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ICI's Stevens Testifies on Need for Robust Credit Ratings Industry, November 2005

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Hearing on H.R. 2990, the "Credit Rating Agency Duopoly Relief Act of 2005"

Philadelphia, PA, November 29, 2005 – Investment Company Institute President Paul Schott Stevens, in [testimony](#) today before a field hearing of the House Committee on Financial Services, outlined steps to improve the nation's credit rating industry. The topic of the hearing was [H.R. 2990](#), entitled the "Credit Rating Agency Duopoly Relief Act of 2005," introduced earlier this year by Rep. Mike Fitzpatrick (R-PA).

Stevens discussed the variety of ways that mutual funds employ credit ratings, most significantly, the considerable influence of credit ratings on the \$2 trillion invested in money market mutual funds. Stevens noted that money market funds are limited in the types of securities in which they can invest by Rule 2a-7 of the Investment Company Act of 1940, which employs credit ratings as an integral part of these limitations. Given the importance of reliable and credible credit ratings to the mutual fund industry, Stevens said, "Maintaining the integrity and quality of the credit ratings process is therefore essential to sustaining investor confidence and to promoting the proper functioning of our capital markets."

To promote the integrity and quality of the credit ratings process, Stevens recommended that several steps be taken.

- First, Stevens called for the introduction of competition in the ratings industry through the reform of the SEC's current process for designation of Nationally Recognized Statistical Rating Organizations (NRSROs). "Robust competition for the credit ratings industry is the best way to promote the continued integrity and reliability of their ratings," said Stevens. Stevens recommended that the SEC's designation process be replaced by a mandatory, expedited SEC registration requirement, as proposed in H.R. 2990.
- Second, Stevens called for increased regulatory oversight by the SEC of NRSROs through a combination of periodic filings with the SEC and appropriate inspection by the SEC, coupled with adequate enforcement powers. "While the implementation of a

new NRSRO designation process would undoubtedly spur competition, at the same time, to ensure the integrity and quality of credit ratings, there must be effective regulatory oversight by the SEC of NRSROs after their initial designation.”

- Third, Stevens called for regular and timely disclosure of information about NRSROs to investors. “Public disclosure of this information would allow investors a continuous opportunity to evaluate an NRSRO’s independence and objectivity, capability and operation, and would serve as an effective additional mechanism for maintaining the integrity and quality of credit ratings.”
- Finally, Stevens called for some accountability on the part of NRSROs for their ratings. “NRSROs should assume some accountability for their ratings in order to provide them with incentives to analyze information critically and to challenge an issuer’s representations.”