

Policy Department
Economic and Scientific Policy

WORKSHOP

Credit Rating Agencies

Presentations and Briefing notes

This compilation of briefing notes was requested by the European Parliament's Economic and Monetary Affairs Committee (ECON)

Only published in English.

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Manuscript completed in December 2008.

The opinions expressed in this document do not necessarily represent the official position of the European Parliament.

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**DIRECTORATE-GENERAL INTERNAL POLICIES OF THE UNION
- DIRECTORATE A -
ECONOMIC AND SCIENTIFIC POLICIES**

Workshop: Credit Rating Agencies

Programme

4 December 2008

European Parliament, Brussels, Room PHS 4B001

15.00-18.30

(Interpretation: DE, EN, FR, IT, ES)

**15.00-15.10 Introduction by ECON Chair Pervenche Berés
Introduction by the Rapporteur, MEP Jean-Paul Gauzès**

**15.10-17.00 Session 1: A European framework for CRAs: authorisation, supervision
and enforcement**

- Views on the proposed framework
- Features that should be taken into consideration when developing a European regulatory framework (including for instance the international dimension of the business carried out by CRAs, the articulation with other directives, the degree of concentration in the rating industry)
- Other issues that could be tackled in a regulatory framework for CRAs (including for instance implementation issues, elaboration of a harmonised regime of sanctions, creation of a European label for CRAs)

Guest speakers:

- Thomas McGowan, Securities and Exchange Commission, Division of Trading and Markets, Washington DC, USA
- Hubert Reynier, Managing Director, Regulation Policy and International Affairs Division, AMF (Autorité des Marchés Financiers), France
- Richard Raeburn, Chairman, Association of European Corporate Treasurer (EACT) and Chief executive of the UK's Association of Corporate Treasurers, United Kingdom
- Ralf Garrn, Managing Director, Euler Hermes Rating GmbH, Germany

17.00-18.30 Session 2: A European framework for CRAs – organisational requirements and operating conditions

- Views on the proposed requirements
- Features that should be taken into consideration when developing requirements and obligations for CRAs (including for instance the international dimension of the business carried out by CRAs, size and type of rating agencies)
- Other issues that could be tackled in requirements and obligations for CRAs (including for instance, treatment of confidential information provided by issuers, contracts and agreements between CRAs, issuers and third parties)

Guest speakers:

- Richard Hunter, Regional Credit Officer, Europe, Middle East and Africa and Asia; Managing Director Credit Policy Group, Fitch Ratings, UK
- Catherine Gerst , former director (in charge of structured finance) of DBRS and former head of Moody's, France; now a partner at Citigate, Dewe Rogerson
- Bertrand Huet-Delaherse, Managing Director, European Legal and Regulatory Counsel, Securities Industry and Financial Markets Association (SIFMA), UK
- Rudolf Siebel, Managing Director, Bundesverband Investment and Asset Management e.V. (BVI), Germany
- Jérôme Cazes, Directeur Général, Coface, France

Discussants:

- Prof Joseph Mason, Wharton Business School, USA
- Prof Marco Becht ,Professor of Finance, Solvay Brussels School of Economics and Management, ULB, and Director, European Corporate Governance Institute, Brussels, Belgium

Curricula Vitae

Session I - Speakers

Thomas McGowan

Thomas K. McGowan is an Assistant Director in the Division of Trading and Markets at the Securities and Exchange Commission. Mr. McGowan works at the Commission in the office of broker-dealer financial responsibility, which includes broker-dealer net capital, record keeping, and reporting requirements. Additionally, the office also drafts and interprets Commission rules with respect to credit rating agencies registered with the Commission as nationally registered statistical rating organizations. Prior to joining the Commission, Mr. McGowan practiced corporate and securities law at McGuire, Woods, Battle & Boothe in McLean, Virginia. Mr. McGowan has a law degree from the University of Virginia School of Law and a B.S. in Economics from Virginia Tech.

Hubert Reynier

Since February 2004, Hubert Reynier has been Managing Director in charge of the Division of Regulation Policy and International Affairs at the newly created Autorité des Marchés Financiers (further to the merger of the COB with another market regulatory authority, the Conseil des Marchés Financiers). He also chairs the Standing Committee n° 5 dedicated to Investment Management at the International Organization of Securities Commissions. He joined the Commission des Opérations de Bourse (COB, French Securities & Exchange Commission) in May 2000, as Special Advisor to the Managing Director. Between 2001 and 2004, he managed the Corporate Finance Department of the Commission. Prior to that, he entered the Banque Nationale de Paris (BNP) in 1992 where he started his investment banking career through various assignments within the international network of the Bank: Senior Vice President, Investment Banking Department, BNP New-York (1993-1994), General Manager of BNP London Branch successively in charge of Capital Markets and Asset Management (1994-1998), CEO of BNP Group for Belgium and the Netherlands (1998-2000). Hubert Reynier was appointed to the Inspection Générale des Finances at the French Treasury Department after graduating from the ENA (Ecole Nationale d'Administration) in 1988. He has a BA of the Institute for Political Studies of Paris, a BA in Law, and a Post-Graduate Degree in Economics of the Paris University La Sorbonne. He is married and has five children. Hubert Reynier is a French national.

Richard Raeburn

Richard Raeburn was elected Chairman, European Association of Corporate Treasurers, in September 2008 and has also been Chief Executive of The Association of Corporate Treasurers since 2002. Before joining the ACT, he was the lead treasury partner at KPMG for nine years and spent 20 years working with international groups. Prior to taking the Chief Executive position at the ACT Richard had been involved as a consultant directing the development of the ACT's qualifications. His review of the ACT's governance led to substantial changes and reinforced the ACT's leadership role amongst treasury associations. Outside the ACT, Richard launched the Damilola Taylor Trust and is a non executive director and chairman of the audit committee of the Home Group, the UK's second largest housing association, and also a non executive director of Wandle Housing. He is a Trustee of St Christopher's Hospice, which is a world leader in clinical education, research and education in palliative care. Richard has an MA from Oxford University and an MBA from Columbia University; he is a Fellow of the ACT.

Ralf Garrn

1990: University Degree in Business from Germany and USA (MBA)

1994: Credit Risk Management & Head of Collections, BMW Bank

1998: Head of Credit Risk Management, Euler Hermes Germany

2001: Managing Director of Euler Hermes Rating

Session II - Speakers

Richard Hunter

Richard Hunter is a managing director and the regional credit officer for Europe, the Middle East, Africa and Asia. In this role, he heads the credit policy team for these markets, based in London. The credit policy group is responsible for reviewing, in conjunction with Fitch's Credit Policy Board and criteria committees, the consistency of corporate and structured ratings and the development of rating policies, as well as credit market research. Richard originally joined Fitch's London office in 1996, and led analytical work on a variety of diversified industrial sectors, as well as working in project finance and future flow export finance transactions, before heading up the European energy team. Between 2002 and 2005, Richard managed the agency's global power practice in New York. Richard joined Fitch from Deutsche Genossenschaftsbank, a predecessor bank to DZ Bank, where he held credit roles in Frankfurt and subsequently in London, responsible for management of the institution's exposures to a variety of corporate and financial institutions throughout Europe.

