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Comments on “Guidelines on Disclosure Requirements Applicable to Credit Ratings”

Q1. Actually, I think this is all a bit excessive, not to mention misguided. The guidelines seem fine. However, the often-repeated commentary about inconsistency is never matched by any supporting examples. There is a distressing vagueness at work here--ESMA confidently states that “ESMA has identified a number of areas where inconsistencies in the approaches of different CRAs could pose difficulties for the users of these ratings.” However, nowhere does ESMA indicate what these areas are, whether these inconsistencies are material in any way whatsoever, and, in particular, what “difficulties” could be overwhelming the poor beleaguered “user” of the ratings. The total effect of all this is maximum wasted effort. The fact that CRAs may differ in how they reveal appropriate information related to a rating assessment or action (as discussed in 17) is not, I think, a problem worth a lot of time and effort. The underlying assumption here is that investors aren’t particularly bright, and need a lot of help in order not to be tricked by the CRAs.

Q2. I think there are limits to standardization, and I’m not sure in this case it would be at all useful. I think investors will safely assume that an unsolicited rating will not have issuer participation. I’m not at all convinced that investors need to know the level of participation of solicited ratings--they will assume there is participation simply because of the fact that the issuer has solicited ratings. Going beyond this seems like inefficient time and resource management.

What happened to Q3?

Q4. i-iv all seem straightforward, and almost not worth the bother. v is problematic--agencies employ a wide range of sources, including internal sources, and detailing them all again seems excessive. vi--the name of the methodology can certainly be mentioned, and linked. I would assume that investors already know these, but this can’t hurt--in my experience most investors are completely unfamiliar with what’s actually in the methodologies anyway, so this would be good for them. vii, as far as I know, is pretty much already in rating agency press releases--again, this seems unnecessarily burdensome and redundant. viii again seems excessively unnecessary. Does the commission really think investors need this much hand-holding. Ditto for ix.

Additional comment on this section--there are a number of questionable assumptions underlying this exercise. Moreover, there appears to be some degree of unfamiliarity with what agencies actually put out. I refer to the bullet under 22 that states “In the case of a rating outlook, a time horizon during which a change in the credit rating is expected.” This statement seems to conflate an outlook with a review action--the latter generally has the a frame, the former does not, simply because it’s an outlook. An outlook does not automatically translate into a credit action--it simply indicates a general credit trend.

Q5. Yes--again, this seems like excessively burdensome efforts are being requested for information that agencies already are granulating in their credit commentaries. Moreover, there again seems to be some degree of confusion about how agencies actually work. This is most dramatically revealed in the discussion of 58, which seems to be patently obvious to anyone working with CRAs, but which ESMA seems somehow compelled to spell out. The more egregious bullet is 54, which states, without any attribution (unlike what is apparently expected of rating agencies) that information whether ESG factors were considered is becoming “increasingly important for investors.” Well, for some it is, but for some it isn’t. What seems to be asked for here is for agencies to say what is, or is not, an ESG factor.

The contortions this can generate can be exemplified by the issue of governance. CRAs always assess the quality and track record of management. Does this mean that every time an agency does this, they need to label the discussion as a Governance item? This entire exercise seems misguided, and also seems driven by the (unsubstantiated) belief that investors are incapable of assessing whether ESG issues will be more or less important than the CRAs are indicating--as if the latter were hiding this intentionally. 65 and 66 really exemplify this--this seems a complete waste of time. CRAs will clearly reveal material issues relating to ratings, and some of these may be approachable from an ESG framework. But asking agencies to indicate specifically whether an issue that *can* be labeled ESG actually *should* be labeled such in the context of a rating assessment, or change, seems over the top. Especially if whatever the rating action is premised on has nothing to do with ESG--M&A, for example. Do you actually want CRAs to indicate when a rating action is not ESG-related? What purpose, exactly would this serve?

6. Actually, I think the CRAs are doing pretty well here, and do not need excessive ESMA supervision on what they should be calling ESG or not. Both Moody’s and S&P are doing this routinely now, and Fitch is catching up. All of this has come a long way the past five years. Let it keep developing on its own.