

Call to CESR for Technical Advice on Possible Measures concerning Credit Rating Agencies - CESR/04-394

Response by Prudential plc

Introduction

Prudential is a leading international financial services group, providing retail financial services and fund management in its chosen markets: the UK, US, and Asia.

We welcome the opportunity to make some preliminary comments on CESR's call for evidence on credit rating agencies. However, we are concerned by the short period of time given before the deadline, particularly as it is during the holiday period.

For Prudential, the rating agencies play an important role. Their analysis of the Group's financial strength determines the way it is perceived by a variety of external stakeholders, and influences the terms on which it can borrow money. We also have a significant interest in ratings agencies as a major institutional investor in global securities markets.

Strategic importance of ratings agencies

In view of the growing importance to the marketplace and to regulators of credit rating agencies, it is important to maintain the quality of credit ratings through a detailed review of a number of key issues about how credit ratings agencies operate. This should build upon some of the international work already underway in IOSCO and the US. We are pleased to see the emphasis placed by CESR on working with international bodies, given the global nature of the markets in which the agencies and the companies they rate do business.

Scope of the call for technical advice

The 4 areas put forward by the Commission cover the main aspects of operation where the greater accountability is required, although it is not clear what competition issues it is contemplated that CESR will be able to address, given the primacy of the role of DG Competition.

While we agree with a thorough review along the lines outlined in the CESR mandate, particularly with regard to the question concerning transparency of methodology, we do not do this with the objective of encouraging further legislation.

In line with the recommendations of the reports of the Commission Industry Expert Groups, we think all policy options must be considered. These include achieving accountability through a market process involving codes of conduct and transparency, rather than formal regulation. This could cover methodology, process, the qualifications of the relevant personnel, and fee structure.

We agree with the findings of the Expert Group on Securities when it states that "should any regulatory action be taken, it must be proportionate and evidence-based. Moreover, the Group underlines that regulators must take care to avoid introducing burdensome regulatory requirements for rating agencies that would stifle entry into the market by new (including European) firms and that might lead to conflicts of interest between, for example, regulators and the agencies' sovereign rating activities." (Para 87)

We fully agree that regulators should not be involved in the substance and content of specific rating decisions which must be objective, independent and based on full analysis of the facts.

Our overall approach is summarised in a recent IMF publication: "Any perceived over reliance on rating agencies to set disclosure, capital, and other standards should be addressed with improved supervision, not reduced scrutiny by rating agencies." (p103 - Global Financial Stability Report, April 2004).

We look forward to commenting in more detail on CESR's technical advice when it is made available for consultation.

Prudential plc
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