



## Consumer Federation of America

1620 I Street, N.W., Suite 200 \* Washington, DC 20006

### **CFA on Financial Reform: A Daily Look at Reform Proposals and Their Effects on Consumers May 5, 2010: Hold Credit Rating Agencies Accountable**

Dear Senator:

**The Consumer Federation of America supports measures to strengthen the regulatory oversight rating agencies, increase their independence and accountability, and reduce reliance on ratings.** The recent economic crisis dramatically demonstrated the limitations of credit ratings, particularly when the ratings agencies awarded AAA ratings to thousands of ultimately toxic subprime-related mortgage-backed securities and collateralized debt obligations whose risks they either ignored or did not understand. The high ratings given to these products made them eligible for sale to even the most conservative investors, spreading the risks of unsound mortgage lending throughout the financial system, and allowed financial institutions to avoid setting aside adequate capital to compensate for their risks.

Because credit rating agencies typically charge issuers for their ratings, the conflicts of interest and the pressure to assign favorable ratings are enormous. **CFA urges the Senate to support the reforms in S. 3217 that hold credit rating agencies accountable, including:**

- A standard of liability for rating agencies which recklessly or knowingly fail to conduct an adequate investigation to support an accurate rating.
- A universal rating scale for corporate bonds, municipal bonds, and structured finance products based on the likelihood of default.
- A review of reliance on credit ratings in federal regulations, to identify where alternative measures of creditworthiness are needed and to adopt appropriate alternatives when possible.
- Enhanced corporate governance standards for rating agencies, to ensure that they operate in the interest of users of ratings.
- An Office of Credit Ratings within the SEC to oversee ratings agencies and levy fines or revoke or suspend a rating agencies registration.

**CFA also urges the Senate to support additional reforms to strengthen the provisions in S. 3217, including:**

- **Sen. Bill Nelson's amendment directing the SEC to adopt rules requiring credit rating agencies to monitor and update ratings as market conditions change and giving the SEC authority to impose sanctions for violations of those rules.**
- **Sen. Franken's amendment authorizing the SEC to create a Credit Rating Agency Assignment Board to take charge of the process of assigning bond offerings to ratings agencies to eliminate the conflict of interest in the current business model.**

Sincerely,

Barbara Roper  
Director of Investor Protection