Catherine Gerst

Catherine Gerst has more than twenty years experience in rating agencies, investment banks, commercial banks and financial communication firms. Catherine has advised a wide range of institutions in various industrial sectors (airlines, raw materials, oil, banks, toll-roads, chemicals) and various situations including IPOs, M&A, restructurations, debt issues. Before joining Citigate Dewe Rogerson, Catherine managed the Structured Finance rating department at the Canadian rating agency DBRS in Continental Europe. She also worked as a Partner for Brunswick, counselling firms and financial institutions on communication in capital markets. Prior to that, Catherine was named Head of the French Office for Moody's Investor Services – a department she pioneered and developed – overcoming tough challenges with regulators, investors and market participants, as well as all types of media and opinion leaders. Catherine is also an Honorary Professor of Finance at l'IHFI (Institut de Haute Finance).

Bertrand Huet-Delaherse

Bertrand Huet-Delaherse is the Managing Director, European Legal & Regulatory Counsel of the Securities Industry and Financial Markets Association (SIFMA). SIFMA brings together the shared interests of more than 650 securities firms, banks and asset managers, representing its members' interests locally and globally. It has offices in London, New York and Washington D.C. and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong. Bertrand handles all European policy issues for SIFMA and its affiliates. He qualified with the international law firm Linklaters & Alliance in 1994 and, prior to joining SIFMA in June 2004, spent nine years in the legal departments of Bankers Trust and Deutsche Bank. Bertrand holds a Master Degree in English and French Law (Hons) from Pantheon Sorbonne University, Paris and King's College, London.

Rudolf Siebel

Rudolf Siebel is responsible for fund industry standards, market research, as well as member education and services, at BVI. He is a member of Management Committee of the European investment fund trade association, EFAMA, responsible for “Operations and Infrastructure” He chairs the EFAMA Fund Processing Standardisation Group (FPSG) and is Vice Chair of the international Securities Market Practice Group (SMPG). He is CESAME2 group member of the EU-Commission. Previously, he was a Vice President - Senior Credit Officer with Moody’s Investors Service Frankfurt office and responsible for analysing and rating money market, bond investment funds as well as life insurance. Before joining Moody’s, Mr. Siebel was internal counsel for securities investment and international law with BVI.

Jérôme Cazes

Born 29 June 1954. Married, 4 children. Member of the Executive Committee of Natixis (sole Coface shareholder). CEO of Coface Holding which encompass both Coface and Natixis Factor and constitutes one of the five business units of Natixis, in charge of Trade Receivables solutions. Initiated CreditAlliance in 1992, a network of credit insurers and credit management service companies network, spanning more than 90 countries including most key emerging markets. Conducted various technical cooperation projects to develop local credit insurance schemes, notably in Poland, Slovenia, Chile, Brazil and the Philippines. Entered Coface in 1989 as General Secretary, CEO since May 1999. Civil servant from 1981 to 1989 at the Ministry of Finance (Department of Export Credit Guarantees) then at the Ministry of Foreign Affairs (expert in economic problems and North-South relations), then again the Ministry of Finance (Head of Research for International Economic Relations). Graduated in 1979 from the National School for Statistics and Economic Administration (ENSAE, the main centre of actuarial studies in France) and from the National School of Administration (ENA) in June 1981. Chevalier de la Légion d’Honneur.

Discussants

Joseph Mason

Dr. Mason is the Herman Moyse, Jr./Louisiana Bankers Association Professor of Finance, Louisiana State University, Senior Fellow at the Wharton School. His career has been spent studying a combination of securitization risks, bank failures and recoveries, and government loan and recapitalization programs used in early canal company and railroad failures, the Great Depression, the US Thrift Crisis, myriad crises in the 1990s, and today’s credit crisis. Dr. Mason started his career as a financial economist at the Office of the Comptroller of the Currency and has been a visiting scholar teaching classes and advising on securitization to senior management in the Federal Reserve System and the Federal Deposit Insurance Corporation. He has testified numerous times before both the House and Senate and the Federal Reserve Board on various credit issues and helped Congressmen Ackerman and Castle write HR 6482, introduced in July 2008 to reform the use of credit ratings for use in laws and regulations of the United States Government. He has given seminars and participated in panel discussions through numerous Washington policy centers and meets regularly with Congressmen and their staff to help them better understand issues related to the credit crisis and securitization. He has also been retained as an expert to the Securities and Exchange Commission, several state attorneys general, and private law firms in investigatory matters related to the crisis.

Marco Becht

Marco Becht is a Professor of Finance and Economics at the Solvay Brussels School of Economics and Management (SBS-EM), Université Libre de Bruxelles and is the Executive Director of the European Corporate Governance Institute (ECGI). He is also a Senior Adviser to Oxera, the Economic Consultancy. Becht was born in Germany and studied at the London School of Economics (LSE).

Slides

Session I - A European framework for CRAs: authorisation, supervision and enforcement

**Presentation by
Thomas McGowan
Securities and Exchange Commission, Division of Trading and Markets,
Washington DC, USA**

Nationally Recognized Statistical Rating Organizations ("NRSROs")

Overview of Legislation and Securities
and Exchange Commission Rules
Relating to NRSROs

NRSROs - Legislation

- The Credit Rating Agency Reform Act of 2006 gave the Commission regulatory authority over credit rating agencies that chose to operate as NRSROs.
- Enacted September 29, 2006.
- Purpose: To improve ratings quality for the protection of investors and in the public interest by fostering accountability, transparency, and competition in the credit rating industry.
- The Act states that the Commission has no authority to regulate the "substance of the credit ratings or the procedures and methodologies" by which an NRSRO determines credit ratings.

NRSROs - Legislation

- NRSRO defined to be a credit rating that
 - has been in business as credit rating agency for 3 years
 - Issues ratings certified by OIBs
 - Has registered with the SEC
- Registered NRSROs are subject to ongoing requirements regarding:
 - Disclosure
 - Recordkeeping
 - Managing conflicts
 - Prohibited practices
- The Rating Agency Act grants the Commission broad authority to examine all books and records of an NRSRO.

Currently Registered NRSROs

- Ten credit rating agencies are registered as NRSROs. The first seven NRSROs were registered on Sept. 24, 2007.
 - A.M. Best Company, Inc.
 - DBRS Limited
 - Fitch, Inc.
 - Japan Credit Rating Agency, Ltd.
 - Moody's Investors Service, Inc.
 - Rating and Investment Information, Inc.
 - Standard & Poor's Ratings Services
 - Egan-Jones Rating Company
 - LACE Financial Corp.
 - Realpoint LLC

NRSROs – SEC Rules

- Commission rules implementing the Act were effective on June 26, 2007.
- Rule 17g-1 an NRSRO files Form NRSRO to register as an NRSRO.
 - The SEC must act on the request within 90 days
 - If the application is approved, the NRSRO must make the non-confidential portions of its Form NRSRO publicly available within 10 days of the approval.
 - An NRSRO must promptly update its Form NRSRO if the Form becomes materially inaccurate
 - An NRSRO must annually certify its Form NRSRO.

