents including Moody's Code, the Report on Moody's Code, the Analyst Handbook – Rating Practices and Procedures, and Moody's Best Practices for the Conduct of Moody's Structured Finance Rating Committees provide a general guideline for an analyst to follow when rating structured finance products, they are not specific to any type of structured finance product, such as RMBS or CDOs.*

Moody's understands the Staff's concern and agrees that a document describing the general steps in the rating process leading up to, and following, a rating committee would be helpful. Moody's has many policies and procedures that provide guidance on the rating committee process, such as those noted in the Examination Letter, but does not have specific written procedures to guide an analyst through the rating process before and after a rating committee.

In response to the Staff's recommendation, Moody's is drafting a process guidance document that will set forth the general steps that an analyst takes from the time the rating process is initiated to the time a final rating is published. For example, prior to reaching a rating committee, the analyst may gather information relevant to the credit analysis, identify prior similar transactions, conduct preliminary analysis, and prepare a committee memorandum. After the rating committee, the analyst may provide feedback to the issuer, conduct additional analysis at the request of the committee, prepare a press release, and publish the final rating.

Moody's acknowledges the Staff's comment that its existing process guidance documents are not specific to any particular type of structured finance product, such as RMBS and CDOs. Moody's process guidance documents are not specific to a particular asset type because Moody's rating process is, and in fact must be, similar across asset classes, regardless of the specific methodological analysis being performed.

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[6] As a result of the great diversity of structure in derivatives, we are drafting master methodologies for each subsector within derivatives, such as collateralized loan obligations, collateralized bond obligations, and CDOs of asset-backed securities.

Although the qualitative and quantitative factors considered at any given stage of the process can vary depending on the relevant asset class, the procedural steps remain consistent. Moody's believes that the process guidance document being prepared will not only be of substantial assistance to the Staff in future examinations, but also to Moody's in efficiently familiarizing analysts with the rating process. Moody's expects to complete its new process guidance document by December 31, 2008.

4. Documentation of Significant Steps in the Rating Process

> *The Staff identified instances in which it appears that Moody's failed to retain or document certain significant steps in the rating process, which made it difficult for the Staff to assess compliance with its rating policies and procedures, and to identify the factors that were considered in developing a particular rating. The Staff noted, however, that Moody's is in the process of implementing automated committee memoranda and other document retention procedures.*

Moody's understands the Staff's concerns and agrees that improvements can be made in the documentation of the rating process. As the Staff noted in the Examination Letter, Moody's is automating certain aspects of the documentation process. Moody's recently implemented an automated rating committee addendum as part of a record retention pilot program initiated on July 15, 2008 in the RMBS and Asset Backed Groups.

The key enhancements to record retention practices being tested in the pilot program are (i) focusing analysts on their record retention certification obligation, (ii) reviewing randomly selected documentation on a quarterly basis to test record retention practices, (iii) providing feedback to managers based on these reviews which will be incorporated into analyst performance evaluations, (iv) follow-up with analysts and managers to rectify any record retention lapses, and (v) utilizing the data generated by the automated addendum to run daily exception reports to identify potential gaps.

An analyst must create a new addendum each time the committee meets. The addendum records rating related information such as the identities of the committee members, the vote tally, and the committee results. Upon completion, the information captured in the addendum is uploaded to a centralized database where it can be queried. The Compliance Department is developing queries for the database that will be used to run daily exception reports to identify any issues that require follow-up. Moody's expects to implement the automated committee addendum for all of US Structured Finance by December 1, 2008. Once this process has been completed in US Structured Finance, Moody's expects to implement this program globally across each of the business lines.

5. Surveillance Practices

> *The Staff found that Moody's regularly performed RMBS and CDO surveillance during the exam period. The Staff noted, however, that although Moody's publishes criteria that describe its methodology for the surveillance of RMBS and CDOs, Moody's does not have internal written procedures documenting the steps its personnel should undertake for surveillance of RMBS and CDOs. The Staff recommends that Moody's conduct a review to determine if adequate resources are devoted to surveillance and that Moody's develop comprehensive written surveillance policies and procedures.*

Moody's understands the Staff's concerns and agrees that adequate staffing is essential and that written internal procedures for structured finance surveillance should be developed. As described above, Moody's is undertaking a firm-wide review of staffing levels, including surveillance. Further, as discussed with the Staff during its onsite examination, Moody's began separating the surveillance function from the initial rating function in the Structured Finance Group beginning with RMBS and CDOs in 2004.[7] The purpose of the separation is to enhance and emphasize the independence of the surveillance function where practicable.

