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Opening Statement

Chairman Michael G. Oxley

Financial Services Committee

Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises
Legislative Solutions for the Rating Agency Duopoly

June 29, 2005

Good morning. I would like to commend Chairman Baker for holding this important hearing, our fourth on this subject over the past few years.

Credit ratings serve a vital function in our capital markets system. Therefore, we need to take very seriously all of the concerns that have been raised regarding the role and performance of rating agencies and the SEC's regulatory approach. Today's hearing will focus on legislative responses to the problems that have been identified through the good work of this Committee over the last two congresses.

I am troubled by the extreme concentration in this industry. Two firms control the vast majority of market share. To put it mildly, this is not an efficient market with robust competition. Rather, it has been identified, accurately I might add, as a "duopoly," a "shared monopoly," and a "partner monopoly." This is not a healthy situation in a free enterprise system, especially when the firms wield quasi-governmental power.

Additionally, I have concerns about some industry practices that inhibit competition such as notching and tying. And I am troubled by the conflicts of interest which plague the industry. Ratings firms have expanded into new areas which have further compromised their objectivity.

I want to commend Congressman Fitzpatrick for his efforts in drafting legislation to address these problems. I am also pleased with the leadership that the Ranking Member of the Subcommittee, Congressman Kanjorski, has provided on these issues and look forward to continue working on a bipartisan solution with my friends on the other side of the aisle.

Significantly, Congressman Fitzpatrick's bill removes the national recognition requirement, which has been called a "nearly insurmountable barrier to entry" by the Department of Justice. This provision is vital to any reform effort. Without it, we will be left with the status quo.

Congressman Fitzpatrick's legislation would inject some long overdue competition into the ratings industry, make the ratings process more transparent, reduce the cost and improve the quality of ratings, and ensure adequate oversight of ratings firms. These reforms would provide enormous benefits to the market participants using these ratings.

Importantly, the legislation provides these benefits with a market-based approach. It does not create any undue regulatory burdens. Rather, it generally requires full and fair disclosures, which is the bedrock of our Federal securities laws.

Finally, I would mention that any suggestion that this legislation infringes on anyone's First Amendment rights is a red herring not to be taken seriously, in my view. The bill provides much needed oversight of the industry, but does not regulate the ratings themselves.

I look forward to the testimony. We have an excellent panel this morning.

I yield back.