NRSROs – SEC Rules

- Rule 17g-2 requires an NRSRO to make and retain certain records relating to its business as a credit rating agency.
- Rule 17g-3 requires an NRSRO to furnish the Commission, on a confidential basis, certain financial reports, including audited financial statements.

NRSROs – SEC Rules

- Rule 17g-4 - written policies and procedures reasonably designed to prevent:
 - the inappropriate dissemination within and outside the NRSRO of material nonpublic information
 - a person within the NRSRO from purchasing, selling, or otherwise benefiting from any transaction in securities or money market instruments when the person is in possession of material nonpublic information
 - the inappropriate dissemination within and outside the NRSRO of a pending credit rating action before issuing the credit rating.

NRSROs – SEC Rules

- Rule 17g-5 requires an NRSRO to disclose and manage those conflicts of interest that arise in the normal course of its business, such as being paid by issuers.
- Rule 17g-6 prohibits an NRSRO from engaging in certain unfair, coercive, or abusive practices, such as notching.

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Recent Rulemaking

- The Commission has announced that it will hold an open meeting on December 3, 2008 to consider
 - whether to adopt rule amendments that would impose additional requirements on nationally recognized statistical rating organizations in order to address concerns about the integrity of their credit rating procedures and methodologies.
 - whether to propose and re-propose certain proposed rules relating to transparency and competition concerning nationally recognized statistical rating organizations.

Presentation by

Richard Raeburn

**Chairman, Association of European Corporate Treasurer (EACT) and
Chief executive of the UK's Association of Corporate Treasurers, United
Kingdom**

CRAs - the Issuers' Perspective

Richard Raeburn

**Chairman, European Association of
Corporate Treasurers**

Brussels, 4 December 2008



1

EACT

- The EU's treasury associations
- Members of treasury associations work in the corporate sector - so we are primarily *issuers* and have a core interest in the efficiency and value created by CRAs
- At the international (rather than EU) level we produced in 2004 the first code of conduct for CRAs
- Our code of conduct was largely reflected in the subsequent IOSCO document



2

Corporate ratings

- Companies pay for ratings to reduce capital costs
 - Ratings make it easier to to raise finance by reducing informational inequalities
 - CRA reputation is key to rating acceptance
 - Companies are also major users of ratings
- Major CRAs have performed well over many years in the corporate sector
 - Important not to add to issuers' costs or reduce CRA efficacy in the corporate sector when addressing problems in structured finance ratings



3

Draft legislation

- Much to welcome
 - Builds on the treasury associations and IOSCO codes of conduct
- But some important concerns
 - General concern: we need competition on cost and quality
 - Significant barriers to entry entrench existing incumbent firms – surely not the intention!
 - Article 4 paragraph 2 – serious impact on European financial markets
 - Two specifics: analyst rotation *re corporate ratings* and CRA independence



4

Analyst rotation: corporate ratings

- Position is very different from structured ratings
 - Structured: statistical analysis; key is assumptions
- In the corporate sector: much reduced conflict of interest
 - changing CRAs or analysts is a major cost to companies (management time)
 - industry/sector and company knowledge by the analysts/committee a key factor in ratings
 - For the first couple of years a new analyst can add limited value beyond statistical analysis (which is only part of the picture)
 - A multi-product company operating over several countries is extremely complex, subtle and changing (strategies, competition, technologies, etc.)
 - little leverage in threat of change of agency
- Five-year rotation of analysts might work, but applying it also to the credit committee etc takes away the vital experience check on the analysts



5

CRA independence

- We welcome the draft's explicit incorporation of protection for analytic independence
- It is important to add protection for CRA methodological independence
 - methodology is a part of competition between agencies
 - differences of view between agencies with different methods are important information
 - history tell us that methods revealed to have weaknesses are soon modified as these become apparent
- A small but important part of this is that a CRA should NOT have to accept another's rating
 - If I am subscribing to agency X's service, I want X's method and X's opinion, not a hybrid of different agencies' views



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**Presentation by
Ralf Garrn
Managing Director, Euler Hermes Rating GmbH, Germany**

Credit Rating Agencies Workshop

European Parliament, Dec. 4th 2008

Ein Unternehmen der Allianz AG



Euler Hermes Rating

About Euler Hermes Rating

- Subsidiary of Euler Hermes Credit Insurance (owned by Allianz), Worldwide leader in credit insurance with 36% global market share
- Rating Agency was founded in 2001 and currently employs 12 Analysts,
- Agency focuses on **issuer ratings** with 150 corporate ratings in Germany

Ralf Garrn, Managing Director

- University Degree in Business from Germany and USA (MBA)
- 1990: Business Analyst/Consultant, American Management Systems
- 1994: Credit Risk Management & Head of Collections, BMW Bank
- 1998: Head of Credit Risk Management, Euler Hermes Germany
- 2001: Managing Director of Euler Hermes Rating

03.12.2008

2

Our Rating Process

Rating Definition

- Rating expresses our opinion about the issuers capability to pay its financial obligations in full when they are due.

Rating Process

- Due diligence like rating approach takes on average 30 man days
- Assessment of issuers capital structure and debt service capability
- Assessment of issuers market position and competitive forces
- Analysis of the issuers business model and future risks
- Evaluation of management and organizational abilities
- Evaluation of issuers strategy and financial plan
- Independent rating committee to determine the rating notation
 - The current financial capacity provides the basis for a rating.
 - A rating cannot be much better than the current financial capacity
 - A rating can be much worse than the current financial capacity due to future risks

03.12.2008

3

Rating Agencies and Rating Methods

Who are the Rating Agencies?

- When the international community talks about rating agencies, they generally refer to Standard & Poor's, Moody's Investors Service and Fitch Ratings.
- Other rating agencies are less accepted in the international financial community.

Methods used in Rating Opinions

- Ratings are sometimes derived from statistical analysis of historical defaults only
- More comprehensive ratings also consider business models and risks

03.12.2008

4

Challenge of Ratings

Understanding the underlying future business risks?

- Often structured finance products are evaluated by analysts who have extensive knowledge in quantitative analysis, however, they do not fully understand the underlying credit facilities and the risk involved.
- Analysts often lack the experience necessary to understand the underlying business risk of credit ratings (issuer, issue) and take too little time to evaluate the rating object.

Past performance says little about future performance?

