

**INTESA SANPAOLO RESPONSE
TO CESR CONSULTATION PAPER ON
THE ROLE OF CREDIT RATING AGENCIES IN STRUCTURED FINANCE**

Intesa Sanpaolo is one of the largest Italian and European banking groups resulting from the merger of Banca Intesa and Sanpaolo IMI and one of the major players in the securitization field in the Italian market, with 7 transactions arranged and distributed in the term market in the last two years, totaling USD 4.3 bln, Intesa Sanpaolo ranked 5th for number of transactions in the Italian league table and it is the only Italian bank sponsor of an ABCP conduit platform.

We welcome the opportunity to submit our comments to the CESR consultation paper on “The Role of Credit Rating Agencies in Structured Finance”. Intesa Sanpaolo appreciates the analysis being carried out by European policy makers and regulators in investigating possible gaps and incentives in the regulatory framework that originated the crisis and their efforts in finding adequate remedies.

When looking at the causes of the crisis, a lot of attention has been drawn on the role and responsibilities of the Credit Rating Agencies (hence forth CRAs). However, Intesa Sanpaolo is of the opinion that the current crisis in the structured credit market is the result of a number of causes, notably a poor lending policy led by non regulated US based intermediaries, insufficient risks management by banks, excessive reliance on ratings by investors and a lack of stringent controls by supervisors on market practices in the field of mortgage lending, on the levels of indebtedness of US households and of early warnings to the market on the evolution of delinquencies rates.

In this context, we believe that the crisis has brought to light some shortcomings in the practices in which CRAs operate when rating structured finance products that need to be improved. We believe that these weaknesses can be best addressed at an international level within the ambit of the IOSCO Code of Conduct, rather than purely at a European one. This would acknowledge the global dimension of the rating business and avoid any possible regulatory arbitrage. We also believe that because of the crucial role CRAs play in financial markets, a number of targeted controls should be exercised on these entities, without jeopardizing the independence of their rating activities.

1. TRANSPARENCY

80. Do you agree that the CRAs need to make greater on-going efforts to clarify the limitations of their ratings?

Intesa Sanpaolo believes that, despite the improvements in the level of communication to the market, CRAs should clearly state that their ratings only cover the probability of default and do not address market prices, liquidity or other elements of market risks. We believe that CRAs should also disclose the numerical value assigned to the probability of default and what range of default probabilities would be acceptable for that type of rating and product. An investor could, then, quantify the difference between a strong triple-A (super-senior) and a weak triple-A (e.g. junior A class position). We also believe that CRAs public commitment to develop indicators of rating volatility in the short term could improve transparency and help market participants.

90. Do you agree with CESR's view that although there has been improvement in transparency of methodologies, the accessibility and content of this information for complex structured finance products requires further improvement in particular so that investors have the information needed for them to judge the impact of market disruption on the volatility of the ratings?

Intesa Sanpaolo shares CESR views that there has been an improvement in the access to the methodologies used by CRAs. However, we believe that the content of information should also cover scenario analysis, which is particularly relevant, since it would provide issuers with useful information on market trends. Providing scenario analysis would also reveal how solid the structure is and how much room for error there is in the analysis.

Moreover, all information related to the models should be freely available, which is not currently the case.

We concur with CESR that the provision of information on the weightings of key parameters and correlations underlying structured finance ratings would greatly help investors when using ratings in their risk assessment procedures.

97. Do you agree that there needs to be greater transparency regarding the specific methodology used to determine individual structured finance ratings as well as rating reviews?

We believe that CRAs should clearly make reference to the methodology on which they have based their ratings as well as that used for their review. This would enable investors to fully understand the grounds underpinning a rating review.

We believe that CRAs should also make public the reasons that led to a rating review, mentioning in particular whether this is due to a new methodology or to a change in the performance of the underlying assets.

100. Do you agree that there needs to be greater public and standardised information on structured products in the EU? How would this best be achieved?

We agree with the fact that there needs to be greater public and standardized information. One of the means to achieve this objective would be setting up a web portal, which could enable the collection and consolidation of all the information available. We believe that standardized information would flow from common definitions, to which the industry has already committed to work on. Furthermore, we think that a third party, and not CRAs, should be the repository of this information.

The CRAs should be given access to the same information as everybody else, not be the owners of it. In addition, it is known that the rating agencies have access to material non-public information and that should probably change. From our point of view, either the information is irrelevant to the rating and then it should remain private, or it is relevant to the rating in which case it should be made available to the investors exposed to that risk. It is true that, in some cases, the exact information cannot be disclosed; however, the nature of it might be discussed in the ratings report.

2.MONITORING

104. Do you agree with CESR that contractually set public announcements on structured finance performance would not add sufficient value to the market to justify the cost and possible saturation of the market with non-material information?

Intesa Sanpaolo believes that the information provided should be at all times relevant, timely and useful in order to assist investors in making informed investment decisions. Contractually set announcements may result to be purely driven by contractual obligations and be irrelevant for investment decisions purposes.

We also believe that CRAs should be held responsible for any omission in providing timely relevant information which may have an impact on investment decisions.

112. Do you agree that the monitoring of structured finance products presents significant challenges, and therefore should be a specific area of oversight going forward? Are there any particular steps that CRAs should take to ensure the timely monitoring of complex transactions?

Yes, we agree that there is a need to have dedicated monitoring teams for structured finance products with adequate human resources, both in terms of number and skills. CRAs should promptly update ratings in the occurrence of a relevant event. We believe that CRAs should also disclose the reasons for which they put a security on a negative watch and indicatively state the number of notches for which a downgrade is possible. The three month period which CRAs have before announcing a possible downgrading should be shortened.

