The Office Of
State Treasurer
Denise L. Nappier

News

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Treasurer Nappier Supports Unified Credit Rating System

HARTFORD -- State Treasurer Denise L. Nappier today reiterated her support for a new unified credit rating system that would rate municipal bonds against the same standards as corporate debt is rated. Nappier, who joined 14 other state treasurers and top fiduciaries in March, 2008 in writing to the three major credit rating agencies urging their development of a unified system, notes that Connecticut Attorney General Blumenthal endorsed a similar position through letters to Congress and the Securities and Exchange Commission (SEC).

"I welcome Attorney General Blumenthal's call for legislative and regulatory action on this important issue," states Nappier. "We agree that the current dual system, which holds municipal debt issuers to tougher standards than it does corporate debt issuers, is unfair, gives confusing and inaccurate information to the public, reduces demand for certain municipal bonds, and increases government borrowing costs."

While Nappier lauded the spirit of Blumenthal's letter, she clarified that Blumenthal's reference to the highly successful $2.2 billion Pension Obligation Bond recently issued by her office was inaccurate because the bond issue did in fact receive and benefit from a global Aaa rating.

Nappier said she and Blumenthal agree that reforms to allow a more efficient and lower-cost market for municipal debt are clearly in the public interest, adding a unified rating scale would most keenly benefit retail or individual purchasers, rather than institutional buyers.

"While many purchasers of municipal bonds are sophisticated institutional investors who can differentiate between -- and better weigh -- the inconsistent rating standards and thus are less likely to be influenced by a new unified rating scale, other less-experienced investors would benefit from uniform standards," she said.

Several months ago, SEC Chairman Christopher Cox announced the commission's intention to propose new rules governing its oversight of credit rating agencies in the wake of the sub-prime mortgage debacle. One focus under SEC consideration would provide for improved transparency, including disclosure of the methodology employed in determining a security's rating. The proposed additional rules are to be promulgated under the 2006 Credit Rating Agency Reform Act and are scheduled to be considered by the Commission at its June 11th meeting.

"The SEC currently has the authority to mandate improved disclosure of information, and at the very least, should require credit rating agencies to disclose the dissimilarity in rating

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methodologies between corporate and municipal debt," said Nappier, adding that the SEC should insist that the agencies expose such information in language easily understood by the lay public.

"If the SEC takes these action, both it and Congress will have the information they need to support a prohibition of biased and unfair practices under the existing dual rating system in favor of an impartial and consistent way of rating varied securities," she said.

"In my fiduciary responsibility, I am both an issuer of municipal debt and an investor of state cash reserves and pension funds," Nappier noted. "As such, the Connecticut Treasury has strong interest in high-quality credit ratings for the bonds we sell and on the securities in which we invest. Unfortunately, Connecticut, like many other financial market participants, has been adversely affected by faulty or inconsistent credit ratings. For that reason, I believe that the greater accountability, transparency and competition the SEC seeks are not only necessary guiding principals for credit rating agencies, but will help ease public concern and restore confidence in the financial markets. Therefore, I look forward to the release of the proposed rules and the opportunity to offer constructive feedback."

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