- In a global market, business has become much more volatile. Today, annual statements are no reliable indicators for future performance.
- While annual statements provide a measure of current financial capacity, assessing management and organizational capabilities, controlling instruments and corporate planning is vital in order to provide an opinion on future debt service capabilities.

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Suggestions for Change (1)

- Rating agencies and their methods must be approved and officially acknowledged by the financial regulators.
- Not only Standard & Poor's, Moody's Investors Service and Fitch Ratings, but all rating agencies should be accepted by the international financial community, once they are approved by the financial regulators.
- Besides the requirement of preparing an annual statement by an audit firm, all medium enterprises should have one independent issuer rating, large enterprises should have two independent issuer ratings.
- All lenders should recognize the independent issuer ratings and should be required to use those ratings in calculating their capital requirements.
- Issuer Ratings should be paid as part of the credit cost by the borrower. The cost should be a fixed fee, that is dependent on the revenue size of an issuer.

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Suggestions for Change (2)

- Rating models should consider future scenarios of credit facilities through the cycle, instead of explaining past performance.
- Ratings of structured finance products must be based on the aggregated and weighted issuer ratings of the underlying assets.
- All ratings should be mapped to one international accepted rating scale.
- Rating agencies should be allowed to consult issuers on how to obtain a better rating and therefore to become a saver borrower. For example:
 - To what extent can the issuer be leveraged in order to keep an investment grade rating considering the business cycle, industry position and business risks the issuer faces in the coming years. A borrower should know that!

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Conclusion

- We need more competition in the rating market.
- All rating agencies need to be approved by financial regulators.
- All corporate issuers should have an independent rating.
- Lenders should use independent issuer ratings to some extent.
- Rating agencies need a fair compensation in order to provide high quality opinions.
- Ratings must be comparable on an international scale

03.12.2008

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Contact

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**Presentation by discussant
Joseph Mason
Wharton Business School, USA**

Remarks before the

**DIRECTORATE-GENERAL INTERNAL
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Workshop: Credit Rating Agencies, Session 1
Authorization, Supervision, and Enforcement

Dr. Joseph R. Mason

4 December 2008

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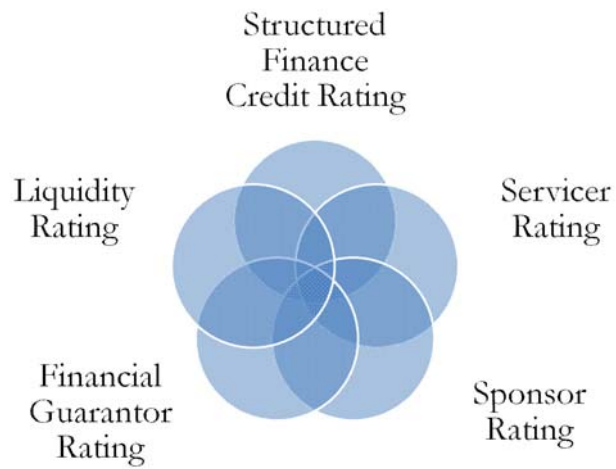
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Problem is Not Just Credit Ratings



Not Just Structured Finance, but ALL “Off-balance Sheet” Finance

<i>\$ billions</i>	1992	1998	2004	2007	Percent Change 1992 - 2004
Total off-balance sheet items, including memoranda items	\$10,200	\$32,320	\$92,047		802%
Total assets (on-balance-sheet)	\$3,476	\$5,182	\$8,244		137%
	2.93x	6.24x	11.16x	16.5x	

Source: FDIC

Session II - A European framework for CRAs – organisational requirements and operating conditions


**Presentation by
Richard Hunter
Regional Credit Officer, Europe, Middle East and Africa and Asia;
Managing Director Credit Policy Group, Fitch Ratings, UK**



Workshop, Credit Rating Agencies
European Parliament, Brussels, December 2008

A European Framework for Credit Rating Agencies

Richard J. Hunter
Regional Credit Officer for
Europe, the Middle East, Africa and Asia



Views on the Current Proposal

- > Registration and supervision in Europe is a constructive step
 - Publicly addresses concerns held by many
 - Creates a level playing field
 - Creates regulatory certainty for CRAs
- > Supervision must be meaningful and clear
 - One-stop shop
 - Highly dissuasive sanctions within the Regulation
- > **Fitch's reservations are limited to obligations that could weaken our ability to assign robust, appropriate ratings**



Areas of Concern

1. Uniform Liability Standard and Sanctions
2. Global Applicability of Registration
3. Duplication of Independent Board Membership
4. Treatment of Unsolicited Ratings
5. Scope of Analyst Rotation Requirements



Areas of Concern

1. Liability Standard/Sanctions (Art. 21, Art. 22, Art. 31)
 - Sanctions should be solely for material violation of Regulation
 - Sanctions should be uniform throughout the EU
 - Sanction powers should lie with competent authorities of any Member State in which material violations of Regulation occurs
 - Proposed sanctions within Article 21 are already highly dissuasive
 - Establishing rights of third-party action against CRAs therefore unnecessary; Regulation deals with legal relationship between CRAs and competent authorities

Liability for material violation of Regulation, make the proposed sanctions within the Regulation exclusive, and open Article 21 powers to all Member States



Areas of Concern

2. Global Applicability of Registration (Art. 4, Art. 12.1)

- Ratings are not produced/assigned by individual analysts, offices or legal entities – we only have Fitch ratings
- Current language and accompanying guidance is ambiguous as to applicability of registration
- Clarity required that registration of EU companies results in recognition and acceptance of work performed by agency operations located outside the EU

Adopt CRD/CEBS approach (re: ECAI) to recognising all entities within an agency, subject to confirmation of common operational practices



Areas of Concern

3. Duplication of Independent Board Membership (Art. 5, Anx I.A.2)

- We support independent board membership
- Each legal entity is not a separate rating agency
- Duplication of external board members for each legal entity would be unnecessary and unworkable, and does not recognise corporate structures

Only one set of independent directors is necessary/workable for each CRA – adopt CRD/CEBS approach to recognising all entities within an agency, subject to confirmation of common operational practices



Areas of Concern

4. Treatment of Unsolicited Ratings (Art. 8.5)

- Analytically equivalent to solicited ratings
- Addressed the equivalency with many regulators for CRD
- Important tool against “rating shopping”, and for development of new CRAs – pro-competition
- Disclosure should not mislead the rating user

Delete stigmatising “separate rating category” requirement for unsolicited ratings



Areas of Concern

5. Scope of Analyst Rotation Requirements (Art. 6.4)

- Rotation of primary and back-up analysts a positive step
- Important to maintain range of expertise at the committee level
- “Persons approving rating” is vague
- Imported from audit arena – rating process not analogous

Delete language referring to “persons approving rating” – refer instead to lead and back-up analysts



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**Presentation by
Catherine Gerst**
**Former director (in charge of structured finance) of DBRS and former
head of Moody's, France; now a partner at Citigate, Dewe Rogerson**




