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Credit Rating Agencies

EBF Response to CESR Consultation Paper on a Central Repository for CRA data (CESR Ref. 09-579)

Key Points:

- The EBF welcomes work aimed to facilitate performance comparisons between rating agencies. A well-maintained repository could be a very useful tool for investors.
- For this objective, comparability and timeliness of disclosures should be prioritised, if necessary, over the scope and time horizon to be covered.
- Sufficient resources will have to be foreseen for updates and checks of the quality and comparability of the data.

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Related documents: CESR consultation document: <http://www.cesr-eu.org/popup2.php?id=5795>

General remarks

1. The European Banking Federation welcomes the opportunity to respond to CESR's consultation on the central repository (CRep) for data on the historical performance of rating agencies. As users of ratings, banks welcome improved tools to assess the accuracy of ratings and to make comparisons between rating agencies in this respect. Indeed, the EBF was amongst those voices calling for such facilities during the negotiations of the EU Regulation on Rating Agencies.
2. CESR is right to point out that this Regulation leaves some scope for interpretation as regards the precise set-up of such a framework. Overall, the EBF considers CESR's considerations and suggested solutions helpful and expects that a **data repository along the lines of CESR's proposals would be a helpful additional tool to be integrated in investors' overall processes** when deciding on the use of external ratings.
3. Importantly, the depository is expected to be helpful when considering the use of an additional and lesser known rating agency. As such, it might help to increase competition on the ratings market.
4. However, this is **subject to genuine comparability** of the data provided by the repository. Comparability, before a broad scope or long time horizons, should therefore be the main priority of CESR's work.
5. Nevertheless, CESR is also right to consider that the **introduction of such a tool should not interfere with CRAs' individual rating processes**. Indeed, such a consequence would be most harmful as the ultimate objective should be that of increasing the diversity of opinions in the market and, related to that, investors' own assessments and interpretation of CRAs' ratings. This is facilitated by divergence in the approaches and the ratings of rating agencies but would be harmed by increasing convergence between the CRAs.
6. The EBF would expect that the maintenance of the envisaged repository would imply a **considerable work load**. This is for example as a result of the need for regular updates; the need for checks regarding the quality, comparability and classification of the data received from rating agencies; and adjustments necessary to reflect the evolution of products and rating categories.

Specific comments

Scope of the central repository

7. The EBF would agree with the scope as suggested by CESR. As noted above, more important than a wide scope is however the genuine comparability of the data published in the repository.

Common standards for the presentation of information

8. The EBF notes CESR's consideration regarding a trade-off between, on the one hand, the introduction of new and common methodologies for the classification and evaluation of ratings information; and on the other hand the use of already existing historical information collected by CRAs before the entry into force of the EU Regulation.
9. Banks' preference is clearly in favour of the former. Users of ratings already have access to past information collected by CRAs themselves. The difficulty was that of a lack of comparability of this data across the CRAs. **The EBF would therefore encourage CESR to aim for a high degree of standardisation of the methodology to be used.**
10. On the treatment of ratings issued by CRAs' subsidiaries, banks would not see added value in different disclosures for different entities of rating agencies. Instead, the EBF would support the disclosure of rating performance on a CRA group-wide basis.

Output design for the central repository

11. The EBF broadly supports CESR's considerations with respect to the presentation of the collected data.
12. In this context, the Federation would however point to the important question of updates of the depository. Annual "updates on the main developments observed" over the past year, as required by the Regulation, are considered a rather low frequency by users. **The EBF would welcome that CESR consider instead the possibility of at least bi-annual updates.**

Concluding remarks

13. The EBF looks forward to CESR setting up the data repository and suggests that CESR be open to further developing the repository in line with experiences being made with it in practice.