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**PRESS RELEASE**

**CESR launches a consultation on the Role of Credit Rating Agencies in Structured Finance**

CESR publishes today a consultation paper entitled “The Role of Credit Rating Agencies in Structured Finance” (Ref. CESR/08-036).

Following the European Commission’s additional request for CESR to review several aspects of the rating process regarding structured finance instruments (CESR/07-608), CESR is now publishing a consultation paper to seek market participants views on the main issues included in the European Commission’s request.

Ingrid Bonde, the Chairperson of the CESR task force on credit rating agencies, said:

“CESR wishes to state at this stage that the CRAs’ concerted initiatives put forward so far are not enough and that the rating industry response needs to be supported by further prompt and firm actions”.

The consultation paper covers the following areas in relation to structured finance:

**Transparency of rating processes and methodologies (see paragraphs 76-100):** In particular the consultation focuses on the ease of investor access to information on key limitations and assumptions in complex structured finance methodologies. The paper also seeks opinions on the procedures followed by the credit rating agencies (CRAs) when applying changes to their methodologies, for example, on the need for clear disclosure to investors of which methodology a rating is based on.

**Monitoring of rating performance (see paragraphs 101-112):** CESR seeks views on the need for regular public disclosure of structured finance rating performance and the need for CRAs to maintain sufficient resource and organisational flexibility to act promptly in reviewing structured finance ratings.

**CRA staff resourcing (see paragraphs 113-126):** The consultation seeks market participants views on the whether CRAs were adequately resourced for the volume and complexity of structured finance ratings they were producing and whether there needs to be more transparency from the CRAs over their resourcing and levels of staff experience. In addition, CESR asks market participants in their consultation paper, whether they agree that more clarity and greater independence is desirable for analyst remuneration at the CRAs.

**Conflicts of interest (see paragraphs 127-146):** The key focus of the consultation is on whether the nature of CRA interaction with issuers during the structured finance presents additional, un-managed or poorly managed conflicts of interest leading to reduced rating integrity; whether the CRAs’ activities constitute advisory activity in this area; whether some of the ancillary services offered may lead to potential conflicts of interest and whether greater disclosure is required on the fees CRAs earn from structured finance activity as a result of the “issuer pays” model and the specific “success” fee structure for this activity.

**Regulatory options:** The paper remains open regarding the possible policy options, setting out:

- The benefits and negative features of the current self-regulatory approach (see paragraphs 161-162)



- The benefits and costs that any regulatory regime would create (without differentiating between the different frameworks that have been suggested for a more formal oversight regime for CRAs within the EU) (see paragraphs 166-167).

CESR requests market views on what regime would be more appropriate.

CESR's final report will also an assessment of the rating agencies' progress in implementing the IOSCO code. This will be the second year of review of the rating agencies' codes of conduct under CESR's voluntary framework.

The timetable for the finalisation of the advice is as follows:

<b>26 March 08</b>	Hearing for interested market participants at CESR premises (CRAs excluded)
<b>31 March 08</b>	Deadline for responses to the consultation
<b>April 2008</b>	Assessment of responses to consultation and preparation of the final report
<b>Mid May 2008</b>	Submission to the European Commission of the final report and publication on CESR's website.

To ensure that market participants' views are duly considered in this process, CESR would like to encourage all interested market participants to actively participate in the consultation process by sending their comments via CESR's website ([www.cesr.eu](http://www.cesr.eu)) under the section "Consultations". Besides, CESR will welcome interested parties (other than CRAs) to attend the hearing that will be held at CESR's premises in Paris on the 26th March 2008. An agenda for the hearing will be made available on the CESR's website. Subscriptions to attend the hearing can be made via CESR's website under the sections "hearings".



## Notes for editors

1. Following a request by the European Commission for CESR to assess the treatment of Credit Rating Agencies (CRAs), CESR proposed a voluntary framework to monitor the application of the IOSCO Code by CRAs which was launched in December 2005.
2. Subsequently, the European Commission published a Communication on 9 January 2006, where it expressed its intention to request CESR to report, on an annual basis, on the assessment of CRAs compliance of the IOSCO Code of conduct.
3. Moody's, Standard and Poors', Fitch Ratings and DBRS Limited are the CRAs that have currently chosen to adhere to the voluntary framework.
4. In summary, this framework includes three elements: (i) an annual letter from each CRA to be sent to CESR, and made public, outlining how it had complied with the IOSCO Code and indicating any deviations from the Code; (ii) an annual meeting between CESR and the CRAs to discuss any issues related to implementation of the IOSCO Code; and (iii) CRAs would provide an explanation to the national CESR member where any substantial incident occur with a particular issuer in its market.
5. Following the Commission's first request in June 2006, CESR provided in its first report (Ref. CESR/06-545) published on 4 January an analysis of the codes of the four CRAs that have chosen to adhere to the voluntary framework in relation to the IOSCO Code.
6. In CESR's progress report of 15 May 2007 (Ref. CESR/07-304), CESR indicated that as part of its regular review it would look particularly into the areas of non-compliance that were highlighted in its first review (such as the quality of the rating process, conflicts of interest), and would analyse any modifications in the provisions of the CRA codes that have been introduced since the first review.
7. In June 2007, as part of the second review and following a letter from the European Commission received 7 May 2007, CESR launched a questionnaire regarding the Rating of Structured Finance Instruments. This call for evidence closed on 10 September. The responses are available on CESR's website under 'consultations'/'past consultations and responses'.
8. In September 2007, CESR received a letter from the European Commission requesting CESR to undertake further analysis in relation to several aspects of the rating process regarding structure finance instruments (CESR 07/608).
9. In October 2007, CESR held separate hearings with the 4 CRAs. During these sessions, the CRAs provided CESR with updated information on their codes of conduct, discussed the Commission's new request including their views on the sub-prime crisis and particularly on how they intended to address any possible shortcomings in this market.
10. In November 2007, as a follow up to the meetings held with rating agencies at the beginning of October, CESR sent a letter asking for additional information to the CRAs. CESR has published on its website the list of questions (CESR/07-781) and the answers provided in December 2007 by the CRAs (except those expressly requested by the CRAs to be kept confidential) (CESR/07-831).
11. 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.



12. 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.
13. Each Member State of the European Union has one member in the Committee. The members are nominated by the Member 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.
14. For further information please contact:

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