

PRESS RELEASE

ESMA issues a report on its first examinations of credit rating agencies

ESMA today publishes a report (ESMA/2012/207) on the supervision of Credit Rating Agencies (CRAs) registered in the European Union (EU). The report provides an overview of ESMA's supervisory activity and summarises the results of the first examinations ESMA conducted in December 2011 of three groups of CRAs, namely Fitch Ratings (Fitch), Moody's Investor Services (Moody's) and Standard and Poor's Rating Services (S&P).

These examinations are the first step in an on-going supervisory process conducted by ESMA. ESMA identified several shortcomings and areas for improvement that apply to a varying extent to all CRAs relating to the following topics:

- Transparency of rating methodologies, disclosure and presentation of ratings;
- Adequacy of controls over IT systems;
- Recording of core internal processes and decisions; and
- Adequacy of resources devoted to internal control functions and analytical business lines.

In light of its regulatory objective to protect investors and financial stability, ESMA decided to focus its first on-site-inspections on the larger CRAs. ESMA's examination aimed at monitoring compliance by CRAs with the EU Regulation, and focused in particular on three specific credit rating classes (sovereign ratings, bank ratings and covered bond ratings) which it considered to be significant, given the current market trends, the degree of credit linkage and the interdependence of these products.

ESMA has not determined whether any of the observations in the report constitute a breach of the CRA Regulation. ESMA will follow-up on the observations through risk mitigation plans for each individual CRA in the first half of 2012.

Steven Maijor, ESMA Chair, said:

"The publication of our supervisory report enables the public to be informed on ESMA's day-to-day activity in the supervision of Credit Rating Agencies. Based on the first on-site examination, this report sets out ESMA's views on common issues affecting Credit Rating Agencies' activities and is an important step towards the promotion of the quality of ratings."

ESMA's supervisory activity regarding CRAs

The publication of ESMA's first report on the supervision of Credit Rating Agencies follows the establishment of ESMA as the exclusive regulator of CRAs in the European Union on 1 July 2011. ESMA is responsible for the registration and supervision of CRAs which includes requests for information, on-site inspections and possible enforcement measures.



Most of the CRAs currently operating in the EU were registered in the second half of 2011. In particular, the registration process of the larger CRAs (i.e. Fitch, Moody's and S&P) was finalised on 31 October 2011.

These examinations are a first step in an on-going supervisory process conducted by ESMA. During 2012 ESMA will follow-up on the observations set out in the report and will continue to carry out the activities of its on-going supervisory tasks. Additionally, ESMA intends to conduct other on-site examinations during 2012; the CRAs subject to these future examinations and the areas of investigation will be identified according to ESMA's internal risk assessment.

ESMA's supervisory activity on CRAs is supported by its internal risk function which is based on various information sources, including: i) market intelligence by ESMA; ii) periodic reporting of data by CRAs to ESMA; iii) the registration process; iv) the exchange of information and co-operation with European competent authorities and other non-European authorities.



Notes for editors

ESMA is an independent EU Authority that was established on 1 January 2011 according to EU Regulation No. 1095/2010 as published on December 15, 2010, in the Official Journal of the European Union (L 331/84). The Authority contributes to safeguarding the stability of the European Union's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as enhancing investor protection. In particular, ESMA fosters supervisory convergence both amongst securities regulators, and across financial sectors by working closely with the other European Supervisory Authorities competent in the field of banking (EBA), and insurance and occupational pensions (EIOPA).

ESMA's work on securities legislation contributes to the development of a single rule book in Europe. This serves two purposes; firstly, it ensures the consistent treatment of investors across the Union, enabling an adequate level of protection of investors through effective regulation and supervision. Secondly, it promotes equal conditions of competition for financial service providers, as well as ensuring the effectiveness and cost efficiency of supervision for supervised companies. As part of its role in standard setting and reducing the scope of regulatory arbitrage, ESMA strengthens international supervisory co-operation. Where requested in European law, ESMA undertakes the supervision of certain entities with pan European reach.

ESMA also contributes to the financial stability of the European Union, in the short, medium and long-term, through its contribution to the work of the European Systemic Risk Board, which identifies potential risks to the financial system and provides advice to diminish possible threats to the financial stability of the Union. ESMA is also responsible for coordinating actions of securities supervisors or adopting emergency measures when a crisis situation arises.

Further Information:

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