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PRESS RELEASE

CESR publishes its first report to the European Commission on the compliance of the credit rating agencies with the IOSCO Code of Conduct

CESR publishes today its first report to the European Commission on the compliance of the credit rating agencies with the IOSCO Code (Ref. CESR/06-545) following the Commission's request. This draws to a culmination the outworking of this years work under the voluntary framework of co-operation between CESR and the Credit Rating Agencies (CRAs) outlined in CESR's website (Ref. CESR/05-751).

The report provides a clear **analysis of the codes of the four CRAs** that have chosen to adhere to the voluntary framework (Moody's, Standard and Poors', Fitch Ratings and Dominion Bond Rating Service Limited) in relation to the IOSCO Code. It includes in a column format a comparison of the provisions of the IOSCO Code with the corresponding ones in the four CRAs codes, indicating in the table those measures where the CRAs have chosen to explain rather than comply, and including the CRAs' explanations. The table also provides for certain provisions some indications of how the measures are being applied in practice.

In addition to these indications provided by CRAs on the practical application of the provisions included in the table, section III of CESR's report deals more specifically with the practical aspects of the day to day application of the CRAs codes by including a summary of the responses received to the questionnaire prepared by CESR.

CESR's conclusions are explained in the last section of the report. CESR considers that the CRAs codes comply to a large extent with the IOSCO Code. There are however some areas or provisions where the CRAs codes do not comply. Some of these are of minor importance, because the CRAs achieve the desired outcome that the IOSCO Code aims at, without formally having provisions in their codes that mirror the IOSCO Code (these minor deviations can be found in the analysis provided in section II).

There are however some areas, highlighted in the last section of the report and mostly coincident with those pointed out by market participants, where the deviations are of greater importance. Some of them are common to all four CRAs, and some of them are specific to individual CRAs. In particular, the area where all the CRAs seem to have difficulties in complying with the IOSCO Code relates to the separation between the rating service and the **ancillary services** provided by the CRAs and the **disclosure of unsolicited ratings**.

Consequently, CESR considers that there is still room for improvement in the areas identified (either in specific cases or generally) and intends to look particularly into these issues in its **review for 2007** to see whether there have been improvements.

While preparing its report, CESR has closely coordinated with fellow regulators, especially with **IOSCO** as it is currently reviewing the implementation by the CRAs of the IOSCO Code. IOSCO has set up a task force that is examining the codes of conduct released by CRAs of all sizes and jurisdictions in response to the IOSCO Code, to determine whether any trends exist with regard to non-compliance or consistent variations in interpretation by CRAs of what constitutes compliance. This information may prove valuable to determine whether any aspects of the IOSCO Code should



be modified to better reflect market realities, or better explained to help ensure more consistent compliance. IOSCO expects to publish its report in January 2007.

CESR expects that its main findings about the codes of the four CRAs, which is the object of this report, are consistent with the IOSCO work. However, IOSCO has not yet finalised its paper, so it is not possible to assess with certainty the exact differences between the reports. So far, it is likely that only in-substantive differences between the conclusions of the two reports will arise, due to the different methodologies used to produce them.

CESR will continue this cooperation with IOSCO and has, in particular, set out in section IV of the report some suggestions with the aim of improving several areas of the IOSCO Code.



Notes for Editors:

1. The task force that produced CESR's advice for the European Commission (CESR/05-139b) has been in charge of the preparation of the report for the European Commission. This task force is chaired by Ingrid Bonde, Director General of the Swedish Finansinspektionen. Raquel García Alcubilla from the CESR secretariat acts as rapporteur.

2. In developing this work, CESR has co-ordinated closely with fellow regulators both within the EU in the form of the fellow regulatory banking committee (CEBS), and internationally, with IOSCO and the SEC (through its more regularised and intensive dialogue announced by CESR on 4 June 2004).

3. Context: On 30 March 2005, at the request of the European Commission, CESR delivered its advice (CESR/05-139b) regarding the potential options to regulate Credit Rating Agencies. In its advice, CESR proposed not to regulate the Credit Rating Agencies (CRAs) industry at an EU level for the time being, and instead proposed that a pragmatic approach should be adopted to keep under review how CRA's would implement the standards set out in the IOSCO Code of Conduct. CESR has therefore developed this strategy on the basis of voluntary participation from CRAs. Moody's, Standard and Poors', Fitch Ratings and Dominion Bond Rating Service Limited are the only CRAs that have chosen to adhere to the voluntary framework.

4. CESR is an independent Committee of European Securities Regulators. The role of the Committee is to:

- Improve co-ordination among securities regulators;
- Act as an advisory group to assist the EU Commission, in particular in its preparation of draft implementing measures in the field of securities;
- Work to ensure more consistent and timely day to day implementation of community legislation in the member states.
- The Committee was established under the terms of the European Commission's decision of 6 June 2001 (2001/1501/EC). It is one of the two committees envisaged in the Final Report of the group of Wise Men on the regulation of European securities markets. Baron Alexandre Lamfalussy chaired this group. The report itself was endorsed by the European Council and the European Parliament. The relevant documents are available on the CESR website.

Each Member State of the European Union has one member on the Committee. The members are nominated by the Members States, and are the Heads of the national public authorities competent in the field of securities. The European Commission has nominated the Director General of the DG Market as its representative. Furthermore, the securities authorities of Norway and Iceland are also represented at a senior level.

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