3. HUMAN RESOURCES

118. Do you believe that the CRAs have maintained sufficient human resource, both in terms of quality and quantity, to adequately deal with the volumes of business they have been carrying out, particularly with respect to structured finance business?

It is common knowledge that CRAs suffer from a high level of staff turnover and as a consequence, do not always have the sufficiently experienced staff to deal with highly complex transactions both on the transactions rating process and the subsequent monitoring activity.

120. Do you consider that the generally unaltered educational and professional

requirements of CRAs' recruitment policies negatively impact the quality of their rating process, given the rising complexity of structured finance products?

In our view this issue relates more to CRAs internal organizational problems rather than to human resource skills. We believe that CRAs should take all necessary internal measures to regularly train their staff, so as to ensure that they are able to provide at all time a high quality level of service that meets the needs of a constantly evolving market.

125. Do you agree there is a need for greater transparency in terms of CRA resourcing?

We do not see any need for more transparency in terms of resourcing which, in our view, is an issue which has to be dealt with internally by CRAs. What really matters to us is receiving a transparent high quality service from CRAs.

126. Do you agree with CESR that more clarity and greater independence is required for analyst remuneration at the CRAs?

We believe that the analysis and budget functions should be totally separated, so as to ensure analysts' full independence. In particular, we believe that the remuneration of the analysis activity should be linked to quality criteria and effectiveness of ratings on the basis of the on-going performance of the rated transactions.

4. CONFLICTS OF INTEREST

133. Do you see the level of interaction between the CRAs and issuers of structured finance products creating additional conflicts of interest for the CRAs to those outlined above? Do you believe that any of these conflicts are not being managed properly?

Intesa Sanpaolo believes that an ongoing dialogue between CRAs and issuers is crucial and should remain a normal feature of the rating process of structured finance products. CRAs must be allowed to ask all questions they deem necessary on the pools of assets for the provision of ratings on such complex products.

However, in order to make sure that the rating process is not biased by conflicts of interests, we would suggest it to be subject to the review of an external public or semi public auditor. The auditor could be entrusted with the tasks of controlling the CRAs activities, but would not be involved in the merit of the rating process. Particular attention may be drawn on rotation of analysts and composition of credit committees in terms of involvement of the voting senior members in the transaction.

Moreover, it could be envisaged that an Ombudsman could settle possible disputes between issuers and CRAs. Changing the incentive system to an investor paid rating could also help. As stated above, an accuracy measure for each CRA could be tracked, widely publicized and used internally for analyst compensation. Good results as measured by this parameter would, presumably, generate more business from the investors, more money for the CRA and higher compensation for the individual analysts all at the same time. This way, the interest of the CRA, its shareholders and that of the investors would be better aligned.

134. Do you agree that greater transparency is required regarding the nature of

interaction between CRAs and issuers/arrangers with regards to structure finance products and that there needs to be clearer definitions of acceptable practice?

We share the view that there is a need of greater transparency in relation to the interaction between CRAs and issuers/arrangers. In particular, there is a need to clearly define the dividing line between rating process and ancillary services. This exercise should be carried out in the context of the review of the IOSCO code of conduct, since the rating business is global.

138. Do you believe there needs to be greater disclosure by CRAs over what they consider to be ancillary and core rating business?

Yes, there is a need for greater disclosure over what is considered to be an ancillary activity and what the core rating business is. The disclosure could be made in the engagement letter and in the invoice, which should clearly distinguish among all the services provided.

142. Do you believe that the fee model used for structured finance products creates a conflict of interest for the CRAs? If yes, is this conflict of interest being managed appropriately by the CRAs?

We do not totally agree with the statement on paragraph 141, pointing out that the fee model for structured products is transaction based and depends on the completion of the rating process. In fact, in the current practice, break up fees are contemplated in the case of non completed ratings.

In any case, we believe that the fee model should not be linked – as it currently is – to the size of the issue, but rather to its complexity, since the rating analysis is the same for large and smaller issues.

146. Do you agree with CESR that there needs to be greater disclosure of fee structures and practices with particular regard to structured finance ratings so as to mitigate potential conflicts of interests?

Yes, we do agree. In particular, as already mentioned in the response to question 142 above, the invoices should clearly indicate a break down of all the services provided.

164. Do you agree with CESR's view of the benefits and costs of the current regime?

Yes, we do agree with CESR analysis on the cost and benefits of the current self regulatory regime.

170. Do you agree that CESR has correctly identified the likely benefits and costs related to formal regulatory action?

We believe that the CESR analysis is correct as to the benefits of introducing a regulatory regime, but do not totally agree with the analysis of possible costs that would be borne by CRAs. In fact, we believe that due to the crucial activities that CRAs carry out in relation both to structured finance and in the context of Basel II, there is a need for a light regulatory regime of such entities. A possible regime could

provide for an external auditor (see response to question 133 above) that would control that the conflicts of interests are duly and correctly managed.

In our view, policy makers should make sure that any possible regulatory regime does not have any negative impact on the independency of the rating process. Moreover, it should not hamper neither CRAs' ability to innovate, nor market access of newcomers.

When considering any policy option, we believe that the global nature of this business should be duly taken into account. A regulatory response can have a meaning only if taken in a supranational context (IOSCO), so as to avoid any regulatory arbitrage.

With reference to paragraph 169 on the fact that the Code of Conduct has not prevented the current crisis, we believe that the reasons may be related more to the models used by CRAs rather than on the Code of Conduct itself.

Regulation should aim to promote increased competition, not just oversight. Track record and reputation and, ultimately, revenues based on that, would weed out the underperformers in the industry.

177. Do you believe that the current self-regulatory regime for CRAs should be maintained rather than introducing some form of formal recognition/regulation?

Please see response to question 170 above.

For any further comments or questions, please contact:

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