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ICI President Outlines Steps to Improve the Nation's Credit Rating Industry, March 2006

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Stevens Testifies at Senate Hearing to Examine the Current Oversight and Operation of Credit Rating Agencies

Washington, DC, March 7, 2006 - Investment Company Institute President Paul Schott Stevens, in testimony today before the Senate Committee on Banking, Housing, and Urban Affairs, discussed the variety of ways that mutual funds employ credit ratings and recommended several steps to promote the integrity and quality of the credit ratings process.

“Mutual funds employ credit ratings in a variety of ways - to help make investment decisions, to define investment strategies, to communicate with their shareholders about credit risk, and to inform the process for valuing securities,” Stevens said. “Money market mutual funds, which invest a significant amount of their portfolios in rated securities, provide a compelling illustration of the importance of sound credit ratings and rating agencies to investors.”

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.”

Stevens called for greater competition, accountability, and regulatory oversight in the ratings industry.

“To serve the interests of investors who utilize credit ratings, we believe it is appropriate for Congress to consider legislation to advance several objectives in this area,” Stevens added. “First, the Nationally Recognized Statistical Rating Organizations (NRSROs) designation process should be reformed to facilitate the recognition of more rating agencies and thereby introduce much needed competition in the credit rating industry. Second, there should be appropriate regulatory oversight by the SEC over NRSROs to ensure the credibility and reliability of credit ratings. Third, investors should have regular and timely access to information about NRSROs to provide investors a continuous opportunity to evaluate the ratings they produce. Finally, NRSROs should have some accountability for their ratings in order to provide them with incentive to analyze information critically and to challenge an issuer’s representations.”

“Increased competition, appropriate SEC oversight, greater transparency, and heightened accountability - these are the right objectives for reform of the credit rating industry, from the perspective of mutual funds, other investors, and the securities markets as a whole.”