

S.E.C. Tightens Regulations on Asset-Backed Securities

By Alex Petersen, J.D. Candidate 2016 | September 4, 2014

The Securities and Exchange Commission (“S.E.C.”) adopted [new rules](#) on August 27 that increase disclosure requirements for issuers of asset-backed securities and establish new safeguards against conflicts-of-interest in the credit rating process. The rules implement reforms mandated by the [Dodd-Frank Act](#), which Congress passed in 2010 to address the systemic issues at the root of the financial crisis.

[Asset-backed securities](#), which are created by bundling loans such as residential mortgages, plummeted in value after the housing bubble burst in 2007. As investors lost billions, the economy collapsed, resulting in the “Great Recession.” These investors were unaware of the serious risks underlying the assets, as they had relied heavily on inaccurate ratings assigned by credit rating agencies.

To remedy this defect and enable investors to better educate themselves, the S.E.C. unanimously approved [revisions](#) to the offering process and reporting requirements for asset-backed securities. For example, the issuer must now disclose standardized loan-level information for each asset-backed security, such as the credit quality of obligors as well as the cash flows and collateral related to each asset.

In addition, the S.E.C. [heightened](#) regulations on credit rating agencies in a separate vote in order to increase the overall quality of credit ratings and improve accountability. New requirements include stricter internal controls, greater transparency of credit rating performance statistics and methodologies, and new standards for the training and competence of credit analysts. The regulations also address potential conflicts-of-interest between credit rating agencies, issuers, and underwriters.

“Today’s reforms will help protect investors and markets against a repeat of the conduct and practices that were central to the financial crisis,” [said](#) S.E.C. chair Mary Jo White in a press release. Though the S.E.C.’s task under Dodd-Frank is far from complete, these new rules are a step in the right direction.