

Why GAO Did This Study

The 2007–2009 financial crisis renewed concerns about the integrity of the credit rating industry. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) imposed new requirements on NRSROs and required SEC to implement regulations for training, experience, and competence of credit rating analysts. The Dodd-Frank Act also included a provision for GAO to conduct a study on the merits and feasibility of creating a professional organization for rating analysts employed by NRSROs.

This report describes views on (1) the potential merits of and need for a professional organization for credit rating analysts, and (2) any challenges associated with creating and operating such an organization. For this report, GAO reviewed SEC documentation and academic literature; held focus groups with approximately 100 credit rating analysts from different-sized firms who had a range of experience and skills; and interviewed SEC staff, representatives from all 10 NRSROs, and experts and stakeholders (including, academics, investors, advocacy groups, and international regulators). GAO also analyzed the structure and activities of six professional organizations that develop and oversee professional standards and a code of conduct, and interviewed representatives of the organizations.

CREDIT RATING ANALYSTS

Views Varied on Merits of a Professional Organization, but Creating One Now Viewed as Premature

What GAO Found

Views varied on the merits of a professional organization for credit rating analysts of nationally recognized statistical rating organizations (NRSRO), but some concluded it was too early to tell if one was needed, in part because of new Securities and Exchange Commission (SEC) requirements on NRSROs to establish standards for their analysts. The analysts, representatives of NRSROs and existing professional organizations, and experts and stakeholders (including academics, investors, advocacy groups, and international regulators) with whom GAO spoke said the merits of such an organization included improving the industry's reputation, enhancing the quality of work done by the professionals, and supplementing existing oversight. However, some said creating such an organization could duplicate existing standards, codes of conduct, or the services provided by other professional organizations. Some said that establishing a professional organization without evaluating the effectiveness of SEC's new regulations (which became effective in June 2015) would be premature. These rules require each NRSRO to establish training, experience, and competence standards to ensure analysts produce accurate ratings and to periodically test analysts' knowledge of the NRSRO's procedures and methodologies. Thus, some held the view that it was too early to determine in what areas a professional organization might add value—that is, add to or complement (rather than duplicate) standards, codes of conduct, training, or oversight—or if one was needed at all.

Creating and operating a professional organization for NRSRO credit rating analysts would not be without certain challenges. According to most analysts and representatives of NRSROs and some experts and stakeholders, the challenges primarily would relate to achieving the following aims:

- **Clearly delineated purpose.** Delineating the mission or purposes of an organization would be difficult at the present time because the effects of the new SEC regulations were unknown.
- **Adequate funding.** Obtaining sufficient funding through membership fees also might be difficult because of the relatively small population of analysts (about 4,500 as of 2014) to provide the fees.
- **Balanced representation.** Creating an organizational structure that would provide equitable representation for all members, including from smaller NRSROs, could be challenging because of industry concentration (88 percent of analysts work for 3 of the 10 NRSROs).
- **Meaningful activities.** Developing core activities and services, including professional standards, education and training curricula, certification tests, and structures to oversee member compliance could be challenging because of differences in NRSRO methodologies, concerns about sharing confidential information, and analyst specialization in specific rating classes (such as insurance or asset-backed securities).