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Publication of the responses received to CESR's questionnaire regarding the rating of structured finance instruments and extension of the deadline

In its report of last year (CESR/06-545), CESR identified a possible conflict of interest as an area of common deviation to all CRAs, due to the lack of a clear separation between the rating service and the ancillary services provided by the CRAs. In particular, CESR highlighted the fact that this was even more conflictive in the *“area of structured finance ratings, since the structures of the debt obligations are often decided in negotiations between the issuer and the CRA. These negotiations may contain several hypothetical structures, for instance when it comes to how different tranches of debt are set up, or when it comes to levels of credit enhancement”*.

To investigate further these potential conflicts of interest and also the way CRAs ensure the quality of the ratings in this area together with the on-going surveillance of the transactions, CESR decided to include a specific section on structured finance in its second annual report. Therefore, this part of the report will provide a discussion of the rating process as regard structured finance instruments, including an analysis of the CRAs' actual responses to prevailing market developments (like the current concerns associated with the sub-prime mortgage market). This is in line with the European Commission's letter to the Committee requesting the new CESR's report on rating agencies.

As a first step to gather information from the CRAs and from interested parties on the functioning of this specific segment of the rating business, CESR published on 22 June a questionnaire (CESR/07-394). CESR is publishing today those non-confidential responses received to the questionnaire and is providing for an additional **extension of the deadline until 10 September**.

In addition, CESR has already scheduled a meeting with the CRAs that will take place at the beginning of October to discuss in general any issues related to implementation of the IOSCO Code and, more specifically, to obtain first hand information from the CRAs on how they develop ratings for structured finance products. It is CESR's intention to seek clarification during the meeting on the CRAs' role in the US sub-prime mortgage crisis.

In the near future CESR will also be meeting with Commissioner McCreevy, following his invitation to discuss CESR's work on CRAs in the light of market developments in this field, and in particular, to discuss the role of CRAs as regards the rating of structure finance instruments.

Finally, in light of future market events, CESR will also assess whether it would be convenient to organise a hearing to give market participants the opportunity to further express their views in relation to the rating of structured finance instruments and the role CRAs are performing in this sector.

CESR would like to highlight that some of the responses that are being published today (and all those from CRAs) were received before the initial 31 July deadline. As recent market developments have stressed the important role of CRAs' in the structured finance business, CESR has decided to extend the deadline for responding to the questionnaire until 10 September in order to allow a maximum of interested parties to provide their input (and those who already responded to provide additional clarifications, if desired). Respondents may submit their responses on a confidential basis.