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Consultation on the Role of Credit Rating Agencies in Structured Finance

Dear Ms Bonde,

a key element for the assurance of high quality analysis has to be seen in the **qualification of rating analysts**. Rating agencies should be encouraged to cooperate with relevant institutions to certify credit analysts and work on minimum requirements (see book "Certified Rating Analyst", www.certified-rating-analyst.eu, Oldenbourg Wissenschaftsverlag, Munich, www.oldenbourg.de, hardback, 1. edition 2008, 562 pages, ISBN 978-3-486-58287-9).

In contrast to credit ratings on railroad bonds and other financial instruments, which are covered by the leading rating agencies for a century now, **little experience** is available on newly created instruments. Even ratings on asset-backed securities have a comparatively short track record. In comparison to the difficulties in the evaluation of such instruments little was done at the leading rating agencies to gather available knowhow among market participants. We have seen no significant initiatives neither at Moody's nor at S&P's to discuss or overcome problems of their rating models and procedures by consulting with relevant associations such as DVFA (www.dvfa.de), BdRA (www.bdra.de), ISO (www.iso.org) or others.

DVFA has published **transparency and validation standards** in German and English language. By providing standards in English language it should have been possible not only for the rating agencies who actively contributed in the drafting of the validation standards but also to Moody's and S&P's to acknowledge the standards and make use of them. To their anergia, we have not seen any such initiative.

Moody's and S&P's are inquiring on the possible introduction of new rating symbols. Since there is no standardization of rating symbols, adding new symbols could be confusing for the market. **New symbols should be introduced only after an effort to standardize existing ones.**

Despite initiatives like the **duopoly relief act** in the US the rating market is still dominated by Moody's and S&P's. Credit ratings are opinions which should rather compete with each other than be pronounced in a monopoly like style. Although market structure is not the primary issue of the consultation paper, impacts of any measures taken to regulate the rating agencies on the market form and structure should be considered.

Both Moody's and S&P's promised to take actions based on their experiences of the sub-prime crises. The so called "Leadership Actions" taken by S&P's e.g. could rather have a **leadership position** for S&P's as a result than a competition among rating agencies and an improvement of their services. "Office of the Ombudsman", "Audit Committee", "Risk Assessment Oversight Committee", "Model Oversight Committee", "Policy Governance Group" are organizational entities which should not be made a prerequisite to any rating agency, but only to those which have a size and statute appropriate for a more sophisticated organizational structure. S&P's leadership actions do not lead to a more competitive rating market.

Some attention should be drawn to the fact that the leading agencies are aggressively **buying smaller rating agencies around the world**, thereby not only broadening their market impact but also their market power, assuring their duopolistic positions and heightening **systemic concentration risk to the world financial system**. CESR is narrowly looking at credit ratings. Therefore we suggest looking at ratings in a broader sense and considering repercussions of any measure taken on credit ratings on other forms of ratings such as mutual fund ratings, insurance product ratings, sustainability ratings etc.

Yours sincerely,
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