EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

European Association of Corporate Treasurers

Press Release – 28 February 2012

The European Commission's Proposals for Further Regulation of Credit Rating Agencies

The *European Association of Corporate Treasurers* (EACT) is a grouping of 20 national associations representing treasury and finance professionals from 17 countries of the European Union.

The members of the EACT's treasury associations work in the 'real economy' and are directly impacted by the European Union's financial regulatory initiatives in response to the financial crisis. Much of this regulatory programme includes potentially adverse and often unintended consequences for the real economy and this is particularly true of the latest proposals[1] for a Directive and Regulation of credit rating agencies (CRAs). The European Commission's proposals are being considered by the Parliament and Council and are already the subject of a draft report from the ECON committee of Parliament[2].

The EACT welcomes certain aspects of the proposals, especially where these address acknowledged past failures (such as in the rating of structured products) and encourage the view of ratings as opinions that should not be relied upon to the exclusion of independent analysis. However the EACT believes that other measures proposed by the Commission would have material negative consequences on the use of ratings by corporate issuers, the real economy participants in the rating process.

The attached position paper describes the EACT's concerns in detail. The two most important issues are:

- *The proposals for mandatory rotation of CRAs are both impractical and remove the continuity of experience in the CRAs. Such rotation cuts right across the investment both issuers and CRAs make in their working relationships, building understanding of the issuer and of the methodology used to produce the rating. Far from encouraging competition the proposal may have the perverse outcome of discouraging issuers from seeking ratings. This can only lead to less money being raised and at a higher cost, at a time when bank lending is already becoming tighter. The EU-US gap in corporate bond funding, already a serious impediment to business in Europe, would widen..*
- *The differences between CRA methodologies are highly valued by real economy issuers. The introduction of ESMA oversight of these methodologies raises the concern that this range of different approaches to credit analysis may be lost. The EACT and issuers see such a possible outcome as an eventual threat to financial stability.*

Whilst recognising the further work still to be done by Council and Parliament the EACT also has concerns about some of the proposals contained in the ECON report. These reflect ideas previously debated in Parliament but rejected by the Commission in its preparation of the proposals now being debated. The most controversial of these ideas are:

- *A move from the 'issuer pays' to an 'investor pays' model: this is likely to impact adversely the ratings coverage of mid-sized companies, as well as reducing rather than increasing market competition.*

[1] COM(2011)0747 – C7-0420/2011 – 2011/0361(COD)

[2] 2011/0361(COD)

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- *Limitation on a CRA's market share for any given asset class: this raises issues both of practicality and of consistency in the application of CRA's methodologies*
- *A ban on CRAs producing 'Outlooks' for sovereign issuers: this would result in more rather than less market volatility.*
- *A move to avoid the use of the word "opinion" about credit ratings: this fundamentally fails to recognise that ratings are not determinative but rather statements of opinion about the future.*

Commenting on the regulatory proposals, EACT Chairman Richard Raeburn said:

"It is of great importance that in developing proposals for further regulation of credit rating agencies, Brussels tailors its approach so that it both addresses the very real failings of ratings in certain specific areas and recognises how real economy issuers use ratings to support access to capital to fund growth.

Aspects of the Commission's proposals – such as the requirement for mandatory rotation – will neither encourage the agreed objective of greater competition nor improve the quality of ratings themselves.

I regret that ideas that had in our view correctly been rejected by the European Commission are being raised again but confident that ECON, Parliament and Council will be alert to proposals that could seriously jeopardise the positive role CRAs play in the real economy.

The EACT strongly encourages Parliament and Council to take careful account of how ratings help encourage capital formation and growth in the economy; and thereby to ensure that further regulation concentrates on the past ratings failures, without making an assumption of systemic failure of ratings quality, oversight and competition".

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