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Global securities market regulators to probe ratings agencies - report

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TOKYO (Thomson Financial) - Securities market regulators from about 20 countries plan to jointly examine research methods and other practices at credit-rating agencies amid growing criticism of these companies for their alleged role in the US subprime mortgage mess, the Nikkei business daily reported on Tuesday.

The regulators seek to send a message to investors and other market participants about their
commitment to fighting the global financial market turmoil triggered by troubled US subprime
mortgages, according to Nikkei which did not identify its sources.

Japan's Financial Services Agency, the US Securities and Exchange Commission, and other regulators from major European nations, along with Canada, Hong Kong and Australia, plan to question ratings agencies on their criteria for assessing subprime loan securities and other securitized products, as well as their relationships with financial institutions that commissioned ratings for such instruments, the newspaper said.

The International Organization of Securities Commissions will invite major credit-rating agencies such as Standard & Poor's, Moody's Investors Services Inc and Fitch Ratings Ltd to a meeting in Washington, DC, this month.

An IOSCO task force assigned to study credit-rating techniques for securitized products will carry out the examination.

(1 US dollar = 113.67 yen)

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E.C. may probe rating agencies over subprime

By Aude Lagorce, MarketWatch
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LONDON (MarketWatch) -- The European Commission will investigate the role played by credit-rating agencies in the recent crisis over subprime U.S. mortgages amid growing concern that they should have warned investors sooner of the dangers of investing in mortgage-backed securities, according to a published report.

The Commission will review the current voluntary code used by agencies such as Moody's and Standard & Poor's as it worries they were too slow in warning about problems in the $1.1 trillion U.S. subprime market, according to the report in the Financial Times.

The voluntary code was designed to tackle conflicts of interest as rating agencies are paid by the firms they rate. It was set up after the collapse of energy trader Enron.

"If the rating agencies believe this is going to be business as usual, they are very wrong," an unnamed Commission official was quoted as saying.

According to the FT, Internal Market Commissioner Charlie McCreevy had said he wanted to give the code time to prove itself but the U.S. subprime meltdown has highlighted some weaknesses. He's expected to decide on whether to propose new legislation sometime in 2008.

In the U.S., the Securities and Exchange Commission introduced rules for agencies in June.

Credit rating agencies have so far been relatively immune to the blame game as investors look for the culprits of the current meltdown.

While lenders have been criticized for making lenient loans, homebuyers for seeking easy mortgages and Wall Street underwriters for making a bundle turning them into securities, the credit ratings agencies have so far emerged relatively unscathed.

But their responsibility for the current crisis is now being questioned.

The various agencies indeed gave top ratings to many securities built on the questionable loans, making them appear as safe as a U.S. Treasury bond.

In an extensive article published Wednesday, the Wall Street Journal sheds some light on the role played by the rating companies. It stressed that far from working in isolation, the agencies instead often cooperated with the underwriters designing these mortgage bonds. The collaboration insured that any new security or bond designed by the underwriters would get high-enough ratings to be marketable. See story on WSJ.com

As a result of the rating agencies' collaboration and generally benign ratings, more of these securities based on subprime mortgages got marketed, which in turn meant more leeway for lenient lenders making these loans to offer more of them.

According to the FT, while banks first warned about a potential crisis in subprime mortgages last year, credit agencies waited until April to significantly downgrade ratings on relevant securities.

Moody's declined to comment. S&P didn't return calls for comment.

The FT report said McCreevy met with senior executives from ratings agency Standard & Poor's last month and expressed his concern over the mortgage market.

McCreevy has reportedly invited securities regulators from across Europe to a meeting next month to discuss rating agencies and the recent problems.

McCreevy's spokesman at the Commission couldn't be reached for comment.

S&P is a unit of McGraw Hill.

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