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Calls for Regulation, Legislation to Address Gaps in Municipal Disclosure Regime

Washington, DC, July 28, 2008 - The Investment Company Institute has expressed support for the U.S. Securities and Exchange Commission's proposed regulations aimed at improving the transparency and accountability of credit rating agencies.

In a comment letter to the SEC, ICI also urged the Commission to extend many of its proposals to the municipal securities market. The letter further called for stronger federal regulation and legislation to address gaps in current disclosure for municipal securities.

"Reforms to the operation of credit rating agencies are critical to ensure proper functioning of our securities markets," ICI President and CEO Paul Schott Stevens said. "We strongly support the Commission's efforts to increase transparency in the ratings process to ensure the credibility and reliability of credit ratings."

ICI member fund companies, other investors, and the public rely upon ratings issued by the agencies to assess risks in making informed investment decisions. The SEC proposals would impose a series of new requirements on registered credit-rating agencies, also known as nationally recognized statistical rating organizations (NRSROs).

While strongly supporting the thrust of the SEC's proposal, ICI urged the SEC to take further steps to improve NRSROs' accountability, particularly for ratings on municipal securities. To enhance the effectiveness of the SEC initiative, ICI suggested additional rule changes that would require more disclosure about conflicts of interest and the information used by NRSROs in the rating process. Other considerations the Institute recommended that the SEC address are more timely disclosure of rating actions and due diligence requirements.

"[T]he Commission's proposals would increase disclosure and transparency surrounding credit ratings of structured finance products only," the Institute's letter said. "While we are supportive of these enhancements, we strongly urge the Commission to increase the disclosure to users of ratings for other types of instruments, particularly municipal securities." Structured finance products are complex debt securities.

The Institute further called for legislation to repeal the Tower Amendment. Adopted in 1975, the amendment prohibits the SEC and the Municipal Securities Rulemaking Board from requiring issuers of municipal securities to file documents with them before selling the securities. "Because of these restrictions, the disclosure regime for municipal securities is woefully inadequate, and the regulatory framework is insufficient for investors in today's complex marketplace," ICI said. "The disclosure is limited, non-standardized, and often stale, and the disparities from the corporate issuer disclosure regime are numerous."

On structured finance products, the Institute supported the SEC's proposal to require agencies to publish reports describing how the rating process and credit risks for such products differ from those for other kinds of rated products. But ICI concluded that an alternative proposal--requiring agencies to use a symbol to distinguish ratings of structured finance products--"will not add to the quality, integrity or clarity of a structured finance product credit rating." Moreover, the Institute added, the use of such an identifier could be a disincentive for market participants to invest in structured finance products.