Dr Vishvesh Pathak

European Securities and Markets Authority **21st June 2024**

Reference: ESMA84-2037069784-2122

Subject: Response to consultation for Credit Ratings Agencies Regulation

Dear Sir / Madam

I wish you are all well.

It is important to improve the regulation for Credit Ratings Agencies.

I started research into credit ratings in 2006 – 2007 and am considered a pioneer in developing better ratings process and a new corporate credit ratings methodology and especially, differentiation of qualitative and quantitative factors, ESG factors and Sustainability embedded directly into deriving credit ratings. I am also a founder of a credit ratings agency.

I have few points to say regarding this consultation overall; however, I have attached Annexure – A mentioning responses to selected questions.

1. **There are two major issues in credit ratings: (i) Administrative issue of who pays how much and why; and (ii) Quality issue stemming from what to measure, how to measure, why to measure and how to interpret.**
2. **Each innovator, researcher or agency has different way of deriving credit ratings and now this can be encouraged when things are done differently. If all individuals and entities do everything exactly same way then that is very much counter productive exercise when one wants to increase Competition, Innovations and Entrepreneurship. Consistency of parameters shall be in deriving credit ratings but how each agency adopts a process or methodology to utilise them could be different. Therefore, you may want to add differentiation or assess amendments proposed in the consultation in this regard so that it would not cause more issues.**
3. **Administrative issue is the core of the problem and if it is resolved by raising standards of corporate governance, transparency and pricing – invoicing disclosures on a regular basis then who pays how much for which a rating and when, that can be monitored. This will ultimately and indirectly also solve the quality and any kind conflict of interest issues as well. Therefore, you may want to add amendments into the disclosure requirements to this effect that this issue can be taken care of.**

I hope this helps and I am open to offer any help to review, assess or formulate regulation for CRAs to ESMA.

Kind regards.

Sincerely Yours,

Dr Vishvesh Pathak

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Annexure – A

Response to Consultation

Q1: Do you agree with the above proposed changes in Article 1? If not, please explain.

Q2: Do you agree with the changes proposed in Article 3? If not, please explain.

Q3: Do you agree with the changes proposed in Article 4(1)(d)? If not, please explain.

Q4 Do you agree with the proposed changes in Article 4(2) to the Delegated Regulation? If not, please explain.

Q5: Do you agree with the above proposed changes in Article 4(3) to the Delegated Regulation? If not, please explain.

Q6: Do you agree with the above proposed changes in Article 5 to the Delegated Regulation on Methodologies? If not, please explain.

Q7: Do you agree with the above proposed changes in Article 6 to the Delegated Regulation on Methodologies? If not, please explain.

Response:

I agree with proposed changes in Article 1, Article 3, Article 4(1), 4(2), 4(3), Article 5 and Article 6.

There are two major issues in credit ratings: (i) Administrative issue of who pays how much and why; and (ii) Quality issue stemming from what to measure, how to measure, why to measure and how to interpret.

Each innovator, researcher or agency has different way of deriving credit ratings and now this can be encouraged when things are done differently. If all individuals and entities do everything exactly same way then that is very much counter-productive exercise when one wants to increase Competition, Innovations and Entrepreneurship. Consistency of parameters shall be in deriving credit ratings but how each agency adopts a process or methodology to utilise them could be different. Therefore, you may want to add differentiation or assess amendments proposed in the consultation in this regard so that it would not cause more issues.

Administrative issue is the core of the problem and if it is resolved by raising standards of corporate governance, transparency and pricing – invoicing disclosures on a regular basis then who pays how much for which a rating and when, that can be monitored. This will ultimately and indirectly also solve the quality and any kind conflict of interest issues as well. Therefore, you may want to add amendments into the disclosure requirements to this effect that this issue can be taken care of.