



To: Mr. Fabrice Demarigny
Secretary General of CESR
E-mail: secretariat@europefesco.org

Athens, 31/01/2005

Subject: Response to CESR's consultation paper "Technical advice to the European Commission on possible measures concerning credit rating agencies"

Dear Sirs,

In response to CESR's consultation paper dated November 30, 2004 regarding the subject in hand and your call for evidence we are in the pleasant position to submit our comments.

ICAP takes this opportunity to acknowledge CESR's commendable work on the field and remains available for any additional information.

Yours sincerely,

Yannis Efremidis

Division Director
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Enclosed: ICAP commentary on CESR's consultation paper

ICAP Commentary on CESR's Consultation Paper

Definition (par. 26 – 42)

▪ Credit Rating Agencies & Unsolicited Ratings

An explicit reference should be made to the CRAs that provide exclusively unsolicited ratings and simultaneously maintain large databanks with financial and commercial information (e.g. Central Credit Registers)¹. The final technical advice should clearly state their important market role for the implementation of the New Basel Capital Accord (Basel II), as they are able to operate and provide credit assessments in countries where the majority of the legal entities are small & medium size enterprises (SMEs). In fact in the European Union the overwhelming majority of companies are SMEs while in countries such as Greece and Portugal they count for more than 95% of the market.

The credibility and the integrity of the unsolicited ratings is ensured through the adoption and implementation of rigorous, systematic and continuous procedures for collecting and updating data as well as through the methodologies they use in order to produce credit ratings.

III. Rules of Conduct Dimension (par. 77 – 85)

▪ Interests and conflicts of interest & Ancillary services

CRAs should not be prohibited from carrying out ancillary services such as business information services, directories publishing, financial and sectorial studies, etc. CRAs providers of unsolicited ratings, might have several departments and a wide range of services. The independence of the rating process should be fully ensured by well-defined operating rules, which should separate and secure the rating process without promoting ancillary services.

An additional factor that should be considered is the need for regular interaction and co-operation between some of the CRAs departments. This need of interconnectivity should also be ensured by pre-defined rules.

III. Rules of Conduct Dimension (par. 96 – 98)

▪ Capital or other interest links

It should be clearly stated that the notion of capital or other interest links of the CRAs, solely active in the field of unsolicited ratings, is of less importance due to the fact that during the unsolicited process the rating is derived through a well-structured and predefined business model.

This business model does not incorporate the judgment and/or opinion of CRA shareholders, executives and/or other employees. The rating process is protected against any manipulation as ratings are produced through a completely safe information system, which is free from any external influence. The procedures of data collection and processing are also ensured through secured and strict operating rules. Furthermore, this process can be examined and verified at any given time, on the basis of the historical data of the rated companies and the ratings assigned.

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¹ Bank for International Settlements, Credit Ratings and Complementary Sources of Credit Quality Information, August 2000.