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Credit Raters Said to Bend Own Rules in Annual SEC Report.

Debt raters failed to follow their own methodologies, let senior credit officers view market-share data and allowed a trade group to affect criteria changes, according to a U.S. Securities and Exchange Commission report.

The SEC's Office of Credit Ratings didn't name specific companies in its fourth annual examination released today, which looked at practices in 2013. The report refers to the raters as either larger firms, such as McGraw Hill Financial Inc., Standard & Poor's, Moody's Corp., Moody's Investors Service and Fitch Ratings, or smaller ones, including DBRS Inc. The regulator also didn't identify firms in prior reports.

One large company and four smaller firms didn't follow their own methodologies in determining ratings, the SEC said in its report on Nationally Recognized Statistical Rating Organizations, or NRSROs.

After reviewing e-mails of one of the larger raters, the regulator determined that business and market-share conditions influenced the substance of its criteria. Employees on the business side of this rater worked in a concerted effort to change the criteria to appease an industry trade group, the SEC said.

At one of the larger companies, the chief credit officer reviewed nonpublic information about its revenue, financial performance and market share even though its policies prohibit such employees from accessing this information.

"We continue to make significant investments to enhance our training, quality, criteria, compliance and risk management functions," John Piecuch, spokesman for Standard & Poor's, said in an e-mailed response to questions.

The SEC began filing its annual examination reports after Congress passed the Dodd-Frank financial reform law in 2010, instructing regulators to stop relying on ratings and increase oversight of the companies that issue them. The Financial Crisis Inquiry Commission blamed the firms for awarding top credit grades to risky mortgage bonds, helping ignite the worst recession since the Great Depression.

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