

**OPENING STATEMENT OF
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,
AND GOVERNMENT SPONSORED ENTERPRISES
HEARING ON THE RATINGS GAME: IMPROVING TRANSPARENCY AND
COMPETITION AMONG THE CREDIT RATING AGENCIES
TUESDAY, SEPTEMBER 14, 2004**

Mr. Chairman, we meet for the second time in the 108th Congress to examine the issue of credit rating agencies. Entities like Moody's, Standard and Poor's, and Fitch have long published their views on the creditworthiness of the issuers of debt securities. The importance of these opinions has grown significantly in recent years as a result of increases in the number of issues and issuers, the globalization of our financial markets, and the introduction of complex financial products, like asset-backed securities and credit derivatives.

As you know, Mr. Chairman, I have made investor protection one of my top priorities. I believe that strong regulation helps to protect the interests of America's investors. Accordingly, I am pleased that we have worked diligently during the last several years to augment the resources available to the Securities and Exchange Commission, enact sweeping reforms of auditing and accounting practices, restore accountability to investment banking and analyst research, and improve the conduct of business executives and corporate boards. Although credit rating agencies received some scrutiny after the recent tidal wave of corporate scandals, we have not yet mandated any substantive changes in their practices.

This issue is ripe for examination and action. At hearings before our Committee last year, the Commission's Director of Market Regulation noted that while credit rating agencies have generally performed their work well for nearly a century, they have also missed some "colossal" failures in recent years. A Senate investigative report also found that the monitoring and review of Enron's finances "fell far below the careful efforts one would have expected from organizations whose ratings hold so much importance."

After last year's hearing, I was hopeful that the Commission would take swift action regarding these important matters. It did belatedly issue a concept release to examine the issues surrounding rating organizations in June 2003. Since that time, the Commission has continued to study these matters without reaching any conclusions. The Commission, I should note, has been examining these matters for more than a decade.

Although a formal proposal for improved oversight of credit rating agencies has yet to emerge, a top official at the Commission did suggest in a recent speech that additional legislative authority may be needed in this area. I have previously urged the Commission to act "promptly and prudently" in these matters. It is therefore my expectation that it will move expeditiously in the coming months to finalize its opinions on credit rating agencies and advise us about the most appropriate steps to take in these matters during the 109th Congress.

When we revisit these matters next year, it is also my hope that we will be able to put together a more inclusive and comprehensive hearing. We are fortunate today to have with us two credit rating professionals. We will also hear from the Association for Financial

Professionals, which has taken a leading role in examining the need and identifying ways to improve the oversight of credit rating agencies. Rather than rushing to hold a hearing, our proceedings would have greatly benefited if we had waited and been able to receive the testimony of the Commission, major credit rating agencies, and other interested parties.

In closing, Mr. Chairman, we are at a critical moment in the evolution of our capital markets, and we must act to ensure the continued integrity of the rating agencies and the credit rating process. I also look forward to continuing to work with you as we move forward deliberately on these important matters.