**European Parliament
CRAs Workshop**

4th December 2008

Contribution of Mrs. Catherine Gerst

Disclaimer

- 
- *The views expressed thereafter are made strictly as a citizen of the European Union, and do not represent whatsoever the views of present or past employers*
 - *The following comments do not intend to fully address all the questions and issues raised by the European Parliament in its consultation, but instead, are an attempt to share some of my reflections on the industry and how its performance could potentially be enhanced to the benefit of users of credit ratings.*

2

CRA's "Naked Truth" versus some "Received Ideas"

The Naked Truth

While CRAs generally can boast a strong track record in ratings quality, there are, occasionally and inevitably, inaccurate ratings, and, more frequently, issues with the timeliness of ratings adjustments. My personal experience tends to show that these mishaps are generally the result of (among other factors):

- Overstretched human resources.
- Lack of experienced, seasoned professionals, capable of making sound judgment calls.
- Lax supervision by management.
- Insufficient monitoring of ratings (associated with the reasons above).
- Excessive reliance on rating models as well as aggressive, untested credit risk modeling.
- Flawed methodologies which result in the mechanical application of ratings.
- Insufficient weight given to qualitative or macroeconomic factors which can bear significantly on the future evolution of the credit quality of rated issuers or transactions.

Versus Received ideas

On the other hand, no examples comes to my mind of one of the most frequently heard critics that there are cases where conflicts of interests, consubstantial to the issuer-pay model of major CRAs and a recurrent criticism made to the industry, had tainted key rating decisions. Other examples include:

- Initial ratings are aimed at being, or should be, a guarantee
- Ratings are stable
- Ratings should capture liquidity risk
- Rating agencies should be immune from making "rating errors"
- Rating services are scandalously expensive

3

Some of the difficult questions people are often too shy to ask

- Why should CRAs be more regulated than the press and media?
- Is it still possible today to express influential opinions without being legally and financially responsible for their eventual negative consequences over large audiences?
- Regulating CRAs: why not, but who would be responsible for applying the regulation on a timely and appropriate basis?
- Shouldn't the mandatory use of ratings imposed to various players in the financial industry and across various regulation frameworks be revisited and eventually proscribed?
- If the Issuer's pay model is perceived as such a potential conflict of interest, what better proposal is the market/regulators ready to make, and who would be ready to share the rating costs?
- If the CRAs are to be regulated, shouldn't it be through an international coordinated framework rather than through rather uncoordinated frameworks (e.g. US, European, Japanese etc.)?
- Is the new proposed regulatory framework supposed to be an equivalent to the ECAI status, and if not what would make that an "authorized" CRA in this new regulatory framework could not get an ECAI status?
- Should / can CRAs be specialized by areas of expertise (industrials, sovereign, insurance, structured finance, etc...?)

4

Minimal Basis for healthy recommendations (I)

- **No rush**
The Parliament's legislative process might be rushed, and could therefore fail to achieve the right balance between the legitimate goal of improving the functioning of the rating industry, and the need to preserve some of the characteristics which underpin the value creation stemming from the work of CRAs for the investing community, namely providing independent credit opinions on very large segments of the fixed income markets
- **Put all players on the dock: not a dilution of responsibilities, but any of the actors to endorse responsibilities linked to their specific role**
Recently gathered G20 Members pointed to banks' excessive leverage and to insufficient regulation as having prompted the current crisis, and make no mention of the impact of their own lax monetary or budgetary policies. As reinforced or new regulatory measures (including for CRAs) are introduced, G20 Members analysis shouldn't elude their own responsibility, otherwise they risk repeating past mistakes.
- **No heavy-handed regulation**
Heavy-handed regulated banks haven't escaped to the crisis.
A principle-based regulatory framework, with some ancillary targeted measures to ensure greater transparency, coupled with an adequate monitoring to ensure that CRAs adhere to the agreed-upon principles and transparency rules will be more beneficial to the quality of ratings than any desire to impose a heavy-handed regulation (underpinned by the draft legislation), which might unduly interfere in the independence of credit opinions and in the quality of the rating process.
- **Rely on Ratings Users' Experience**
Ultimately, the various constituencies of users of credit ratings (e.g. users, investors, intermediaries, other credit analysts), are better placed than governments (or their regulatory proxies) to assess the quality of work done by CRAs and the predictive value of their ratings.

5

Minimal Basis for healthy recommendations (II)

- **Coordination between States**
The Commission's effort to introduce legislation, should be coordinated with other major countries and regulatory bodies (i.e. the United States, Japan, the Committee of European Banking Supervisors etc.), as the rating industry is increasingly operating globally.
- **Coordination between various regulatory schemes**
Considering that CRAs have indeed played a role in the sub-prime crisis, but that the behaviour of other parties may also be subject to criticism (e.g. investors, intermediaries, regulators, governments), coordinating CRAs proposed measures with the ones to be applied to other constituencies involved in this crisis should be a must.
- **Full Transparency**
Some of the measures proposed by the Commission might be beneficial to the industry, including a more formal registration process, provided that it is carried out in full transparency, is coordinated by the European union with other major countries in the world, and does not interfere with the analytical independence and freedom of speech of CRAs, which underpin the relevance of credit ratings.

6

On the proposed directive (I)

- Should it be ultimately decided that CRAs be subject to an authorization process
 - This role should be assumed by a specific agency, composed of representatives of the various constituencies of users of credit ratings (issuers, investors, intermediaries, regulators)
 - The criteria applied and the result of the accreditation process should be communicated publicly in full transparency
 - Monitoring and surveillance should be as important as the initial authorization process
 - The Commission should clarify how this process would interact (or not) with the current status of External Credit Assessment Institution assigned by the Committee of European Banking Supervisors.
- In the approval process, full public disclosures of ownership and financial condition (e.g. audited financial statements) should be required. At the minimum, CRAs which do not maintain high levels of integrity and fail to abide to company laws in countries of establishment, or which do not display a bona fide corporate behavior, should be barred.

7

On the proposed directive (II)

- A key focus of supervision should be to ensure that CRAs have sufficient human resources and experienced professionals to cope with ratings' assignments and monitoring
 - This could be achieved by requiring CRAs to disclose metrics relating to the workload of their analytical staff
 - This would also include ensuring, inter alia, that CRAs' management structure allows to spend sufficient time in rating committees, rating monitoring etc
 - CRAs' internal procedures should ensure that enough time is available to rating committee members to examine material submitted to rating committees (except in exceptional situations)
- A strong opposition to the idea that different rating scales be used for structured finance and fundamental ratings. Indeed – unlike claims made by CRAs – similar ratings may not necessarily have the same implications in terms of ultimate credit risk (Default Probability and Expected Loss), rating volatility, credit risk pricing etc. depending on the nature of the issuer or the debt instrument being rated. It is a situation which is well recognized by qualified and experienced users of ratings, and is therefore not an issue.
- CRAs should maintain standard filing and precise track record of rating documents and internal ratings discussions available for review, particularly non-public documents or conversations. However, as rating decisions are necessarily made on both public or non public information, requiring detailed reference to such information appears cumbersome, unnecessary (public information), or questionable (non-public information).

