



## **AMERICANS FOR FINANCIAL REFORM**

### **AFR Statement on SEC Final Rules Concerning Asset-Backed Securities and Credit Rating Agencies**

Today, the Securities and Exchange Commission finalized two rules intended to address abuses in the securities markets that helped to trigger the 2008 financial crisis. One rule sets out new controls designed to improve business practices at major credit rating firms such as Moody's and Standard and Poors. Prior to the financial crisis, these firms certified tens of thousands of 'toxic' securities based on subprime mortgages as investment-grade assets that were safe for investors to hold. A second rule mandates better investor disclosures regarding the nature of loans underlying asset-backed securities such as the mortgage-backed securities that helped trigger the financial crisis. This should improve the ability of investors to undertake their own due diligence regarding the securities they buy.

We are pleased that the SEC has finalized these rules, which were mandated four years ago in the Dodd-Frank Act. The rule on credit rating agencies has been improved since the initial proposal and now contains much stronger language addressing the impact of conflicts of interest and sales considerations on the quality of credit ratings. As revealed in the Justice Department lawsuit against Standard and Poors, as well as the testimony of numerous whistle-blowers, such conflicts of interest have been a major contributor to deceptive and misleading ratings. The rule on investor disclosures with regard to asset-backed securities will improve the availability, quality, and accessibility of loan-level data to investors in registered securities. Such data is crucial to the assessment of credit quality.

However, much remains to be done to address the problems and abuses revealed in the securities markets during the financial crisis. The fundamental business incentives of credit rating agencies continue to encourage ratings inflation. This means that the broad requirements in this new rule must be strictly enforced to be effective, and the SEC must be vigilant for evidence of continuing ratings inflation. In addition, the new credit rating rules still fall short in requirements for meaningful transparency and consistency of ratings across asset classes. The new requirements for asset-backed securities also have significant loopholes, particularly since they do not appear to cover privately issued structured finance products and certain significant asset classes. We hope the SEC will take additional action to address disclosures in areas not covered by this rule.

The experience of the last decade has conclusively demonstrated that the quality and reliability of information in debt securities markets plays a key role in financial stability. We call on the SEC and other agencies to continue their work on this important issue through enforcement, oversight, and additional rulemakings where appropriate.