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## CalPERS calls for ratings overhaul

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### The US' largest pension fund, California Public Employees' Retirement System (CalPERS), has backed efforts to push rating houses Fitch, Moody's and Standard & Poor's to reform their methods for rating government-issued bonds.

According to a statement released by CalPERS, the pension fund's administration board teamed up with 15 major municipal bond issuers across the country, including California's State Treasurer Bill Lockyer, to flag the current system of rating municipal bonds as "unfair" and misleading to investors about the risk of default. Sitting at the crux of this issue is the current dual rating system, where municipalities are held to a higher standard than corporate issuers.

"It is in our best interest to ensure that the rating system better serves all investors and taxpayers," said Rob Feckner, president of the CalPERS Board. "A fair rating system is key to an efficient and transparent market, an important goal for CalPERS."

The 15 municipal bond issuers attributed the recent US debt market fallout as to the opening of this discussion. In a letter to the rating agencies they said, "Many collateralised debt obligations and structured investment vehicles that your agencies rated triple-A have become insolvent or are at risk of insolvency.

"As a result, your agencies have been forced to downgrade those securities, as well as the ratings of some of the bond issuers who guaranteed them. Meanwhile, the vast majority of municipal issuers have not shown strains that would suggest they may default on their bonds.

"Nonetheless, many strong municipal issuers continue to carry much lower ratings than our corporate counterparts, in some cases even lower than the bond insurers about whom the market has understandable concern," said the letter.

According to CalPERS, municipal issuers believe this dual standard misleads investors about actual credit risk, and costs taxpayers billions of dollars in higher interest rates and bond insurance premiums.

"It is important that we look out for the financial well-being of our contracting public employers who have been victimised by the current rating system, costing them millions in taxpayer dollars," said George Diehr, chair of CalPERS' investment committee.

CalPERS is the US' largest public pension fund with assets totaling more than \$262.7 billion.

*Ruth Liew*