8



**Catherine Gerst,
Operating Partner**

Catherine Gerst is currently Operating Partner at Citigate Dewe Rogerson in Paris. Catherine Gerst has more than twenty years experience in rating agencies, investment banks, commercial banks and financial communication firms. Before joining Citigate Dewe Rogerson, Catherine managed the Structured Finance rating department at the Canadian rating agency DBRS in Paris. She also worked as a Partner for Brunswick, counselling firms and financial institutions on communication in capital markets. Prior to that, Catherine was Head of the French Office for Moody's Investor Services.

A decorative background image showing a classical architectural structure, possibly a library or museum, with a prominent staircase and ornate columns. The image is in black and white and has a slightly faded, artistic quality.

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**Presentation by
Bertrand Huet-Delaherse
Managing Director, European Legal and Regulatory Counsel, Securities
Industry and Financial Markets Association (SIFMA), UK**

**ECON SEMINAR ON CREDIT RATING AGENCIES
Session 2: A European Framework for CRAs:
Organisational Requirements and Operating
Conditions**

Bertrand Huet
Managing Director,
European Legal &
Regulatory Counsel
SIFMA

4 December 2008



INTRODUCTION

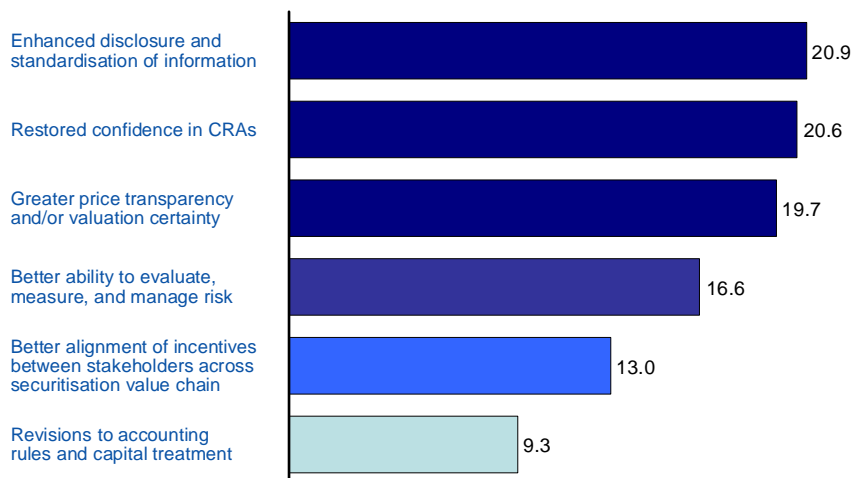


- » **SIFMA Global CRA Task Force**
 - ▶ Global, buy and sell-side, industry task force formed to examine credit-rating-related triggers to the current crisis
 - ▶ July 08 recommendations re transparency of CRA ratings & processes, due diligence, conflicts of interest etc.
(http://www.sifma.org/capital_markets/docs/SIFMA-CRA-Recommendations.pdf)
- » **SIFMA/ESF/ASF/AusSF Global Initiative: "Restoring Confidence in the Securitisation Markets"**
 - ▶ McKinsey carried out over 500 in-depth interviews and surveys of issuers, investors and dealers in EU, US and Asia
 - ▶ Dec.08 recommendations re strengthening issuers/originators disclosure & due diligence practices, adoption of SIFMA CRA TF recommendations

Restored confidence in CRAs 2nd most important factor in restoring confidence in markets



Average weight given by respondents allocating 100 points across 6 factors



SOURCE: SIFMA/IASF/ESF/AusSF Report: Restoring Confidence in the Securitisation Markets

3

Securities Industry and Financial Markets Association

Crisis asks several questions of CRAs and their ratings



- ▶ How can assumptions about correlation in the US housing market have been so inaccurate?
- ▶ Due diligence on underlying loans: Who is responsible? For what?
- ▶ How did the structured finance boom impact CRA resources and their ability to manage conflicts?
- ▶ Did investors and policy makers rely too heavily on ratings?
- ▶ What is the role of CRAs? What do their ratings really mean?

Will the EU Commission 12th November Proposal help restore confidence in CRAs?

4

Securities Industry and Financial Markets Association

Need confidence in GLOBALLY WORKABLE regulation consistent with use of ratings globally

»Benefits of EU Commission Proposal

- ▶ Substantive requirements broadly consistent with IOSCO Code of Conduct for CRAs
- ▶ Intra-EU and 3rd Country cooperation provisions (need strengthening, and equivalence)

»Possible unintended consequences

- ▶ Art 4 introduces significant distortion in global consistency of approach to, and use of, ratings
 - Art 4-1 effectively requires repatriation of global rating activities to EU
 - > *Risks fragmenting the rating industry, impair use of ratings as global benchmarks, reduce attractiveness of EU markets as funding source for non-EU entities & governments; inconsistent with G20*
 - Art.4-2 effectively bans trading in Europe of non EU rated instruments
 - > *Impossible compliance; Limits ability of EU firms to service EU investors; risks develop trend towards unrated instruments; risks forced selling of assets/collateral as a result of 3rd country ratings outside control of firms/EU*
- ▶ Must find way to allow reasonable usage of non-EU ratings, produced by non-EU based entities, whilst maintaining strict oversight of EU CRAs and the use of ratings in Europe

Need confidence in CRA TRANSPARENCY and CONFLICT MANAGEMENT

»Benefits of EU Commission Proposal

- ▶ Comprehensive transparency and conflict of interests requirements
 - Sends strong and constructive signal to investors
- ▶ Flexibility to update Annex

»Possible unintended consequences

- ▶ Introduction of EU unique governance regime would break-up CRA global business models, thus impact CRAs's ability to issue globally consistent ratings; significant precedent for future capital market regulation
- ▶ 4 year rotation of entire rating committees would impact quality of ratings

»Benefits of EU Commission Proposal

- ▶ Strong provisions on employee independence from market participants' influence
- ▶ Express prohibition on political interference in content of ratings (should be extended to methodologies)

»Possible unintended consequences

- ▶ Significant scope for unilateral intervention in individual ratings by 27 separate M/S authorities - with potential global implications
- ▶ In particular provisions requiring rating withdrawal are of major concern
 - Significant impact on market stability and capital requirements
 - Should be consistent with IOSCO disclosure-based approach

