

---

## SEC Continues to Focus on Credit Rating Agencies

2009-03-16

The Securities and Exchange Commission (SEC) continues to give considerable attention to reforming its regulation of credit rating agencies and has announced that it will host a roundtable on the topic. Among the topics to be addressed are conflicts of interest, competition and transparency.

"The timing is important," says Soo Yim, a securities partner in WilmerHale's Washington DC office. "The SEC needs to restore credibility in the ratings process before the securitization market can fully rebound. The recent emphasis on the Federal Reserve Term Asset-Backed Securities Loan Facility (TALF) program suggests that restoring consumer lending through the securitization process is a critical component of this administration's economic recovery program."

The roundtable is scheduled for April 15, just days after new prohibitions on conflicts of interest take effect for credit rating agencies and almost three weeks after the comment period ends for other proposed rule amendments. For more information regarding the final and proposed rules, see our [recent Email Alert](#).

SEC Chairman Mary L. Schapiro said in a February 2009 speech that her

priorities at the SEC include “improving the quality of credit ratings by addressing the inherent conflicts of interest credit rating agencies face as a result of their compensation models and limiting the impact of credit ratings on capital requirements of regulated financial institutions.” Schapiro has expressed particular concern for the common practice of issuers paying credit rating agencies to rate their securities. She suggested at her confirmation hearing in January that it might make more sense for firms to pay into a pool of money that would pay for credit ratings.

The recent rule amendments do not displace the “issuer-paid” model, nor does the pending proposal seek to do so. Both, however, aim to control for certain conflicts of interest relating to the practice.

The roundtable was announced in the same week that Standard & Poor’s issued a [white paper](#) offering certain principles for the regulation of rating agencies. In the paper, Standard & Poor’s states that they “welcome proposals that would, on a globally consistent basis, increase transparency and preserve the analytical independence of rating agencies’ opinions and analytical processes.”

Enhancing sound regulation through oversight of credit rating agencies is among the long-term goals agreed upon by the G20 finance ministers. The finance ministers will address how to move forward with this and other goals at the G20 London Summit next month.