Statement at SEC Open Meeting

Chair Mary Jo White

Aug. 27, 2014

Good morning. This is an open meeting of the U.S. Securities and Exchange Commission on August 27, 2014 under the Government in the Sunshine Act.

The Commission will today consider recommendations of the staff for adopting two very important final rules in different, but closely related, areas – asset-backed securities and credit rating agencies.

The reforms before us today will add critical protections for investors and strengthen our securities markets by targeting products, activities and practices that were at the center of the financial crisis. With these measures, investors will have powerful new tools for independently evaluating the quality of asset-backed securities and credit ratings. And ABS issuers and rating agencies will be held accountable under significant new rules governing their activities. These reforms will make a real difference to investors and to our financial markets.

We will first consider the recommendation related to asset-backed securities, and then we will consider the rules relating to credit rating agencies.

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Asset-Backed Securities

Securitizations were an epicenter of the financial crisis. The process of transforming a pool of assets – too often low quality assets – into securities is well understood. Done correctly, securitizations can facilitate economic growth, providing critical liquidity to financial markets and help households and businesses get the capital they need. But, when done poorly, as during the years leading up to the financial crisis, securitization can destabilize markets by wrapping serious financial risks in a thin veneer of creditworthiness. When the true nature of these risks was revealed and asset values collapsed, investors in asset-backed securities suffered significant losses.

There were critical failures in the securitization market at a number of junctures. Credit ratings failed to accurately take into account the real risks underlying certain asset-backed securities. This significant failure was compounded because investors did not have the necessary information about the securitized assets and related risks to conduct the appropriate level of diligence on these assets on their own. And, even if they had been provided the necessary information, they were not given enough time to analyze the securitization transaction to make an informed investment decision. ABS issuers bear responsibility as well – they did not conduct sufficient diligence in designing their securities products. And there was not effective enforcement of the representations and warranties made about the assets underlying the securities.

These failures and lapses in our securitization markets are unacceptable.

Quite simply, the SEC must protect investors in asset-backed securities just as it does investors in any other security, ensuring that they have full information, the tools and time to understand potential investments and the nature and extent of associated risks.

The recommendation before us today squarely and firmly addresses these failures in the ABS markets that have historically been among the most significant markets in terms of their impact on the U.S. and the global economy. Most prominently – and consistent with our mandates under the Dodd-Frank Act – the final rule would require the disclosure to investors of extensive asset-level information for residential and commercial mortgage-backed securities, as well as securities backed by auto loans and leases. These disclosure requirements have been carefully calibrated to deliver the information that investors need to assess the credit risk associated with these assets while preserving the privacy of obligors.

The recommendation will also give investors more time to make informed decisions on investments in these securities.

Loan-level disclosures will be more accessible to investors by requiring the information to be in a computer-readable format, thus allowing investors to download and analyze the data more easily. Investors can take advantage of this greater transparency and time when conducting their independent due diligence on potential investments to develop better understandings of the credit risks in the pool.

Taken together, this set of reforms will greatly strengthen our rules applicable to the securitization market and address the significant failures that have hurt our economy. It is important, however, that we continue to monitor and assess the impact of these reforms, and consider further steps as necessary. In particular, we must continue to work expeditiously to complete final rules for the retention of credit risk by issuers of asset-backed securities, as required by the Dodd-Frank Act. The disclosures we are considering today will provide a critical foundation for those rules.

Before turning things over to Keith Higgins, the director of the Division of Corporation Finance, to discuss the recommendations, I would like to thank members of the staff from across the agency for their dedication and hard work on this rulemaking. Specifically, I would like to thank Keith, Karen Garnett, Kathy Hsu, Rolaine Bancroft, Michelle Stasny, Hughes Bates, Kayla Florio, Max Rumyantsev, Robert Errett, Raquel Fox and David Fredrickson in the Division of Corporation Finance. I would like to thank my fellow Commissioners for their contributions to this rulemaking.

This rulemaking involves a significant amount of coordination with our technology professionals, including Heather Mackintosh and Sylvia Pilkerton in the Division of Corporation Finance and Kenny Lee in the Office of Information Technology and I want to thank them for their assistance and input.

I would also like to thank Annie Small, Richard Levine and Bryant Morris in the Office of General Counsel; Scott Bauguess, Vanessa Countryman, and Igor Khozanov in the Division of Economic and Risk Analysis; Catherine Moore and Brice Prince in the Division of Trading and Markets; Doug Scheidt, Nadya Roytblat and Rochelle Plesset in the Division of Investment Management; Carlos Portugal in the Office of International Affairs and Harriet Orol in the Office of Credit Ratings.

I also want to thank one of our distinguished alums – Paula Dubberly, who retired last year from the Division of Corporate Finance. Paula played a critical role in the development of these rules.

Finally, I would like to thank the staff at the Consumer Financial Protection Bureau for providing assistance with the application of the Fair Credit Reporting Act to the asset-level disclosure requirements outlined in the rule we are considering today.

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Related Materials

- Video of Chair White's Statement