

**Barclays PLC Response to:
CESR Call for Evidence on Possible Measures Concerning Credit Rating Agencies**

Barclays welcomes this opportunity to respond to the Call for Evidence concerning Credit Rating Agencies (“CRAs”).

Barclays PLC is a UK-based international financial services group engaged primarily in banking, investment banking and investment management. In terms of assets employed, Barclays is one of the largest financial services groups in the United Kingdom.

Barclays has been involved in banking for over 300 years and operates in over 60 countries, including Ireland, Spain, Portugal, France, Italy and Germany. It has 76,200 employees and over 2900 branches world-wide.

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As both a customer of CRAs and a fixed income issuer, Barclays believes that the CRAs have and continue to play an important role in the development and efficient workings of international capital markets. We expect the CRAs’ role to be increasingly important as Basel 2 takes effect and therefore share the view of the European Parliament that the CRAs should operate as effectively and appropriately as possible. However, it is not clear that regulation is the best means available of achieving effective and appropriate operations.

This paper comments on the four high level concerns raised in the CESR Call for Evidence.

Conflict of Interest

Both the independence and objectiveness of a CRA rating are critical to the commercial value of the agency’s product; they act, therefore, as a significant counterbalance to any potential conflicts that may exist. Consequently it is in the direct interest of the CRAs to ensure their internal policies and procedures identify and deal with all potential conflicts involved in producing ratings, including issuer and subscriber influence and personal conflicts of individual analysts.

CRAs should be encouraged to publish their policies and procedures. They should also be encouraged to disclose whether or not ratings are solicited and paid for, and whether or not management has participated in the ratings process and provided access to confidential information. Such disclosures have increased in recent years but could form part of a Code of Conduct for the industry.

The fact that there is potential conflict in relation to a particular service should not lead to the prohibition of the service. Instead requiring disclosure of the potential conflict and how it is managed is the best way forward. For example, rating agencies provide advisory services to issuers, such as the expected ratings outcome of a share buy-back or acquisition, and generally charge for these services. Such a service is often extremely helpful in anticipating the likely impact on investors, and it is therefore in the interests of the market that the agencies are allowed to continue offering this service. In such instances CRAs should disclose that the advice has been solicited and paid for by the issuer.

Fair Presentation of Credit Ratings

Barclays experience in dealing with CRAs has shown that the competence of staff is generally high. CRAs have a strong commercial interest in recruiting and retaining skilled staff and developing staff to improve their commercial proposition as well as the individuals' productivity. In addition, the capital markets industry is developing qualifications to recognise skill levels, for example the Global Association of Risk Professionals is investigating wider use of its qualifications. Encouragement to increase the co-ordination of industry qualifications and benchmarks would be welcomed.

Nevertheless, an individual coming from industry with say a pharmaceutical degree may be better placed to evaluate the risks of a pharmaceutical company than a financial analyst with an MBA. CRAs should therefore also be encouraged to publish the qualifications and backgrounds of their analysts.

The risk that insufficient or inappropriate skills may lead to poor credit ratings is something the CRAs need to manage within their own procedures. Agencies use of internal committees and benchmarking to review ratings to ensure consistency should be encouraged.

One of the reasons behind the success of CRAs has been their ability to constantly develop methodologies using the latest technology. There is an understandable desire to ensure that consistency between providers exists where provision of regulatory recognised ratings is concerned. However there is a danger that regulation could lead to too much uniformity in credit assessments, delay changes to methodologies and be more likely to hinder than promote further innovation. CRAs have made significant efforts to improve methodology disclosures and we recommend encouraging greater disclosure of changes in methodology and explanations of the affect on ratings, to minimise market disruption.

Relationship Between Issuers and Rating Agencies

Credit ratings represent opinions about the future potential to default, based upon the facts gathered. In many cases, issuers choose to share with the agencies non-public information, ranging from the strategic vision of senior management to very detailed multi-year forecasts of cashflows and other financial information. We believe it is helpful for the agencies to receive such information and use it to inform their opinions, since this enables the market to price debt obligations more fairly. We recognise that there are potential issues with regard to access to inside information, but note that the agencies provide credit ratings – opinions on the relative default risks of instruments - rather than investment recommendations and should be encouraged to have policies/Code of Conduct on dealing with non-public information.

We do not believe that all rating agencies should have *ex ante* access to the same information (rating agency data room) although in our experience most issuers choose to provide to each agency they deal with the same underlying data. It is a competitive advantage of one agency over another to probe and uncover particular areas of business risk and it would be anti-competitive if every issuer was required to provide information to every agency whether or not it had a relationship with them. We also believe that ultimately, such a requirement would tend to erode differences between rating agencies that would be harmful to the role they play in the markets.

We note the importance of CRAs archiving all information related to a rating decision for a period of time, and would be pleased to see specific requirements laid down in a voluntary Code of Conduct.

Barriers to Entry

Encouraging new entrants to the market, perhaps specialising in certain segments in order to minimise start up costs and competency thresholds, is to be welcomed. However, we do not consider that the current arrangements disadvantage the quality of ratings or the price paid for ratings advice. The concentrated expertise created by a relatively small number of market participants seems to produce a good quality of output and customers are still able to negotiate competitive prices.

Conclusion

Barclays believes that CRAs have contributed and continue to contribute significantly to the development of capital markets. Their role is clearly growing in regulatory importance, particularly given Basel, which, rightly, has prompted a review of the role and structure surrounding CRAs. However, it should be remembered that credit ratings are only one source of analysis which market participants can use to inform their decision-making processes. It is also important to remember that CRAs cannot be expected to uncover all non-public risks and liabilities for an organisation and therefore investors and regulators should not give credit ratings more credence than they deserve.

We believe CRAs should be encouraged to continue publishing more details of their methodologies policies and procedures. However, since ratings are ultimately a subjective opinion, we believe that attempts to regulate could prove counter-productive and harmful to the markets they serve. We would welcome a voluntary Code of Conduct consistent with the objective of greater disclosure as it will be clearer to both issuers and customers that rating agencies offer judgmental, relative risk opinions and nothing more.

If you have any queries regarding this response please do not hesitate to contact:

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