

August 26, 2004

Mr. Fabrice Demarigny, Secretary General
The Committee of European Security Regulators
Re: Consultations - Measures Concerning Credit Rating Agencies

Dear Sirs:

Your efforts to increase the credibility and transparency in the rating industry are laudable. The rating industry currently is suffering from a severe lack of competition (S&P and Moody's dominate the industry) which has caused the following problems: i) many issuers to pay too much for capital because they are under-rated and ii) investors are not provided with sufficient warning about failing firms such as Enron, WorldCom, and Parmalat. There are few industries where the two major firms do not directly compete, and yet control over 90% of the revenues. Since two ratings are needed to issue debt, the two rating firms do not compete and therefore are not subjected to the normal checks and balances. Even after the recent credit rating debacles, S&P and Moody's revenues have continued to grow because of their lock on the market.

Regarding Egan-Jones Ratings, we have succeeded in providing timely, accurate credit ratings. We provided warning regarding the Enron and WorldCom failures (we did not rate Parmalat) and yet most of our ratings have been above S&P's and Moody's over the past two years (thereby providing issuers with more competitive capital). Our success has been recognized by the Federal Reserve Bank of Kansas City which compared all our ratings since inception in December 1995 to those of S&P and concluded:

“Overall, it is robustly the case that S&P regrades from BBB- moved in the direction of EJR's earlier ratings. It appears more likely that this result reflects systematic differences between the two firms' rating policies than a small number of lucky guesses by EJR.”

Source: Research Division, Federal Reserve Bank of Kansas City, Feb. 2003

Link: <http://www.kc.frb.org/publicat/reswkpap/RWP03-01.htm>

Stanford University and the University of Michigan drew similar conclusions “we believe our results make a strong case that the non-certified agency [Egan-Jones] is the leader and the certified agency [Moody's] is the laggard.” (aaahq.org/AM2004/display.cfm?Filename=SubID_1213.pdf&MIMEType=application%2Fpdf). To avoid conflict, Egan-Jones does not accept payment from issuers.

I would be happy to answer any questions.

Very truly yours,

Sean J. Egan
Managing Director