

## Summary of Credit Rating Agency Reform Legislation

The objective of the reforms is to increase transparency, tighten oversight, and reduce reliance on credit rating agencies.

On July 21, 2009, the Administration introduced legislative language titled the Improvements to the Regulation of Credit Rating Agencies.

### How does the legislation address conflicts of interest?

The legislation would: (1) prohibit credit rating agencies from providing other services, like consulting services, to companies that contract for ratings; (2) prohibit or require the management and disclosure of conflicts of interest arising from the way a rating agency is paid; (3) require that credit rating agencies implement procedures to review ratings of an issuer if that issuer hired an employee of a rating agency within a year prior to its rating.

### What additional disclosures will be required in rating reports?

Each rating report must disclose the fees paid by the issuer for a particular rating and the total amount of fees paid by the issuer to the rating agency in the prior two years.

### How will rating agencies monitor these new policies and procedures?

Rating agencies will be required to designate a chief compliance officer that will be responsible for compliance and internal controls and processes. The chief compliance officer must report directly to the board or the senior officer of the credit rating agency. The chief compliance officer will be prohibited from engaging in certain activities, such as setting compensation and marketing.

### Preliminary ratings

An issuer will be required to disclose any preliminary ratings that it has obtained to prevent issuers from engaging in "ratings shopping."

### Structured products

Rating agencies will be required to use different symbols for structured finance products to indicate that these instruments may raise heightened risks.

### Additional required disclosures

Rating agencies will be required to provide detailed disclosures accompanying ratings. Each rating must be accompanied by a report that assesses data reliability, probability of default, estimated severity of loss upon a default, and the sensitivity of ratings to changes in the assumptions.

### How will the SEC's oversight of rating agencies be enhanced?

The legislation recommends that the SEC establish a dedicated office to strengthen supervision of rating agencies. Rating agencies will be required to be registered with the SEC. The SEC will conduct examinations of the internal controls and other compliance procedures implemented by credit rating agencies. The SEC has allocated resources to establish a branch of examiners dedicated to conducting examinations of rating agencies.

### How does the legislation propose to reduce reliance on ratings?

The President's Working Group on Financial Markets will work with the SEC to determine where references to ratings can be removed from regulations. In its proposed amendments to the regulation of money market funds, the SEC requested comment regarding whether references to ratings should be removed. The GAO also would be required to study and issue a report on the reliance on ratings in federal and state regulations.

### Full credit ratings history

The SEC has proposed to require that rating agencies disclose, on a delayed basis, ratings history information for all issuer-paid ratings.

### Additional ratings on structured products

In order to encourage additional ratings of structured products, the SEC has proposed a rule that would require that issuers provide the same information provided to one rating agency as the basis for a rating to other rating agencies.