

Credit rating agencies

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OPINION OF THE EUROPEAN CENTRAL BANK on a proposal for a regulation of the European Parliament and of the Council on credit rating agencies.

On 17 December 2008 the European Central Bank (ECB) received a request from the Council of the European Union for an opinion on a proposal for a regulation of the European Parliament and of the Council on credit rating agencies.

The ECB welcomes the objectives of the proposed regulation and supports the agreement recently reached at the G20 meeting as part of the internationally coordinated initiatives to strengthen the regulatory framework for credit rating agencies. The ECB is of the view that:

- the level of **transparency** for the issuance of ratings and their ongoing monitoring should be improved to allow better comparison of credit rating agencies' rating assessments;
- the rating process should fulfil adequate **standards of quality and integrity** (in particular, the rating process should not lead to excessive volatility of ratings);
- the integrity and **independence** of credit rating agencies should be safeguarded by ensuring that conflicts of interest are either avoided or are properly addressed.

Moreover, the ECB supports the **wide scope** of the proposed regulation but makes a number of observations:

- the expression 'for use for regulatory purposes or otherwise' indicates a preference for a wide scope, but both the explanatory memorandum accompanying the proposed regulation and the Commission's impact assessment advocate a narrower approach;
- 'regulatory purposes' is not specifically defined and it is not specified whether it covers references to recourse to ratings in Community legislation and in national laws;
- it is suggested clarifying that credit ratings are considered as publicly disclosed if they enable access at equivalent terms to potential users and allow for proper assessment by the public;
- credit ratings should be based on methodologies combining qualitative and quantitative approaches.

The ECB also makes a number of **specific observations** concerning:

- the impact of the proposed regulation on central bank operations;
- exemptions for national central banks' (NCBs') in-house credit assessment systems;
- cooperation between competent authorities and the exchange of information;
- waivers for local credit rating agencies;
- the establishment by the Committee of European Securities Regulators (CESR) of a central repository;
- additional legal and technical comments.