

MEMO# 23396

April 17, 2009

ICI Participates in SEC Roundtable on Credit Rating Agencies

[23396]

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TO: SEC RULES MEMBERS No. 43-09
EQUITY MARKETS ADVISORY COMMITTEE No. 15-09
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 12-09
FIXED-INCOME ADVISORY COMMITTEE No. 11-09
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 17-09
INST. MONEY MARKET FUNDS ADVISORY COMMITTEE No. 17-09 RE: ICI PARTICIPATES IN
SEC ROUNDTABLE ON CREDIT RATING AGENCIES

On April 15, 2009, the Investment Company Institute participated in the Securities and Exchange Commission's Roundtable on issues relating to the oversight of credit rating agencies. [\[1\]](#) Institute President and CEO Paul Schott Stevens served as a panelist on the Roundtable, discussing users' perspectives of ratings and rating agencies. The Institute also submitted a statement to the SEC providing recommendations to reform the credit rating system. [\[2\]](#) The Institute's submission is summarized below.

In the submission, the Institute stated that funds, as significant investors in the securities markets, have a vital interest in the soundness and integrity of the credit rating system and in timely access to information about policies, procedures, and other practices that bear on credit rating decisions. To improve the quality and accuracy of ratings, we recommended that the SEC: (1) improve disclosure about credit ratings and the rating process; (2) require credit rating agencies to conduct better due diligence and verifications; (3) hold credit rating agencies to greater legal accountability; and (4) apply regulation uniformly to all credit rating agency models.

Specifically, the Institute recommended that the SEC improve disclosure about credit ratings and the rating process for structured finance securities and other debt securities, particularly municipal securities. For example, we recommended that the SEC improve ratings surveillance, make ratings more comparable, enhance disclosure on rating stability and conflicts of interest, and make disclosure of ratings actions more timely. We explained that public disclosure of information about a credit rating agency's policies, procedures, and other practices relating to rating decisions will allow investors to evaluate more effectively a rating agency's independence, objectivity, capability, and operations. To realize the full potential of such a disclosure regime, the Institute recommended that the SEC require the standardized presentation of this information in a presale report issued by the rating agencies.

The Institute also recommended that the SEC take steps to strengthen the incentives to produce quality ratings. To that end, we suggested that rating agencies be required to conduct "due diligence" assessments of the information they review to issue ratings. For example, rating agencies should have policies and procedures in place reasonably sufficient to assess the credibility of the information they receive from issuers and underwriters. Further, rating agencies should be required to disclose these policies and procedures, the specific steps taken to verify information about the assets underlying a security, and the results thereof. The Institute also recommended that rating agencies have greater legal accountability to investors for their ratings, such as when a rating agency issues a rating without following its own disclosed procedures and standards.

To effectively address concerns about conflicts of interest, poor disclosure, and lack of accountability, the Institute recommended that the SEC apply necessary regulatory reforms in a consistent manner to all types of credit rating agencies. We explained our belief that providing current and prospective investors with timely information and sound ratings from all rating agencies outweighs the inconsistent application of SEC rules.

Finally, the Institute recommended that the SEC address the need for better disclosure by certain issuers, concluding that better disclosure will assist investors in making their own risk assessments and should foster better quality ratings. Specifically, we recommended that the SEC expand issuer disclosure for structured finance products to provide corresponding disclosure requirements for these securities so that investors receive, at a minimum, disclosure equivalent to that required of asset-backed securities under Regulation AB. [\[3\]](#) We recommended that the SEC also expand and standardize issuer disclosure for asset-backed securities, and require that disclosure for asset-backed

securities be ongoing. Consistent with prior recommendations, we recommended that the SEC improve issuer disclosure for municipal securities. [\[4\]](#)

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endnotes

[1] See "SEC Announces Panelists and Agenda for Credit Rating Agencies Roundtable," SEC Press Release 2009-65 (March 24, 2009), available at <http://www.sec.gov/news/press/2009/2009-65.htm>.

[2] The ICI's submission may be found at http://www.ici.org/policy/markets/domestic/09_oversight_stevens_stmt.

[3] Regulation AB sets forth the disclosure requirements for the registration of the sale of "asset-backed securities" under the Securities Act of 1933, as well as the disclosure reporting requirements imposed under the Securities Exchange Act of 1934 for those securities sold in public offerings. The disclosure for other structured finance products is not specifically addressed in SEC rules or regulations (other than to the extent that they are subject to general rules about antifraud and material information) because the vast majority of those products are sold in transactions that are exempt from registration.

[4] See Letter from Karrie McMillan, General Counsel, Investment Company Institute, to Florence E. Harmon, Acting Secretary, U.S. Securities and Exchange Commission, September 22, 2008.