7

Securities Industry and Financial Markets Association

CONCLUSION

- »Restoring confidence in CRAs & their ratings critical to restoring confidence in capital markets
- »Confidence is overarching objective of EU Commission Proposed Regulation; Many of substantive requirements send strong signal in support of that objective and are welcome
- »However, a number of important provisions threaten to create the opposite effect, in particular:
 - ▶ Requirement to relocate entire global rating activities of CRAs to Europe (Art 4-1)
 - ▶ Limits on investment/use as collateral of any security rated outside the EU (Art 4-2)
 - ▶ Withdrawal of existing ratings (Annex 1.B.3 & 1.D.3)
 - ▶ Fragmented 27 separate supervisory interventions on same rating with global effect (Art 22)
 - ▶ Rotation of entire rating committees every four years (Art 6.4)
- »Proposal cannot work in isolation; Must work to complement other public & private sector initiatives to improve issuers/originators' disclosure and investors' due diligence processes
- »Standards and oversight for CRAs must be globally coherent. Regulators/supervisors should seek to build on IOSCO's announced CRA monitoring board (due Jan 09)

8

Securities Industry and Financial Markets Association

**Presentation by
Rudolf Siebel
Managing Director, BVI (Bundesverband Investment and Asset
Management e.V.), Germany**

**Workshop „Credit Rating Agencies“
European Parliament,
Committee on Economic and Monetary Affairs,
Brussels,
December 4th, 2008**

Rudolf Siebel, Managing Director
BVI Bundesverband Investment and Asset Management e.V.



Views on proposed requirements (1)

- BVI agrees with the main objectives of the Commission proposal to
 - **Ensure that ratings are reliable and accurate pieces of information**
 - **Mitigate negative influence on ratings** resulting from
 - Conflicts of interest within CRAs
 - Low standards of quality in the ratings and
 - Lack of transparency and regulation of the agencies.

- BVI appreciates that the Commission proposals
 - **Do not aim to interfere with the independence and content of ratings**, for which the CRAs shall retain full responsibility
 - Ensure, as far as possible, **close alignment with international regulatory standards**
 - Where necessary will consider specific solutions that reflect the particular concerns of European financial markets.



2

Views on proposed requirements (2)

- Proposal does not provide for full disclosure of the facts underlying a SF rating, **Article 8 (2) and Annex I Section D II 1.**
- BVI strongly favours a regulatory approach providing for a
 - Comprehensive disclosure of information on the part of CRAs and Issuers/arrangers
 - To be made available at the first pricing of a security.
- Asset managers need for meaningful own due diligence on a SF deal:
 - All the information that CRAs are provided with by issuers/arrangers to aid in the CRA determination of an initial credit rating
 - Standard set of minimum disclosure criteria / monitoring sheet on each rated transaction in the investor reports for credit monitoring
 - CRAs should deliver a „credit stability/volatility rating“ reflecting the expected change of the credit rating in a worse case.



3

Views on proposed requirements (3)

- Scope needs clarification, **Article 4, 2nd para**
 - investment firm cannot purchase or sell an instrument which has been rated only by a non EU registered agency but can order a non-rated instrument?
 - prohibition of carrying out own due diligence on the instrument?
- Board composition, **Article 5**
 - Ensure that the CRA takes into account the views of market participants when formulating its own rating strategy and policies:
 - Non-executive directors should have a majority on the CRA administrative board, including the chairman.
 - Views of institutional investors as main users of ratings should be heard:
 - Majority of
 - Non-executive directors or the members of the supervisory board, and
 - Independent rating policy review committee of the board, **Annex I Section A (7)** should be made up of institutional investor representatives.



4

Views on proposed requirements (4)

- The four year analyst and rating committee rotation period is problematic from a rating quality perspective, **Article 6 (4)**
- CRAs should be required to base any “notching down” policy of other CRA ratings on objective criteria only, in particular on the loss performance of the deal, **Article 7 (3)**
- CRAs should provide sufficient resources to the surveillance of (SF) ratings, **Article 7 (4), Article 21**
- CRAs should consider not to create market disruptions when taking rating actions which are the result of methodology changes (grandfathering transactions), **Article 7 (5)**.
- Ratings on **all** tranches of a SF deal should be disclosed by the CRA to discourage “rating shopping” and “cherry picking” by the issuer/arranging bank , **Article 8 (3)**
- The public repository should seek the harmonisation of presentation of performance statistics across CRAs, **Article 9, Annex I Section 5**.

5



Features to be considered when regulating CRAs

- European asset managers use mainly credit ratings and research provided for by Fitch, Moody's and S&P
- **Do not regulate the independence and content of credit ratings!**
- **Reduce dominant market position of the three large CRAs**
 - Avoid use of ratings in regulation, e.g.:
 - Investment policy
 - Reporting to regulators or clients
 - Allow for competition between a larger number of CRAs
 - Ease of registration and regulation
 - Need for special treatment of SME type CRAs?
- **Global consistency of regulation is necessary**
 - Avoid inconsistent CRA transparency
- Is there need for a European CRA?

6



Other Issues

- **Definition of CRA ancillary activities cannot be left to the CRAs**
- **General:**
 - Discussions between CRA and SF transaction originator/sponsors are necessary. **Annex I Section B 4,5**
 - Rating & rating data delivery fees: Stop excessive pricing by CRAs which enjoy a monopoly position because of EU regulation (e.g. CRD)
 - Example: S&P RX service comparison current/future pricing model:

Medium sized asset manager (German licence)	Large asset manager (European licence)
Current: \$36.400 p.a.	Current: \$175.000 p.a.
Future: \$63.750 p.a.	Future: \$440.000 p.a.
Increase: \$27.350 p.a.- ~ 75%	Increase: \$265.000 p.a. ~ 150%.

- **ISIN licence fees**
 - No clear separation between S&P ratings and ISIN numbering agency



7

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8

**Presentation by
Jérôme Cazes
Directeur Général, Coface, France**

**DRAFT REGULATIONS FOR
RATING AGENCIES**

PRESENTATION TO THE EUROPEAN PARLIAMENT

Jérôme CAZES
Chief Executive Officer

@rating coface 1

FINANCIAL RATINGS ARE ESSENTIAL

- . **A financial rating links:**
 - an issuer (company, bank, state) and an issued financial instrument (or a securitisation vehicle alone),
 - and letters, which symbolise a default probability: the probability that the issuer will not be able to meet its financial obligations over the next 12 months.
- . **Examples:** BBB means "a 4 in 1,000 chance of defaulting within the year"
 - A = "a 2 in 1,000 chance"
 - AAA = "a 1 in 3,000 chance"
- . **Reliable, reasonably priced financial ratings are an essential service for investors and corporates: in order to get better access to credit; or to grant credit to a customer more easily.**

@rating coface 2

EUROPEAN REGULATIONS ARE ESSENTIAL AND THEIR SPECIFICATIONS SIMPLE

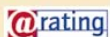
- . Agencies play a regulatory role (in banking and savings regulations): they should therefore be regulated. Without European regulations, American regulations are applied implicitly.
- . Regulations should make impossible a repeat of the scandal of the AAA securitisation vehicles for toxic sub-prime loans, prime cause of the global financial crisis:
 - AAA = an incident every 3,000 years = "risk free"
 - agencies only give AAA to 4 American companies (Exxon, GE, Johnson & Johnson, Microsoft)
 - but they have given it to 5,000 securitisation vehicles, three-quarters of which have lost it during the crisis
 - these vehicles would never have been sold to investors around the world without rating.
- . Incidentally, the regulations should open up an oligopolistic market where three American companies share 98% of a market of €6bn (with a 50% operating profit).