The factors that facilitate implementation of independent monitoring for a particular asset type within a class are (i) a critical mass of transactions, (ii) standardized surveillance data feeds, and (iii) a standardized monitoring methodology and process that allows for regular surveillance. There are however instances where the primary rating analyst must remain involved in monitoring the transactions. The factors that are most relevant include the complexity and uniqueness of certain asset types, including for example, covered bonds, market value CDOs, and credit derivative product companies.

The reporting lines of the structured finance rating and surveillance functions have also been reorganized to emphasize independence. Moody's recently created a new Group Managing Director position under the title of Structured Finance Global Surveillance Coordinator to oversee structured finance surveillance operations worldwide. The structured finance surveillance heads for each business line report to the Group Managing Director or Senior Managing Director of the business line and the Global Surveillance Coordinator.

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7 In some instances, the lead analyst who was responsible for the initial rating may be invited to participate in the monitoring committee in order to provide the committee with necessary technical and background information. The majority of the monitoring committee will not have participated in the initial rating process.

In response to the Staff's concern regarding written surveillance procedures, Moody's is preparing written procedures that will provide guidance to the structured finance surveillance staff on matters including frequency and method of review, the use of systems and tools, applicable methodologies, committee composition and record retention obligations. Moody's expects to complete the RMBS and CDO surveillance procedures by January 30, 2009, with procedures for additional asset classes to follow.

6. Management of Conflicts of Interest

> ***Fee Discussions:*** *The Staff found that Moody's established a policy in October 2007 to restrict analysts and their immediate managers from participating in fee discussions with issuers, but does not actively monitor employees' compliance with the policy. The Staff also noted that there is no internal effort to shield analysts from emails and other communications relating to fees and revenue from individual issuers. The Staff recommends that Moody's conduct a broad review of its practices, policies, and procedures and implement steps that will insulate or prevent the possibility that considerations of market share and other business interests could influence ratings or ratings criteria.*

Moody's understands the Staff's concerns and agrees that more can be done to enhance the insulation of analysts from fee discussions. Moody's has many policies and procedures in place to mitigate and manage the conflicts inherent in both the "issuer-pays" and "investor-pays" components of the Company's business model, including policies prohibiting analysts and their immediate managers from participating in fee discussions with issuers and sales of subscription-based research from a separate operating company.[8] Matters relating to fee discussions are generally handled by a group of administrative Moody's employees who have no rating related responsibilities.

Moody's is now monitoring the fee discussion policy through a recently acquired e-mail monitoring system. The Compliance Department is using this system to conduct regular monitoring to assess compliance with, among other things, the prohibition against analysts engaging in fee discussions with issuers. Routine email monitoring began on July 31, 2008, and consists of applying keyword searches to emails addressed to employees with analytic responsibility as well as daily random sampling of other personnel. Moody's continues to review its email monitoring practices and expects to improve and further refine its policy monitoring function. Moody's expects to complete this review by November 31, 2008.

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8 *See* Sections 2.5 and 2.12 of Moody's Code.

Moody's also understands the Staff's concern that analysts may be exposed to emails or other information about fees from particular issuers. On July 28, 2008, Moody's submitted comments on Proposed Rule 17g-5(c)(6) which addresses fee discussions among rating personnel. As noted in those comments, Moody's believes that adoption and disclosure of procedures to manage the conflict are the appropriate way to address the issue raised by the Staff. Moody's looks forward to continued participation in the rule-making process and will modify its policies to comply with the final rule.

