Sen. Chuck Grassley of Iowa today made the following comment on a New York Times report that the Justice Department “is investigating whether the nation’s largest credit ratings agency, Standard & Poor’s, improperly rated dozens of mortgage securities in the years leading up to the financial crisis.” Grassley was a co-sponsor of an amendment during the financial reform legislative debate last year to try to fix a conflict of interest problem at the credit agencies. He made the following comment on today’s news report.

“The Senate tried to do something about a conflict of interest problem at the credit ratings agencies. Unfortunately, the House-Senate conference committee downgraded the Senate provision to a study. It was a missed opportunity. Maybe a Justice Department investigation will force action on the conflicts of interest problem and accomplish what should have been done a long time ago.”

Following are a statement and press release from the 2010 financial reform debate.

Statement by Senator Chuck Grassley

Wednesday, July 14, 2010

Conference Report on Financial Regulation Bill

I'll vote against the conference report because of concerns about changes made to the Senate bill, which I supported.

First, there's new spending with a new offset that's a huge problem. The new offset uses TARP dollars. TARP dollars should be returned to the taxpayers and used for deficit reduction, as was promised from the start. I voted for the Senate version of the banking bill to protect taxpayers from another government bailout of Wall Street, not to put taxpayers on the hook by spending more money through TARP.

The new offset also uses FDIC fees for a budget gimmick by crediting those fees to the FDIC and using them as an offset.

The conference report also waters down important reforms that were in the Senate bill.

I wanted to make the derivatives market transparent. The conference report weakened the Senate derivatives title, which required that banks receiving federal assistance push out all derivatives trading to separate affiliate operations. Instead, the conference report allows certain types of derivatives trading by the bank which puts them in a more risky position.

I also wanted to target conflicts of interest with credit rating agencies. The Senate bill contained an amendment that I cosponsored to break up the conflict of interest where security issuers get to pick the credit rating agencies. A lack of independent assessment in this area was a major factor in what led up to the meltdown in 2008. The conference report guts this reform by replacing it with a mere study.

I also wanted to make the Fed open to scrutiny and accountability. The Senate bill took a step in that direction, albeit way too small of a step. A lot more should have been done in this area. For instance, the House version included a full audit of the Fed, and members of the conference could have taken that stronger language.

It's a bill that most of Wall Street wants passed. And that's the last thing Iowans expect in any real reform bill.

For Immediate Release:
May 13, 2010

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Amendment Ending Credit Rating Conflicts Of Interest Passes Senate
Bipartisan Amendment To Wall Street Reform Passes 64 - 35

WASHINGTON, D.C. [05/13/10] – Today, the *Restore Integrity To Credit Ratings* amendment (S.Amdt. 3991) authored by U.S. Sen. Al Franken (D-Minn.) and co-sponsored by Sens. Charles E. Schumer (D-N.Y.), Roger Wicker (R-Miss.), Bill Nelson (D-Fl.) and Charles Grassley (R-Iowa) passed the Senate by 64 to 35 votes, becoming part of the Wall Street Reform bill currently being debated.

"Today is a major victory for Main Streets all over America," said Sen. Franken. **"We're cleaning up Wall Street's dishonest system and replacing it with one that rewards accuracy instead of fraud. My proposal wasn't conservative, or liberal, or even moderate. It was just plain common sense. That's why I had the support of colleagues on both sides of the aisle and why we were able to win today."**

"Credit rating agencies were one of the main culprits in the financial crisis," said Sen. Schumer.
"They adopted questionable practices intended to win over clients, neglected their own internal controls and developed a coziness with clients. Under this measure, issuers will no longer be able to choose a rating agency and directly influence what kind of ratings they can get."

"Today, the Senate sent a strong, bipartisan message that conflicts of interest must be removed from the current credit-rating system," said Sen. Wicker. **"The current system is broken and is detrimental to a well-functioning marketplace. I hope this legislation will help facilitate a trustworthy credit-rating system so investors can confidently assess the creditworthiness of certain investments."**

“The credit-rating agencies are supposed to be independent evaluators of financial companies, but overly cozy relationships with those who they’re supposed to scrutinize have interfered. This conflict-of-interest amendment is an important reform to help bring about the independent assessment investors deserve. It’s a matter of market integrity,” Sen. Grassley said.

The proposal ends the conflicts of interest inherent in Wall Street’s current pay-to-play credit rating system. Right now, banks choose which credit rating agencies will rate the quality of their bonds and other financial products, resulting in the agencies giving away undeserved top ratings to countless sub-par financial products in order to attract business.

Sen. Franken’s *Restore Integrity To Credit Ratings* amendment is also co-sponsored by Sens. Carl Levin (D-Mich.), Richard Durbin (D-Ill.), Tom Harkin (D-Iowa), Amy Klobuchar (D-Minn.), Ted Kaufman (D-Del.), Sheldon Whitehouse (D-R.I.), Sherrod Brown (D-Ohio), Patty Murray (D-Wash.), Jeff Merkley (D-Ore.), Jeff Bingaman (D-N.M.), Frank Lautenberg (D-N.J.), Jeanne Shaheen (D-N.H.), Robert Casey (D-Pa.), Bernard Sanders (I.-Vt.), Mark Begich (D-Alaska), Ron Wyden (D-Ore.), and Tim Johnson (D-S.D.).

It cleans up the system by making sure a bank or financial institution can’t shop around among credit rating agencies to get a product’s initial rating. The bipartisan proposal creates a board, overseen by the Securities and Exchange Commission, which will assign credit rating agencies to provide initial ratings in order to eliminate inherent conflicts of interest.

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