**Credit\_Rating\_Agencies\_Amend**

**ID:** 523 **Code:** COM (2010) 289 **Type:** Regulation **Proposal** **Date:** 2.6.2010

**Current Status:** completed **Title:** Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL On amending Regulation (EC) No 1060/2009 on credit rating agencies **Commission Official:** DG Internal Market and Services

**Objective:** The Regulation on Credit Rating Agencies is to be revised in order to introduce centralised oversight of credit rating agencies operating in the EU. The European Securities and Markets Authority (ESMA) is to assume general competence in matters relating to the registration and on-going supervision of registered credit rating agencies as well as matters related to ratings issued by rating agencies established in third countries that operate in the EU under the certification or endorsement regimes. Therefore, it is necessary to replace throughout the text any reference to competent authorities in charge of the registration and supervision of credit rating agencies by a reference to ESMA.

**Background:** Experience of the financial crisis has exposed important failures in financial supervision, both in particular cases and in relation to the financial system as a whole. The European Commission has piloted a fundamental overhaul of financial supervision in Europe with the objective of establishing a more efficient, integrated and sustainable European system of supervision. High level experts, chaired by Mr Jacques de Larosière were mandated by President Barroso to make recommendations to strengthen European supervisory arrangements. De Larosière Group was of the view that it would be far more rational to entrust the Committee of European Securities Regulators (CESR) with the task of licensing credit rating agencies in the EU, monitoring their performance, and in the light of this imposing changes. In its Communication of 27 May 2009 on European Financial Supervision, the Commission therefore proposed that a European Supervisory Authority should be given the responsibility for the authorisation and supervision of certain entities with pan-European reach, e.g., credit rating agencies. The Commission's suggestion was endorsed by the European Council at its meeting in June 2009 stating clearly that ESMA "should also have supervisory powers for credit rating agencies".

**Consultation:** Two open consultations were conducted in the development of the legislative package of proposals on the new European financial supervisory structure, which included elements related to the Regulation on credit rating agencies. Firstly, following the report of the highlevel group chaired by Jacques de Larosière and the publication of the 4 March 2009

Commission Communication, the Commission organised a first consultation from 10 March

to 10 April 2009 as input to its Communication on Financial Supervision in Europe published

on 27 May 2009. Secondly, from 27 May to 15 July 2009, the Commission organised another consultation round, inviting all interested parties to comment on the more detailed reforms presented in the Communication on Financial Supervision in Europe of 27 May 2009. The responses received were for the greater part supportive of the suggested reforms, with comments on detailed aspects of the proposed ESRB and ESFS.

**Issues:**

* Put **credit rating agencies under** the **centralised supervision** of a new agency called the European Securities and Markets Authority (ESMA). Commission versus credit rating agencies (Moody's, Standard & Poor's and Fitch).
* **Treat sovereign debt differently to corporate finance.** Axa, ING and European Banking Federation state it would not support treating sovereign issuers any differently to corporate debt holders.
* **Appoint other financial institutions to produce assessment of sovereign debt**. Industry and governments alike appear to agree that credit ratings agencies are the best judge of sovereign debt and that if ratings are off target, then national data and statistics given to the agencies are to blame.

**Frames:**

* Prevent further **contagion** (EU Internal Market Commissioner Michel Barnier)
* Against a **heavy regulatory hand**. Nicolas Veron from Bruegel advocates greater transparency but less regulation”.
* "A lot of this talk sounds like a willingness to **shoot the messenger**," warned Nicolas Veron from Bruegel."We cannot make credit rating agencies liable for the quality of their opinion but we can make them liable for the quality of their process," he continued.