Moody's, S&P get a study break

Why fix a problem when you can study it instead?

That's what members of Congress seem to be asking when it comes to financial regulation.

Study hall is in session

Two years after the financial sector imploded and policymakers poured trillions of dollars into the financial system, reformers are pushing for sweeping new rules, saying a financial industry overhaul is long overdue. Wall Street is fighting to beat the new guidelines back, warning of higher costs and unintended consequences such as lost jobs.

And our elected leaders? Not wanting to act rashly, they are proposing studies that further defer any decisions. Call it the extend-and-pretend approach to financial reform.

Just this week, House Financial Services Chairman Barney Frank, D-Mass., proposed a one-year study of a credit rating reform amendment backed by Sen. Al Franken, D-Minn.

That news sent shares of rating agency Moody's (MCO) and the owner of rival S&P, McGraw-Hill (MHP), up 5% Tuesday.

And Sen. Blanche Lincoln, D-Ark., who has fended off Wall Street's attempts to kill her derivatives legislation, is reportedly considering a compromise that would call for a study of her rules as well.

A study wouldn't please supporters of Sen. Lincoln's original proposal, which would have forced federally insured banks out of the business of trading derivatives. They see a study as a sneaky way of pulling the Lincoln plan's teeth and preserving the trading profits rolling in at the likes of Goldman Sachs (GS) and JPMorgan Chase (JPM).

"The bill already has too many studies to make the deadlines it imposes on the agencies that must conduct them," said Jane D'Arista, a research associate at the left-leaning Political Economy Research Institute at the University of Massachusetts-Amherst.

Indeed, the Dodd bill that passed the Senate calls for at least two dozen studies. Mark Calabria of the libertarian Cato Institute in Washington says he counted 28 the last time he checked, though he said that number could easily reach 40 once the conference committee reconciling the House and Senate bills gets done.

"The Government Accountability Office and the Fed are going to be very busy," said Calabria, referring to two of the bodies obliged to study financial regulatory questions under the Senate bill.

This isn't to say studies are always a waste of time. Calabria said he believes there are some subjects, such as derivatives, where Congress "clearly doesn't understand the issues," and could benefit from a government report sizing up the pros and cons.

D'Arista disagrees, saying a study of Lincoln's proposal "is a way to kill it without seeming to have shed blood."

The derivatives debate aside, Calabria says Congress often mandates a study simply to show it is taking some action, without actually accomplishing anything.

Former Securities and Exchange Commission chief Harvey Pitt takes issue, for instance, with the Dodd bill's recommendation that the SEC study whether brokers should be made to heed so-called fiduciary duty standards that oblige them to look out for their customers.

"The Dodd bill directs the SEC to study the issue—but the SEC already has examined this issue," he wrote last month in an op-ed published on InvestmentAdvisor.com. "Calling for another study only delays action and expends valuable resources that could be devoted to critical problem areas."

And then there are the studies ordered out of sensitivity for delicate congressional feelings. Calabria said Frank's proposal this week on the Franken amendment looks like one such case.

Franken would seat a government board to keep bond-selling banks from preying on the weak-willed rating agencies via so-called ratings shopping. But Calabria says the plan's flaws are so plain that he doubts Frank (above) is even seriously planning to read it.

"This one is a great example of why Congress is always ordering more studies," Calabria said. "It's pretty clear Frank thinks the amendment is a stupid idea but doesn't want to say it."