

Razor Alert

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US Proposes Credit Rating Agency Reform Legislation

The US Treasury delivered proposed legislation to Capitol Hill to increase transparency, tighten oversight, and reduce reliance on credit rating agencies. The legislation would also work to reduce conflicts of interest at credit rating agencies while strengthening the Securities and Exchange Commission's (SEC) authority over and supervision of rating agencies. The Administration's legislation would tighten oversight of credit rating agencies, protect investors from inappropriate rating agency practices, and bring increased transparency to the credit rating process.

The proposed legislation would: (1) address potential conflicts of interest by barring firms from consulting with any company that they also rate, (2) strengthen disclosure and management of conflicts of interest, (3) require disclosure of fees paid by an issuer along with each rating report, (4) provide a look-back requirement to address the conflicts from a 'revolving door', (5) designate a compliance officer, (6) increase transparency and disclosure by requiring disclosure of preliminary ratings to reduce 'ratings shopping', (7) require different symbols to be used to distinguish the risks of structured products, (8) require qualitative and quantitative disclosure of the risks measured in a rating, (9) enable additional ratings on structured products, (10) require disclosure of full ratings history, and (11) strengthen regulation and oversight of credit rating agencies.

The proposed legislation would strengthen SEC authority and supervision by establishing a dedicated office for supervision of rating agencies, have mandatory registration, and have a SEC examination of internal controls and processes.

The proposed legislation would reduce reliance on credit rating agencies by having a PWG review of regulatory use of ratings, utilizing the SEC's recently requested public comment on

whether to remove references to ratings in money market mutual fund regulation, and require a GAO study on reducing reliance.

Links

[TG-223, US Treasury FACT SHEET: Administration's Regulatory Reform Agenda Moves Forward: Credit Rating Agency Reform Legislation Sent to Capitol Hill](#)