

RESPONSE TO PUBLIC CONSULTATION ON GUIDELINES ON THE DISCLOSURE REQUIREMENTS FOR INITIAL REVIEWS AND PRELIMINARY RATINGS

Questions Answered :- No. 1, 2, 4, 6,10, 12 & 13

<p>1</p>	<p>Do you agree that the common understanding would improve the quality of your CRA’s disclosures on entities or debt instruments submitted for initial review or preliminary rating? If you do not agree, please explain.</p> <p>A common understanding of what constitutes a preliminary rating would be the best approach. However, ARC is concerned that the ‘Common Understanding...’ as defined could be interpreted as including Indicative Ratings (or their equivalent) which are (a) public disclosures and (b) when accompanied by a presale report, are designed to give investors a clear overview of the transaction before documentation is finalised and investor commitments are made. They can result from the preliminary rating process, and full disclosure of that would need to be made, but are common to many transactions, particularly in SF, where no preliminary rating has been sought.</p> <p>Subject to resolving this definitional issue, it is important to ensure that information to be submitted is common and consistent across all CRAs and a template to be uploaded to our website detailing disclosures will benefit users and investors.</p> <p>A standardised approach by all CRAs will make sourcing this information more simplistic and user friendly.</p>
<p>2</p>	<p>Do you agree that the common understanding is applicable also to initial review or preliminary ratings provided on Structured Finance Instruments? If you do not agree, please explain</p> <p>Yes, we agree, however, it is not always possible to provide an ISIN/LEI on the product at the preliminary stage because these are only assigned much closer to the final rating, and therefore a CRA would be unable to complete all fields within the proposed template. In addition, when researching if the specific preliminary rating has been converted to a credit rating on another CRA’s website, it is not always possible to determine if the characteristics of what was rated align fully to a specific transaction.</p> <p>(E.g., Name change during the rating process (preliminary ratings are often assigned a project name, which might be different for all CRAs engaged); in the case of SF the constitution of the asset portfolio might change considerably to make the preliminary rating incomparable, as might significant structural terms).</p>
<p>3</p>	<p>Do you agree that the common understanding is reflective of your interactions with CRAs and would capture the broad spectrum of assessments that would be provided prior to assigning a credit rating?</p>
<p>4</p>	<p>Do you agree that the information to be disclosed is feasible and that it will improve the quality of your CRA’s disclosures in this area? If you do not agree, please explain.</p> <p>As a mandated CRA this is feasible, however, for a non-mandated CRA in respect of the final rating, our concerns are;</p>

	<p>a) CRAs conducting an Initial Review or Preliminary Assessment on a Structured Finance product, are not always provided with the ISIN or LEI to the Debt instrument (and these might not have been assigned). Thus, all fields in the template cannot be completed.</p> <p>b) For a CRA not party to the ISIN/LEI, it would be difficult to monitor the Final Rating CRAs' public disclosures to ensure that the assessment that the preliminary rating provided relates to the same transaction. This can be due to name changes of the transaction, or to changes in characteristics of the transaction which would render the preliminary rating provided incomparable.</p> <p>c) The party carrying out the preliminary, but not the final, rating would risk disclosing confidential information</p> <p>In our view, the Issuer and the CRAs mandated to assign the final rating would be best placed to disclose this information at the time ratings are assigned.</p> <p>By Issuers being responsible for disclosing preliminary ratings and initial reviews, upon publication of a final rating would be more useful for investors, as a CRA which was not contracted to carry out the final rating would only be uploading details to its website/central database after the rating has been assigned and the respective instruments are already sold to investors, therefore giving them no advance warning of rating shopping.</p>
5	<p>Do you agree that the information to be disclosed here will be of assistance in developing a clearer picture of which entities or instruments have been subject to initial review or preliminary rating? If you do not agree, please explain</p>
6	<p>Do you agree that the proposed timing of these disclosures is feasible and will increase the value of these disclosures? If you do not agree please explain.</p> <p>a) If ARC were the mandated CRA to carry out the final rating, then the above would be feasible, but (a) our preference would be to upload to a central register rather than on own website; and (b) as noted above, publication of the details at the time or before investors commit makes far more sense if the objective is to highlight and control the incidence of rating shopping.</p> <p>b) If ARC were not mandated - in its current form it is not feasible, as the proposal does not work as tracking other CRA websites looking for the transaction, there is a distinct possibility of acting on wrong information, which is potentially quite high, therefore it would be more beneficial for the Issuer to be responsible for the disclosures.</p> <p>For CRAs to be reporting 30 days or longer after the rating has been disclosed, it would be little use to investors at that point, as their purchase of the bond has been bought and therefore would only have the knowledge of rating shopping after the event has occurred.</p>
7	<p>Do you agree that the proposed timing of these disclosures will better enable investors and the market to identify where rating shopping may have occurred? If you do not agree please explain.</p>

8	Do you foresee any difficulties with the timing of these disclosures and the timing of your regulatory disclosures to the market?
9	What is the value of CRAs disclosing that they provided an initial review or preliminary rating in cases where a final public credit rating is ultimately not provided for an entity or debt instrument?
10	<p>Do you agree that centralising accessibility to this information will improve the value of CRAs disclosures on an overall basis? If you do not agree please explain.</p> <p>Yes, centralising accessibility will give greater transparency to all users. To have information which is standardised between all agencies will ensure reporting will be more effective, due to a defined reporting schedule. As noted, the issuer and the CRAs engaged for the final rating are best positioned to provide this information.</p>
11	Do you agree that centralising accessibility to this information will improve your ability to assess whether an entity or debt instrument has been subject to rating shopping? If you do not agree please explain.
12	<p>Do you consider there is value in ESMA providing a standardised disclosure template for these public disclosures? Do you have any additional comments on the standardised disclosure template?</p> <p>A standardised template and mandatory fields are essential for consistency across CRAs.</p>
13	<p>Do you have any comments on the preliminary cost benefit analysis?</p> <p>Only that the cost will be proportionate to the CRA's activities and, if disclosure of rating shopping is clearer, its incidence should reduce over time.</p>