
Bond Ratings: Two Sides to Transparency.

ORLANDO — Increased transparency in the bond rating agencies has been a positive for both investors and issuers, even though it can potentially create a false sense of analysis being an exact science, experts told fellow municipal analysts on Thursday.

They made their comments during a panel discussion on the evolution of bond ratings here at the National Federation of Municipal Analysts' annual conference. The Dodd-Frank Act required a number of changes to the industry, among them a requirement that agencies disclose their rating methodologies.

Jeffrey Previdi, managing director of U.S. public finance at Standard & Poor's, said the evolving business has created positive developments for the market such as an increase in competition among those weighing in on credit quality. Whether the market agrees with a rating or not, he added, the rationale behind it will always be clear.

"The investor will be hard-pressed to say 'I don't understand how they arrived at that triple-A,'" Previdi said.

Standard and Poor's has launched both web and Ipad applications allowing users to simulate their own local government credit scenarios. The tool is available to anyone who registers for a free account with the agency, and provides a blank slate into which users can input information about a local government of their choice.

But Eric Friedland, a portfolio manager and head of municipal research at Schroder's Investment Management said the extreme transparency and scorecards that require only that numbers be punched in create the false sense that anyone can play analyst.

"It seems quantitative on the surface," Friedland said, but credit analysis has to go beyond the numbers to include qualitative evaluation as well. "I think that creates a lot of confusion," he said.

Rachel Barkley, a credit analyst with Morningstar Inc., said that while it isn't up to the rating agencies to be "policemen" who push issuers into responsible behavior, they can play a positive role by setting forth benchmark criteria that municipalities will want to adhere to in order to earn better ratings. Barkley said the quality of ratings should not be judged by how bonds perform in the marketplace, pointing to strong demand for Puerto Rico's junk-rated to GOs.

"Sometimes the market is just irrational," she said.

Friedland said there would be little need for investment professionals if bond prices always matched ratings.

"A lot of us wouldn't have jobs," he said.

The NFMA conference concluded Friday, and will convene again next May in Las Vegas.

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