> ***Securities Trading Policy:*** *The Staff found that Moody's adopted a policy to prohibit employees and their immediate family members from owning any security that is subject to a credit rating of a team on which such employees are members to guard against potential insider trading. The Staff found Moody's employee securities transaction program to be generally adequate. The Staff recommends that Moody's conduct a review of its policies and procedures for managing the securities ownership conflict of interest to determine whether they are reasonably designed to ensure that its employees' personal trading is appropriate and does not violate the Exchange Act.*

Moody's is pleased with the Staff's findings concerning its securities trading policy. Moody's also agrees that it is prudent to periodically reevaluate its policies and procedures to ensure that Moody's is not only in compliance with the requirements of the Exchange Act, but also at the forefront of industry best practices. Moody's is currently reviewing its securities trading policy and is considering amending the policy to provide greater clarity with respect to permissible investments, transaction reporting, and manager review. Moody's expects to complete its review by December 31, 2008, and will review the securities trading policy every two years going forward.

7. Internal Audit

> *The Staff found that Moody's performs internal audits to evaluate compliance with its best practices, its electronic storage requirements, securities trading restrictions, and the Moody's Code of Conduct. The Staff further found that Moody's conducted three internal audits related to the RMBS and CDO rating process during the exam period. Moody's was unable to demonstrate evidence of its management's follow-up on the recommendations of the internal auditors, however. The Staff recommends that Moody's review whether its internal audit functions, particularly in the RMBS and CDO ratings areas, are adequate, and whether it provides for proper management follow-up.*

Moody's understands the Staff's concerns and agrees that the scope of Moody's internal audit function and the adequate documentation of management follow-up to issues identified during internal audits are important matters. Moody's believes that recently implemented audit standards will address the Staff's concern regarding the scope of the internal audit function by providing for an ongoing reevaluation, and is implementing new measures to more fully document management's follow-up to internal audit recommendations.

In April 2008, Moody's developed a set of internal audit standards that require an annual reevaluation of Moody's internal audit function in all areas of the rating agency. The audit standards require that the internal audit group submit a three-year audit plan to senior management and the Audit Committee of the Moody's Corporation Board of Directors on an annual basis. The audit plan must be assessed and updated each year based on the results of past audits, a current risk assessment of audit areas, changes in the Company's business environment and operations, issues identified by senior management or the Audit Committee, and the coordination of work with Moody's external auditors. Moody's will review the scope of the internal audit function in RMBS and derivatives, as well as the entire rating agency, on an annual basis as set forth in the recently adopted audit standards.

In response to the Staff's concern with the lack of documentation of management follow-up to internal audit recommendations, Moody's has commenced a review of all rating compliance audits conducted during the last two years and is implementing new measures to more fully document management follow-up. The review of prior rating compliance audits will determine the disposition of any recommendations set forth in each audit report and the final status of all recommendations will be appended to the original report. Moody's expects to complete its review by October 31, 2008. To address the Staff's concern on a going forward basis, new rating compliance audit reports will reflect management's final disposition of any recommendations effective immediately.

8. Model and Methodology Errors

The Staff found that although Moody's has specific policies and procedures that emphasize the importance of providing accurate ratings with integrity, it does not have policies and procedures that provide guidance on the process that should be followed when errors are discovered in its models, methodologies, or other aspects of the ratings process. The Staff recommends that Moody's develop policies and procedures for the reporting and correction of discovered errors in its models, methodologies, or other aspects of the ratings process.

Moody's agrees with the Staff's recommendation and has developed an error discovery protocol that specifically sets forth the steps an analyst should take if an error is discovered in a model relating to a new or existing transaction. The error discovery protocol was distributed to all ratings personnel worldwide on July 14, 2008. A copy of the protocol is enclosed as Exhibit A to this letter. Moody's continues to review the protocol and expects to make additional changes to improve and further clarify its error discovery procedures. Moody's expects to complete this review by December 31, 2008.

In addition to establishing an error discovery protocol, Moody's is also taking steps to verify the accuracy of the primary models used in structured finance rating committees. Moody's has established a task force of model managers and financial engineers to conduct a review of these models to verify that they are correctly programmed and are functioning properly according to the specifications set forth in the applicable methodology.

Moody's has also begun a validation process to examine the methodologies underlying its primary models. The validation process will review the key assumptions and overall conceptual framework of Moody's models to ensure that the results—even if mathematically accurate—sufficiently correspond to the real-world systems that are being modeled and that the assumptions in the model are reasonable.

