



EUROPEAN COMMISSION  
Internal Market and Services DG

Director General

CESR

ARRIVE

ON: 22/05/06

N°: 06-267

Brussels, 17.05.06 2199  
MARKT/FF/D(2006) 6428

**Subject: Annual report on Credit Rating Agencies**

Dear Mr Docters van Leeuwen,

The Commission concludes in its Communication on Credit Rating Agencies (OJ C 59/2, 11.3.2006) that various financial services directives, combined with self regulation by the credit rating agencies themselves on the basis of the IOSCO Code of Conduct Fundamentals for CRAs (IOSCO Code), will provide an answer to the major issues of concern in relation to credit rating agencies. Clearly, this approach requires continuous monitoring of developments in this area by the Commission. In addition, we would like CESR to monitor compliance with the IOSCO Code and report back to the Commission on an annual basis. At the same time, the Commission will gauge the opinions of market participants in the framework of its newly established European Securities Markets Expert Group (ESME).

Considering the monitoring role of CESR, the Commission welcomes CESR's preparatory work on establishing a dialogue with credit rating agencies to review how the IOSCO Code is being implemented and considers it is right time to formally request a report of CESR on credit rating agencies' compliance with the IOSCO Code by the end of this year.

First of all, credit rating agencies should incorporate all the provisions of the IOSCO Code into their own internal Codes of Conduct. Where they choose not to do so, they must explain how their Code nevertheless gives effect to the provisions of the IOSCO Code. Recent market developments show that several CRAs have set up their own Codes of Conduct along the lines of the IOSCO Code. However, it is imperative that credit rating agencies not only incorporate the IOSCO Code in their own Code of Conduct but fully comply with the IOSCO Code by enforcing their Code of Conduct in daily practice. Therefore, it is important that CESR's annual report provides a thorough assessment of the level of day to day application of the IOSCO Code in practice, including consultation of all stakeholders.

Mr Arthur Docters van Leeuwen  
Chairman  
CESR  
11-13 Avenue de Friedland  
75008 Paris - France

Commission européenne, B-1049 Bruxelles / Europese Commissie, B-1049 Brussel - Belgium. Telephone: (32-2) 299 11 11.

[http://europa.eu.int/comm/internal\\_market/](http://europa.eu.int/comm/internal_market/)

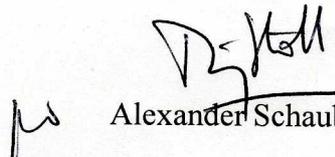
Furthermore, the Commission would like CESR to specifically address in its report the following issues of concern. This list of issues of concern does of course not prevent CESR from reporting on other specific issues in the context of compliance with the IOSCO Code:

- (1) Transparency of ratings disclosure as regards the level of participation of the issuer in the ratings process;
- (2) Timeliness of ratings disclosure as regards prior notification of issuer of an imminent rating;
- (3) The procedures for fee arrangements, specifically the involvement of analysts in the fee negotiations with the issuer;
- (4) Separation of credit rating agencies' business activities and handling of conflicts of interest;
- (5) Quality of the ratings process as regards structured finance instruments, i.e. are sufficient resources devoted to make proper rating assessments of these complex instruments and to monitor on an ongoing basis the developments in the area of structured finance;
- (6) Treatment of confidential information within the various departments of credit rating agencies;
- (7) Disclosure of income structures;
- (8) Position of compliance officer.

I would like to highlight that the earlier advice of CESR in March 2005 on possible measures concerning credit rating agencies was very much appreciated and has guided the Commission in setting up the policy in its Communication on credit rating agencies. I am confident that the report of CESR on the compliance of credit rating agencies with the IOSCO Code will provide an equally useful basis for the Commission to evaluate credit rating agencies' compliance with the IOSCO Code and, if necessary, to re-evaluate the Commission's approach on credit rating agencies. I would be most grateful if you could indicate when CESR's first annual report will become available.

I am copying this letter to Ingrid Bonde.

Yours sincerely,

  
Alexander Schaub

Contact:

Felix Flinterman, [felix.flinterman@cec.eu.int](mailto:felix.flinterman@cec.eu.int), T. +32 2 29 96957



The Chairman

Ref.: CESR/06-328

Mr Charlie McCreevy  
Commissioner  
European Commission  
Rue de la Loi 200  
B-1049 Brussels  
BELGIUM

Paris, 3<sup>rd</sup> July 2006

**Re:** Credit Rating Agencies

Dear Commissioner,

Thank you for the letter from your services dated 17th February 2006 formally requesting from CESR a report on credit rating agencies' (CRAs) compliance with the IOSCO Code by the end of this year. This request fits well into CESR's intention to assess CRAs compliance with the IOSCO Code by reviewing the codes of conduct published by the CRAs.

Notwithstanding, the Commission requests CESR, not only to carry out a comparison of CRAs' codes with the IOSCO Code, but also to assess the level of day-to-day application of the IOSCO Code in practice. As explained in our advice to the Commission in March 2005, CESR's main view, so far, is to rely on self-regulation as regards the implementation of the provisions of the IOSCO code by CRAs and, in addition, CESR is not in a position to conduct such an assessment in absence of legislation and lack of necessary supervisory powers.

However, CESR intends to publish an open survey addressed to all market participants. The information gathered from market participants through the survey, along with that supplied by the CRAs on the practical measures put in place to comply with the IOSCO Code, will enable CESR to provide indications on its level of day-to-day application in practice.

This practical solution is in line with the European Commission decision not to regulate the operations of the CRAs in the EU and sits comfortably with CESR's current priorities for supervisory convergence.

Should you have any further information please do not hesitate to contact either me or Ingrid Bonde, Chair of the Task Force on Credit Rating Agencies.

I look forward to reporting to you in October 2006.

Yours sincerely,

Arthur DOCTERS VAN LEEUWEN