3

THE CURRENT DRAFT EUROPEAN REGULATIONS DO NOT MEET THESE SPECIFICATIONS

- . Nothing would prevent an agency from issuing false ratings tomorrow, from extending its legitimacy acquired in one ratings category (e.g. companies) to another category in which it is incompetent (e.g. securitisation vehicles).
- . Since the regulations only impose best efforts controls and no performance controls:
 - . best efforts controls are only a second best solution where a rating is subjective (e.g. the Michelin guide)
 - . but objective financial ratings must be checked according to their statistical results: 12 months later, do the defaults observed are consistent with those announced by the rating?
 - . results-based regulations would never have validated the AAA rating for securitisation vehicles that did not have any reliable statistical basis.
- . A user must be able to distinguish at a glance between a rating that has been validated by regulations and a private rating that has not been validated.



4

STATISTICAL CONTROL IS ESSENTIAL AND EASY

- . European regulations impose it upon all private internal bank ratings (Basel 2 rules).

This control is applied risk category by risk category:

- . each year it checks whether the default average for the year of a given class (e.g. A) is consistent with which was announced,
- . and it checks that the number of changes made to the ratings in the year was low ("transition matrix").
- . It would be paradoxical if the same type of control were not applied to public ratings validated by a public authority.
- . Will the regulations forbid rating agencies from rating securitisation vehicles? No, but...
 - they would rate with different letters to indicate that it is a private rating
 - and, with regard to regulations (banking or savings), such a private rating, even issued by a big agency, would be the same as "no rating".
- . This statistical control should be carried out by the CESR on behalf of the 27: in order to limit cost, ensure it is homogenous, guarantee it is fair and facilitate technical dialogue with American, Japanese and other controls.



5

STATISTICAL CONTROL WOULD FURTHERMORE OPEN UP COMPETITION BETWEEN AGENCIES

- . Method controls increase entry barriers. They strengthen competition acquired on notoriety alone.
- . Statistical controls, on the other hand, enable the entry of new players, such as Coface, who offer low cost/high statistical quality.

"I hope we can also craft these measures in a way that will encourage entry to the (rating) market by new players, working perhaps on a different business model" (Charlie McCreevy, European Commissioner for Internal Market and Services).



6

**Presentation by discussant
Joseph Mason
Wharton Business School, USA**

Remarks before the
**DIRECTORATE-GENERAL INTERNAL
POLICIES OF THE UNION
- DIRECTORATE A -
ECONOMIC AND SCIENTIFIC POLICIES**

Workshop: Credit Rating Agencies, Session 2
Organization Requirements and Operating Conditions

Dr. Joseph R. Mason

4 December 2008

Herman Moyses, Jr./Louisiana Bankers Association Professor of Finance, Louisiana State University and Senior Fellow at the Wharton School. Copyright Joseph R. Mason, 2008. joseph.r.mason@gmail.com

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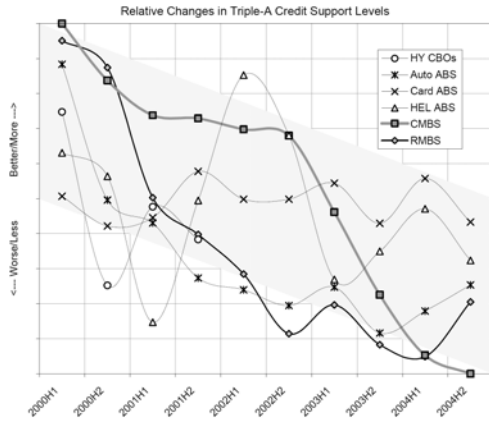
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Reliance on Ratings



Sources: Moody's, Standard & Poor's, Commercial Mortgage Alert, Nomura Securities International

Source: Nomura, *Structured Finance Trends – Yield Spreads, Credit Support, and Collateral Performance – The Big Picture*, 27 June 2005.

Methodology

Value at Risk (VaR)

Point Estimate: What loss level is such that it will not be exceeded with X% probability over the next N trading days?



Source: EOP, Inc. <http://www.eop.com/pressroom/050905a10>
The photo shows a ground test of a Space Shuttle main engine liquid oxygen (LOX) turbo pump. Testing is critical to assure that the component can deliver the required performance. The LOX turbo pump for each of the Shuttle's main engines produces 26,800 horsepower of pumping action and spins at 23,700 revolutions per minute. Each of the corresponding fuel turbo pumps delivers 76,000 hp – the power of 28 locomotives – and spins at an even more incredible 36,200 rpm.

Stress Testing

Distributional Estimate: How bad can things get?



Exhibit 1 shows the Thursday, 7 July 2005, 11:00 pm NWS advisory for Hurricane Dennis. The advisory called for a projected central track that would have brought the storm ashore near Pensacola, Florida. However, the advisory indicated a wide margin of error around the projected central track. The potential track area extended from the Gulf Coast of Florida in the west, all the way past New Orleans in the east. Many users of NWS hurricane advisories rely more heavily on the potential track areas than on the projected central tracks.

Nomura, *Model Risk Update: Margins of Error and Scenario Analysis*, 29 November 2005.

Repeated point estimates yield the distributional estimate!

Remarks before the
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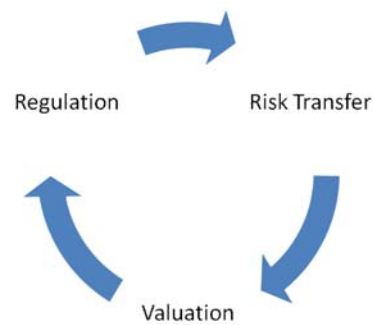
Workshop: Credit Rating Agencies, Summary

Dr. Joseph R. Mason

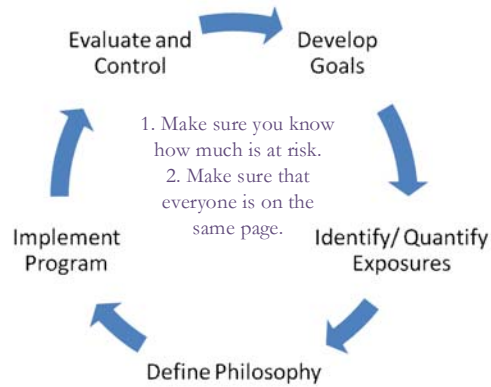
4 December 2008

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Cycle of Regulation Management



Cycle of Risk Management



Source: Smithson, *Managing Financial Risk*, McGraw Hill, 1998.

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