Moody's has reviewed several primary models currently used to rate structured finance transactions both in the U.S. and in Europe, and has determined that they are functioning properly. Moody's is also reviewing the methodologies used to assign ratings in a diverse group of sectors. The scale of this undertaking makes it difficult to project a timeline for completion. Moody's will apprise the Staff of its progress by December 31, 2008.

* * *

This letter contains confidential and proprietary commercial and financial information concerning Moody's and its affiliates, as well as confidential information concerning the clients and employees of Moody's. Accordingly, Moody's hereby requests, pursuant to Rule 83 of the SEC's Rules on Information and Requests, 17 C.F.R. § 200.83, and for reasons of business confidentiality and personal privacy, that the enclosed documents, and this letter, not be disclosed in response to any request made under the Freedom of Information Act, 5 U.S.C. § 552 (1994) ("FOIA"). The foregoing request also applies to any transcripts, notes, memoranda, tapes or other materials of any sort that are made by, or at the request of, the SEC and incorporate, refer or relate to any of the matters contained in the enclosed documents or this letter.

If this letter becomes the subject of a FOIA request, please call Sharon Nelles of Sullivan & Cromwell LLP at (212) 558-4976 and Moody's will provide further information in support of Moody's request for confidential treatment. Although this request is made on behalf of Moody's, Moody's does not intend to waive the right of any client or employee of Moody's separately to request such confidential treatment.

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We wish to emphasize that the Staff's findings and recommendations from its first examination of Moody's as a registered NRSRO are very helpful to us as we continue to review our policies and procedures in light of regulatory developments and the issues facing the markets. We look forward to working with the Staff.

Sincerely,

Michel Madelain
Chief Operating Officer
Moody's Investors Service

(Enclosure)

cc: Michael Kanef
Chief Regulatory Affairs and Compliance Officer
(Moody's Investors Service)

Exhibit A

Model Error Discovery Protocol

13 July 2008

This memo describes the steps to be taken upon discovery of a possible coding or input error in a model or scorecard used in connection with any existing Moody's rating.

Definition of "Error"

a) For purposes of this memo, Error means: (i) any meaningful inconsistency between the model as coded and the literal accuracy or documented requirements for the model; and (ii) any meaningful input error in the use of the model for a rating, including a mistaken model specification such as a waterfall or seniority mis-specification. An Error is meaningful if it might change the suggested rating that is output by the model.

b) Suggested improvements to the model or methodology are not Errors. Updated judgments as to inputs are not Errors.

Steps

1) Identification of an Error
An employee who identifies a possible Error should immediately contact a manager in the relevant rating group or in Credit Policy, who will immediately contact the chief credit officer for the rating group or for Moody's Investors Service. The rating team should put on hold any ratings in process that could be exposed to this error.

2) Action Plan Group ("APG") and Action Plan Memo
Credit Policy will determine whether an Error may have occurred and, if so, quickly establish and chair an APG including representatives of the rating team, the surveillance team (if applicable), and others if needed. The APG will (a) confirm the existence and nature of the Error; (b) document an action plan, with copies sent to the Compliance and Legal departments; (c) determine appropriate communication steps, and (d) document resolution of the error.

3) Elements of the Action Plan
(a) Describe the error
(b) Identify the ratings potentially impacted
(c) Correct the input or model error
(d) Re-run all affected models to determine the possible ratings impact. In the case of a model error that might affect multiple issuer ratings or rated transactions, the APG may estimate the potential rating impact of the error by analyzing representative issuer ratings or transaction profiles. Refer back to a new rating committee ("New RC") all issuer ratings or transactions for which the model re-run would appear to indicate a rating other than the current rating.
(e) The New RC should be chaired from outside the original rating team. Its composition should be determined by the chair, and include representation from Credit Policy and the surveillance team (if applicable). The New RC should consider all relevant aspects of the rated entity or transaction in reviewing the rating, including current performance.
(f) Make appropriate internal and external communication with concurrence from either the Legal or Compliance department.

Follow Up

4) All reported model errors will be recorded in a log held by Credit Policy

5) The action plan together with a summary of the resolution of the error will be held by Credit Policy, with copies sent to Compliance and to Legal.