WARSAW STOCK EXCHANGE

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President

Warsaw, August 26, 2004

Mr M. F. Demarigny
Secretary General
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Response of the Warsaw Stock Exchange to the Call for evidence on Credit Rating Agencies

Dear Sir,

The Warsaw Stock Exchange welcomes the initiative concerning creation of a regulation which could contribute to the improvement in rating agencies operations, and in particular lay solid grounds for co-operation of listed companies with such entities. The importance of this issue is, in our opinion, reinforced by recent developments and on-going globalisation of the world markets. A regulation of the matter will in our opinion fosters further development of capital markets and increase their transparency.

In response to the Call for evidence dated July 28, 2004, we would like to offer the following commentary addressing issues raised in it.

The matters concerning regulation of the operations and proper business conduct by rating agencies are multilevel and concern interests, sometimes conflicting, of various market participants; on one side there are issuers being rated by agencies, on the other, investors awaiting reliable and comprehensive information. Aligning these interests and proper balancing of duties and expectations is a matter difficult yet necessary, especially when recent European and worldwide developments leading to lost of investors' confidence in rating agencies, and in capital market as a whole are considered.

The document correctly points out, among others, key issues calling for regulation and ordering, like the lack of harmonisation in regulations concerning access of rating agencies to inside information of issuers (being public companies), the need for introduction of relevant guidelines and agencies' procedures for dealing with non-public information.

Referring to the first of these issues, in our opinion the most desirable situation will be the one in which agencies prepare rating based on publicly available information on the companies (current and periodical reports). In a situation when rating agencies need additional information for the rating, the issuers should take care that such information is concurrently made public. It should, however, be remembered that such actions should be limited to material information only, i.e. such that could have effect on the price of listed securities or constitute an important premise for making investment decisions by investors. However, overloading the investors with announcements of minor importance should be avoided.

At the same time it should also be remembered that information necessary for the preparation of the rating may consider internal specificity of the company, its operations and products. Following the publication, competitors gain also access to such information – this in turn may weaken the company's position in the market. Thus, in a situation when it is necessary for the rating agency to obtain non-public information while preparing the rating, it is no doubt essential to have in place adequate procedures within the agency for dealing with such information and exercising appropriate control over the flow of confidential information within the agency and between its staff members.

In our opinion, further to what has already been written in the document, to guarantee appropriate transparency of the ratings the following is indispensable:
- Consultations with rating agencies on the assumptions and basis for the rating,
- On-going co-operation of issuers with the agencies in the process of the rating preparation and publication,
- Actions towards enhancing issuers' understanding of the basis for assigning and modifying relevant ratings.

In the WSE opinion only coordinated and transparent cooperation of rating agencies with issuers will yield the expected positive result, while in-depth explanation of the criteria and assumptions of the rating will make the companies management take actions that may in the future lead to improvement of the rating of the issuer. This in turn, as already stated, along with overall ordering of the business conduct rules of rating agencies shall no doubt contribute to further development of the capital markets, their higher transparency and dynamics related to the increase of trust on the side of existing and potential investors.

Yours sincerely,