

MEMO# 24950

February 8, 2011

ICI Letter on SEC Study on Credit Rating Agency Standardization

[24950]

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TO: CLOSED-END INVESTMENT COMPANY MEMBERS No. 19-11
FIXED-INCOME ADVISORY COMMITTEE No. 18-11
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 10-11
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 10-11
SEC RULES MEMBERS No. 30-11
SMALL FUNDS MEMBERS No. 18-11 RE: ICI LETTER ON SEC STUDY ON CREDIT RATING AGENCY STANDARDIZATION

As we previously informed you, the Securities and Exchange Commission requested comment to help inform its credit rating agency study on standardization pursuant to Section 939(h) of the Dodd-Frank Wall Street Reform and Consumer Protection Act. [\[1\]](#) In response, the Institute submitted a comment letter to the SEC stating that standardization and government intervention over the specific ratings methodology and components of ratings has the potential to undermine competition and decrease the value of ratings, thereby harming the market and investors. The letter is attached and summarized below.

Summary

The letter states that credit rating agency reform should ensure that there is sufficient transparency regarding ratings, the information on which ratings are based, and the assessments performed in developing ratings. It explains that standardization could lead to the commoditization of ratings and the transformation of credit rating agencies into government approved utilities, at the expense of innovation, originality, and creativity in evaluating the risks associated with a security. Specifically, the letter states that the distinction between ratings would be compromised if all rating agencies must utilize the same terminology, abide by the same underlying process, and review the same criteria in the same manner. Ratings would likely become fungible, leading to fewer credit rating agencies and less pressure to ensure the quality of ratings.

The letter notes that this result is the opposite of Congressional intent to encourage advances in analysis, competition, and high quality ratings, and would diminish the value of

ratings to all parties, issuers and investors alike. It emphasizes the value in having multiple rating agencies with ratings developed through different methodologies and models. The letter concludes that, as long as there is transparency about the rating process and credit rating decisions, investors can evaluate the value of a rating, and make their investment decisions accordingly.

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Associate Counsel

[Attachment](#)

endnotes

[1] See ICI [Memorandum](#) 24819, dated December 29, 2010. See also, SEC Release No. 34-63573, 75 FR 80866 (December 23, 2010) ("Release"), available at <http://www.sec.gov/rules/other/2010/34-63573.pdf>.

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