

SE Viewpoints
HD **Viewpoint: Role for All in Rating Cleanup**

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LP The Securities and Exchange Commission's recent investigation into credit rating companies found that they improperly managed conflicts of interest and violated internal procedures. The SEC is taking action in response to the investigation, and this is in addition to the new rules it proposed for the industry last month.

At the same time, European Union finance ministers have backed a plan to monitor rating agencies more directly across member countries.

TD There is a danger here that the United States and the European Union will pursue different paths, creating two distinct sets of rules the agencies must follow.

This has the potential of complicating matters rather than clarifying them, and it ignores the fact that capital markets are now global and thus require global solutions.

If additional regulation is sought, U.S. and E.U. regulators must build upon the regulatory and corporate governance processes already in place. That regulation should be based on a global code. As I saw in my experience as head of the international group at the New York Stock Exchange, global inconsistency in regulatory developments - such as the Sarbanes-Oxley Act - can create havoc.

Most importantly, it is imperative that solutions do not focus on the rating agencies alone.

Assessments from the agencies are an indispensable market tool, but they are not a substitute for credit review and due diligence by the financial institutions themselves.

All market participants have a role to play. In its recent best practices report, the Institute of International Finance, the global association of financial institutions, says risk management and improved underwriting standards are required from all financial institutions to prevent mistakes and restore confidence in the market.

This does not mean the rating agencies do not have to account for their own behavior. Clearly, there were many instances where they did not do their job. They recognize this, and so do regulators.

Each major rating agency has adopted substantive measures to ensure the independence and integrity of its ratings, and they are working closely with the SEC and policymakers to address conflicts of interest and other issues related to transparency.

It is an unfortunate reality that many market participants view rating agencies as an official body. This is not the case. They are businesses, and they are not the sole arbiter of creditworthiness.

It is a paradox that increased regulation might accentuate the perception of agencies as official institutions. To avoid future problems, financial institutions need to get better at doing their homework.

Regulators have a role to play by working with the solid processes already in place. As E.U. officials map out their role in helping to regulate the credit rating industry, they should build on the foundation the SEC has helped establish.

Complicating already complex issues with additional layers of oversight would be a grave mistake that could cost us the transparency we all seek.

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