

MEDIA RELEASE

CFA Institute member opinion poll confirms support for CRA reform

July 8, 2008 – The results of a CFA Institute member opinion poll released today found that 11 percent of respondents had witnessed a credit rating agency (CRA) change its rating in response to pressure from an investor, issuer, or underwriter ([view](#) the results.).

[CFA Institute](#) is the global association of investment professionals. CFA Institute distributes the “Question of the Month” poll to its global membership every month ([view](#) all polls). Through the [CFA Institute Centre for Financial Market Integrity](#), it promotes high ethical standards and investor protections via professional codes of conduct, guidance, and outreach.

“In the wake of the subprime crisis, we have met with several representatives from ratings firms,” said [Kurt Schacht, CFA](#), managing director of the CFA Institute Centre. “They were concerned about the hype and insinuation that CRAs easily inflate their ratings in response to pressure from issuers and underwriters, implicating the integrity of their process and ratings. In exploring that topic, we were very surprised by the results of our member poll where some 211 of the 1,956 respondents said they have indeed witnessed a CRA change ratings in response to external pressures.”

“At the very least these results suggest that the CRAs have more than just a perception problem about their processes and integrity, which must be addressed,” said [James Allen, CFA](#), director of the CFA Institute Centre’s [Capital Markets Policy Group](#). “They should take prompt action to manage or eliminate conflicts in a comprehensive fashion and improve any practices that expose the CRA to ethical problems. And this may go beyond what has already been proposed by the SEC and other global regulators.”

Many respondents noted that the payment structure between CRAs and issuers presents the largest conflict of interest. One respondent said, “The fundamental flaw is that the agencies are paid by issuers, not by investors. No amount of regulation can fix that conflict of interest.” Another respondent anonymously said, “Exchanges are self-regulating. Ratings can be as well. But the incentives should be established so that their interests are aligned with investors.”

In other results, 55 percent (1,070 responses) of all respondents agreed with the statement that CRAs should group themselves into an international standard-setting and monitoring self-regulatory body with enforcement powers, something the CFA Institute Centre has [encouraged](#) as part of any CRA industry reform package.

Finally, the issue of using different rating symbols for structured products showed that nearly half of all respondents, 47 percent (911 responses), were in favour. The concern is that not all AAA securities are created equal. As demonstrated in the current credit crisis, structured products typically perform very differently from traditional corporate bonds, despite the identical symbols. As one of the respondents commented, whereas corporate default is typically related to one or two factors, “default on structured debt is dependent on hundreds or thousands of individual defaults [e.g. an underlying mortgage pool]

that are estimated given some distribution. They are not the same analysis so they should not be the same ratings.”

“We feel that a different rating scale is an essential aid to trustees and fiduciaries, to help them evaluate and quantify the amount of structured product exposure they desire in their portfolios,” noted Allen. We have expressed this thought and others in responses to the ratings agencies themselves and in response to both domestic and international consultations from CESR and IOSCO on the topic.” The CFA Institute Centre is also preparing a response to the current U.S. Securities and Exchange Commission’s proposals on CRAs.

“Clearly the respondents to this survey raise some serious concerns about the integrity of the ratings process and support for further CRA reform. We urge CRAs and regulators to consider the views expressed by our members and to consider such additional reforms as are warranted, both to the CRA process and to the ratings they apply to structured instruments,” concluded Allen.

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CFA Institute

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About CFA Society of Sydney

CFA Society of Sydney (CFA Sydney) is a member society of CFA Institute. It was established in 1996 and has over 830 members, of whom 85 per cent hold the CFA designation. CFA Sydney is a member-focused organisation, run by a group of dedicated volunteers elected by the members. The society is an association of local investment professionals engaged in a wide variety of roles, including portfolio management, security analysis, corporate finance, and investment advice. CFA Sydney aims to promote the highest ethical and professional standards within the investment industry. It encourages professional development through the CFA program and continuing education; it facilitates the exchange of information and ideas within the local investment community and beyond; and it works to further the recognition of the CFA designation and what it stands for. As one of 135 CFA Institute member societies, it also connects members with a global network of investment professionals. Visit www.cfas.org.au for further information.