

Mr Nikolaos Chountis
Member of the European Parliament
European Parliament
60 Rue Wiertz
B-1047 Brussels

Frankfurt, 23 March 2010

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Question related to credit rating agencies

Dear Mr Chountis,

Thank you for your letter expressing concern regarding the role of credit rating agencies, which was sent to me by Ms Bowles, Chairperson of ECON, on 15 February 2010.

As regards, the role of credit rating agencies in the economy, their work should contribute to easing so-called principal-agent problems which stem from the asymmetry of information between issuers and investors. They can also reap the benefits of economies of scale, since the gathering and processing of information on which their ratings are based is done on a large scale, and thereby contribute to an efficient market functioning.

That said, your letter raises a number of relevant issues. The events following the eruption of the financial market turmoil in August 2007 revealed that there were shortcomings in the rating activity carried out by credit rating agencies, and this eroded market confidence. Given the importance of rating agencies for market confidence and, more generally, for financial stability, the European Central Bank (ECB) and the Eurosystem support the work of European and international fora towards the revision of the regulatory framework for credit rating agencies following the agreement reached at the G20 meeting of finance ministers and central bank governors on 14 March 2009¹ on subjecting to regulatory oversight all credit rating agencies whose ratings are used for regulatory purposes, and ensuring compliance with the International Organisation of Securities Commissions (IOSCO) code.

¹ See the Communiqué - Meeting of Finance Ministers and Central Bank Governors, United Kingdom, 14 March 2009, available at <http://www.g20.org>.

In this context the ECB, when consulted on the Commission's proposed regulation, stressed that regulatory initiatives in this field should aim to increase the level of transparency in the issuance of ratings and in their monitoring, to ensure that the rating process adheres to adequate standards of quality and integrity, and to safeguard the integrity and independence of credit rating agencies.² The Regulation (EC) No 1060/2009 of the European Parliament and of the Council on credit rating agencies adopted on 16 September 2009 introduces a new comprehensive EU regulatory framework as regard the activities of credit rating agencies in line with the above-mentioned objectives and the exercise of surveillance activities by national competent authorities. However, the Regulation explicitly specifies that it does not create an obligation for financial instruments or financial obligations to be rated.

Finally, I would like to stress the fact that ratings are not the only criterion that investors take into account when pricing debt securities. Other factors, such as differences in liquidity in the secondary markets for bonds issued by particular governments, or different perceptions of the credit risk of individual countries among investors, also play a role.

Yours sincerely,

[signed]

Jean-Claude Trichet

² Opinion of the ECB of 21 April 2009 on a proposal for a regulation of the European Parliament and of the Council on credit rating agencies (CON/2009/38), <http://www.ecb.europa.eu/ecb/legal/opinions/html/index.en.html>