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2008-11-29　Big Change Likely for Rating Agencies

Summary:

Barron's reports the SEC may adopt far-reaching change to improve the Big Three rating agencies (Moody's Investors Service, Standard & Poor's and Fitch Ratings) when it votes on a regulation plan next week. This is not the first time the SEC has taken action. In the wake of Enron and other scandals, the SEC tried to boost competition amongst ratings agencies by expanding eligibility to become a nationally recognized statistical rating organization (NRSRO).

In comparing the ratings of the Big Three with those provided by alternative ratings agencies, such as Egan-Jones and Rapid Ratings, Barron's found the alternative NRSROs more responsive in lowering the ratings of such troubled companies as General Motors, Ford, Lehman Brothers, MBIA, Citigroup and Bear Stearns.

Barron's suggests part of the problem is the business model, which encourages ratings agencies to provide rosy ratings. Companies will pay for good ratings because these lower the cost of debt. The SEC's last attempt to reform the system by increasing competition largely failed, so Barron's believes bigger change will be necessary.

Link to Original:

http://online.barrons.com/article/SB122792676800266213.html

Published by Dow Jones & Company since 1921, Barron's was named after Clarence W. Barron, the founder of modern financial journalism.

Original Title:

Rating Agencies Under Review for Downgrade